



GREEN MEANS GROWTH

2020 Annual Report

HINDSIGHT ON 2020

For hundreds of reasons, 2020 was a historical year. A year in which our fortitude was stretched to its limits and in which we learned the importance of the interactions with our families and communities.

As we work through this new year, we reflect on 2020 to find lessons and bright points to inspire us. We look for internal strength that prepares us to come back stronger. We see the green of the FCN logo, and it invokes thoughts of growth... and regrowth.

As we head toward FCN's 120th year of serving the community, we take the lessons of 2020 and look forward to a great 2021 and beyond.

Thank you to each and every member of the FCN family.

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WE THE PEOPLE

Our people are the reason for our continued success. Every day they come to work ready to help customers with the best financial solutions. They are personally invested in the lives and success of our customers, which is why they work hard to make FCN a better bank. At the end of the day, this crew of talented, compassionate professionals is what lifts FCN above and beyond other banks.

Brookville

Paula Ballinger
April Berne
Terri Bishop
LuAnn Bradley
Logan Brashear
Sherry Burkhart
Tim Burton
Kevin Campbell
Sandra Cates
Jimmy Clark
James Clark
Katie Deaton
Samantha Ebrens
Liz Eggleston
Madison Gambrel
Grant Gardner
Kelsey Gerndt
David Hampton
Laura Hildebrand
Julie Hodge
Nikki Hofer
Tom Horninger
Ashley Hunt
Cathy Hunt
Kim Johnson
Karen Johnson
Stacey Johnson
Cheryl Kaiser
Rhonda Kerr
Andy Kobs
Millie Koehne
Mariah Kunkel
Kris Lacy
Brandon Lake
Julie Lee
Breanna Lindner
Jake Linkel

Vicki Lintz

Jaclyn Ludwick
Esther Lynch
Rachel McGee
Tenia McIntyre
Shannon Meyer
Ellen Meyers
Jackie Mills
Ginney Mofield
Jennifer Mohr
Melody Montag
Sarah Mota
Rebecca Noble
John Nunier
Nick Pflum
Karen Phelps
Roger Potraffke
Vickie Prybyla
Marian Ratz
Nick Rauch
Ellen Rauen
Donald Riffle
Dawn Rosenberger
Sharon Schneider
Mary Shepard
Beth Siebert
Alicia Simons
Jennifer Spahni
Karen Steiner
Annette Stinger
Becky Stutz
Karen Vieth
Kay Weber
Tony Windle
Manda Wolf
Rita Wray
Brent Young

Connersville

Mary Bosse
Karley Cavins
Emma Couch
Carol Hunter
Madison Seeley
Debbie Spann
Nicole Wilson

Batesville

Joe Alig
Theresa Boyce
Renee Defossett
Shelly Fischer
Stephanie Gunter
Wendy Havens
Kathy Hayes
Lea Hornberger
Haze Kidd
Meg Noble-Rauch
Liz Renner
Ann Roell
Kimberly Stock

Sunman

William Craig
Matthew Davis
Carla Hacker
Rachel Hockl
Melissa Klei
Brett Lowrie
Bonnie Mills
Christine Montini
Sabrina Wessler

Harrison

Jenna Dipuccio
Martin Eisele
Jennifer Fogelman
Stacy Grimmeissen
Karmen Hallon
Kayla Hammann
Jill Hundley
Linda Koon
Lynn Minges
Tricia Moore
Deborah Wesley
Cynthia Wuestefeld

Lawrenceburg

Chloe Bradford
Sue Buehler
Hannah Claypool
Janet Faller
Mary K. Fey
Ray Gruner
Caden Holtegel
Debra Huffman
Amanda Kunkel
Miranda McClanahan
Alicia McMillin
Madeline Nixon
Lindsey Richards
Diana Sunderman
Karen Woeste

WE ADAPTED

We're in a "people business." So, on March 19, 2020, when we had to close our branch lobbies, we had to find every way to continue serving our customers.

Whenever possible, we encouraged employees to work from home, opening up more space for people still working in branches. We went through cases of sanitizer, cleaners and masks. Plexiglass was installed at teller windows. We actively promoted online banking and the FCN banking app for people to access their accounts. By May 20, 2020, our branches were all reopened and the FCN team was back to providing personal service... mask-to-mask.

Throughout the year, we assisted 303 small businesses procure first-round PPP loans. Moving into 2021, FCN team members are volunteering at local hospitals to help with vaccine delivery, directing traffic, etc.

Yes, 2020 was hard, but we adapted. We are reminded every day of the professional and compassion of every member of our FCN team.



WE SERVED

Even though it was difficult at times, the FCN Team worked hard to stay in touch with customers and their needs. We heard many stories of customers who were struggling to make loan or tax payments because of COVID-19 issues. We also heard many stories of our people working with them to find ways to refinance loans, secure cheaper insurance, defer tax payments, and overcome other financial obstacles that arose during this unprecedented year.



WE GREW

Even a lockdown couldn't stop FCN growth. In 2020, we added the Lawrenceburg, IN branch to our banking family. In turn, that added Lawrenceburg to the rest of the communities - Brookville, Connersville, Batesville, Sunman, and Harrison, OH - to which we direct our time and resources.



WE HELPED OTHERS

Many new personal and business customers were added to our FCN family. In one case, a new FCN customer came to us for a PPP loan for their business. After experiencing the typically exceptional FCN service, they moved all of their accounts to FCN, since then they haven't stopped raving about FCN.

This is exactly how we've been growing for more than a century - provide unmatched, personal service, and the customers will come.



WE STAYED FCN STRONG

Dear Shareholders,

The COVID-19 pandemic of 2020 had a profound impact on the economy, the banking industry and FCN Bank. In a year that FCN completed its merger with Dearborn Savings Bank, our employees also rose to the personal and professional challenges that the pandemic and the government's response placed before them. Many factors outside the normal banking business of FCN impacted last year's earnings and will influence operating performance in the near future. Some of the accomplishments and challenges last year included:

Dearborn Savings Bank. In February, FCN Banc Corp completed the merger of DSA Financial, Inc. ("DSA") and its wholly owned subsidiary, Dearborn Savings Bank ("DSB"). This transaction combined two banks that have each served the southeast Indiana community for over a century. In May, the merger and consolidation of the banking operations was completed. The merger of DSA contributed over \$100 million in loans and \$100 million in deposits to the combined bank. Impacting the 2020 earnings were approximately \$600 thousand dollars in one-time expenses related to the merger including professional fees, system integration costs and other marketing and conversion costs. Thanks to the hard work of so many employees (both FCN and DSB), the consolidation of the two banks was completed successfully and with no interruption in service to our customers.

The COVID-19 Pandemic. One of the first responses to the outbreak last year was the lowering of interest rates by the Federal Reserve Bank. Its actions plunged interest rates to unprecedented lows that squeezed net interest margins across the entire banking industry. FCN was not immune to the effects of these lower rates. The Bank's net interest margin dropped from 3.63% in 2019 to 2.88% in 2020. While FCN reported a year-to-year increase in net interest income from \$15.3 million to \$16.9 million, the increase in net interest income was not proportionate to the increase in earning assets associated with the merger. The growth of the Bank masked the full impact of the lower interest rates.

Yet, the drop of interest rates did provide opportunities for the industry and FCN. The first opportunity was a boom in residential loan refinancing activity fueled by the unprecedented low, long-term interest rates. Consumers rushed into the market to refinance their mortgage loans. FCN's revenue from secondary market loan activity in 2020 ballooned to \$3.5 million. As a result of this activity, secondary market loans held for servicing by FCN increased from \$148.1 million at year end 2019 to \$219.8 million at year end 2020.

With the passage of the CARE Act in late March of 2020, FCN elected to participate in providing its customers the Payroll Protection Program ("PPP") through the U.S. Small Business Administration. FCN provided over \$23 million in these business assistance loans to over 300 of its customers. The income from PPP loan volume also contributed to earnings and offset the compression in net interest income.

The secondary market revenue and the SBA PPP income more than offset the impact of the lower interest rates. While bank earnings were strong, as we proceeded through the year, it was also evident that factors driving these earnings were not likely to repeat in the future. This low interest rate environment, especially short-term rates, is forecasted to persist through 2022 and potentially beyond. The persistence of this pandemic cast doubt on the timing and strength of any upturn in the economy. We have also seen a change in administration in Washington as well. It is against this backdrop that the management and the Board of Directors of FCN committed itself to preserve the bank's capital at strong levels and to maintain sound asset

quality. Several steps to preserve capital and maintain sound asset quality were taken last year to prepare for the challenges ahead.

While loan quality at year end 2020 was exceptionally strong with total delinquencies of only .96% of Gross Loans, with the possibility of a prolonged recession, FCN bolstered its Reserve for Loan Losses by an additional \$800 thousand. The total Provision for Loan Losses in 2020 was \$1.28 million. This resulted in an Allowance for Loan Losses of 1.32% of Total Gross Loans at year-end.

During the year, the Bank sold securities out of its investment portfolio to generate a gain of approximately \$1.0 million. This one-time gain offset the financial impact of the dividend to the holding company used to prepay a portion of the loan used to support the purchase of DSA shares related to the merger.

In an effort to preserve capital, the shareholder dividend was held constant at \$.34/share per quarter through 2020. FCN Bank ended the year with a Tier 1 Capital Leverage Ratio of 9.46%. The Bank is still considered strongly capitalized for regulatory purposes.

Financial Results. On an after-tax basis, earnings for FCN Banc Corp. in 2020 were just shy of \$7.0 million compared to \$5.7 million in 2019. This equated to earnings of \$4.08 per share versus \$3.83 per share last year. These results reflect the impact of the compressed net interest margin and the extraordinary income generated by secondary market and SBA lending activities and the sale of securities. Gross Loans increased from \$266.3 million to \$365.9 million and Total Deposits increased from \$395.6 million to \$578.7 million reflecting the impact of the merger with DSA. For 2020, FCN posted a Return on Average Assets and a Return on Average Equity of 1.20% and 10.78% respectively.

Persistent compressed interest margins and the probability that many of the extraordinary income items will not reoccur makes a repeat of 2020 performance levels unlikely. The Board of Directors and Management is committed to maintaining strong capital and sound asset quality through this business cycle.

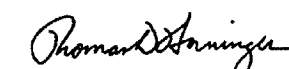
The Annual Meeting of FCN Banc Corp will be Tuesday, May 11, 2021 at 10:00 AM at Third Place located at 734 Main Street in Brookville, Indiana. All shareholders are encouraged to attend.

Lastly 2020 like most years began with anticipation and hope. Today as we look back, we acknowledge the struggles we all experienced individually and the suffering we endured collectively. The Board and Management wish all who have been impacted by the pandemic peace and healing. We sincerely thank our shareholders, employees, and customers for their support during these difficult times.

Sincerely,



Kenneth T. Wanstrath
Chairman, Board of Directors



Thomas D. Horninger
President & CEO



BOARD OF DIRECTORS



FRONT ROW

Kevin D. Lyons
President & Partner, Hawk Insurance Agency

Thomas D. Horninger
President & CEO, FCN Bank, N.A.

Kenneth R. Wanstrath
President, New Point Stone

David Lorey
Entrepreneur

Not Pictured:
Dr. Dennis Richter
Retired Optometrist

BACK ROW

Dr. K. Andrew Yaryan
Owner, Yaryan Eye Care Center

Devin W. Listerman
CEO, AmeriClean Distributors LLC

Arthur K. Hildebrand
*President of FCN Banc Corp. and
President & CEO, FCN Bank, N.A. – Retired*

Ronald J. Knueven
CPA & Shareholder, RBSK Partners, PC

Brad M. Tebbe
Owner, Brad M. Tebbe CPA, LLC

DEARBORN COUNTY ADVISORY BOARD

Dan Hummel
Charles Brandel
David Lorey
Dr. Dennis Richter
Ken Wanstrath
Tom Horninger

DIRECTORS EMERITUS

Fred Chappelow
James A. Hyde
Randall W. Listerman
Jane C. Ludwig
Donald R. Smith
Keith L. Tebbe

FCN BANC CORP OFFICERS

Kenneth T. Wanstrath, *Chairman*
Thomas D. Horninger, *President*
Raymond W. Gruner, *Secretary*
April A. Berne, *Treasurer*



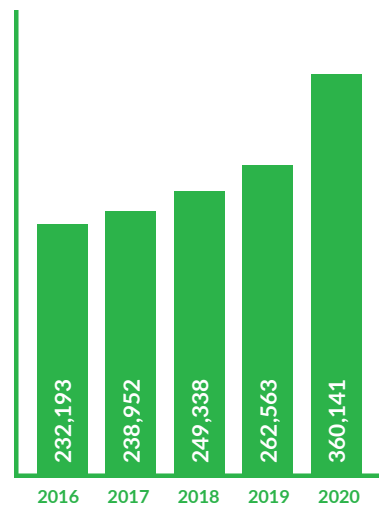
HIGHLIGHTS

FCN Banc Corp. Financial Highlights

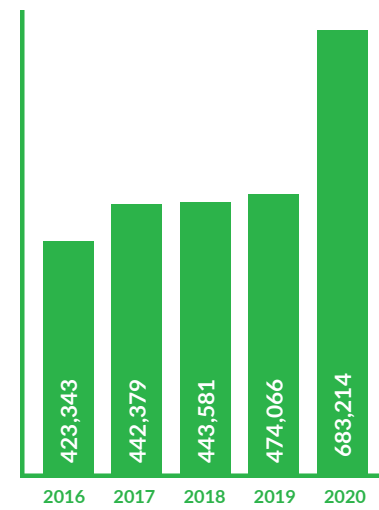
For the years ended December 31, 2020 and 2019
(in thousands, except per share data)

Earnings & Dividends	2020	2019	% Change
Net Income	6,958	5,720	21.65%
Cash Dividends Declared	2,379	2,018	17.89%
Per Share			
Earnings	4.08	3.83	6.53%
Cash Dividends Declared	1.36	1.35	0.74%
Year-End Book Value	41.62	37.68	10.45%
Year-End Market Price	39.66	40.20	-1.34%
At Year-End			
Assets	683,214	474,066	44.12%
Loans and Leases	360,141	262,563	37.16%
Deposits	578,684	395,608	46.28%
Shareholders' Equity	72,801	56,321	29.26%
Key Ratios			
Return on Average Assets (ROA)	1.20%	1.25%	-3.54%
Return on Average Equity (ROE)	10.78%	10.81%	-0.33%
Net Interest Margin	2.88%	3.63%	-20.58%
Efficiency Ratio	60.52%	62.03%	-2.43%
Average Shareholders' Equity to Average Assets	11.16%	11.53%	-3.22%
Actuals			
Number of Shares	1,749,141	1,494,614	17.03%

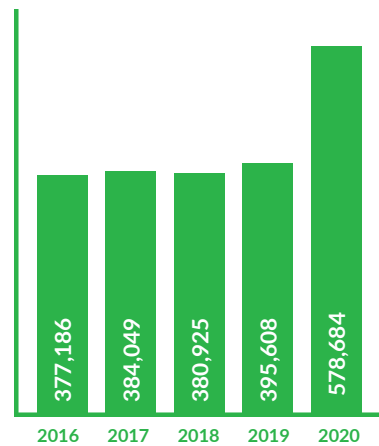
GRAPHS



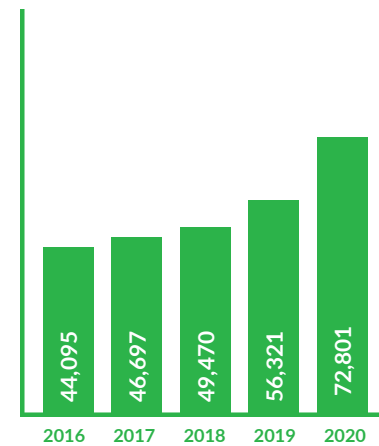
NET LOANS
(in Thousands)



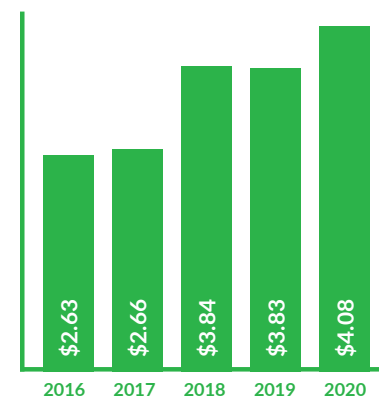
TOTAL ASSETS
(in Thousands)



TOTAL DEPOSITS
(in Thousands)



SHAREHOLDERS' EQUITY
(in Thousands)



EARNINGS PER SHARE

INDEPENDENT AUDITORS' REPORT

Board of Directors
FCN Banc Corp.

We have audited the accompanying consolidated financial statements of FCN Banc Corp. which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FCN Banc Corp. as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
March 15, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2020 and 2019
(in thousands, except per share data)

ASSETS	2020	2019
Cash and due from banks	\$ 22,272	\$ 6,530
Interest-bearing deposits in other financial institutions	16,844	24,673
Cash and cash equivalents	39,116	31,203
Investment securities designated as available for sale - at market	175,886	69,306
Investment securities designated as held to maturity - at amortized cost	146	197
Mortgage-backed securities designated as available for sale - at market	57,830	82,415
Loans held for sale - at lower of cost or fair value	11,818	2,183
Loans receivable - net	360,141	262,563
Office premises and equipment - at depreciated cost	8,802	5,801
Right-of-use asset	950	1,086
Real estate acquired through foreclosure	21	-
Federal Reserve and Federal Home Loan Bank stock - at cost	1,692	1,104
Accrued interest receivable on loans	1,407	1,293
Accrued interest receivable on investments and interest-bearing deposits	1,117	669
Accrued interest receivable on mortgage-backed securities	135	216
Bank owned life insurance	15,569	12,090
Prepaid expenses and other assets	2,892	1,821
Goodwill	5,692	2,119
Total assets	\$683,214	\$474,066
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	\$131,765	\$ 84,593
Interest bearing	446,919	311,015
Total deposits	578,684	395,608
Short-term borrowings	15,948	12,857
Advances from the Federal Home Loan Bank	6,000	5,000
Other advances	3,250	-
Accrued interest payable	751	764
Investments payable	15	16
Dividends payable	595	508
Accrued income taxes	175	8
Deferred income taxes	555	310
Operating lease liability	950	1,086
Other liabilities	3,490	1,588
Total liabilities	610,413	417,745
Shareholders' equity		
Common stock - \$6.25 par value, 10,000,000 shares authorized; 1,834,197 and 1,576,960 shares issued at December 31, 2020 and 2019, respectively	11,464	9,856
Additional paid-in capital	8,276	623
Retained earnings - restricted	49,514	44,935
Treasury shares - at cost, 97,298 and 82,346 shares at December 31, 2020 and 2019, respectively	(2,103)	(1,509)
Accumulated other comprehensive income	5,650	2,416
Total shareholders' equity	72,801	56,321
Total liabilities and shareholders' equity	\$683,214	\$474,066

CONSOLIDATED STATEMENTS OF EARNINGS

December 31, 2020 and 2019
(in thousands, except per share data)

	2020	2019
Interest income		
Loans	\$17,169	\$13,861
Investment securities	2,237	1,847
Mortgage-backed securities	1,212	1,987
Interest-bearing deposits and other	312	521
Total interest income	20,930	18,216
Interest expense		
Deposits	3,414	2,656
FHLB advances	501	57
Short-term borrowings	66	201
Total interest expense	3,981	2,914
Net interest income	16,949	15,302
Provision for losses on loans	1,280	100
Net interest income after provision for losses on loans	15,669	15,202
Noninterest income (expense)		
Service charges on deposit accounts	332	420
Gain (loss) on sale of investments and mortgage-backed securities	1,051	(12)
Gain on sale of loans	2,645	366
Service charges on sold loans	1,073	372
Loss on sale of premises and equipment	(35)	-
Loss on sale of real estate acquired through foreclosure	(3)	-
ATM/Interchange fees	915	772
Increase in cash surrender value of bank owned life insurance	402	281
Other operating	671	704
Total noninterest income	7,051	2,903
Noninterest expense		
Employee compensation and benefits	8,140	6,478
Occupancy and equipment	800	600
Equipment expense	494	446
Audit and examination fees	356	406
Software maintenance fees	1,198	646
FDIC premium	125	59
Marketing	380	329
Other operating	3,031	2,328
Total noninterest expense	14,524	11,292
Earnings before income taxes	8,196	6,813
Income taxes		
Current	1,272	749
Deferred	(34)	344
Total income taxes	1,238	1,093
NET EARNINGS	\$ 6,958	\$ 5,720
Basic earnings per share	\$4.08	\$3.83
Weighted-average shares outstanding	1,707,386	1,494,975

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

December 31, 2020 and 2019
(in thousands)

	2020	2019
Net earnings	\$6,958	\$5,720
Other comprehensive income, net of tax:		
Unrealized holding gains on securities during the year, net of tax expense of \$637 and \$858 for the years ended December 31, 2020 and 2019, respectively	4,064	3,163
Reclassification adjustment for realized losses (gains) included in earnings, net of tax expense (benefits) of \$221 and \$(3) for each of the years ended December 31, 2020 and 2019, respectively	<u>(830)</u>	<u>9</u>
Other comprehensive income (loss)	<u>3,234</u>	<u>3,172</u>
Comprehensive income	<u>\$10,192</u>	<u>\$8,892</u>

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

December 31, 2020 and 2019
(in thousands, except per share data)

	Common shares outstanding	Treasury shares	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2018	1,495,274	81,686	\$9,856	\$623	\$41,233	\$(1,486)	\$(756)	\$49,470
Net earnings for the year ended December 31, 2019	-	-	-	-	5,720	-	-	5,720
Purchase of treasury shares	(660)	660	-	-	-	(23)	-	(23)
Unrealized losses on securities designated as available for sale, net of recognized sales and related tax effects	-	-	-	-	-	-	3,172	3,172
Cash dividends of \$1.35 per share	-	-	-	-	(2,018)	-	-	(2,018)
Balance at December 31, 2019	<u>1,494,614</u>	<u>82,346</u>	<u>\$9,856</u>	<u>\$623</u>	<u>\$44,935</u>	<u>\$(1,509)</u>	<u>\$2,416</u>	<u>\$56,321</u>
Net earnings for the year ended December 31, 2020	-	-	-	-	6,958	-	-	6,958
Purchase of treasury shares	(2,710)	2,710	-	-	-	(108)	-	(108)
Establishment of rabbi trust	(12,242)	12,242	-	-	-	(486)	-	(486)
Merger with DSA Financial Corp.	257,237	-	1,608	7,653	-	-	-	9,261
Unrealized gains on securities designated as available for sale, net of recognized sales and related tax effects	-	-	-	-	-	-	3,234	3,234
Cash dividends of \$1.36 per share	-	-	-	-	(2,379)	-	-	(2,379)
Balance at December 31, 2020	<u>1,736,899</u>	<u>97,298</u>	<u>\$11,464</u>	<u>\$8,276</u>	<u>\$49,514</u>	<u>\$(2,103)</u>	<u>\$5,650</u>	<u>\$72,801</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2020 and 2019
(in thousands)

	2020	2019
Cash flows from operating activities:		
Net earnings for the year	\$ 6,958	\$ 5,720
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation	331	436
Amortization	1,645	251
Amortization of premiums on investments and mortgage-backed securities, net	1,581	927
Amortization of deferred loan origination fees	(661)	(198)
Amortization of right-of-use asset	136	123
Change in lease liability	(136)	(123)
Loss (gain) on sale of investments and mortgage-backed securities	(1,051)	12
Loans originated for sale in the secondary market	(114,403)	(27,108)
Proceeds from sale of loans in the secondary market	107,413	27,212
Gain on sale of loans	(2,645)	(366)
Earnings on cash surrender value of life insurance	(343)	(281)
Provision for losses on loans	1,280	100
Loss on disposal of premises and equipment	35	-
Gain on bank owned life insurance death benefits	(59)	-
Loss on sale of real estate acquired through foreclosure	3	-
Effects of change in operating assets and liabilities:		
Accrued interest receivable on loans	201	(235)
Accrued interest receivable on investments	(412)	(25)
Accrued interest receivable on mortgage-backed securities	81	(10)
Prepaid expenses and other assets	(1,288)	(350)
Accrued interest payable	(155)	308
Other liabilities	(2,726)	(45)
Income taxes		
Current	167	26
Deferred	(34)	344
Net cash provided by (used in) operating activities	<u>\$ (4,082)</u>	<u>\$ 6,718</u>
Cash flows from investing activities:		
Purchase of investment securities designated as available for sale	(158,670)	(12,998)
Purchase of investment securities designated as held to maturity	(1)	(1)
Proceeds from sale of investment securities designated as available for sale	8,635	2,999
Maturities of investment securities designated as available for sale	50,120	7,709
Maturities of investment securities designated as held to maturity	-	326
Purchase of mortgage-backed securities designated as available for sale	(14,268)	(22,896)
Proceeds from sale of mortgage-backed securities designated as available for sale	876	4,429
Principal repayments on mortgage-backed securities	37,797	18,960
Loan disbursements	(153,306)	(113,788)
Principal repayments on loans	151,689	100,664
Purchases of and additions to office premises and equipment	(144)	(701)
Proceeds from sale of real estate acquired through foreclosure	114	-
Proceeds from bank owned life insurance death benefits	498	-
Acquisition, net of cash acquired	14,181	-
Net cash used in investing activities	<u>\$ (62,479)</u>	<u>\$ (15,297)</u>
Net cash used in operating and investing activities (carried forward)	<u>\$ (66,561)</u>	<u>\$ (8,579)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2020 and 2019
(in thousands)

	2020	2019
Net cash used in operating and investing activities (brought forward)	<u>\$ (66,561)</u>	<u>\$ (8,579)</u>
Cash flows from financing activities:		
Net increase in deposit accounts	76,533	14,683
Net increase in short-term borrowings	3,091	2,256
Proceeds from Federal Home Loan Bank advances	-	5,000
Proceeds from other advances	10,000	-
Repayment of Federal Home Loan Bank advances	(6,000)	-
Repayment of other advances	(6,750)	-
Dividends on common stock	(2,292)	(1,989)
Purchase of treasury shares	(108)	(23)
Net cash provided by financing activities	<u>74,474</u>	<u>19,927</u>
Net increase in cash and cash equivalents	7,913	11,348
Cash and cash equivalents at beginning of year	<u>31,203</u>	<u>19,855</u>
Cash and cash equivalents at end of year	<u>\$ 39,116</u>	<u>\$ 31,203</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	<u>\$ 1,280</u>	<u>\$ 735</u>
Interest on deposits and borrowings	<u>\$ 3,994</u>	<u>\$ 2,606</u>
Supplemental disclosure of noncash investing and financing activities:		
Transfers from loans to real estate acquired through foreclosure	<u>\$ 138</u>	<u>\$ -</u>
Establishment of rabbi trust	<u>\$ 486</u>	<u>\$ -</u>
Recognition of mortgage servicing rights in accordance with Accounting standards	<u>\$ 2,637</u>	<u>\$ 271</u>
Dividends declared but unpaid	<u>\$ 595</u>	<u>\$ 508</u>
Change of security classification from held to maturity to available for sale	<u>\$ -</u>	<u>\$ 2,370</u>
Land acquired under operating lease	<u>\$ -</u>	<u>\$ 1,209</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES

FCN Banc Corp. (the "Corporation") is a bank holding company whose activities are primarily limited to holding the common shares of FCN Bank, NA, a nationally-chartered bank (the "Bank"). The Bank conducts a general banking business in southeast Indiana and southwest Ohio which consists of attracting deposits from the general public and applying those funds to the origination of loans for residential, consumer and commercial purposes. The Bank's wholly-owned subsidiary, FCN Holdings, Inc., was incorporated in 2002 for the primary purpose of managing a significant portion of the Bank's investment portfolio. In 2016, FCN Risk Management, Inc. was created as a wholly-owned subsidiary of the Corporation in order to provide property, casualty and liability insurance coverage to the Corporation.

The Bank's profitability is significantly dependent on its net interest income, which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) and the interest expense paid on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Bank can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

The financial information presented herein has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In preparing consolidated financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. A significant estimate is the allowance for loan losses. Actual results could differ from such estimates.

The following is a summary of the Corporation's significant accounting policies, which have been consistently applied in the preparation of the accompanying consolidated financial statements.

1. Principles of Consolidation

The consolidated financial statements of the Corporation include the accounts of both wholly-owned subsidiaries, the Bank and FCN Risk Management, Inc. The Bank's consolidated financial statements include its wholly-owned subsidiary, FCN Holdings, Inc. All significant intercompany balances and transactions have been eliminated.

2. Investment and Mortgage-Backed Securities

The Corporation accounts for investment and mortgage-backed securities in accordance with Standards for "Accounting for Investments in Debt Securities," which requires that investments be classified as held to maturity, trading, or available for sale. These classifications are to be reassessed at each reporting date. Securities classified as held to maturity are carried at cost only if the Corporation has the positive intent and ability to hold these securities to maturity. Securities designated as available for sale are carried at fair value with resulting unrealized gains or losses recorded to shareholders' equity. At December 31, 2020 and 2019, substantially all of the Bank's securities were classified as available for sale. Premiums or discounts associated with the purchase of investment securities are amortized or accreted using the interest method to arrive at periodic interest income at a constant effective yield on the net investment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

3. Loans Receivable

Loans held in portfolio are stated at the principal amount outstanding, adjusted for net deferred loan origination fees and the allowance for loan losses. Interest is accrued as earned, unless the collectability of the loan is in doubt. Uncollectible interest on loans that are contractually past due is charged off, or an allowance is established based on management's periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments has returned to normal, in which case the loan is returned to accrual status. If the ultimate collectability of the loan is in doubt, in whole or in part, all payments received on nonaccrual loans are applied to reduce principal until such doubt is eliminated.

Loans held for sale are carried at the lower of cost or fair value, determined in the aggregate. In computing cost, deferred loan origination fees are deducted from the principal balances of the related loans. Fair value is determined by reference to price quotations of government-sponsored enterprises in the secondary mortgage market. There were approximately \$11,818,000 and \$2,183,000 in loans held for sale at December 31, 2020 and 2019, respectively. These loans were settled within 30 days of these consolidated financial statements without fluctuation in their fair value.

The Bank accounts for mortgage servicing rights in accordance with the provisions of "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which requires the Bank recognize as separate assets, rights to service mortgage loans for others, regardless of how those servicing rights are acquired. These standards require an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. The Bank has chosen to measure servicing assets using the amortization method.

The Bank added new mortgage servicing rights of approximately \$2,636,000 and \$270,000 and recorded amortization related to mortgage servicing rights totaling approximately \$1,647,000 and \$254,000 for the years ended December 31, 2020 and 2019, respectively. The carrying value of the Bank's mortgage servicing rights totaled approximately \$1,707,000 and \$718,000 at December 31, 2020 and 2019, respectively. The fair value of the Bank's mortgage servicing rights totaled approximately \$1,700,000 and \$1,070,000 as of December 31, 2020 and 2019, respectively.

4. Loan Origination Fees

The Bank accounts for loan origination fees in accordance with U.S. GAAP whereas origination fees received from loans, net of certain direct origination costs, are deferred and amortized to interest income using the interest method, giving effect to actual loan prepayments. Additionally, this standard generally limits the definition of loan origination costs to the direct costs attributable to originating a loan, i.e. principally actual personnel costs. Fees received for loan commitments that are expected to be drawn upon, based on the Bank's experience with similar commitments, are deferred and amortized over the life of the loan using the level-yield method. Fees for other loan commitments are deferred and amortized over the loan commitment period on a straight-line basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

5. Allowance for Loan Losses

It is the Bank's policy to provide valuation allowances for estimated losses on loans based on past loss experience, trends in the level of delinquent and problem loans, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions in the primary lending area. When the collection of a loan becomes doubtful, or otherwise troubled, the Bank records a loan loss provision equal to the difference between the present value of expected future cash flows or fair value of the property securing the loan and the loan's carrying value. Major loans and major lending areas are reviewed periodically to determine potential problems. The allowance for loan losses is increased by charges to earnings and decreased by charge-offs (net of recoveries).

The Bank accounts for impaired loans in accordance with ASC 320. These standards require that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price or fair value of the collateral for collateral dependent loans. The Bank's current procedures for evaluating impaired loans result in carrying such loans at the lower of cost or fair value.

A loan is defined as impaired when, based on current information and events, it is probable that the bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of this standard, the Bank considers its investment in one-to-four-family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. With respect to the Bank's investment in nonresidential and multi-family residential real estate loans and commercial loans, and its evaluation of impairment thereof, such loans are generally collateral dependent and, as a result, are carried as a practical expedient at the lower of cost or fair value of the underlying collateral.

Loans which are more than 90 days delinquent are considered to constitute more than a minimum delay in repayment and are evaluated for impairment under these standards at that time. Loans more than 90 days delinquent are generally classified as non-accrual.

The allowance for impaired loans is included in the Bank's general allowance for credit losses. The provision necessary to increase this allowance is included in the Bank's overall provision for losses on loans.

6. Real Estate Acquired Through Foreclosure

Real estate acquired through foreclosure is carried at the lower of the loan's unpaid principal balance (cost) or fair value less estimated selling expenses at the date of acquisition. In determining the lower of cost or fair value at acquisition, adjustments are charged to the allowance for loan losses. All subsequent adjustments to fair value are included in the statement of earnings, while costs relating to development and improvement of property are capitalized. Costs relating to holding real estate acquired through foreclosure, net of rental income, are charged against earnings as incurred.

7. Investment in Federal Home Loan Bank Stock

The Bank is required, as a condition of membership in the Federal Home Loan Bank of Indianapolis (FHLB), to maintain an investment in FHLB common stock. The stock is redeemable at par and, therefore, its cost is equivalent to its redemption value. The Bank's ability to redeem FHLB shares is dependent on the redemption practices of the FHLB of Indianapolis. At December 31, 2020, the FHLB of Indianapolis placed no restrictions on redemption of shares in excess of a member's required investment in the stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

8. Office Premises and Equipment

Office premises and equipment are carried at cost and include expenditures which extend the useful lives of existing assets. Maintenance, repairs and minor renewals are expensed as incurred. For financial reporting, depreciation and amortization are provided on the straight-line and accelerated methods over the useful lives of the assets, estimated to be twenty-five to forty years for buildings, five to thirty-nine years for building improvements, five to fifteen years for furniture and equipment and three years for software. An accelerated depreciation method is used for tax reporting purposes.

9. Goodwill and Intangible Assets

The Bank recorded goodwill from an acquisition completed in February 2020, totaling \$3.6 million. Pursuant to accounting standards for "Goodwill and Intangible Assets" goodwill is subject to an impairment evaluation. Management has determined that no impairment charge related to goodwill was necessary for the years ended December 31, 2020 and 2019. The Bank has fully amortized the branch purchase goodwill for tax purposes. The acquisition in 2020 was structured as a stock sale, and therefore the goodwill created is not tax deductible. The Bank also recorded goodwill resulting from a branch purchase transaction completed in December 2003, totaling \$2.1 million.

10. Income Taxes

The Corporation accounts for income taxes pursuant to standards for "Accounting for Income Taxes." In accordance with these standards, a deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that will result in net taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carry forward attributes may be utilized against current period earnings, carried back against prior years' earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management's estimate of future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future. Deferral of income taxes results primarily from the different methods of accounting for certain retirement plans, mortgage servicing rights, general loan loss allowances and goodwill. Additional temporary differences result from depreciation computed using accelerated methods for tax purposes. The Corporation's policy with regard to interest and penalty is to recognize interest through interest expense and penalties through other expense. In evaluating the Corporation's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations and tax planning strategies are considered. The Corporation believes their estimates are appropriate based on current facts and circumstances, and no significant interest or penalties relating to income taxes were incurred for the years ended December 31, 2020 or 2019. The Corporation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years ended on or before December 31, 2017.

11. Retirement Plans

Profit sharing plan expense is the amount of contributions by the Corporation. Deferred compensation and supplemental retirement plan expense is recognized over years of service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

12. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash and due from banks and interest-bearing deposits in other financial institutions with original maturities of less than 90 days. Certificates of deposits in other financial institutions mature within five years and are carried at cost.

13. Fair Value of Financial Instruments

Standards for "Disclosures about Fair Value of Financial Instruments" require disclosures of fair value of financial instruments, both assets and liabilities, whether or not recognized in the consolidated statements of financial condition, for which it is practicable to estimate that value. For financial instruments where quoted market prices are not available, fair values are based on estimates using present value and other valuation methods.

The methods used are greatly affected by the assumptions applied, including the discount rate and estimates of future cash flows. Therefore, the fair values presented may not represent amounts that could be realized in an exchange for certain financial instruments.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments at December 31, 2020 and 2019:

Cash and cash equivalents: The carrying amounts presented in the consolidated statements of financial condition for cash and cash equivalents are deemed to approximate fair value.

Investment and mortgage-backed securities: For investment and mortgage-backed securities, fair value is deemed to equal the quoted market price.

Loans receivable and loans held for sale: The loan portfolio has been segregated into categories with similar characteristics, such as 1-4 family residential, multi-family residential, nonresidential real estate and consumer. These loan categories were further delineated into fixed-rate and adjustable-rate loans. The fair values for the resultant loan categories were computed via discounted cash flow analysis, using current interest rates offered for loans with similar terms to borrowers of similar credit quality.

Federal Reserve and Federal Home Loan Bank stock: The carrying amounts presented in the consolidated statements of financial condition are deemed to approximate fair value.

Interest Receivable/Payable: The fair values of interest receivable/payable approximate carrying values.

Mortgage Servicing Rights: The Bank accounts for mortgage servicing rights in accordance with the provisions of "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which requires that the Bank recognize as separate assets, rights to service mortgage loans for others, regardless of how those servicing rights are acquired. An institution that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells those loans with servicing rights retained must allocate some of the cost of the loans to mortgage servicing rights.

Deposits: The fair value of non-interest bearing and interest-bearing demand and savings accounts is deemed to approximate the amount payable on demand at December 31, 2020 and 2019. Fair values for fixed-rate certificates of deposit have been estimated using a discounted cash flow calculation using the interest rates currently offered for deposits of similar remaining maturities.

Short-term borrowings: The actual interest rates at December 31, 2020 and 2019, approximate market rates and, thus, the carrying value closely approximates fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

13. Fair Value of Financial Instruments (continued)

Federal Home Loan Bank advances and other advances: The fair value of Federal Home Loan Bank advances and other advances have been estimated using discounted cash flow analysis, based on the interest rates currently offered for advances of similar remaining maturities.

Commitments to extend credit: For fixed-rate and adjustable-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At December 31, 2020 and 2019, the fair value of loan commitments was not material.

Based on the foregoing methods and assumptions, the carrying value and fair value of the Corporation's financial instruments are as follows at December 31:

		2020		2019	
	Carrying value	Fair value	Carrying value	Fair value	
	(In thousands)				
Financial assets					
Cash and cash equivalents	\$ 39,116	\$ 39,116	\$ 31,203	\$ 31,203	
Investment and mortgage-backed securities	233,862	233,862	151,918	151,918	
Loans receivable, including loans held for sale	371,959	381,711	264,746	268,466	
Federal Reserve and Federal Home Loan Bank stock	1,692	1,692	1,104	1,104	
Interest receivable	2,659	2,659	2,178	2,178	
Mortgage servicing rights	1,707	1,707	718	1,070	
Financial liabilities					
Interest payable	\$ 751	\$ 751	\$ 764	\$ 764	
Deposits	578,684	579,065	395,608	389,535	
Short-term borrowings	15,948	15,948	12,857	12,857	
Advances from the Federal Home Loan Bank and other advances	9,250	9,389	5,000	4,871	

Accounting Standards for Fair Value Measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

13. Fair Value of Financial Instruments (continued)

Fair value methods and assumptions are set forth below for each type of financial instrument. Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments: Fair value on available for sale securities were based upon a market approach. Securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from our custodian, which used third party data service providers. Available for sale securities includes U.S. agency securities, municipal bonds, corporate investments, student loan-backed securities, and mortgage-backed agency securities.

Impaired Loans: The Bank is predominately an asset based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Corporation considers to be Level 2 inputs.

Real Estate Acquired Through Foreclosure: Real estate acquired through foreclosure are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent appraisals, which the Corporation considers to be Level 2 inputs.

Fair value measurements for certain assets measured at fair value on a recurring basis:

	Fair Value Measurements (In thousands)			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
December 31, 2020				
Securities available for sale				
U.S. Government agency obligations	\$ 6,400	-	\$ 6,400	-
State and municipal obligations	164,519	-	164,519	-
Corporate debt obligations	3,246	-	3,246	-
Asset-backed securities	1,684	-	1,684	-
U.S. Government agency participation certificates	28,329	-	28,329	-
CMO's and REMIC's	29,501	-	29,501	-
Other securities	37	-	37	-
	Total	(Level 1)	(Level 2)	(Level 3)
December 31, 2019				
Securities available for sale				
U.S. Government agency obligations	\$ -	-	\$ -	-
State and municipal obligations	66,118	-	66,118	-
Corporate debt obligations	1,405	-	1,405	-
Asset-backed securities	1,741	-	1,741	-
U.S. Government agency participation certificates	26,463	-	26,463	-
CMO's and REMIC's	55,952	-	55,952	-
Other securities	42	-	42	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

13. Fair Value of Financial Instruments (continued)

Fair value measurements for certain assets measured at fair value on a non recurring basis:

	Fair Value Measurements (In thousands)			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
December 31, 2020				
Collateral dependent impaired loans	\$215	-	215	-
Foreclosed assets	21	-	21	-
December 31, 2019				
Collateral dependent impaired loans	\$ -	-	-	-

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill recorded by the Bank in connection with its acquisitions relates to the inherent value in the business acquired and this value is dependent upon the Bank's ability to provide quality, cost-effective services in a competitive market place. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods. Goodwill is not amortized but is tested for impairment when indicators of impairment exist, or at least annually, to determine the reasonableness of the recorded amount. The balance of goodwill at December 31, 2020 and 2019 was \$5,692,000 and \$2,119,000, respectively.

14. Bank-Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

15. Advertising

Advertising costs are expensed when incurred. The Corporation's advertising expense totaled approximately \$380,000 and \$329,000 for the years ended December 31, 2020 and 2019, respectively.

16. Earnings Per Share

Basic earnings per share are computed based upon the weighted-average common shares outstanding during the year. Weighted-average common shares outstanding totaled 1,707,386 and 1,494,975 for the years ended December 31, 2020 and 2019, respectively.

Diluted earnings per share are computed by taking into consideration common shares outstanding and dilutive potential common share equivalents. The Corporation had no dilutive or potentially dilutive securities during the years ended December 31, 2020 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

17. Concentrations

The Corporation may at times maintain deposits in other financial institutions which exceed federally insured limits. The Corporation has not experienced any losses in such accounts and management does not believe it is exposed to significant risk on cash and cash equivalents. No deposit amounts in other financial institutions exceeded federally insured limits at December 31, 2020.

The Bank grants mortgage and other loans to customers located primarily in the south-eastern counties of Indiana and the south-western counties of Ohio. As such, a substantial portion of its debtors' ability to repay their loans is dependent upon the financial and economic health of the regional economy.

18. Upcoming Accounting Pronouncement

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which changes the impairment model for most financial assets. This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the ASU is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2022, and early adoption is permitted for annual and interim periods now at any time. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Corporation will be evaluating the impact of this ASU over the next several years. The Corporation expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

19. Business Combination

On February 29, 2020, the Corporation and DSA Financial Corporation (the acquiree) of Lawrenceburg, Indiana completed an agreement of merger, upon which the Corporation would be the surviving entity. The transaction was a merger between two stock entities and was accounted for under acquisition accounting.

20. Subsequent Events

The Corporation evaluates events and transactions occurring subsequent to the date of the consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements consider events through March 15, 2021, date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE B - INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair value of investment securities at December 31, 2020 and 2019 are as follows (in thousands):

	Amortized cost	2020		Estimated fair value
		Gross unrealized gains	Gross unrealized losses	
(In thousands)				
Available for sale:				
U.S. Government agency obligations	\$ 6,410	\$ -	\$ 10	\$ 6,400
State and municipal obligations	158,814	5,720	15	164,519
Corporate debt obligations	3,248	40	42	3,246
Asset-backed securities	1,714	-	30	1,684
Other securities	40	-	3	37
Total securities available for sale	<u>170,226</u>	<u>5,760</u>	<u>100</u>	<u>175,886</u>
Held to maturity:				
Investment in Section 42 housing	146	-	-	146
Total securities held to maturity	<u>146</u>	<u>-</u>	<u>-</u>	<u>146</u>
Total investment securities	<u>\$170,372</u>	<u>\$5,760</u>	<u>\$100</u>	<u>\$176,032</u>
	Amortized cost	2019		Estimated fair value
		Gross unrealized gains	Gross unrealized losses	
(In thousands)				
Available for sale:				
U.S. Government agency obligations	\$ -	\$ -	\$ -	\$ -
State and municipal obligations	63,731	2,418	31	66,118
Corporate debt obligations	1,500	-	95	1,405
Asset-backed securities	1,762	-	21	1,741
Other securities	40	2	-	42
Total securities available for sale	<u>67,033</u>	<u>2,420</u>	<u>147</u>	<u>69,306</u>
Held to maturity:				
Investment in Section 42 housing	197	-	-	197
Total securities held to maturity	<u>197</u>	<u>-</u>	<u>-</u>	<u>197</u>
Total investment securities	<u>\$67,230</u>	<u>\$2,420</u>	<u>\$147</u>	<u>\$69,503</u>

As of March 1, 2019, the Corporation determined that there was no longer a positive intent and ability to hold the held to maturity state and municipal obligations to maturity. With that determination, the securities were transferred to available for sale at that point in time. The amortized cost and estimated fair value at the time of transfer were \$2,383,000 and \$2,365,000, respectively. The net unrealized loss at the time of transfer was \$18,000 and is included as a component of other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE B - INVESTMENT AND MORTGAGE-BACKED SECURITIES (CONTINUED)

The amortized cost and estimated fair value of investment securities by term to maturity at December 31 are shown below.

	2020		2019	
	Amortized cost	Estimated fair value (In thousands)	Amortized cost	Estimated fair value
Due in one year or less	\$ 2,610	\$ 2,623	\$ 7,174	\$ 7,231
Due after one year to five years	15,556	16,006	9,230	9,370
Due after five years to ten years	29,245	30,928	25,912	26,879
Due after ten years	122,961	126,475	24,914	26,023
	<u>\$170,372</u>	<u>\$176,032</u>	<u>\$67,230</u>	<u>\$69,503</u>

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of mortgage-backed securities at December 31, 2020 and 2019 are presented below.

	Amortized cost	2020		Estimated fair value
		Gross unrealized gains (In thousands)	Gross unrealized losses	
Available for sale:				
U.S. Government agency participation certificates	\$27,496	\$ 837	\$ 4	\$28,329
CMOs and REMICs	28,843	668	10	29,501
Total mortgage-backed securities	<u>\$56,339</u>	<u>\$1,505</u>	<u>\$14</u>	<u>\$57,830</u>

	Amortized cost	2019		Estimated fair value
		Gross unrealized gains (In thousands)	Gross unrealized losses	
Available for sale:				
U.S. Government agency participation certificates	\$26,118	\$351	\$ 6	\$26,463
CMOs and REMICs	55,511	557	116	55,952
Total mortgage-backed securities	<u>\$81,629</u>	<u>\$908</u>	<u>\$122</u>	<u>\$82,415</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE B - INVESTMENT AND MORTGAGE-BACKED SECURITIES (CONTINUED)

The amortized cost and estimated fair value of mortgage-backed securities at December 31, by contractual terms to maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

	2020		2019	
	Amortized cost	Estimated fair value (In thousands)	Amortized cost	Estimated fair value
Due within one year	\$ 888	\$ 899	\$12,463	\$12,662
Due after one year to five years	49,813	51,289	63,400	63,948
Due after five years to ten years	2,389	2,394	5,743	5,781
Due after ten years	3,249	3,248	23	24
Total mortgage-backed securities	<u>\$56,339</u>	<u>\$57,830</u>	<u>\$81,629</u>	<u>\$82,415</u>

The tables below indicate the length of time individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

Description of securities	Less than 12 months			12 months or longer			Total		
	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses
December 31, 2020:									
U.S. Government agency obligations	7	\$ 6,400	\$10	-	\$ -	\$ -	7	\$ 6,400	\$ 10
State and municipal obligations	7	3,099	15	-	-	-	7	3,099	15
Corporate debt obligations	-	-	-	3	1,458	42	3	1,458	42
Asset-backed securities	1	257	1	3	1,427	29	4	1,684	30
Other securities	1	37	3	-	-	-	1	37	3
Mortgage backed securities	10	6,797	14	-	-	-	10	6,797	14
Total temporarily impaired securities	<u>26</u>	<u>\$16,590</u>	<u>\$43</u>	<u>6</u>	<u>\$2,885</u>	<u>\$71</u>	<u>32</u>	<u>\$19,475</u>	<u>\$114</u>

Description of securities	Less than 12 months			12 months or longer			Total		
	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses
December 31, 2019:									
U.S. Government agency obligations	-	\$ -	\$ -	-	\$ -	\$ -	-	\$ -	\$ -
State and municipal obligations	8	3,207	31	-	-	-	8	3,207	31
Corporate debt obligations	3	1,405	95	-	-	-	3	1,405	95
Asset-backed securities	-	-	-	2	1,436	21	2	1,436	21
Other securities	-	-	-	-	-	-	-	-	-
Mortgage backed securities	21	21,489	115	2	1,073	7	23	22,562	122
Total temporarily impaired securities	<u>32</u>	<u>\$26,101</u>	<u>\$241</u>	<u>4</u>	<u>\$2,509</u>	<u>\$28</u>	<u>36</u>	<u>\$28,610</u>	<u>\$269</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE B - INVESTMENT AND MORTGAGE-BACKED SECURITIES (CONTINUED)

Proceeds from sales of securities available for sale were \$8.6 million and \$3.0 million during 2020 and 2019, respectively. Gross gains of \$1,051,000 and \$22,000 were realized in 2020 and 2019 for sales of investment securities. Gross losses of \$34,000 were realized in 2019 for sales of investment securities. No gross losses were realized in 2020 for sales of investment securities.

Management does not intend to sell debt securities with an unrealized loss and does not believe that it will be required to sell a security in an unrealized loss position prior to recovery in value. The fair values are expected to recover as securities approach their maturity dates. The Corporation has evaluated these securities and has determined that the decline in their values is temporary due to the change in market interest rates.

Securities with a carrying value of \$16,477,476 and \$14,617,677 were pledged at December 31, 2020 and 2019, respectively to collateralize certain deposits and for other purposes as permitted or required by law.

NOTE C - FINANCING RECEIVABLES

Loans receivable at December 31, 2020 and 2019 consist of the following (in thousands):

	2020	2019
Construction	\$ 22,975	\$ 13,542
Farmland	28,941	30,207
1-4 family residential	130,759	86,520
Multi-family residential	13,918	9,271
Nonfarm nonresidential	84,864	59,716
Commercial	71,758	56,552
Consumer	12,708	10,512
	<u>365,923</u>	<u>266,320</u>
Allowance for loan loss	(4,813)	(3,449)
Deferred loan fees	(969)	(308)
Total net loans	<u>\$360,141</u>	<u>\$262,563</u>
Loans held for sale	\$ 11,818	\$ 2,183
Loans receivable - net	<u>360,141</u>	<u>262,563</u>
Total net loans	<u>\$371,959</u>	<u>\$264,746</u>

Beginning in April of 2020, the Corporation, under the CARES act, allowed borrowers to defer payments of up to six months due to the COVID-19 pandemic, with the accrual of interest continuing during the payment deferral and becoming due at loan payoff as a balloon. As of December 31, 2020, there were 158 loans with outstanding principal balances of \$27,395,000 with payment deferrals.

Beginning in April of 2020, the Corporation participated in the Paycheck Protection Program ("PPP"), administered by the Small Business Administration (SBA), in assisting its borrowers with additional liquidity. PPP loans are 100% guaranteed by the SBA and carry a fixed rate of 1% with a two-year contractual maturity (loans originated before June 5, 2020) or five years (loans originated on or after June 5, 2020), if not forgiven. Payments are deferred until either the date on which the SBA remits the amount of forgiveness proceeds to the lender or the date that is 10 months after the last day of the covered period if the borrower does not apply for forgiveness within that 10 month period. The Corporation was paid a processing fee from the SBA ranging from 1% to 5% based on the size of the loan. At December 31, 2020, PPP loans, net of unearned fees of approximately \$528,000, totaled approximately \$20,160,000 and the weighted average rate for the processing fee was 4.02%. The unearned fees are being accreted to interest income based on the contractual maturity. The Bank anticipates that the SBA may forgive a significant number of PPP loans in 2021, at which point the recognition of fee income will be accelerated into interest income.

The risk characteristics applicable to each segment of the loan portfolio are described as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C - FINANCING RECEIVABLES (CONTINUED)

Construction Loans. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

Farmland (Agricultural) Loans. Payments on agricultural loans are typically dependent on the profitable operation or management of the related farm property. The success of the farm may be affected by many factors outside the control of the borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields, declines in market prices for agricultural products and the impact of government regulations. In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. For large loan relationships, crop insurance is required when the crops are the Bank's primary collateral.

1-4 Family Residential. Residential real estate loans are secured by 1-4 family residences and are generally owner-occupied. The Bank generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels. Repayment can also be impacted by changes in property values of residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Multi-Family Real Estate. Loans secured by multi-family and nonresidential real estate generally have larger balances and involve a greater degree of risk than 1-4 family residential mortgage loans. Of primary concern in multi-family and nonresidential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers, co-borrowers and loan guarantors of large loan relationships to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a multi-family and nonresidential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x. Environmental surveys and inspections are generally required for large loans.

Nonfarm Nonresidential Real Estate. Nonfarm nonresidential real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Nonfarm nonresidential 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. The characteristics of properties securing the Bank's Nonfarm nonresidential real estate portfolio are diverse, but with geographic location almost entirely in the Bank's market area. Management monitors and evaluates Nonfarm nonresidential real estate loans based on cash flows of borrowers, geography and risk grade criteria.

Commercial. Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be 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 include a personal guarantee. Short-term loans may be made on an unsecured basis. 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 borrowers to collect amounts due from its customers.

Consumer. Consumer loans consist of two segments - automobile loans and home equity loans. Automobile loans are generally secured by the automobile being financed or other personal assets. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels, and secondarily on the collateral securing the loan. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C - FINANCING RECEIVABLES (CONTINUED)

The allowance for credit losses and Recorded Investment in Financing Receivables at December 31, 2020 and December 31, 2019 is as follows:

December 31, 2020

	Construction	Farmland	1-4 Family Residential	Multi-family Residential	Nonfarm nonresidential	Commercial	Consumer	Total
Allowance for loan losses:								
Beginning Balance	44	501	947	62	764	1,097	34	3,449
Provision	-	512	(98)	1	93	771	1	1,280
Charge-offs	-	-	-	-	-	(19)	(3)	(22)
Recoveries	-	-	90	-	-	14	2	106
Ending Balance	<u>44</u>	<u>1,013</u>	<u>939</u>	<u>63</u>	<u>857</u>	<u>1,863</u>	<u>34</u>	<u>4,813</u>
Ending Balance:								
Individually evaluated for impairment	-	512	200	-	135	84	-	931
Ending Balance:								
Collectively evaluated for impairment	44	501	739	63	722	1,779	34	3,882
Loans receivable:								
Ending balance	22,975	28,941	130,759	13,918	84,864	71,758	12,708	365,923
Ending Balance:								
Individually evaluated for impairment	-	1,051	2,018	-	2,224	6,178	25	11,496
Ending Balance:								
Collectively evaluated for impairment	22,975	27,890	128,741	13,918	82,640	65,580	12,683	354,427

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C - FINANCING RECEIVABLES (CONTINUED)

December 31, 2019

	Construction	Farmland	1-4 Family Residential	Multi-family Residential	Nonfarm nonresidential	Commercial	Consumer	Total
Allowance for loan losses:								
Beginning Balance	56	450	992	62	1,344	1,772	32	4,708
Provision	(12)	51	(106)	-	(368)	389	146	100
Charge-offs	-	-	(14)	-	(212)	(1,064)	(150)	(1,440)
Recoveries	-	-	75	-	-	-	6	81
Ending Balance	<u>44</u>	<u>501</u>	<u>947</u>	<u>62</u>	<u>764</u>	<u>1,097</u>	<u>34</u>	<u>3,449</u>
Ending Balance:								
Individually evaluated for impairment	-	-	208	-	41	-	-	249
Ending Balance:								
Collectively evaluated for impairment	44	501	739	62	723	1,097	34	3,200
Loans receivable:								
Ending balance	13,542	30,207	86,520	9,271	59,716	56,552	10,512	266,320
Ending Balance:								
Individually evaluated for impairment	-	640	2,168	-	1,530	3,508	-	7,846
Ending Balance:								
Collectively evaluated for impairment	13,542	29,567	84,352	9,271	58,186	53,044	10,512	258,474

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C - FINANCING RECEIVABLES (CONTINUED)

Credit Risk Profile Categories

The Corporation assigns credit risk grades to evaluated loans using grading standards employed by regulatory agencies. The following are the Bank's internally assigned grades:

Pass. Loans in this category carry lower-risk attributes and currently have a minimal likelihood of loss. These loans represent the Corporation's standard or average loans that require a normal amount of supervision.

Special mention. Assets in this category 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 the institution to sufficient risk to warrant adverse classification.

Substandard. An asset classified substandard is protected inadequately by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Assets 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 institution will sustain some loss if the deficiencies are not corrected. Any loan 90 days past due will automatically be classified substandard.

Doubtful. An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C - FINANCING RECEIVABLES (CONTINUED)

The following table summarizes the credit risk profile by internally assigned grade at December 31, 2020 and December 31, 2019:

Grade:	December 31, 2020							
	Construction	Farmland	1-4 Family Residential	Multi-family Residential	Nonfarm nonresidential	Commercial	Consumer	Total
Pass	22,975	26,951	128,987	13,918	80,491	65,281	12,583	351,186
Special mention	-	1,073	1,319	-	3,288	1,842	100	7,622
Substandard	-	917	453	-	1,085	4,635	25	7,115
Doubtful	-	-	-	-	-	-	-	-
Total	<u>22,975</u>	<u>28,941</u>	<u>130,759</u>	<u>13,918</u>	<u>84,864</u>	<u>71,758</u>	<u>12,708</u>	<u>365,923</u>

Grade:	December 31, 2019							
	Construction	Farmland	1-4 Family Residential	Multi-family Residential	Nonfarm nonresidential	Commercial	Consumer	Total
Pass	13,542	28,921	84,701	8,769	55,767	52,728	10,430	254,858
Special mention	-	646	1,263	502	3,465	1,950	82	7,908
Substandard	-	640	556	-	484	1,874	-	3,554
Doubtful	-	-	-	-	-	-	-	-
Total	<u>13,542</u>	<u>30,207</u>	<u>86,520</u>	<u>9,271</u>	<u>59,716</u>	<u>56,552</u>	<u>10,512</u>	<u>266,320</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C - FINANCING RECEIVABLES (CONTINUED)

The following tables summarize loans by delinquency and nonaccrual status at December 31, 2020 and December 31, 2019:

December 31, 2020

	30-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans	Nonaccrual	Recorded Investment 90 Days and Accruing
Real Estate:							
Construction	-	-	-	22,975	22,975	-	-
Farmland	683	-	683	28,258	28,941	-	-
1-4 family residential	432	212	644	130,115	130,759	440	10
Multi-family residential	-	-	-	13,918	13,918	-	-
Nonfarm nonresidential	477	305	782	84,082	84,864	305	-
Commercial	1,090	400	1,490	70,268	71,758	400	-
Consumer	18	-	18	12,690	12,708	-	-
Total	2,700	917	3,617	362,306	365,923	1,145	10

December 31, 2019

	30-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans	Nonaccrual	Recorded Investment 90 Days and Accruing
Real Estate:							
Construction	20	-	20	13,522	13,542	-	-
Farmland	-	199	199	30,008	30,207	199	-
1-4 family residential	658	209	867	85,653	86,520	162	47
Multi-family residential	-	-	-	9,271	9,271	-	-
Nonfarm nonresidential	293	243	536	59,180	59,716	243	-
Commercial	1,622	86	1,708	54,844	56,552	86	-
Consumer	32	-	32	10,480	10,512	-	-
Total	2,625	737	3,362	262,958	266,320	690	47

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C - FINANCING RECEIVABLES (CONTINUED)

The following tables summarize impaired loans at December 31, 2020 and December 31, 2019:

December 31, 2020

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Real Estate:					
Construction	-	-	-	-	-
Farmland	496	542	-	568	27
1-4 family residential	460	504	-	528	14
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	835	1,041	-	828	27
Commercial	5,733	5,733	-	4,621	236
Consumer	25	25	-	13	1
Total	7,549	7,845	-	6,558	305

Loans with an allowance recorded:

Real Estate:					
Construction	-	-	-	-	-
Farmland	555	555	512	277	-
1-4 family residential	1,558	1,558	200	1,505	73
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	1,389	1,389	135	1,050	84
Commercial	445	445	84	222	30
Consumer	-	-	-	-	-
Total	3,947	3,947	931	3,054	187

Total impaired loans:

Real Estate:					
Construction	-	-	-	-	-
Farmland	1,051	1,097	512	845	27
1-4 family residential	2,018	2,062	200	2,033	87
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	2,224	2,430	135	1,878	111
Commercial	6,178	6,178	84	4,843	266
Consumer	25	25	-	13	1
Total	11,496	11,792	931	9,612	492

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C - FINANCING RECEIVABLES (CONTINUED)

December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Real Estate:					
Construction	-	-	-	-	-
Farmland	640	685	-	460	34
1-4 family residential	597	710	-	814	34
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	820	1,019	-	610	30
Commercial	3,508	4,056	-	2,871	201
Consumer	-	-	-	-	-
Total	<u>5,565</u>	<u>6,470</u>	<u>-</u>	<u>4,755</u>	<u>299</u>
Loans with an allowance recorded:					
Real Estate:					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 family residential	1,571	1,571	208	1,650	78
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	710	710	41	726	39
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	<u>2,281</u>	<u>2,281</u>	<u>249</u>	<u>2,376</u>	<u>117</u>
Total impaired loans:					
Real Estate:					
Construction	-	-	-	-	-
Farmland	640	685	-	460	34
1-4 family residential	2,168	2,281	208	2,464	112
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	1,530	1,729	41	1,336	69
Commercial	3,508	4,056	-	2,871	201
Consumer	-	-	-	-	-
Total	<u>7,846</u>	<u>8,751</u>	<u>249</u>	<u>7,131</u>	<u>416</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C - FINANCING RECEIVABLES (CONTINUED)

If a borrower is experiencing financial difficulty, the Bank may consider, in certain circumstances, modifying the terms of their loan in a troubled debt restructuring (TDR) to maximize collection of amounts due. Within each of the Bank's loan classes, TDRs typically involved either a reduction of the stated interest rate of the loan or an extension of the loan's maturity date(s) with a stated rate lower than the current market rate for a new loan with similar risk. Modifying the terms of loans may result in an increase or decrease in the Allowance for Loan and Lease Losses (ALLL) depending upon the terms modified, the method used to measure the ALLL for a loan prior to modification, and whether any charge-offs were recorded on the loan before or at the time of modification.

At December 31, 2020 and 2019, the Bank had \$4.8 million and \$5.1 million in TDRs, respectively which are included as impaired loans.

During the year ended December 31, 2020, the Bank had 3 new TDR's totaling \$460,000. The recorded investment totaled \$460,000 at the time of restructure and totaled \$460,000 immediately following. Of the 3 new troubled debt restructurings in 2020, all were interest rate reductions. During the year ended December 31, 2019, the Bank had 2 new TDR's totaling \$72,000. The recorded investment totaled \$72,000 at the time of restructure and \$72,000 at December 31, 2019. Of the 2 new troubled debt restructurings in 2019, both were maturity extensions.

The Bank considers TDRs that become 90 days past due under the modified terms in the year following restructuring as subsequently defaulted. There were no such instances of subsequently defaulted TDR's in 2020 or 2019.

The Bank's lending efforts have historically focused on 1-4 family residential and nonfarm nonresidential real estate, which comprised approximately \$227.4 million, or 60%, of the total loan portfolio at December 31, 2020, and \$148.4 million, or 55%, of the total loan portfolio at December 31, 2019. The vast majority of these loans have been underwritten on the basis of no more than a 90% loan-to-value ratio, which has historically provided the Bank with adequate collateral coverage in the event of default. The Bank, as with any lending institution, is subject to the risk that real estate values could deteriorate in its primary lending area of southeast Indiana, thereby impairing collateral values.

In the normal course of business, the Bank has made loans to its directors, officers and their related business interests. In the opinion of management, such loans are consistent with sound lending practices and are within applicable regulatory lending limitations. Loans to officers and directors totaled approximately \$2,868,000 and \$1,100,000 at December 31, 2020 and 2019, respectively. Activity regarding loans to officers and directors during the year ended December 31, 2020 consisted of \$556,000 in net advances, \$2,620,000 acquired as part of the acquisition, and \$1,408,000 in repayments to the Bank.

The Bank has sold whole loans and participating interests in loans in the secondary market, generally retaining servicing on the loans sold. Loans sold and serviced for others totaled approximately \$219.8 million and \$148.1 million at December 31, 2020 and 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE D - OFFICE PREMISES AND EQUIPMENT

Office premises and equipment, including construction in process, is comprised of the following at December 31:

	2020	2019
	(In thousands)	
Land and land improvements	\$ 3,102	\$ 1,864
Buildings and improvements	7,883	5,934
Furniture and equipment	3,856	3,514
	<u>14,841</u>	<u>11,312</u>
Less accumulated depreciation and amortization	(6,039)	(5,511)
	<u><u>\$ 8,802</u></u>	<u><u>\$ 5,801</u></u>

NOTE E - LEASE

During 2019, the Corporation adopted ASU No. 2016-02, "Leases (Topic 842)," which requires leases with durations greater than twelve months to be recognized on the balance sheet. The Corporation adopted the standard using the modified retrospective approach with an effective date as of the beginning of 2019. The Corporation elected the package of transition provisions available for expired or existing contracts, which allowed the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs.

The Bank has an operating lease for a parcel of land upon which a branch office was constructed. As the term is greater than twelve months, the related asset and obligation are recorded at the present value of lease payments over the term. The lease includes a rental escalation clause and a termination option that are factored into the determination of lease payments as appropriate. The lease does not provide a readily determinable implicit rate. Therefore, the incremental borrowing rate is estimated to discount the lease payments based on information available at lease commencement. There are no forms of residual value guarantees with the leased asset or variable interest with the lessor.

The lease agreement has a fixed payment schedule until it expires March 14, 2027. The remaining term is 6.25 years and the discount rate used is 2.25% which is based on the Corporation's incremental borrowing rate. As of January 1, 2019, a \$1.209 million right-of-use asset was obtained in exchange for an equal operating lease liability. Cash paid for amounts included in the measurement of lease liabilities for operating leases for the years ended December 31, 2020 and 2019 were \$149,000. The following table reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating lease liability recorded on the statement of financial position:

Year ending December 31,	(In thousands)
2021	\$ 149
2022	167
2023	171
2024	171
2025	171
Thereafter	<u>200</u>
Total undiscounted cash flows	1,029
Less present value discount	(79)
Total lease liability	<u><u>\$950</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE F - DEPOSITS

Deposits consist of the following major classifications at December 31:

Deposit type and weighted-average interest rate	2020	2019
	(In thousands)	
Interest-bearing demand accounts		
2020 - 0.22%	\$175,198	\$117,135
2019 - 0.45%		
Savings accounts		
2020 - 0.14%	120,729	78,290
2019 - 0.19%		
Non-interest bearing accounts	<u>131,765</u>	<u>84,593</u>
Total demand and savings accounts	<u>\$427,692</u>	<u>\$280,018</u>
Certificates of deposit, including individual retirement accounts:		
Original maturities of:		
12 months and less		
2020 - 0.75%	35,912	24,244
2019 - 1.85%		
15 months to 18 months		
2020 - 1.05%	2,669	1,640
2019 - 1.64%		
21 months to 30 months		
2020 - 1.56%	15,910	17,247
2019 - 1.89%		
More than 30 months		
2020 - 2.03 %	<u>96,501</u>	<u>72,459</u>
2019 - 2.11 %		
Total certificates of deposit	<u>\$150,992</u>	<u>\$115,590</u>
Total deposits	<u><u>\$578,684</u></u>	<u><u>\$395,608</u></u>

The Dodd-Frank Wall Street Reform and Consumer Protection Act permanently raised the standard maximum deposit insurance amount to \$250,000. Certain deposits with balances greater than \$250,000 are not federally insured. At December 31, 2020 and 2019, the Bank had certificate of deposit accounts with balances greater than \$250,000 totaling approximately \$27.3 million and \$12.6 million, respectively.

In the ordinary course of business, the Bank maintains deposit accounts for some officers, directors, and other related interests. Related party deposit accounts were made on the same terms as those prevailing at the time for comparable transactions with unrelated persons. The aggregate dollar amount of related party deposits totaled \$3.6 million and \$2.3 million at December 31, 2020 and 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE F - DEPOSITS (CONTINUED)

Interest expense on deposits for the year ended December 31 is summarized as follows:

	2020	2019
	(In thousands)	
Interest-bearing demand accounts	\$ 405	\$ 624
Savings accounts	167	151
Certificates of deposit	<u>2,842</u>	<u>1,881</u>
	<u>\$3,414</u>	<u>\$2,656</u>

Maturities of outstanding certificates of deposit at December 31 are summarized as follows:

	2020
	(In thousands)
2021	\$ 68,509
2022	34,430
2023	15,949
2024	25,546
2025	6,553
2026 and thereafter	<u>5</u>
	<u>\$150,992</u>

NOTE G - SHORT-TERM BORROWINGS

Securities sold under agreements to repurchase consist of obligations of the Bank to other parties and mature within one day from the transaction date. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2020	2019
	(In thousands)	
Average balance during the year	\$13,978	\$11,432
Average interest rate during the year	0.48%	1.71%
Maximum month-end balance during the year	\$16,680	\$14,362
Year-end balance	\$15,948	\$12,857
Obligations of investment securities underlying the agreements at year end:		
Book value	\$15,960	\$14,454
Fair value	\$16,477	\$14,618

These agreements may be terminated by either the Bank or other party on terms ranging from one to five days.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE H - INCOME TAXES

The provision for income taxes differs from that computed at the statutory corporate tax rate for the year ended December 31 as follows:

	2020		2019	
	(In thousands)			
Federal income taxes computed at the statutory rate based on income less captive insurance income	\$1,635	21.0%	\$1,325	21.0%
Increase (decrease) in taxes resulting from:				
Tax-exempt interest	(412)	(5.3%)	(260)	(4.1%)
Non-taxable income on bank owned life insurance	(72)	(0.9%)	(59)	(0.9%)
State income taxes, net of federal benefits	96	0.5%	94	0.6%
Nondeductible merger fees	33	0.4%	33	0.5%
Other	<u>(42)</u>	<u>(0.5%)</u>	<u>(40)</u>	<u>(0.6%)</u>
Income tax provision per consolidated financial statements	<u>\$1,238</u>	<u>15.2%</u>	<u>\$1,093</u>	<u>16.5%</u>

The composition of the Corporation's net deferred tax asset (liability) at December 31 is as follows:

	2020	2019
	(In thousands)	
Deferred tax assets:		
Retirement expense	\$ 390	\$ 17
General loan loss allowance	1,099	771
Deferred loan fees	237	77
Other	<u>56</u>	<u>-</u>
Total deferred tax assets	<u>1,782</u>	<u>865</u>
Deferred tax liabilities:		
FHLB stock dividends	(32)	(18)
Captive insurance	(159)	(176)
Mortgage servicing rights	(418)	(179)
Unrealized gains on AFS securities	(1,502)	(642)
Book versus tax depreciation	(226)	(159)
Other	<u>-</u>	<u>(1)</u>
Total deferred tax liabilities	<u>(2,337)</u>	<u>(1,175)</u>
Net deferred income tax liability	<u>\$ (555)</u>	<u>\$ (310)</u>

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize reported deferred taxes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE I - BENEFIT PLANS

The Corporation sponsors a postretirement plan (the "Plan") covering certain directors of the Bank. Based upon calculations received from the benefit plan administrators, the Bank recorded expense of approximately \$77,000 and \$63,000 for the years ended December 31, 2020 and 2019, respectively.

The Bank has a contributory 401(k) plan covering substantially all employees. Contributions to the plan are voluntary and are subject to matching by the Bank. The Bank's expense related to the 401(k) plan totaled approximately \$166,000 and \$140,000 for the years ended December 31, 2020 and 2019, respectively.

The Bank has a profit sharing plan, which provides for additional compensation to employees if the Bank meets certain performance goals. The Bank recorded expense of approximately \$368,000 and \$286,000 for the profit sharing plan for the years ended December 31, 2020 and 2019, respectively.

The Corporation has acquired, as part of the acquisition of DSA Financial Corporation, a deferred compensation plan with an accrual of \$690,000 that covers certain directors and is recorded in other liabilities on the consolidated statements of financial condition. Under the plan, the Corporation pays each participant, or their beneficiary, an amount deferred over 15 years, beginning upon the individual's termination of service. The cash payouts and required increase in accrual for the deferred compensation for the year ended December 31, 2020 were \$38,000 and \$44,000, respectively, resulting in a deferred compensation liability of \$696,000 at December 31, 2020. Accrual of this liability is based on individual discount rates by participant ranging from 6.50 - 10.00%. Income tax deductions are allowable only as retirement benefits are paid. The Corporation has a rabbi trust to fund the obligations of this deferred compensation plan. The trust holds assets consisting of cash and FCN Banc Corp stock. In accordance with the accounting guidance for rabbi trust arrangements, the assets of the trust and the obligations of the plan are reported on the Corporation's consolidated statements of financial condition. The cash is held in other assets while the stock is designated as treasury shares. If the trust assets earn interest or dividends from the invested assets, the Corporation would record earnings in the same period. Therefore, the assets are reported at fair value with any subsequent changes in fair value recorded in the statements of earnings. At December 31, 2020, the trust asset balances were \$685,000, which resulted in the Corporation recording \$11,000 of expense during 2020.

The Corporation has acquired, as part of the merger with DSA Financial Corporation, a supplemental executive retirement plan (SERP) with an accrual of \$863,000 that covers certain directors and certain executive officers and is recorded in other liabilities on the statements of financial condition. Under the plan, the Corporation pays each participant, or their beneficiary, a fixed retirement benefit over 10 years for directors and 20 years for executive officers, beginning upon the individual's retirement. A liability is accrued for the obligation under these plans, with a balance of \$825,000 as of December 31, 2020. Accrual of this liability is based on individual discount rates by participant ranging from 6.00 - 10.00%. Income tax deductions are allowable only as retirement benefits are paid. Cash payouts under the plan totaled approximately \$89,000 for the year ended December 31, 2020. Expense under the plan totaled approximately \$51,000 for the year ended December 31, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE J - COMMITMENTS

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers, including commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statement of financial condition. The contract or notional amounts of the commitments reflect the extent of the Bank's involvement in such financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as those utilized for on-balance-sheet instruments.

At December 31, 2020, the Bank had outstanding commitments of approximately \$17.7 million to originate residential real estate loans. Additionally, the Bank had unused overdraft protection of approximately \$676,000 and unused lines of credit under residential loans and commercial loans of approximately \$46.3 million and \$47.2 million, respectively, at December 31, 2020. Of the approximately \$112.0 million in commitments, approximately \$80.2 million and \$31.8 million were variable and fixed, respectively.

The Bank had no commitments under financial standby letters of credit at December 31, 2020. Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. In the opinion of management, all loan commitments equaled or exceeded prevalent market interest rates as of December 31, 2020, and will be funded from normal cash flow from operations.

An outbreak of a novel strain of coronavirus (COVID-19) has disrupted supply chains and affected production and sales across a range of industries. The extent of the impact of COVID-19 on the Corporation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak. Impact on the Corporation's customers, employees and vendors cannot be predicted, and the extent to which COVID-19 may impact the Corporation's financial condition or results of operations is uncertain at this time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE K - REGULATORY CAPITAL

The Bank is subject to the regulatory capital requirements of the Federal Deposit Insurance Corporation (the "FDIC"). Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The FDIC has adopted risk-based capital ratio guidelines to which the Bank is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighting categories, with higher levels of capital being required for the categories perceived as representing greater risk.

During the most recently completed exam, the Bank was notified by its primary regulator that it was categorized as "well-capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized" the Bank must maintain minimum capital ratios as set forth in the table that follows.

As of December 31, 2020 and 2019, management believed that the Bank met all capital adequacy requirements to which it was subject.

2020:

	Actual		For capital adequacy purposes		To be "well-capitalized" under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity tier 1 (to risk-based capital)	\$63,308	16.33%	≥\$17,446	≥ 4.5%	≥\$25,199	≥6.5%
Total capital (to risk-weighted assets)	\$68,121	17.57%	≥\$31,014	≥ 8.0%	≥\$38,768	≥ 10.0%
Tier I capital (to risk-weighted assets)	\$63,308	16.33%	≥\$23,261	≥ 6.0%	≥\$31,014	≥ 8.0%
Tier I leverage	\$63,308	9.46%	≥\$26,765	≥ 4.0%	≥\$33,457	≥ 5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE K - REGULATORY CAPITAL (CONTINUED)

2019:

	Actual		For capital adequacy purposes		To be "well-capitalized" under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity tier 1 (to risk-based capital)	\$50,141	17.57%	≥\$12,841	≥ 4.5%	≥\$18,549	≥ 6.5%
Total capital (to risk-weighted assets)	\$53,590	18.78%	≥\$22,829	≥ 8.0%	≥\$28,537	≥ 10.0%
Tier I capital (to risk-weighted assets)	\$50,141	17.57%	≥\$17,122	≥ 6.0%	≥\$22,829	≥ 8.0%
Tier I leverage	\$50,141	10.65%	≥\$18,831	≥ 4.0%	≥\$23,539	≥ 5.0%

The Bank's management believes that, under the current regulatory capital regulations, the Bank will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Bank, such as increased interest rates or a downturn in the economy in the Bank's primary market area, could adversely affect future earnings and, consequently, the ability to meet future minimum regulatory capital requirements.

NOTE L - COMPREHENSIVE INCOME RECLASSIFICATION ADJUSTMENT

The following information discloses the reclassification adjustments for each component of accumulated other comprehensive income, including the income statement line items that affected, as of December 31, 2020 and 2019:

Accumulated Other Comprehensive Income Components	Reclassification Amount (in thousands)	Affected Line Item in the Consolidated Statements of Income
December 31, 2020:		
Unrealized gains on available for sale securities	1,051 (221)	Gain on sale of investments and mortgage-backed securities Income taxes
Total reclassifications	<u>\$830</u>	
December 31, 2019:		
Unrealized losses on available for sale securities	(12) 3	Loss on sale of investments and mortgage-backed securities Income taxes
Total reclassifications	<u>\$(9)</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE M - REVENUE RECOGNITION

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. Substantially all of the Corporation's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2020 and 2019:

	2020	2019
	(In thousands)	
Noninterest income (expense):		
In-scope of Topic 606:		
Service charges and fees	\$1,405	\$ 792
ATM/Interchange fees	915	772
Other	<u>671</u>	<u>704</u>
Total noninterest income in-scope of Topic 606	2,991	2,268
Total noninterest income out-of-scope of Topic 606:	4,060	635
Total noninterest income	<u>\$7,051</u>	<u>\$2,903</u>

Service charges and fees. Service charges consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, and other deposit account related fees. The Corporation's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Other deposit account related fees are largely transactional based, and therefore, the Corporation's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

ATM/Interchange fees. Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Corporation's debit and credit cards are processed through card payment networks such as Mastercard. ATM fees are primarily generated when a Corporation cardholder uses a non-Corporation ATM or a non-Corporation cardholder uses a Corporation ATM. The Corporation's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Other. Other noninterest income consists of other recurring revenue streams such as net insurance premiums written for FCN Risk Management, trust department income, safety deposit box rental fees, check order fees, and other miscellaneous revenue streams. Net insurance premiums are those that are paid annually by the Corporation and its other subsidiaries to FCN Risk Management, after paying insurance claims and other changes. This revenue is recognized upon receipt of payment. Trust department income is fees earned for certain asset management services that are charged on a monthly basis and recognized upon receipt of payment. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. Check order income mainly represents fees charged to customers for checks. The Corporation determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE N - BUSINESS COMBINATION

On February 29, 2020, the Corporation acquired 100% of the outstanding common shares of DSA Financial Corporation in exchange for certain consideration as detailed below. Under the terms of the acquisition, half of the acquiree's common shareholders received 0.3819 of a share of the Corporation's common stock in exchange for each share of the acquiree's common stock, while the other half of the acquiree's common shareholders received \$13.75 cash consideration in exchange for each share of the acquiree's common stock. Total consideration for the transaction was \$18,525,000 and the Corporation issued 257,237 shares of common stock as a result of the acquisition. With the acquisition, the Corporation has expanded their footprint into Dearborn County, Indiana by adding one physical branch. The acquiree's results of operations were included in the Corporation's results beginning March 1, 2020. Acquisition-related costs are included in other operating expenses in the statement of earnings for the year ended December 31, 2020. The fair value of the common shares issued as part of the consideration paid was determined in the basis of the par value of the Corporation's common shares on the acquisition date.

Goodwill of \$3,573,000 arising from the acquisition consisted largely of the customer base that came along with the purchase of the acquiree and its location. As this was created in an acquisition structured as a stock sale, no amount of goodwill is tax deductible or amortizable. The following table summarizes the consideration paid for the acquiree and the amounts of assets acquired and liabilities assumed recognized at acquisition date (in thousands):

Consideration	
Cash	\$ 9,264
Common stock	<u>9,261</u>
Fair value of total consideration transferred	<u>\$18,525</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	\$23,445
Investment securities	2,872
Loans receivable	96,716
Office premises and equipment	3,223
Bank owned life insurance	3,575
Other assets	2,948
Total assets acquired	<u>132,779</u>
Deposits	106,543
Advances from the Federal Home Loan Bank	7,000
Deferred compensation and supplemental retirement	1,553
Other liabilities	<u>2,731</u>
Total liabilities assumed	<u>117,827</u>
Total identifiable net assets	<u>\$14,952</u>
Goodwill	<u>\$ 3,573</u>

An analysis was performed to determine the fair value of net assets acquired. Fair value adjustments were calculated using discounted contractual cash flows for both loans receivable and deposits. The Corporation believes that all contractual cash flows related to loans receivable will be collected and 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. The fair value of deposits were considered equal to the carrying value and therefore no adjustment was needed. A new appraisal performed on the acquired bank branch showed an increase in value of \$816,000. That adjustment, netted with the removal of the acquiree's allowance for loan losses offset by deferred tax resulted in a total fair value adjustment of \$1.3 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE O - CONDENSED FINANCIAL STATEMENTS OF FCN BANC CORP.

The following condensed financial statements summarize the financial position of FCN Banc Corp. as of December 31, 2020 and 2019, and the results of its operations and cash flows for the years ended December 31, 2020 and 2019.

FCN Banc Corp. STATEMENTS OF FINANCIAL CONDITION Year ended December 31, 2020 and 2019 (In thousands)

ASSETS	2020	2019
Cash and cash equivalents	\$ 2,366	\$ 2,133
Investment in FCN Bank	74,650	54,675
Prepaid expenses	535	478
Dividend receivable from FCN Bank	<u>-</u>	<u>508</u>
Total assets	<u>\$77,551</u>	<u>\$57,794</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other advances	\$ 3,250	\$ -
Dividends payable	595	508
Other liabilities	905	965
Total liabilities	<u>4,750</u>	<u>1,473</u>
Shareholders' equity		
Common stock	11,464	9,856
Additional paid-in capital	8,276	623
Retained earnings	49,514	44,935
Treasury shares	(2,103)	(1,509)
Unrealized gains on securities designated as available for sale, net	5,650	2,416
Total shareholders' equity	<u>72,801</u>	<u>56,321</u>
Total liabilities and shareholders' equity	<u>\$77,551</u>	<u>\$57,794</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE O - CONDENSED FINANCIAL STATEMENTS OF FCN BANC CORP. (CONTINUED)

FCN Banc Corp. STATEMENTS OF EARNINGS Year ended December 31, 2020 and 2019 (In thousands)

	2020	2019
Equity in earnings of FCN Bank	\$7,014	\$5,411
Fee income from subsidiary	506	596
General and administrative expenses	<u>(651)</u>	<u>(297)</u>
Earnings before income tax benefit	6,869	5,710
Income tax benefit	<u>89</u>	<u>10</u>
NET EARNINGS	<u>\$6,958</u>	<u>\$5,720</u>

FCN Banc Corp. STATEMENTS OF CASH FLOWS Year ended December 31, 2020 and 2019 (In thousands)

	2020	2019
Cash flows provided by (used in) operating activities:		
Net earnings for the year	\$ 6,958	\$ 5,720
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Undistributed earnings of consolidated subsidiary	(6,972)	(3,566)
Effect of changes in operating assets and liabilities		
Prepaid expenses	(57)	-
Other liabilities	<u>(546)</u>	<u>(15)</u>
Net cash provided by (used in) operating activities	<u>(617)</u>	<u>2,139</u>
Cash flows provided by (used in) financing activities:		
Dividends on common stock	(2,292)	(1,989)
Proceeds from other advances	10,000	-
Repayments of other advances	(6,750)	-
Purchase of treasury shares	<u>(108)</u>	<u>(23)</u>
Net cash provided by (used in) financing activities	<u>850</u>	<u>(2,012)</u>
Net increase in cash and cash equivalents	233	127
Cash and cash equivalents at beginning of year	<u>2,133</u>	<u>2,006</u>
Cash and cash equivalents at end of year	<u>\$ 2,366</u>	<u>\$2,133</u>

NOTES

LOCATIONS

MAIN OFFICE

501 Main St.
Brookville, IN 47012
765-647-4116

BROOKVILLE DRIVE-UP

400 Main St.
Brookville, IN 47012
765-647-4116

CONNERSVILLE

105 West 3rd St.
Connerville, IN 47331
765-825-7251

BATESVILLE

1060 State Rd. 229 N.
Batesville, IN 47006
812-934-9078

SUNMAN

226 N. Meridian St.
Sunman, IN 47041
812-623-8900

HARRISON

590 Ring Rd.
Harrison, OH 45030
513-367-6111

LAWRENCEBURG

595 W. Eads Parkway
Lawrenceburg, IN 47025
812-537-0940



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