Ottawa Bancorp, Inc. & Subsidiary

Consolidated Financial Statements
December 31, 2021 and 2020

Ottawa Bancorp, Inc. & Subsidiary

Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Ottawa Bancorp, Inc. and Subsidiary

Opinion
We have audited the accompanying consolidated financial statements of Ottawa Bancorp, Inc. and Subsidiary which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ottawa Bancorp, Inc. and Subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Ottawa Bancorp, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ottawa Bancorp, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ottawa Bancorp, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
March 25, 2022

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and due from banks	$ 5,266,361	$ 4,793,872
Interest bearing deposits	1,249,947	5,581,139
Total cash and cash equivalents	6,516,308	10,375,011
Time deposits	250,000	3,232,500
Federal funds sold	1,716,000	3,486,000
Securities available for sale	32,700,414	18,711,631
Loans, net of allowance for loan losses of $3,640,145 and $3,479,150 at December 31, 2021 and 2020, respectively	283,877,203	255,103,054
Loans held for sale	403,920	-
Premises and equipment, net	6,331,188	6,312,256
Accrued interest receivable	1,007,399	972,602
Foreclosed real estate	-	107,100
Deferred tax assets	1,793,910	1,666,339
Cash surrender value of life insurance	2,649,941	2,603,046
Goodwill	649,869	649,869
Core deposit intangible	100,326	131,996
Other assets	4,528,862	4,234,003
Total assets	$ 342,525,340	$ 307,585,407
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 22,898,814	$ 18,285,211
Interest bearing	250,152,124	217,774,806
Total deposits	273,050,938	236,060,017
Accrued interest payable	48,825	54,851
FHLB advances	16,524,555	17,548,560
Other liabilities	4,860,206	4,731,352
Total liabilities	294,484,524	258,394,780
Commitments and contingencies (Note 13)		
ESOP Repurchase Obligation	2,066,911	957,167
Stockholders' equity		
Common stock, $0.01 par value, 12,000,000 shares authorized; 2,818,517 and 2,949,324 shares issued at December 31, 2021 and 2020, respectively	28,185	$ 29,491
Additional paid-in-capital	28,473,180	30,415,091
Retained earnings	20,536,121	19,457,092
Unallocated ESOP shares	(949,340)	(1,132,842)
Unearned management recognition plan shares	(99,352)	(62,070)
Accumulated other comprehensive income (loss)	52,022	483,865
	48,040,816	49,190,627
Less:		
ESOP Owned Shares	(2,066,911)	(957,167)
Total Stockholders' Equity	45,973,905	48,233,460
Total Liabilities and Stockholders' Equity	$342,525,340	$307,585,407

See Accompanying Notes to Consolidated Financial Statements

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Statements of Operations
Years Ended December 31, 2021 and 2020

	2021	2020
Interest and dividend income:		
Interest and fees on loans	$11,906,772	$11,601,368
Securities:		
Residential mortgage-backed and related securities	204,046	231,032
State and municipal securities	263,212	386,561
Dividends on non-marketable equity securities	34,186	30,180
Interest-bearing deposits	21,330	80,937
Total interest and dividend income	12,429,546	12,330,078
Interest expense:		
Deposits	1,266,314	2,217,388
Borrowings	272,709	283,503
Total interest expense	1,539,023	2,500,891
Net interest income	10,890,523	9,829,187
Provision for loan losses	150,000	660,000
Net interest income after provision for loan losses	10,740,523	9,169,187
Noninterest income:		
Gain on sale of loans, net	895,341	1,455,254
Gain on sale of securities, net	-	857
Loan origination and servicing income	1,149,174	1,214,599
Origination of mortgage servicing rights, net of amortization	326,083	33,545
Customer service fees	393,174	367,556
Increase in cash surrender value of life insurance	46,895	74,652
Gain on sale of repossessed assets	(7,791)	21,433
Gain on sale of foreclosed real estate	18,390	(2,982)
Other	134,918	164,667
Total noninterest income	2,956,184	3,329,581
Noninterest expenses:		
Salaries and employee benefits	5,907,034	5,532,741
Directors fees	148,750	160,000
Occupancy	624,468	636,814
Deposit insurance premium	76,913	31,003
Legal and professional services	360,120	439,871
Data processing	1,077,576	951,855
Loan expense	500,256	586,766
Valuation adjustments and expenses on foreclosed real estate	15,859	5,263
Other	927,446	934,179
Total noninterest expenses	9,638,422	9,278,492
Income before income tax expense	4,058,285	3,220,276
Income tax expense	1,154,564	739,356
Net income	$ 2,903,721	$ 2,480,920
Basic earnings per share	$ 1.03	$ 0.84
Diluted earnings per share	$ 1.03	$ 0.84
Dividends per share	$ 0.649	$ 0.668

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020

	2021	2020
Net income	$ 2,903,721	$ 2,480,920
Other comprehensive income, before tax:		
Securities available for sale:		
Unrealized holding (losses) gains arising during the period	$ (604,018)	$ 223,686
Reclassification adjustment for (gains) included in net income	-	(857)
Other comprehensive (loss) income, before tax	$ (604,018)	$ 222,829
Income tax (benefit) expense related to items of other comprehensive (loss) income	$ (172,175)	$ 63,274
Other comprehensive (loss) income, net of tax	$ (431,843)	$ 159,555
Comprehensive income	$ 2,471,878	$ 2,640,475

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unallocated ESOP Shares	Unearned MRP Shares	Accumulated Other Comprehensive Income (Loss)	Maximum Cash Obligation Related to ESOP Shares	Total
Balance, December 31, 2019	$ 31,594	$ 32,845,639	$ 18,938,633	$ (1,398,600)	$ (30,944)	$ 324,553	$ -	$ 50,710,875
Net income	-	-	2,480,920	-	-	-	-	2,480,920
Other comprehensive income	-	-	-	-	-	159,312	-	159,312
Allocation of 26,576 of ESOP shares	-	6,712	-	265,758	-	-	-	272,470
Compensation expense on MRP awards granted	-	-	-	-	67,021	-	-	67,021
Grant of 8,896 MRP shares	89	98,058	-	-	(98,147)	-	-	-
RRP options exercised	37	13,350	-	-	-	-	-	13,387
Change in cash obligation	-	-	-	-	-	-	(957,167)	(957,167)
Cash dividends paid, $0.43 per share	-	-	(1,962,461)	-	-	-	-	(1,962,461)
Repurchase 222,816 shares	(2,229)	(2,548,668)	-	-	-	-	-	(2,550,897)
Balance, December 31, 2020	$ 29,491	$ 30,415,091	$ 19,457,092	$ (1,132,842)	$ (62,070)	$ 483,865	(957,167)	$ 48,233,460
Net income	-	-	2,903,721	-	-	-	-	2,903,721
Other comprehensive loss	-	-	-	-	-	(431,843)	-	(431,843)
Allocation of 13,360 of ESOP shares	-	4,284	-	183,502	-	-	-	187,786
Grant of 6,793 MRP Shares	68	99,751	-	-	(99,819)	-	-	-
Compensation expense on MRP awards granted	-	-	-	-	62,537	-	-	62,537
RRP options exercised	37	13,350	-	-	-	-	-	13,387
Change in cash obligation	-	-	-	-	-	-	1,109,744)	(1,109,744)
Cash dividends paid, $0.65 per share	-	-	(1,824,692)	-	-	-	-	(1,824,692)
Repurchase 141,100 shares	(1,411)	(2,059,296)	-	-	-	-	-	(2,060,707)
Balance, December 31, 2021	$ 28,185	$ 28,473,180	$ 20,536,121	$ (949,340)	$ (99,352)	$ 52,022	$ (2,066,911)	$ 45,973,905

See Accompanying Notes to Consolidated Financial Statements

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Net income	$ 2,903,721	$ 2,480,920
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	236,481	235,589
Provision for loan losses	150,000	660,000
Provision for deferred income taxes	44,604	13,305
Net amortization of premiums and discounts on securities	94,183	97,344
Gain on sale of securities, net	-	(857)
Origination of mortgage loans held for sale	(58,106,647)	(62,554,300)
Proceeds from sale of mortgage loans held for sale	58,598,068	65,235,080
Gain on sale of loans	(895,341)	(1,455,254)
Origination and purchase of mortgage servicing rights, net of amortization	(326,083)	(33,545)
(Gain) loss on sale of foreclosed real estate	(18,390)	2,982
(Gain) loss on sale of repossessed assets, net	7,791	(21,433)
Compensation expense on ESOP shares released	187,786	272,470
Compensation expense on MRP options granted	62,537	67,021
Amortization of core deposit intangible	31,670	38,003
Amortization of fair value adjustments on acquired:		
Loans	(17,300)	(2,975)
Federal Home Loan Bank Advances	192	4,372
Increase in cash surrender value of life insurance	(46,895)	(74,652)
Change in assets and liabilities:		
Increase in accrued interest receivable	(34,797)	(97,498)
Decrease in other assets	(13,374)	(1,277,089)
Increase in accrued interest payable and other liabilities	122,828	346,916
Net cash provided by operating activities	2,981,034	3,936,399
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(21,399,204)	(1,156,376)
Sales, calls, maturities and paydowns	6,712,220	7,086,846
Net decrease (increase) in time deposits	2,982,500	(1,749,000)
Net increase in loans	(28,976,046)	(8,199,365)
Net decrease in federal funds sold	1,770,000	699,000
Proceeds from sale of foreclosed real estate	170,490	15,018
Proceeds from sale of repossessed assets	61,004	74,821
Purchase of property and equipment	(255,413)	(93,443)
Net cash used in investing activities	(38,934,449)	(3,322,499)
Cash Flows from Financing Activities		
Net change in deposits	36,990,921	(253,487)
Proceeds from Federal Home Loan Bank advances	5,000,000	8,500,000
Principal reduction of Federal Home Loan Bank advances	(6,024,197)	(23,842)
Proceeds from stock options exercised	13,387	13,387
Shares repurchased and cancelled	(2,060,707)	(2,550,897)
Dividends paid	(1,824,692)	(1,962,461)
Net cash provided by financing activities	32,094,712	3,722,700
Net (decrease) increase in cash and cash equivalents	(3,858,703)	4,336,600
Cash and cash equivalents:		
Beginning of period	10,375,011	6,038,411
End of period	$ 6,516,308	$ 10,375,011

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary

Consolidated Statements of Cash Flows (continued)

Years Ended December 31, 2021 and 2020

	2021	2020
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	$ 1,267,630	$ 2,172,514
Interest paid on borrowings	277,419	281,672
Income taxes paid	1,190,000	685,000
Supplemental Schedule of Noncash Investing and Financing Activities		
Real estate acquired through or in lieu of foreclosure	45,000	125,100
Other assets acquired in settlement of loans	24,197	90,000
Transfer of insurance policy from prepaids to bank owned life insurance	-	138,864
Change in ESOP obligation	1,109,744	957,167

See Accompanying Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

Entity structure

Ottawa Bancorp, Inc. (the "Company") is a Maryland corporation that was incorporated in May 2016 as the successor to Ottawa Savings Bancorp, Inc. ("Ottawa Savings Bancorp") upon completion of the second-step conversion of Ottawa Savings Bank (the "Bank") from the two-tier mutual holding company structure to the stock holding company structure. Ottawa Savings Bancorp MHC was the former mutual holding company for Ottawa Savings Bancorp prior to completion of the second-step conversion. In conjunction with the second-step conversion, Ottawa Savings Bancorp MHC merged into Ottawa Savings Bancorp (and ceased to exist), and Ottawa Savings Bancorp merged into the Company, with the Company as the surviving entity. The second-step conversion was completed on October 11, 2016, at which time the Company sold, for gross proceeds of $23.8 million, a total of 2,383,950 shares of common stock at $10.00 per share, including 190,716 shares purchased by the Bank's employee stock ownership plan. Capital increased an additional $126,000 due to cash contributed by Ottawa Savings Bancorp MHC upon merging into Ottawa Savings Bancorp, Inc. Also, as part of the second-step conversion, treasury shares held by Ottawa Savings Bancorp, Inc. were retired and each of the existing outstanding shares of Ottawa Savings Bancorp common stock owned by persons other than Ottawa Savings Bancorp MHC was converted into 1.1921 of a share of Company common stock.

On December 31, 2014, Ottawa Savings Bancorp completed a merger with Twin Oaks Savings Bank ("Twin Oaks"), whereby Twin Oaks was merged with and into the Bank, with the Bank as the surviving institution. As a result of the Merger, Ottawa Savings Bancorp increased its market share in the LaSalle County market and expanded into Grundy County.

On June 30, 2020, Ottawa Bancorp Inc. voluntarily delisted its common stock from the NASDAQ Capital Market and withdrew its registration of its common stock with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Upon filing the Form 25 with the U.S. Securities and Exchange Commission (the "SEC") its common stock was removed from the NASDAQ Capital Market and it deregistered its stock under Section 12(b) of the Exchange Act on June 30, 2020. Additionally, the Company filed a Form 15 with the SEC in early July to terminate the registration of its common stock under section 12(g) of the Exchange Act. Thus, the Company is no longer required to file periodic reports with the SEC, including reports on Forms 10-K, 10-Q and 8-K. Finally, the Company will no longer be a public reporting company and its obligations to file proxy materials and other reports with the SEC was suspended. The Company has its shares now quoted on the OTCQX Market following the NASDAQ delisting. As a bank holding company, the Company was eligible to deregister with the SEC because it has fewer than 1,200 shareholders of record. The decision of the Company's board of directors to delist and deregister its common stock was based on numerous factors, including the significant cost savings of no longer filing periodic reports with the SEC plus reductions in accounting, audit, legal and other costs.

On September 27, 2021, Ottawa Savings Bank converted from a federally- chartered savings bank to an Illinois-chartered commercial bank. In connection with the charter conversion, the Bank changed its name to OSB Community Bank and the Company converted from a savings and loan holding company to a bank holding company.

Nature of business

The primary business of the Company is the ownership of the Bank. Through the Bank, the Company is engaged in providing a variety of financial services to individual and corporate customers in the Ottawa, Marseilles, and Morris, Illinois areas, which are primarily agricultural areas consisting of several rural communities with small to medium sized businesses. The Bank's primary source of revenue is interest and fees related to single-family residential loans to middle-income individuals and interest and fees related to commercial loans to small businesses.

Note 1. Summary of Significant Accounting Policies (Continued)

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Ottawa Bancorp, Inc. (the Company) and its wholly owned subsidiary OSB Community Bank (the Bank). All significant intercompany transactions and balances are eliminated in consolidation.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation with no impact on previously reported net income or stockholders' equity.

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the fair value of securities available for sale, the determination of the allowance for loan losses, valuation of deferred income taxes, and the fair value measurement for the assets and liabilities.

Concentration of credit risk

Most of the Bank's business activity is with customers within the Ottawa, Marseilles, and Morris areas. The Bank does not have any significant concentrations to any one industry or customer.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks and interest bearing deposits, including cash items in process of clearing. Cash flows from loans, deposits, time deposits and federal funds sold or purchased are treated as net increases or decreases in the statement of cash flows.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investment securities

Debt securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. The difference between the fair value and amortized cost, adjusted for amortization of premium and accretion of discounts, computed by the interest method over their contractual maturity or the earliest call date if the bond was purchased with a premium and has a call date, results in an unrealized gain or loss. Unrealized gains or losses are reported as accumulated other comprehensive income (loss), net of the related deferred tax effect and are included as a component of stockholders' equity. Gains or losses from the sale of securities are determined using the specific identification method and are included in earnings. Declines in the fair value of available for sale securities below their amortized cost basis that are deemed to be other

Note 1. Summary of Significant Accounting Policies (Continued)

than temporary are reflected in earnings as realized losses. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities factoring in amortizing premiums to earliest call date.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In addition, management monitors market trends and current events in order to identify trends and circumstances that might impact the carrying value of securities.

To determine if an "other-than-temporary" impairment (OTTI) exists on an investment security, the Company first determines if (a) it intends to sell the security or (b) it is more likely than not that it will be required to sell the security before its anticipated recovery. If either of the conditions is met, the Company will recognize an "other-than-temporary" impairment in earnings equal to the difference between the security's fair value and its adjusted cost basis. If neither of the conditions is met, the Company determines (a) the amount of the impairment related to credit loss and (b) the amount of the impairment due to all other factors. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the portion of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The portion of total impairment related to all other factors is included in other comprehensive income (loss).

Non-marketable equity securities

Nonmarketable equity securities, consisting primarily of the Bank's investment in the Federal Home Loan Bank of Chicago stock, is carried at cost within other assets and periodically evaluated for impairment.

Loans

The Bank primarily lends to small and mid-sized businesses, non-residential real estate customers and consumers providing mortgage, commercial and consumer loans. A substantial portion of the loan portfolio is represented by mortgage loans throughout Ottawa, Marseilles and Morris, Illinois and the surrounding areas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

It is the Bank's policy to review each prospective credit in order to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Bank seeks recovery in compliance with state lending laws, the Bank's lending standards, and credit monitoring and remediation procedures.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield over the contractual life of the loan using the interest method.

Note 1. Summary of Significant Accounting Policies (Continued)

The following portfolio segments and classes of loan receivables have been identified by the Company:

- Commercial
- Non-residential real estate
- One-to-four family residential
- Multi-family residential
- Consumer direct
- Purchased auto

Generally, for all classes of loans receivable, loans are considered past due when contractual payments are delinquent for 31 days or greater. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

For all classes of loans receivable, loans are placed on nonaccrual status when the loan has become over 90 days past due (unless the loan is well secured and in the process of collection).

When a loan is placed on nonaccrual status, income recognition is ceased. Previously recorded but uncollected amounts of interest on nonaccrual loans are reversed at the time the loan is placed on nonaccrual status. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Should full collection of principal be expected, cash collected on nonaccrual loans can be recognized as interest income.

For all classes of loans receivable, nonaccrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- All principal and interest amounts contractually due, including past due payments, are reasonably assured of repayment within a reasonable period, and
- There is a period of minimum repayment performance, as follows, by the borrower in accordance with contractual terms:
    - Six months of repayment performance for contractual monthly payments, or
    - One year of repayment performance for contractual quarterly or semi-annual payments.

Troubled debt restructuring exists when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Company) to the borrower that it would not otherwise consider. The Company is attempting to maximize its recovery of the balances of the loans through these various concessionary restructurings.

The following criteria, related to granting a concession, together or separately, create a troubled debt restructuring:

- A modification of terms of a debt such as one or a combination of:
    - The reduction of the stated interest rate to a rate lower than the current market rate for new debt with similar risk.
    - The extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.
    - The reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement.
    - The reduction of accrued interest.
    - A transfer from the borrower to the Company of receivables from third parties, real estate, other assets, or an equity position in the borrower to fully or partially satisfy a loan.

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for loan losses

For all portfolio segments, the allowance for loan losses is an amount necessary to absorb known and inherent losses that are both probable and reasonably estimable and is established through a provision for loan losses charged to earnings. Loan losses, for all portfolio segments, are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

For all portfolio segments, the allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Company to make additions to the allowance based upon their judgment about information available to them at the time of their examinations.

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company using the most recent twelve quarters with heavier weighting given to the most recent quarters.

Actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following:

- Levels of and trends in delinquencies and impaired loans
- Levels of and trends in charge-offs and recoveries
- Trends in volume and terms of loans
- Effects of any changes in risk selection and underwriting standards
- Other changes in lending policies, procedures and practices
- Experience, ability and depth of lending management and other relevant staff
- National and local economic trends and conditions
- Industry conditions
- Effects of changes in credit concentrations

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

Note 1. Summary of Significant Accounting Policies (Continued)

A discussion of the risk characteristics and the allowance for estimated losses on loans, by each portfolio segment, follows:

For commercial loans, the Company focuses on small and mid-sized businesses that have annual revenues below $5,000,000 with primary operations as producing wholesalers, manufacturers, building contractors, business services companies, agricultural companies and retailers. The Company provides a wide range of commercial loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of facilities, equipment and other purposes. The Company also originates commercial loans through Bankers Health Group (BHG). BHG specializes in loans to healthcare professionals of all specialties throughout the United States. The loans for BHG are primarily comprised of working capital and equipment loans. We underwrite these loans based on our criteria and service the loans in-house. Approval is generally based on the following factors:

- Ability and stability of current management of the borrower;
- Stable earnings with positive financial trends;
- Sufficient cash flow to support debt repayment;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

Collateral for commercial loans generally includes accounts receivable, inventory, and equipment. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans must exceed the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash. The lending policy specifies maximum term limits for commercial loans. For term loans, the maximum term is 10 years. Generally, term loans range from 3 to 5 years. For lines of credit, the maximum term is 365 days. In addition, the Company often takes personal guarantees as support for repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Non-residential real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those standards and processes specific to real estate loans. Collateral for non-residential real estate loans generally includes the underlying real estate and improvements and may include additional assets of the borrower. The lending policy specifies maximum loan-to-value limits based on the category of non-residential real estate (non-residential real estate loans on improved property, raw land, land development, and commercial construction). These limits are the same limits established by regulatory authorities. The lending policy also includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. In addition, the Company often takes personal guarantees as support for repayment.

Some of the non-residential loans that the Company originates finance the construction of residential dwellings and land development. For land development, the loans generally can be made with a maximum loan to value ratio of 70% and a maximum term up to 10 years. Additionally, the Company will underwrite commercial construction loans for commercial development projects including condominiums, apartment buildings, single-family subdivisions, single-family speculation loans, as well as owner-occupied properties used for business. These loans provide for payment of interest only during the construction phase and may, in the case of an apartment or commercial building, convert to a permanent loan upon completion. In the case of a single-family subdivision or construction or builder loan, as individual lots are sold, the principal balance is reduced by a minimum of 80% of the net lot sales price. In the case of a commercial construction loan, the construction period may be from nine months to two years. Loans are generally made to a maximum of 80% of the appraised value as determined by an appraisal of the property made by an independent state certified general real estate appraiser. Periodic inspections are required of the property during the term of the construction loan for both residential and commercial construction loans.

Note 1. Summary of Significant Accounting Policies (Continued)

For commercial and non-residential real estate loans, the allowance for loan losses consists of specific and general components. For loans that are considered impaired as defined above, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

The Company hires an independent firm to perform a loan review every 12 months to validate the risk ratings on selected commercial and non-residential loans. Additionally, the reviews include an analysis of debt service requirements, covenant compliance, if applicable, and collateral adequacy. They also perform a documentation review on selected loans to determine if the credit is properly documented and closed in accordance with approval authorities and conditions.

Generally, the Company's one-to-four family real estate loans conform to the underwriting standards of Freddie Mac and Fannie Mae which would allow the Company the ability to sell the loans in the secondary market. The Company structures most loans that will not conform to those underwriting requirements as adjustable rate mortgages that adjust in one, three or five-year increments and retains those in its portfolio. The board approved lending policy establishes minimum appraisal and credit underwriting guidelines, The Company also participates with the USDA Rural Development Agency to offer loans to qualifying borrowers. USDA guaranteed loans are granted up to 100% of the appraised value and the USDA guarantees up to 90% of the loan. These loans typically require no down payment, but are subject to maximum income limitations.

The Company also originates loans for multi-family dwellings. These loans follow board and regulatory approved underwriting guidelines similar to commercial loans, in addition to those standards and processes specific to real estate loans. Collateral for multi-family real estate loans generally includes the underlying real estate and improvements and may include additional assets of the borrower. The board approved lending policy specifies maximum loan-to-value limits based on the type of property. The lending policy also includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. The policy also specifies minimum ongoing credit administration procedures including the collection of financial statements, tax returns and rent rolls when applicable. Additionally, the Company will take personal guarantees and cross collateralize other assets of the guarantors as support for repayment.

The Company provides many types of installment and other consumer loans including motor vehicle, home improvement, share loans, personal unsecured loans, home equity, and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type. Unsecured loans generally have a maximum borrowing limit of $25,000 and a maximum term of four years.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loans. Although the applicant's credit-worthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

The Company purchases auto loans from regulated financial institutions. These types of loans are primarily low balance individual auto loans. The Company reviews the loans at least three days prior to the purchase. Any specific loan can be refused within thirty days of the sale of any given loan pool.

For residential real estate loans, multi-family, consumer direct loans (e.g. installment, in-house auto, other consumer loans, etc.) and purchased auto loans, the allowance for estimated losses on loans consists of a specific and general component. The specific component is evaluated for only loans that are classified as impaired, which is based on current information and events if it is probable that the Company will be unable to collect the scheduled payments according to the terms of the agreement. Impairment on these is measured on a case-by-case basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For large groups of smaller balance homogenous loans that are under 90 days past due, they are collectively evaluated for impairment. To determine the general component, the Company applies quantitative factors based on

Note 1. Summary of Significant Accounting Policies (Continued)

historical charge-off experience in total for each segment. Additionally, the historical loss factors are adjusted based on qualitative factors determined by the Company which impact each segment.

Purchased auto loans are not risk ranked individually. These loans are only classified when the borrower is 90 days or more past due or if the borrower has another loan with the Company that is over 90 days past due and dependent upon the same collateral. Under such circumstances, all of the loans connected with the collateral are classified as substandard and these loans are evaluated for impairment.

Troubled debt restructurings are considered impaired loans and are subject to the same allowance methodology as described above for impaired loans by portfolio segment.

Loans Acquired in a Transfer

The loans acquired in the Twin Oaks merger were recorded at fair value as of the acquisition date and no separate valuation allowance was established. Management engaged the services of an independent valuation specialist to determine the fair values based on expected cash flows discounted at appropriate rates.

FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. If both conditions exist, the Company determines whether to account for each loan individually or whether such loans will be assembled into pools based on common risk characteristics such as credit score, loan type, and origination date. Based on this evaluation, the Company determined that the loans acquired from the Twin Oaks merger subject to ASC Topic 310-30 would be accounted for individually.

The Company considered expected prepayments and estimated the total expected cash flows, which included undiscounted expected principal and interest. The excess of that amount over the fair value of the loan is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the expected life of the loan. The excess of the contractual cash flows over expected cash flows is referred to as non-accretable difference and is not accreted into income. Over the life of the loan, the Company continues to estimate expected cash flows. Subsequent decreases in expected cash flows are recognized as impairments in the current period through the allowance for loan losses. Subsequent increases in cash flows to be collected are first used to reverse any existing valuation allowance and any remaining increases are recognized prospectively through an adjustment of the loan's yield over its remaining life.

FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs,* was applied to loans not considered to have deteriorated credit quality at acquisition. Under ASC Topic 310-20, the difference between the loan's principal balance at the time of purchase and the fair value is recognized as an adjustment of yield over the life of the loan.

Mortgage Partnership Finance Program

In 2018, the Company began participating in the Mortgage Partnership Finance ("MPF") Program of the Federal Home Loan Bank of Chicago ("FHLBC"). The program is intended to provide member institutions with an alternative to holding fixed-rate mortgage in their loan portfolios or selling in the secondary market. The Company participates in the MPF Program by either originating individual loans on a "flow" basis as an agent for the FHLBC pursuant to the "MPF Original Program" and the "MPF 125 Program" or by selling, as a principal, closed loans owned by the Company to the FHLBC pursuant to one of the FHLBC's closed loan programs. Under the MPF Program, credit risk is shared by the Company and the FHLBC by structuring the loss exposure in several layers, with the Company being liable for losses after application of an initial layer of losses (after any private mortgage insurance) is absorbed by the FHLBC, subject to an agreed-upon maximum amount of such secondary credit enhancement which is intended to be in an amount equivalent to a "AA" credit risk by a rating agency. The Company

Note 1. Summary of Significant Accounting Policies (Continued)

may also be liable for certain first layer losses after a specified period of time. The Company received credit enhancement fees from the FHLBC for providing this credit enhancement and continuing to manage the credit risk of the MPF Program loans.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. The Company's servicing of assets is recorded in other assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

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

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed real estate

Real estate properties acquired through, or in lieu of, loan foreclosures are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

The Company had no foreclosed residential real estate property as of December 31, 2021 and $107,100 as of December 31, 2020. There were no residential real estate loans in the process of foreclosure for the years ended December 31, 2021 and 2020.

Note 1. Summary of Significant Accounting Policies (Continued)

Income taxes

Deferred income tax assets and liabilities are computed quarterly for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not realizable. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation process, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company has no uncertain tax positions for which a liability has been recorded. The Company is no longer subject to examination by federal or state taxing authorities for tax years prior to 2018.

Premises and equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation. Premises and equipment are depreciated using the straight-line and accelerated depreciation methods over the estimated useful lives of the assets:

	Years
Buildings and improvements	7-39
Furniture and equipment	5-15

Employee stock ownership plan

The Bank has an employee stock ownership plan (ESOP) covering substantially all employees. The cost of shares issued to the ESOP but not yet allocated to participants is presented in the consolidated balance sheets as a reduction of stockholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts.

Stock-based compensation

The Company recognizes compensation cost for all stock-based awards based on the estimated grant date fair value. The fair value of stock options is estimated using a Black-Scholes option pricing model and amortized to expense over the option's vesting periods, as more fully disclosed in Note 10.

Note 1. Summary of Significant Accounting Policies (Continued)

Off-balance-sheet financial instruments

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

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale net of the related tax effect.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606). Under ASC 606, the Company must identify the contract with a customer, identify the performance obligation(s) within the contract, determine the transaction price, allocate the transaction price to the performance obligation(s) within the contract, and recognize revenue when (or as) the performance obligation(s) are/is satisfied. The core principle under ASC 606 requires the Company to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying ASC 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The majority of the Company's revenue is not subject to ASC 606, including net interest income, loan servicing income, fees related to loans and loan commitments, increase in cash surrender value of bank owned life insurance, and gain on sales of loans and securities.

The following revenue-generating transactions are within the scope of ASC 606, which are presented in the consolidated statements of operations as components of noninterest income:

Customer service fees – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, such as ATM use fees, wires, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly service charges and maintenance fees, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation.

Interchange fees – Customers use a bank-issued debit card to purchase goods and services, and the Company earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Company is considered an agent with respect to these transactions. Interchange fee payments received, net of related expense, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Company that could be subject to a claw-back in future periods. These amounts are included in the customer service fees line item on the statements of operations.

Note 1. Summary of Significant Accounting Policies (Continued)

Gain (loss) on sale of foreclosed assets – The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed and transfer of control is completed. When the Company finances the sale to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the Company expects to collect substantially all of the transaction price. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recognized. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if the financing does not include market terms.

Loss contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. In the normal course of business, management will reach settlements over legal issues which are recorded in the period received.

Management does not believe there are any such matters that will have a material effect on the consolidated financial statements.

Fair value measurements

In accordance with the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures,* fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and is not adjusted for transaction costs. This guidance also establishes a framework for measuring fair value and disclosure of fair value measurements. See Note 15 for additional information.

Fair value of financial instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Cash surrender value of life insurance

The Company has purchased bank-owned life insurance on certain directors and officers. Bank-owned life insurance is recorded at its cash surrender value. Changes in the cash surrender values are included in other income.

Goodwill

Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. On December 31, 2014, the Company completed a merger, which resulted in the recognition of goodwill of approximately $650,000.

Goodwill acquired in a purchase business combination is not amortized, but tested for impairment at least annually or more frequently if events or circumstances exist that indicate that a goodwill test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. At December 31, 2021, the Company's evaluation of goodwill indicated that goodwill was not impaired.

Note 1. Summary of Significant Accounting Policies (Continued)

Core deposit intangible

The core deposit intangible represents the value of acquired customer relationships resulting from the Company's December 31, 2014 merger with Twin Oaks. The core deposit intangible will be amortized using the double declining balance method over an estimated useful life of 9.8 years. The Company will periodically review the status of the core deposit intangible for any events or circumstances which may change the recoverability of the underlying basis.

Estimated future amortization expense on core deposit intangible is shown in the table below:

Year Ending December 31,	Amount
2022	38,000
2023	38,000
2024	24,000
	$ 100,000

Earnings per share

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period, including allocated and committed-to-be-released Employee Stock Ownership Plan ("ESOP") shares and vested Management Recognition Plan ("MRP") shares. Diluted earnings per share show the dilutive effect, if any, of additional common shares issuable under stock options and awards. See Note 10 for additional information on the MRP and Recognition and Retention Plan ("RRP") plans.

	Years ended December 31,	
	2021	**2020**
Net income available to common stockholders	$ 2,903,721	$ 2,480,920
Basic potential common shares:		
Weighted average shares outstanding	2,927,759	3,079,318
Weighted average unvested MRP shares	(8,615)	(6,444)
Weighted average unallocated ESOP shares	(101,614)	(133,694)
Basic weighted average shares outstanding	2,817,530	2,939,180
Dilutive potential common shares:		
Weighted average unrecognized compensation on MRP shares	1,470	190
Weighted average RRP options outstanding	-	3,256
Dilutive weighted average shares outstanding	2,819,000	2,942,626
Basic earnings per share	$ 1.03	$ 0.84
Diluted earnings per share	$ 1.03	$ 0.84

Note 1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years. On October 16, 2019, the FASB unanimously approved to delay the required implementation date for this guidance until fiscal years beginning after December 12, 2022 for certain entities. The delay would apply to small reporting companies (as defined by the SEC), non-SEC public companies and private companies. The Company is currently evaluating the provisions of ASU 2016-13, to determine the potential impact of the new accounting guidance on its consolidated financial statements.

Note 2. Investment Securities

The amortized cost and fair values of investment securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021:				
Available for Sale				
State and municipal securities	$ 8,649,397	$ 199,702	$ 1,033	$ 8,848,066
Residential mortgage-backed securities	23,978,254	159,584	285,490	$ 23,852,348
	$ 32,627,651	$ 359,286	$ 286,523	$ 32,700,414
December 31, 2020:				
Available for Sale				
State and municipal securities	$ 10,444,302	$ 339,848	$ 80	$ 10,784,070
Residential mortgage-backed securities	7,590,548	337,013	-	$ 7,927,561
	$ 18,034,850	$ 676,861	$ 80	$ 18,711,631

Note 2. Investment Securities (Continued)

At December 31, 2021 and 2020, there were no pledged securities.

The amortized cost and fair value at December 31, 2021, by contractual maturity, are shown below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, stated maturities of residential mortgage-backed securities are not disclosed.

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in three months or less	$ 360,000	$ 360,302
Due after three months through one year	1,345,923	1,357,357
Due after one year through five years	4,272,490	4,335,742
Due after five years through ten years	1,588,783	1,636,104
Due after ten years	1,082,201	1,158,561
Residential mortgage-backed securities	23,978,254	23,852,348
	$ 32,627,651	$ 32,700,414

There were proceeds of $293,938 from the sale of securities for the year ended December 31, 2020. Gross gains of $857 were recognized in 2020. There were no sales of securities during the year ended December 31, 2021.

Information pertaining to securities with gross unrealized losses at December 31, 2021 and 2020 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021						
Securities Available for Sale						
State and municipal securities	$ 882,812	$ 1,033	$ -	$ -	$ 882,812	$ 1,033
Residential mortgage-backed securities	19,065,838	285,490	-	-	19,065,838	285,490
	$ 19,948,650	$ 286,523	$ -	$ -	$ 19,948,650	$ 286,523
December 31, 2020						
Securities Available for Sale						
State and municipal securities	$ 499,920	$ 80	$ -	$ -	$ 499,920	$ 80
	$ 499,920	$ 80	$ -	$ -	$ 490,920	$ 80

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability to retain and whether it is not more likely than not the Company will be required to sell its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports.

Note 2. Investment Securities (Continued)

At December 31, 2021, fourteen securities had an unrealized loss with aggregate depreciation of 1.42% from their amortized cost basis. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these securities and it is not more likely than not the Company will be required to sell these securities before recovery of the amortized cost basis, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at December 31, 2021.

Note 3. Loans and Allowance for Loan Losses

Loans

The components of loans, net of deferred loan costs (fees), are as follows:

	December 31, 2021	December 31, 2020
Mortgage loans:		
One-to-four family	$ 174,367,431	$ 152,447,349
Multi-family	12,096,400	8,673,707
Total mortgage loans	186,463,831	161,121,056
Other loans:		
Non-residential	54,175,490	42,406,844
Commercial loans	29,884,593	28,908,372
Consumer direct	12,442,824	17,179,722
Purchased auto	4,550,610	8,966,210
Total other loans	101,053,517	97,461,148
Gross loans	287,517,348	258,582,204
Less: Allowance for loan losses	(3,640,145)	(3,479,150)
Loans, net	$ 283,877,203	$ 255,103,054

Beginning in April of 2020, the Bank participated in the Paycheck Protection Program ("PPP"), administrated 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 Bank was paid a processing fee from the SBA ranging from 1% to 5% based on the size of the loan. The Bank also participated in the second round of the PPP beginning in January 2021. The Bank was paid a processing fee from the SBA ranging from 1% to 5% based on the size of the loan with a minimum fee of $2,500 per loan originated under $50,000. The terms of new loans were the same as the loans generated after June 5, 2020. At December 31, 2021 and 2020, PPP loans, net of unearned fees of approximately $49,000 and $106,000 totaled approximately $706,000 and $3,445,000, respectively. At December 31, 2021 and 2020, the weighted average rate for the processing fee was 9.8% and 4.4%, respectively. The unearned fees are being accreted to interest income based on the contractual maturities. The Bank anticipates that the SBA will continue to forgive a significant number of PPP loans in 2022, at which point the recognition of fee income will be accelerated into interest income.

Beginning in April of 2020, the Bank, 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 up front when regular payments resumed. The loan maturities were then extended by the number of payments deferred to recapture the principal on the back end of the loan. As of December 31, 2021, there were no loans with payment deferrals.

Note 3. Loans and Allowance for Loan Losses (Continued)

As of December 31, 2020, there were 47 loans with outstanding principal balances of approximately $6,789,000 with payment deferrals.

Loans acquired in the merger with deteriorated credit quality and accounted for under FASB ASC Topic 310-30 as of the acquisition date, which was December 31, 2014, had a contractual balance due of approximately $3,194,000 and an estimated fair value of approximately $1,324,000. The estimate of the contractual cash flows not expected to be collected due to credit quality was approximately $1,870,000 which consists of an accretable discount of $(362,000) and non-accretable discount of $(1,508,000).

The following table reflects activity for the loans acquired with deteriorated credit quality for the years ended December 31, 2021 and 2020:

	2021	2020
Balance, beginning of year	$ 151,410	$ 164,758
Payment activity	(8,281)	(13,348)
	$ 143,129	$ 151,410

The contractual amount outstanding for the loans acquired with deteriorated credit quality totaled $425,000 and $438,000 as of December 31, 2021, and December 31, 2020, respectively.

There were no purchases of loans receivable for the periods ended December 31, 2021 and 2020.

Note 3. Loans and Allowance for Loan Losses (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment as of or for the years ended December 31, 2021 and 2020:

December 31, 2021	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	$ 2,354,555	$ 53,761	$ 348,030	$ 356,776	$ 209,495	$ 156,533	$ 3,479,150
Provision charged to income	(13,954)	12,700	354,238	(795)	(98,291)	(103,898)	150,000
Loans charged off	(14,512)	(2,130)	-	-	(13,209)	(30,325)	(60,176)
Recoveries of loans previously charged off	20,425	11,296	-	10,000	1,005	28,445	71,171
Balance at end of period	$ 2,346,514	$ 75,627	$ 702,268	$ 365,981	$ 99,000	$ 50,755	$ 3,640,145
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 34,166	$ -	$ -	$ 70,853	$ -	$ -	$ 105,019
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Loans collectively evaluated for impairment	2,312,348	75,627	702,268	295,128	99,000	50,755	3,535,126
Balance at end of period	$ 2,346,514	$ 75,627	$ 702,268	$ 365,981	$ 99,000	$ 50,755	$ 3,640,145

December 31, 2020	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	$ 2,121,082	$ 24,333	$ 207,410	$ 198,565	$ 191,821	$ 194,421	$ 2,937,632
Provision charged to income	261,768	16,271	141,296	158,211	19,273	63,181	660,000
Loans charged off	(36,586)	-	(676)	-	(4,306)	(115,722)	(157,290)
Recoveries of loans previously charged off	8,291	13,157	-	-	2,707	14,653	38,808
Balance at end of period	$ 2,354,555	$ 53,761	$ 348,030	$ 356,776	$ 209,495	$ 156,533	$ 3,479,150
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 21,862	$ -	$ -	$ 44,653	$ -	$ 2,209	$ 68,724
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Loans collectively evaluated for impairment	2,332,693	53,761	348,030	312,123	209,495	154,324	3,410,426
Balance at end of period	$ 2,354,555	$ 53,761	$ 348,030	$ 356,776	$ 209,495	$ 156,533	$ 3,479,150

Note 3. Loans and Allowance for Loan Losses (Continued)

The following table presents the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2021 and 2020:

December 31, 2021	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Loans individually evaluated for impairment	$ 1,283,311	$ -	$ 282,575	$ 70,853	$ 18,613	$ -	$ 1,655,352
Loans acquired with deteriorated credit quality	143,128	-	-	-	-	-	143,128
Loans collectively evaluated for impairment	172,940,992	12,096,400	53,892,915	29,813,740	12,424,211	4,550,610	285,718,868
Ending Balance	$ 174,367,431	$ 12,096,400	$ 54,175,490	$ 29,884,593	$ 12,442,824	$ 4,550,610	$ 287,517,348

December 31, 2020	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Loans individually evaluated for impairment	$ 1,266,665	$ -	$ 332,644	$ 132,798	$ 20,489	$ 4,418	$ 1,757,014
Loans acquired with deteriorated credit quality	151,410	-	-	-	-	-	151,410
Loans collectively evaluated for impairment	151,029,274	8,673,707	42,074,200	28,775,574	17,159,233	8,961,792	256,673,780
Ending Balance	$ 152,447,349	$ 8,673,707	$ 42,406,844	$ 28,908,372	$ 17,179,722	$ 8,966,210	$ 258,582,204

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions.

Note 3. Loans and Allowance for Loan Losses (Continued)

The following table presents loans individually evaluated for impairment, including loans acquired with deteriorated credit quality, by class of loans, at December 31, 2021 and 2020:

December 31, 2021	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
One-to-four family	$ 2,093,063	$ 1,225,076	$ 201,363	$ 1,426,439	$ 34,166	$ 1,422,257
Multi-family	175,010	-	-	-	-	-
Non-residential	390,916	282,575	-	282,575	-	307,610
Commercial	74,834	-	70,853	70,853	70,853	101,826
Consumer direct	38,720	18,613	-	18,613	-	19,551
Purchased auto	-	-	-	-	-	2,209
	$ 2,772,543	$ 1,526,264	$ 272,216	$ 1,798,480	$ 105,019	$ 1,853,453

December 31, 2020	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
One-to-four family	$ 2,069,172	$ 1,339,280	$ 78,795	$ 1,418,075	$ 21,862	$ 1,653,764
Multi-family	186,306	-	-	-	-	-
Non-residential	424,341	332,644	-	332,644	-	338,182
Commercial	132,821	49,895	82,903	132,798	44,653	66,399
Consumer direct	30,400	20,489	-	20,489	-	10,245
Purchased auto	4,418	-	4,418	4,418	2,209	11,804
	$ 2,847,458	$ 1,742,308	$ 166,116	$ 1,908,424	$ 68,724	$ 2,080,394

The Company recognized no material cash basis interest income on impaired loans for the years ended December 31, 2021 and 2020.

Our loan portfolio also includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period of at least six months.

When we modify loans in a TDR, we evaluate any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or use the current fair value of the collateral, less estimated selling costs for collateral dependent loans. If we determine that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs and deferred loan fees or costs), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, we evaluate all TDRs, including those that have payment defaults, for possible impairment and recognize impairment through the allowance.

Impaired loans at December 31, 2021 included three loans of approximately $102,000 whose term had been modified in a troubled debt restructuring compared to three loans of $119,000 at December 31, 2020. The amount of TDR loans included in impaired loans decreased by the payments made during 2021. There were no additional loans modified in a trouble debt restructuring during 2021 and no previous performing ones had been downgraded due to performance issues. The remaining restructured loans are being monitored by management and remain on nonaccrual status as they have not, per accounting guidelines, performed in

Note 3. Loans and Allowance for Loan Losses (Continued)

accordance with their restructured terms for the requisite period of time (generally at least six consecutive months) to be returned to accrual status. There were no loan modifications during the year ended December 31, 2021 and 2020 that were classified as troubled debt restructurings. The Company considers troubled debt restructurings that become 90 days or more past due in the year following their restructure to modified terms as subsequently defaulted. The Company had no loans modified as troubled debt restructurings during the years ended December 31, 2021 or 2020 for which there were subsequent defaults within 12 months following the modification.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual status, by class of loans, as of December 31, 2021 and 2020:

December 31, 2021	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
One-to-four family	$ 1,350,252	$ -
Multi-family	-	-
Non-residential	194,073	-
Commercial	110,643	-
Consumer direct	18,613	-
Purchased auto	-	-
	$ 1,673,581	$ -

December 31, 2020	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
One-to-four family	$ 917,336	$ -
Multi-family	-	-
Non-residential	239,089	-
Commercial	132,798	-
Consumer direct	20,489	-
Purchased auto	4,418	-
	$ 1,314,130	$ -

The following table presents the aging of the recorded investment in loans, by class of loans, as of December 31, 2021 and 2020:

December 31, 2021	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans
One-to-four family	$ 2,326,336	$ 397,248	$ 37,284	$ 2,760,868	$ 171,606,563	$ 174,367,431
Multi-family	-	-	-	-	12,096,400	12,096,400
Non-residential	758,349	88,502	194,073	1,040,924	53,134,566	54,175,490
Commercial	-	5,102	110,643	115,745	29,768,848	29,884,593
Consumer direct	28,899	8,983	18,613	56,495	12,386,329	12,442,824
Purchased auto	18,922	7,813	-	26,735	4,523,875	4,550,610
	$ 3,132,506	$ 507,648	$ 360,613	$ 4,000,767	$ 283,516,581	$ 287,517,348

Note 3. Loans and Allowance for Loan Losses (Continued)

December 31, 2020	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans
One-to-four family	$ 4,094,869	$ 1,172,436	$ 38,854	$ 5,306,159	$ 147,141,190	$ 152,447,349
Multi-family	-	-	-	-	8,673,707	8,673,707
Non-residential	-	2,869	236,220	239,089	42,167,755	42,406,844
Commercial	35,034	-	132,798	167,832	28,740,540	28,908,372
Consumer direct	39,045	1,479	-	40,524	17,139,198	17,179,722
Purchased auto	36,121	-	4,418	40,539	8,925,671	8,966,210
	$ 4,205,069	$ 1,176,784	$ 412,290	$ 5,794,143	$ 252,788,061	$ 258,582,204

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. For commercial and non-residential real estate loans, the Company's credit quality indicator is internally assigned risk ratings. Each commercial and non-residential real estate loan is assigned a risk rating upon origination. The risk rating is reviewed annually, at a minimum, and on an as needed basis depending on the specific circumstances of the loan.

For residential real estate, multi-family real estate, consumer direct and purchased auto loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated regularly by the Company's loan system for residential real estate, multi-family real estate and consumer direct loans. The Company receives monthly reports on the delinquency status of the purchased auto loan portfolio from the servicing company.

The Company uses the following definitions for risk ratings:

- Pass – loans classified as pass are of a higher quality and do not fit any of the other "rated" categories below (e.g. special mention, substandard or doubtful). The likelihood of loss is considered remote.
- Special Mention – loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard – loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
- Doubtful – loans classified as doubtful have all the weaknesses inherent in those classified as 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.
- Not Rated – loans in this category are not evaluated on an individual basis.

Note 3. Loans and Allowance for Loan Losses (Continued)

As of December 31, 2021 and 2020, the risk category of loans by class is as follows:

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Not rated	Total Loans
One-to-four family	$ 172,665,314	$ 275,678	$ 1,426,439	$ -	$ -	$ 174,367,431
Multi-family	12,096,400	-	-	-	-	12,096,400
Non-residential	53,892,915	-	282,575	-	-	54,175,490
Commercial	29,764,199	49,541	70,853	-	-	29,884,593
Consumer direct	12,424,211	-	18,613	-	-	12,442,824
Purchased auto	4,550,610	-	-	-	-	4,550,610
Total	$ 285,393,649	$ 325,219	$ 1,798,480	$ -	$ -	$ 287,517,348

December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Not rated	Total Loans
One-to-four family	$ 150,556,534	$ 472,740	$ 1,418,075	$ -	$ -	$ 152,447,349
Multi-family	8,673,707	-	-	-	-	8,673,707
Non-residential	42,074,200	-	332,644	-	-	42,406,844
Commercial	28,775,574	-	132,798	-	-	28,908,372
Consumer direct	17,159,233	-	20,489	-	-	17,179,722
Purchased auto	8,961,792	-	4,418	-	-	8,966,210
Total	$ 256,201,040	$ 472,740	$ 1,908,424	$ -	$ -	$ 258,582,204

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and companies in which these parties have a 10% or more beneficial ownership. In the opinion of management, these loans are made with substantially the same terms, including interest rate and collateral, as those prevailing for comparable transactions with other customers and do not involve more than the normal risk of collectability. Loans to directors, principal officers, and their immediate families at December 31, 2021 and 2020 were $0 and $0 respectively.

Note 4. Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $127,753,445 and $109,267,521 at December 31, 2021 and 2020, respectively. The carrying value of mortgage servicing rights associated with loans serviced for others included in other assets on the consolidated balance sheets, as of December 31, 2021 and 2020, was $894,274 and $568,191, respectively.

Note 5. Accrued Interest Receivable

Accrued interest receivable at December 31, 2021 and 2020, are summarized as follows:

	2021	2020
State and municipal securities	$ 57,778	$ 78,055
Residential mortgage-backed securities	33,765	23,226
Loans	915,856	871,321
	$ 1,007,399	$ 972,602

Note 6. Premises and Equipment

Premises and equipment at December 31, 2021 and 2020, are summarized as follows:

	2021	2020
Cost:		
Land	$ 2,190,649	$ 2,190,649
Buildings and improvements	7,585,702	7,433,723
Furniture and equipment	1,695,940	1,592,506
	11,472,291	11,216,878
Less: Accumulated depreciation	5,141,103	4,904,622
	$ 6,331,188	$ 6,312,256

Note 7. Deposits

Deposits at December 31, 2021 and 2020, are summarized as follows:

	2021		2020	
	Amount	Percent	Amount	Percent
Non-interest bearing checking	$ 22,898,814	8.39%	$ 18,285,211	7.75%
Interest bearing checking	82,823,998	30.33%	62,842,787	26.62%
Money market	28,683,572	10.50%	23,628,120	10.01%
Savings	33,258,365	12.18%	31,299,010	13.26%
Certificates of deposit	105,386,189	38.60%	100,004,889	42.36%
Interest bearing	250,152,124	91.61%	217,774,806	92.25%
Total	$ 273,050,938	100.00%	$ 236,060,017	100.00%

Interest expense on deposits is summarized as follows:

	Years Ended December 31,	
	2021	2020
Money market	$ 29,442	$ 31,711
Savings	8,773	9,189
Certificates of deposit	1,163,910	1,996,766
Interest bearing checking	64,189	179,722
	$ 1,266,314	$ 2,217,388

Deposits from directors, principal officers, and their immediate families at December 31, 2021 and 2020 were $4,771,494 and $1,901,949 respectively.

The aggregate amount of public deposits at December 31, 2021 and 2020 was $44,980,917 and $30,859,509 respectively.

Certificates of deposit with balances greater than $250,000 totaled approximately $31.1 million and $17.4 million at December 31, 2021 and 2020, respectively.

Note 7. Deposits (Continued)

At December 31, 2021, scheduled maturities of certificates of deposit are as follows:

2022	$ 58,660,109
2023	23,078,672
2024	10,598,819
2025	4,943,724
2026	8,104,865
	$ 105,386,189

The Company held brokered deposits of approximately $22.9 million and $15.7 million, respectively at December 31, 2021 and 2020. The broker receives a fee from the Company for the brokered deposits. Total fee expenses of $1,950 were recognized for the years ended December 31, 2021 and 2020, respectively.

Note 8. Borrowings

Our borrowings consist of open line and term advances from the Federal Home Loan Bank of Chicago ("FHLBC") and Federal Funds purchased from Bankers Bank of Wisconsin. As a member, we are required to own capital stock in the FHLBC and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. At December 31, 2021, we had the ability to borrow $79.7 million from the FHLBC. In addition, as of December 31, 2021, the Bank had $8.0 million of available credit from Bankers Bank of Wisconsin to purchase Federal Funds and $5.0 million of available credit from Midwest Independent Bank to purchase federal funds. There were Federal Home Loan Bank advances outstanding of approximately $16.5 million and $17.5 million, respectively at December 31, 2021 and 2020. There were no Federal Funds purchased outstanding at December 31, 2021 or 2020.

A summary of outstanding advances is as follows:

	December 31,	
	2021	2020
Matures 03/22/2021 at 3.03%, fixed	-	1,000,000
Matures 05/03/2021 at 0.00%, fixed	-	4,000,000
Matures 09/21/2021 at 3.07%, fixed	-	1,000,000
Matures 03/21/2022 at 3.09%, fixed	1,000,000	1,000,000
Matures 05/09/2022 at 0.00%, fixed	5,000,000	-
Matures 09/21/2022 at 3.11%, fixed	1,000,000	1,000,000
Matures 10/03/2022 at 1.48%, fixed	24,555	48,560
Matures 03/21/2023 at 3.15%, fixed	500,000	500,000
Matures 09/21/2023 at 3.18%, fixed	500,000	500,000
Matures 08/28/2024 at 1.59%, fixed	1,500,000	1,500,000
Matures 03/03/2025 at 1.19%, fixed	2,000,000	2,000,000
Matures 08/28/2029 at 1.93%, fixed	1,500,000	1,500,000
Matures 10/03/2029 at 1.96%, fixed	1,000,000	1,000,000
Matures 01/28/2030 at 2.06%, fixed	1,500,000	1,500,000
Matures 02/25/2030 at 1.81%, fixed	1,000,000	1,000,000
	$ 16,524,555	$ 17,548,560

Note 9. Employment Benefit and Retirement Plans

Employee stock ownership plan

On May 6, 2005, the Company adopted an employee stock ownership plan (ESOP) for the benefit of substantially all employees. On July 8, 2005, the ESOP borrowed $763,140 from the Company and used those funds to acquire 76,314 shares of the Company's stock in the initial public offering at a price of $10.00 per share. On October 11, 2016, the ESOP borrowed $1,907,160 from the Company and used those funds to acquire 190,716 shares of the Company's stock in its conversion to a fully-public stock holding company at a price of $10.00 per share. As of December 31, 2019, the shares purchased in 2005 were all released and the loan was fully repaid.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on the ESOP assets. Annual principal and interest payments of approximately $161,000 are to be made by the ESOP.

As shares are released from collateral, the Company will report compensation expense equal to the current market price of the shares, and the shares will become outstanding for earnings-per-share (EPS) computations. Dividends on allocated ESOP shares reduce retained earnings; dividends on unallocated ESOP shares reduce the ESOP principal balance. During 2021, 13,360 shares, with an average fair value of $14.06 per share were committed to be released, resulting in ESOP compensation expense of $187,786 as compared to 12,714 shares, with an average fair value of $11.51 per share were committed to be released, resulting in ESOP compensation expense of $147,470 for 2020. Additionally, during 2020 ESOP participants exchanged $125,000 for 13,862 shares of ESOP shares at a price of $10.46 per share. The $125,000 was applied to the principal balance. There was no ESOP compensation expense related to this exchange.

A terminated participant or the beneficiary of a deceased participant who received a distribution of employer stock from the ESOP has the right to require the Company to purchase such shares at their fair market value any time within 60 days of the distribution date. If this right is not exercised, an additional 60-day exercise period is available in the year following the year in which the distribution is made and begins after a new valuation of the stock has been determined and communicated to the participant or beneficiary.

	December 31,	
	2021	2020
Total shares originally in the plan	281,691	281,691
Shares withdrawn from the plan	(53,408)	(50,325)
Shares remaining in the plan	228,283	231,366
Unallocated shares	94,934	108,292
Allocated shares	133,349	123,074
Fair value of unallocated shares	$ 1,471,477	$ 1,132,734

Supplemental executive retirement plan (SERP)

On September 19, 2007, the Bank entered into salary continuation agreements with certain of its executive officers to provide additional benefits upon retirement. The present value of the estimated liability under the agreement is being accrued using a discount rate of 4.5 percent ratably over the remaining years to the date when each executive is first eligible for benefits. The recorded SERP liability included in other liabilities on the consolidated balance sheets was $153,219 and $154,685 as of the years ended December

Note 9. Employment Benefit and Retirement Plans (Continued)

31, 2021 and 2020, respectively. The SERP compensation charged to expense totaled $18,378 and $23,270 for the years ended December 31, 2021 and 2020, respectively.

The Bank allows certain executive officers to defer all or any portion of their compensation. Specifically, participants may elect to defer a designated percentage of base pay or cash incentive awards. This election must be made no later than December 31st of the year preceding the year the compensation is earned or, for new participants, within 30 days of the participant's initial eligibility under the plan. The recorded liability for deferred compensation included in other liabilities on the consolidated balance sheets was $126,525 and $163,947 as of the years ended December 31, 2021 and 2020, respectively. The deferred compensation charges to expense totaled $2,858 and $5,852 for the years ended December 31, 2021 and 2020, respectively. Additionally, there were payments of $40,280 and $21,782 for the years ended December 31, 2021 and 2020, respectively.

401(k) plan

The Bank maintains a voluntary 401(k) plan for substantially all employees. Employees may contribute a percentage of their compensation to the plan subject to certain limits based on federal tax laws. The Bank makes matching contributions to the 401(k) plan of 50 percent of the first 6 percent of an employee's compensation contributed to the plan. The Bank also makes Safe Harbor contributions, in addition to any matching contributions, equal to 3 percent of an eligible employee's compensation to the 401(k) plan each pay period. Employer contributions vest to the employee ratably over a six-year period. Employer contribution expense was $244,941 and $237,546 for the years ended December 31, 2021 and 2020, respectively.

Deferred directors fees

The Bank has agreements with certain directors that are funded through the deferral of monthly fees earned. Contributions to the plan for the years ended December 31, 2021 and 2020 were $14,950 and $60,000, respectively. The deferred liability included on the balance sheet in other liabilities was $1,718,099 and $1,429,368 at December 31, 2021 and 2020, respectively. Additionally, there are savings accounts established for the directors containing $429,102 and $531,898 at December 31, 2021 and 2020 respectively. There are also funds held in a retirement trust account at a third party totaling $1,718,099 and $1,429,368 as of December 31, 2021 and 2020 recorded in other assets.

Director retirement plan

The Bank has, as a result of the Twin Oaks merger, a director retirement plan for five of the former members of the Twin Oak's Board of Directors. The plan provides monthly retirement benefits equal to one-twelfth of the annual Board fees. Payments are based on years of service on the Twin Oaks Board of Directors prior to the merger, with ten years of payments guaranteed. Three of the former members are retired and collecting benefit payments. Two former members became part of the Bank's board as of the merger date and will not commence their benefit until they retire. As of the merger date, the Plan was frozen as to benefit accruals and years of service. The compensation liability included on the balance sheet in other liabilities was $286,800 and $294.900 as of December 31, 2021 and 2020, respectively. This is an unfunded plan.

Director retirement plan valuation

	December 31,	
	2021	2020
Number of participants:		
Retirees	4	3
Active directors - not yet eligible	1	2
Total	5	5

Note 9. Employment Benefit and Retirement Plans (Continued)

Obligations and funded status:

	Years ended December 31, 2021	Years ended December 31, 2020
Change in benefit obligation		
Benefit obligation at beginning of year	$ 294,900	$ 305,400
Interest cost	18,000	12,000
Benefits paid	(26,100)	(22,500)
Benefit obligation at end of year	$ 286,800	$ 294,900
Change in plan assets		
Employer contributions	$ 26,100	$ 22,500
Benefits paid	(26,100)	(22,500)
Fair value of plan assets at year end	-	-
Funded status	(294,900)	(305,400)
Change in funded status	8,100	10,500
Net amount recognized	$ (286,800)	$ (294,900)

Amounts recognized in the statement of financial position consist of:

	December 31, 2021	December 31, 2020
Accumulated post-retirement benefit obligation:		
Active participants	$ (65,657)	$ (139,808)
Retired participants including beneficiaries	(221,143)	(155,092)
Total	(286,800)	(294,900)
Plan assets at fair value	-	-
Funded status	(286,800)	(294,900)
Actuarial gain	-	-
(Accrued) cost included in other liabilities	$ (286,800)	$ (294,900)

Components of Net Periodic Benefit Cost:

	Years ended December 31, 2021	Years ended December 31, 2020
Service cost	$ -	$ -
Interest cost	18,000	12,000
Amortization net gain	-	-
Net cost (benefit)	$ 18,000	$ 12,000

Note 10. Stock Compensation

Management recognition plan

A Management Recognition and Retention Plan ("MRP") provides for the issuance of shares to directors and officers. Pursuant to the Ottawa Savings Bancorp, Inc. 2018 Equity Incentive Plan, 333,753 shares were authorized by the Company in May, 2018. Additionally, 30,000 of incentive stock options were also authorized. Generally, granted shares vest in equal installments over a five-year period, with ownership of the share transferring to the recipient upon vesting. During 2021, there were 6,793 shares granted, of these, 2,052 vested immediately. The remaining 4,741 shares vest over 5 years. During 2020, there were 8,896 shares granted, of these, 3,325 vested immediately and 2,538 shares vest over 12 months. The remaining 3,033 shares vest over 5 years. As of December 31, 2021, there were 8,392 shares not yet vested. At December 31, 2020, there were 7,157 shares not yet vested.

A summary of the status of the MRP stock awards is as follows:

Year ended December 31, 2021	Shares	Weighted Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	$ 7,157	$ 11.84
Granted	6,793	14.70
Vested and transferred to recipients	(5,558)	12.62
Forfeited	-	-
Outstanding and non-vested at end of year	8,392	13.94

Year ended December 31, 2020	Shares	Weighted Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	$ 2,448	$ 13.19
Granted	8,896	11.18
Vested and transferred to recipients	(3,937)	11.01
Forfeited	(250)	9.55
Outstanding and non-vested at end of year	7,157	11.84

At December 31, 2021, there were 14,817 shares vested and 8,392 shares not vested. Therefore, there was $98,357 of future compensation cost related to non-vested shares not yet recognized at December 31, 2021. The Company recognized compensation of $62,537 for the year ended December 31, 2021. At December 31, 2020 there were 9,259 shares vested and 7,157 shares not vested. Therefore, there was $61,075 of future compensation cost related to non-vested shares not yet recognized at December 31, 2020. The Company recognized compensation expense of $67,021 for the year ended December 31, 2020.

Stock option plan

A Recognition and Retention Plan ("RRP") provides for the issuance of stock options to directors, officers and employees. Pursuant to the Ottawa Savings Bancorp, Inc. 2006 Equity Incentive Plan, on November 21, 2006, the Company granted stock options to purchase 92,666 shares of the Company's common stock, at an exercise price of $12.35 per share. Under the same plan, the Company granted stock options to purchase 5,451 shares of the Company's common stock, at an exercise price of $9.90 per share on December 21, 2008, 8,722 shares of the Company's common stock, at an exercise price of $6.00 per share on November 17,

Note 10. Stock Compensation (Continued)

2010, and 13,083 shares of the Company's common stock, at an exercise price of $4.25 per share on November 16, 2011. The options become exercisable in equal installments over a five-year period from the grant date. The options expire ten years from the grant date.

The fair value of the stock options granted has been estimated using a Black-Scholes option pricing model. This option pricing model requires management to make subjective assumptions, such as expected stock price volatility, dividend rates, and expected time to exercise. There were no options granted during 2021 and 2020.

A summary of the status of the outstanding RRP stock options is as follows:

Year ended December 31, 2021	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	3,750	$ 3.57	0.88 years	$ 41,250
Forfeited	-	-	-	-
Granted	-	-	-	$ -
Exercised	(3,750)	$ 3.57		$ 41,250
Outstanding at end of year	-	$ -	-	$ -
Exercisable at year end	-	$ -	-	$ -

Year ended December 31, 2020	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	7,500	$ 3.57	1.88 years	$ 76,950
Forfeited	-	-	-	-
Granted	-	-	-	$ -
Exercised	(3,750)	$ 3.57		$ 41,250
Outstanding at end of year	3,750	$ 3.57	0.88 years	$ 41,250
Exercisable at year end	3,750	$ 3.57	0.88 years	$ 41,250

Note 11. Income Taxes

The Company and Bank file a consolidated federal income tax return on a calendar year basis.

Income tax expense is summarized as follows:

	Years Ended December 31, 2021	2020
Federal:		
Current	$ 723,645	$ 487,380
Deferred	23,257	52,830
	746,902	540,210
State:		
Current	386,043	277,420
Deferred	21,619	(78,274)
	407,662	199,146
	$ 1,154,564	$ 739,356

	Years Ended December 31, 2021	2020
Federal income taxes computed at the statutory rate	$ 852,240	$ 677,377
Increase(decrease) in taxes resulting from:		
Tax exempt interest	(49,953)	(73,378)
Non-taxable income on bank owned life insurance	(9,848)	(15,677)
State taxes, net of federal tax benefit	327,448	140,888
Other	34,677	10,146
	$ 1,154,564	$ 739,356

The components of the net deferred tax asset are as follows:

	December 31, 2021	2020
Deferred tax assets:		
Employee benefit plans	$ 762,275	$ 730,587
Allowance for loan losses	1,021,232	991,732
Net operating loss carryforwards	-	44,305
Loans	8,759	13,831
Purchase accounting - acquisition expenses	59,102	67,557
Accrued bonus	137,733	25,577
Nonaccrual interest	62,363	76,359
Other	5,500	6,711
Total deferred tax assets	2,056,964	1,956,659

Note 11. Income Taxes (Continued)

Deferred tax liabilities:		
Unrealized gain on securities available for sale	(20,413)	(192,916)
Prepaid expenses	(24,150)	(22,757)
Depreciation	(41,017)	-
Origination of mortgage servicing rights	(125,551)	(34,616)
Core deposit intangible	(28,146)	(37,625)
Deferred loan fees	(23,777)	(2,406)
Total deferred tax liabilities	(263,054)	(290,320)
Net deferred income tax asset	$ 1,793,910	$ 1,666,339

Stockholders' equity at December 31, 2021 and 2020 includes approximately $2.3 million for which no federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reductions of amounts so allocated for purposes other than bad debt losses or adjustments arising from carry-back of net operating losses would create income for tax purposes only, which would be subject to the then current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $646,000 at December 31, 2021 and December 31, 2020, respectively.

At December 31, 2020, the Company had federal net operating loss carry forwards of approximately $0.2 million which were utilized in 2021. Per Internal Revenue Code Section 382 limitations, our use of the acquired federal net operating loss carry forward is limited to approximately $0.2 million per year.

Management believes that it is more likely than not that the deferred tax assets included in the accompanying consolidated balance sheets will be fully utilized. We have determined that no valuation allowance is required as of December 31, 2021, although there is no guarantee that those assets will be fully recognizable in future periods.

Note 12. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet the minimum regulatory 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 and the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving 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 classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the tables below). In July 2013, the federal banking agencies issued a final rule revising the regulatory capital rules applicable to most national banks and federal savings associations as well as their holding companies generally beginning on January 1, 2015. The rule implements the Basel Committee's December 2010 framework known as "Basel III" for strengthening the international capital standards as well as certain provisions of the Dodd-Frank Act. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement of 4.50%, and a higher minimum Tier 1 capital requirement of 6.00% (which is an increase from 4.00%). Under the final rule, the total capital ratio remains at 8.00% and the minimum leverage ratio is 4.00%. Management believes as of December 31, 2021 and 2020, that the Bank meets all capital adequacy requirements to which it is subject.

Additionally, under the final rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a 2.5% capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to risk-weighted

Note 12. Regulatory Matters (Continued)

assets. The final rule also enhances risk sensitivity and addresses weaknesses identified by the regulators over recent years with the measure of risk-weighted assets.

The new minimum capital requirements were effective for the Company on January 1, 2015, whereas the capital conservation buffer and the deductions from common equity Tier 1 capital phase in over time. Beginning on January 1, 2016, the Bank must begin holding 0.625% of risk-weighted assets and would increase by that amount annually, until fully implemented in January 2019, as a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments. As a bank holding company with less than $3.0 billion in assets, the Company is not subject to separate capital requirements.

As of December 31, 2021, the most recent examination conducted by the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common equity Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the following table. There are no conditions or events that management believes have occurred that would change the Bank's capitalization classification.

The Bank's actual capital amounts and ratios as of December 31, 2021 and 2020, are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2021:						
Total Risk-Based Capital (to risk-weighted assets)	$ 48,096	19.576%	$ 19,655	8.000%	$ 24,569	10.000%
Tier I Capital (to risk-weighted assets)	$ 45,018	18.323%	$ 14,741	6.000%	$ 19,655	8.000%
Common Equity Tier I (to risk-weighted assets)	$ 45,018	18.323%	$ 11,056	4.500%	$ 15,970	6.500%
Tier I Leverage (to adjusted total assets)	$ 45,018	13.266%	$ 13,574	4.000%	$ 16,967	5.000%
December 31, 2020:						
Total Risk-Based Capital (to risk-weighted assets)	$ 46,605	20.391%	$ 18,284	8.000%	$ 22,856	10.000%
Tier I Capital (to risk-weighted assets)	$ 43,741	19.138%	$ 13,713	6.000%	$ 18,284	8.000%
Common Equity Tier I (to risk-weighted assets)	$ 43,741	19.138%	$ 10,285	4.500%	$ 14,856	6.500%
Tier I Leverage (to adjusted total assets)	$ 43,741	14.264%	$ 12,266	4.000%	$ 15,333	5.000%

Note 13. Commitments and Contingencies

In the ordinary course of business, the Bank has various commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position of the Bank.

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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve elements of credit and interest-rate risk in excess of the amount recognized in the balance sheets.

Note 13. Commitments and Contingencies (Continued)

At December 31, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Variable rate	Fixed rate	Total	Range of rates on fixed rate commitments
As of December 31, 2021:				
Commitments to originate loans	$ 1,977,177	$ 8,866,000	$ 10,843,177	1.00% - 8.25%
Unfunded commitments on construction loans	5,614,930	17,481,324	23,096,254	3.25% - 8.00%
Unfunded commitments under lines of credit	12,098,036	6,441,140	18,539,176	-
	19,690,143	32,788,464	52,478,607	
Standby letters of credit	-	10,000	10,000	
	$ 19,690,143	$ 32,798,464	$ 52,488,607	
As of December 31, 2020:				
Commitments to originate loans	$ 65,000	$ 12,697,455	$ 12,762,455	3.25% - 8.25%
Unfunded commitments on construction loans	4,372,994	5,385,352	9,758,346	3.00% - 8.00%
Unfunded commitments under lines of credit	12,768,880	4,323,014	17,091,894	-
	17,206,874	22,405,821	39,612,695	
Standby letters of credit	-	10,000	10,000	
	$ 17,206,874	$22,415,821	$ 39,622,695	

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be fully drawn upon to the total extent of the approximately $29.3 million to which the Bank is committed. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet obligations.

The Company does not engage in the use of interest rate swaps or futures, forwards or option contracts.

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 Bank's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak. Impact on the Bank's customers, employees and vendors cannot be predicted, and the extent to which COVID-19 may impact the Bank's financial condition or results of operations is uncertain at this time.

Note 14. Comprehensive Income Reclassification Adjustment

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

Accumulated Other Comprehensive Income Components	Reclassification Amount	Affected Line Item in the Consolidated Statements of Operations
Unrealized gains on available for sale securities	$857	Gain on sale of securities, net
	(244)	Income tax expense
Total reclassifications	$613	

There were no reclassification adjustments for components of accumulated other comprehensive income in 2021.

Note 15. Fair Values Measurements and Disclosures

FASB ASC Topic 820, Fair Value Measurements and Disclosures, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and is not adjusted for transaction costs. This guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement inputs) and the lowest priority to unobservable inputs (Level 3 measurement inputs). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Basis of Fair Value Measurement:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.
- Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets, or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Securities Available for Sale

Securities classified as available for sale are recorded at fair value on a recurring basis using pricing obtained from an independent pricing service. Where quoted market prices are available in an active market, securities are classified within Level 1. The Company has no securities classified within Level 1. If quoted market prices are not available, the pricing service estimates the fair values by using pricing models or quoted prices of securities with similar characteristics. For these securities, the inputs used by the pricing service to determine fair value consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and bonds' terms and conditions, among other things resulting in classification within Level 2. Level 2 securities include state and municipal securities and residential mortgage-backed securities. In cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3. The Company has no securities classified within Level 3.

Note 15. Fair Values Measurements (continued)

Foreclosed Assets

Foreclosed assets consisting of foreclosed real estate and repossessed assets, are adjusted to fair value less estimated costs to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as non-recurring Level 3. Repossessed assets are included in other assets on the consolidated balance sheet.

Impaired Loans

Impaired loans are evaluated and adjusted to the lower of carrying value or fair value less estimated costs to sell at the time the loan is identified as impaired. Impaired loans are carried at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as non-recurring Level 3.

Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. Management believes it is more likely than not that a workout solution or liquidation of the collateral is the best use of the asset and therefore has measured fair value based on the underlying collateral of the loans. If management were to sell the impaired loan portfolio to a third party instead of liquidating the collateral, the measurement of fair value could be significantly different.

The tables below present the recorded amount of assets measured at fair value on a recurring basis at December 31, 2021 and 2020.

December 31, 2021	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
State and municipal securities available for sale	$ -	$ 8,848,066	$ -	$ 8,848,066
Residential mortgage-backed securities available for sale	-	23,852,348	-	23,852,348
	$ -	$ 32,700,414	$ -	$ 32,700,414

December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
State and municipal securities available for sale	$ -	$ 10,784,070	$ -	$ 10,784,070
Residential mortgage-backed securities available for sale	-	7,927,561	-	7,927,561
	$ -	$ 18,711,631	$ -	$ 18,711,631

Note 15. Fair Values Measurements (continued)

The tables below present the recorded amount of assets and liabilities measured at fair value on a non-recurring basis at December 31, 2021 and December 31, 2020.

December 31, 2021	Level 1	Level 2	Level 3	Total Fair Value
Foreclosed assets	$ -	$ -	$ 3,390	$ 3,390
Impaired loans, net	-	-	167,197	167,197

December 31, 2020	Level 1	Level 2	Level 3	Total Fair Value
Foreclosed assets	$ -	$ -	$ 156,637	$ 156,637
Impaired loans, net	-	-	97,392	97,392

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company has utilized Level 3 inputs to determine fair value :

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
December 31, 2021				
Foreclosed assets	$ 3,390	Appraisal of collateral	Appraisal adjustments	(31)%
Impaired loans, net	$ 167,197	Appraisal of collateral	Appraisal adjustments	(33)% to (100)%
December 31, 2020				
Foreclosed assets	$ 156,637	Appraisal of collateral	Appraisal adjustments	(28)% to (53)%
Impaired loans, net	$ 97,392	Appraisal of collateral	Appraisal adjustments	(15)% to (46)%

Note 16. Fair Values of Financial Instruments

The estimated fair values of the Bank's financial instruments are as follows:

	Carrying Amount	December 31, 2021 using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 6,516,308	$ 6,516,308	$ -	$ -	$ 6,516,308
Time deposits	250,000	250,000	-	-	250,000
Federal funds sold	1,716,000	1,716,000	-	-	1,716,000
Securities	32,700,414	-	32,700,414	-	32,700,414
Net loans	283,877,203	-	-	277,524,422	277,524,422
Loans held for sale	403,920	-	403,920		403,920
Accrued interest receivable	1,007,399	1,007,399	-	-	1,007,399
Mortgage servicing rights	894,274	-	-	894,274	894,274
Financial Liabilities:					
Non-interest bearing deposits	22,898,814	22,898,814	-	-	22,898,814
Interest bearing deposits	250,152,124	-	-	251,830,906	251,830,906
Accrued interest payable	48,825	48,825	-	-	48,825
FHLB advances	16,524,555	-	16,594,770	-	16,594,770

Note 16. Fair Values of Financial Instruments (Continued)

	Carrying Amount	December 31, 2020 using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 10,375,011	$ 10,375,011	$ -	$ -	$ 10,375,011
Time deposits	3,232,500	3,232,500		-	3,232,500
Federal funds sold	3,486,000	3,486,000	-	-	3,486,000
Securities	18,711,631	-	18,711,631	-	18,711,631
Net loans	255,103,054	-	-	250,574,509	250,574,509
Accrued interest receivable	972,602	972,602	-	-	972,602
Mortgage servicing rights	568,191	-	-	568,191	568,191
Financial Liabilities:					
Non-interest bearing deposits	18,285,211	18,285,211	-	-	18,285,211
Interest bearing deposits	217,774,806	-	-	220,082,488	220,082,488
Accrued interest payable	54,851	54,851	-	-	54,851
FHLB advances	17,548,560	-	17,849,966	-	17,849,966

In addition, other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, non-financial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill and similar items.

Note 17. Condensed Parent Only Financial Statements

	December 31, 2021	2020
Balance sheets		
Assets:		
Cash and cash equivalents	$ 1,265,703	809,741
Equity in net assets of OSB Community Bank	45,820,842	45,006,586
ESOP note receivable	999,114	1,121,126
Other assets	2,925	2,287,916
Total assets	$ 48,088,584	49,225,369
Liabilities and stockholders' equity:		
Liabilities:		
Other liabilities	47,768	34,742
Total liabilities	47,768	34,742
Commitments and contingencies		
ESOP repurchase obligation	2,066,911	957,167
Stockholders' equity:		
Total equity	45,973,905	48,233,460
Total liabilities and stockholders' equity	$ 48,088,584	49,225,369

Note 17. Condensed Parent Only Financial Statements (Continued)

	Years Ended December 31, 2021	2020
Statements of operations		
Equity in net income of subsidiary	$ 2,951,476	2,591,039
Interest income	49,801	66,966
Operating income	3,001,277	2,658,005
Other expenses	110,251	208,269
Income before income tax benefit	2,891,026	2,449,736
Income tax benefit	(12,695)	(31,184)
Net income	$ 2,903,721	2,480,920
Statements of cash flows		
Operating activities:		
Net income	$ 2,903,721	2,480,920
Adjustments to reconcile net income to net cash from operating activities:		
Compensation expense on ESOP shares released	187,786	272,470
Compensation expense on MRP shares granted	62,537	67,021
Undistributed (distributed) earnings of sub	916,008	(180,530)
Changes in assets and liabilities:		
Decrease (increase) in other assets	122,884	(118,559)
Increase in other liabilities	13,026	23,460
Net cash provided by operating activities	4,205,962	2,544,782
Investing activities:		
Payments received on ESOP notes receivable	122,012	330,136
Net cash provided by investing activities	122,012	330,136
Financing activities:		
Proceeds from stock options exercised	13,387	13,387
Shares repurchased and cancelled	(2,060,707)	(2,550,897)
Dividends paid	(1,824,692)	(1,962,461)
Net cash used in financing activities	(3,872,012)	(4,499,971)
Net change in cash	455,962	(1,625,053)
Cash and cash equivalents – beginning of year	809,741	2,434,794
Cash and cash equivalents – end of year	$ 1,265,703	809,741
Supplemental noncash disclosures:		
Change in unrealized gain (loss)	(431,843)	159,312
Change in ESOP obligation	1,109,744	957,167