

LETTER TO SHAREHOLDERS

To Our Shareholders:

2021 was an exciting year for our Bank, it's been one year since I first sent you a letter with the exciting news that we are rebranding from Home Federal Bank to Hearthside Bank. One year later, we couldn't be happier with the results. We started 2021 as one of 94 banks that used the name Home Federal Bank, today we are the only Hearthside Bank in the United States, and due to our Federal Trademark, will remain the only Hearthside Bank. In addition to this, we turned 101 years old, launched a new interactive website, and established a presence on social media. Further, we finished the year as the #1 leading local lender in our Bell County, Harlan, and Harrogate markets, and the #2 leading local lender in the Campbell, New Tazewell and Union markets (measured by mortgage recordings).

I am pleased to report to you once again that our Bank is strong, profitable, and growing. HFB Financial posted net profits of \$3.65 million in 2021, 17% over our original budget. We finished 2021 with \$307 million in gross loans, and \$388 million in deposits; an increase of 11.5% from last year.

At year end, HFB Financial had a Tier 1 Capital Ratio of 10.80%, well in excess of the regulatory "well capitalized" minimum of 5.00%; further, our Tier 1 Risk-Based Capital Ratio of 16.66% is well in excess of the Regulatory "well-capitalized" minimum of 8.0%. At year end, our Texas ratio is well below peer at 5.44% and our OREO ratio to total loans remains near zero at 0.02%.

HFB Financial Corporation Stock (HFBA) had a stock appraisal at the end of 2021 of \$32.00 per share, up 78% in the last eleven years! We continue to pay a strong dividend and we have also continued to repurchase stock when it becomes available; which is accretive to all shareholders. Considering our financial strength and increased stock value, HFBA has been and continues to be an excellent investment for you, our shareholder.

The Board of Directors is very excited to announce an increased dividend of \$0.41 per share to all shareholders of record as of March 11, 2022 and payable March 28, 2022. We are excited about our current direction and strategy, and look forward to the year ahead. This dividend exemplifies our ongoing focus of improving shareholder value.

We are grateful for your investment in our Company and appreciate your continued support. Our hope is this Annual Report will answer any questions you may have regarding our Community Bank.

Thank you,



D. Alex Cook
President / CEO

HFB Financial Corporation

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2021 and 2020

HFB Financial Corporation
December 31, 2021 and 2020

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Independent Auditor's Report

Stockholders and Board of Directors
HFB Financial Corporation
Middlesboro, Kentucky

Opinion

We have audited the consolidated financial statements of HFB Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of HFB Financial Corporation as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

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

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

BKD, LLP

Evansville, Indiana
February 28, 2022

Liabilities and Stockholders' Equity

	<u>2021</u>	<u>2020</u>
Liabilities		
Deposits		
Demand	\$ 88,319,042	\$ 66,023,055
Savings, NOW and money market	208,322,272	179,057,253
Certificates of deposit	<u>91,774,847</u>	<u>104,307,181</u>
Total deposits	388,416,161	349,387,489
Federal Home Loan Bank advances	20,000,000	27,452,854
Interest payable	13,130	32,358
Deferred compensation	1,991,821	1,865,951
Defined benefit pension plan	589,063	841,880
Lease obligation – operating leases	438,008	524,963
Deferred income tax	42,337	407,405
Other liabilities	<u>1,144,731</u>	<u>1,398,001</u>
Total liabilities	<u>412,635,251</u>	<u>381,910,901</u>
Stockholders' Equity		
Preferred stock, \$1.00 par value; authorized and unissued – 1,000,000 shares	-	-
Common stock, \$1.00 par value; authorized 5,000,000 shares; issued and outstanding 1,179,035 and 1,182,079 shares at December 31, 2021 and 2020, respectively	1,179,035	1,182,079
Additional paid-in capital	3,571,578	3,669,695
Retained earnings	46,143,196	43,440,470
Common stock acquired by Rabbi Trusts for deferred compensation plans – 46,146 shares at December 31, 2021 and 2020, respectively	(801,083)	(801,083)
Accumulated other comprehensive income	<u>430,716</u>	<u>1,035,413</u>
Total stockholders' equity	<u>50,523,442</u>	<u>48,526,574</u>
Total liabilities and stockholders' equity	<u>\$ 463,158,693</u>	<u>\$ 430,437,475</u>

HFB Financial Corporation
Consolidated Statements of Income
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Interest Income		
Loans	\$ 14,871,145	\$ 14,968,901
Investment securities	1,780,611	1,713,306
Dividends on Federal Home Loan Bank stock	42,767	48,182
Other	<u>48,475</u>	<u>41,809</u>
Total interest income	<u>16,742,998</u>	<u>16,772,198</u>
Interest Expense		
Deposits	944,037	2,507,853
Federal Home Loan Bank advances and other borrowings	<u>246,093</u>	<u>385,008</u>
Total interest expense	<u>1,190,130</u>	<u>2,892,861</u>
Net Interest Income	15,552,868	13,879,337
Provision for Loan Losses	<u>418,500</u>	<u>268,000</u>
Net Interest Income After Provision for Loan Losses	<u>15,134,368</u>	<u>13,611,337</u>
Noninterest Income		
Customer service fees, including overdraft protection fee	2,864,432	2,583,765
Increase in cash surrender value of life insurance	196,179	199,321
Net realized gains on sales of available-for-sale securities	-	147,065
Net realized gains on sales of foreclosed assets	3,245	106,880
Other	<u>587,323</u>	<u>576,300</u>
Total noninterest income	<u>3,651,179</u>	<u>3,613,331</u>
Noninterest Expense		
Salaries and employee benefits	7,199,385	6,778,122
Net occupancy expenses	958,539	922,409
Equipment expenses	379,187	347,824
Data processing fees	1,022,816	826,628
Professional fees	1,190,370	1,298,700
Advertising	331,336	151,678
State franchise and deposit taxes	383,200	343,200
Deposit insurance premiums	113,500	71,695
Foreclosed assets expenses	3,184	37,292
Other	<u>2,628,754</u>	<u>2,227,004</u>
Total noninterest expense	<u>14,210,271</u>	<u>13,004,552</u>

HFB Financial Corporation
Consolidated Statements of Income (Continued)
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Income Before Income Taxes	\$ 4,575,276	\$ 4,220,116
Provision for Income Taxes	<u>927,152</u>	<u>791,584</u>
Net Income	<u>\$ 3,648,124</u>	<u>\$ 3,428,532</u>
Earnings per Share	<u>\$ 3.09</u>	<u>\$ 2.89</u>

HFB Financial Corporation
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020

	2021	2020
Net Income	\$ 3,648,124	\$ 3,428,532
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of tax expense (benefit) of \$(259,072) and \$378,491 for 2021 and 2020, respectively	(756,898)	1,105,788
Less reclassification adjustment for realized gains included in net income, net of tax expense of \$37,502 for 2020	-	109,563
Change in defined benefit pension plan gains and losses and transition obligation, net of tax expense (benefit) of \$52,096 and \$(75,335) for 2021 and 2020, respectively	152,201	(246,567)
	(604,697)	749,658
Comprehensive Income	\$ 3,043,427	\$ 4,178,190

HFB Financial Corporation
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-in Capital	Rabbi Trusts	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2020	\$ 1,186,580	\$ 3,786,528	\$ (743,083)	\$ 40,960,397	\$ 285,755	\$ 45,476,177
Net income	-	-	-	3,428,532	-	3,428,532
Other comprehensive income	-	-	-	-	749,658	749,658
Dividends on common stock, \$0.80 per share	-	-	-	(948,459)	-	(948,459)
Issuance of stock (1,999 shares)	1,999	48,825	-	-	-	50,824
Purchase of stock (8,500 shares)	(8,500)	(221,658)	-	-	-	(230,158)
Purchase of stock by Rabbi Trusts (2,000 shares)	2,000	56,000	(58,000)	-	-	-
Balance, December 31, 2020	1,182,079	3,669,695	(801,083)	43,440,470	1,035,413	48,526,574
Net income	-	-	-	3,648,124	-	3,648,124
Other comprehensive loss	-	-	-	-	(604,697)	(604,697)
Dividends on common stock, \$0.80 per share	-	-	-	(945,398)	-	(945,398)
Issuance of stock (1,901 shares)	1,901	49,982	-	-	-	51,883
Purchase of stock (4,945 shares)	(4,945)	(148,099)	-	-	-	(153,044)
Balance, December 31, 2021	<u>\$ 1,179,035</u>	<u>\$ 3,571,578</u>	<u>\$ (801,083)</u>	<u>\$ 46,143,196</u>	<u>\$ 430,716</u>	<u>\$ 50,523,442</u>

HFB Financial Corporation
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Net income	\$ 3,648,124	\$ 3,428,532
Items not requiring (providing) cash		
Depreciation and amortization	642,515	613,515
Amortization of premiums and discounts on securities	406,066	445,268
Noncash operating lease expense	95,979	106,974
Provision for loan losses	418,500	268,000
Provision for losses on foreclosed assets	-	28,331
Increase in cash surrender value of life insurance	(196,179)	(199,321)
Compensation expense recognized related to Rabbi Trusts	80,756	(42,146)
Net periodic benefit income on defined benefit pension	(48,520)	(37,863)
Deferred income taxes	(146,000)	(24,000)
Net gain on sale of available-for-sale debt securities	-	(147,065)
Net gains on sale of foreclosed assets	(3,245)	(106,380)
Changes in		
Loans held for sale	537,688	(434,337)
Interest receivable	139,262	(61,119)
Repayment of operating lease obligations	(96,949)	(95,091)
Other assets	(253,797)	69,539
Interest payable	(19,228)	(12,466)
Other liabilities	(198,162)	432,101
Net cash provided by operating activities	5,006,810	4,232,472
Investing Activities		
Net change in interest-bearing time deposits	(2,228)	(893)
Purchases of available-for-sale debt securities	(34,686,265)	(26,385,265)
Proceeds from maturities and paydowns of available-for-sale debt securities	12,860,750	11,464,308
Proceeds from sale of available-for-sale debt securities	-	5,283,322
Net change in loans	(3,121,731)	(14,691,254)
Purchase of premises and equipment	(258,020)	(403,279)
Proceeds from sale of foreclosed assets	7,000	218,156
Net cash used in investing activities	(25,200,494)	(24,514,905)
Financing Activities		
Net change in demand deposits, money market, NOW and savings accounts	51,561,006	59,030,836
Net change in time deposits	(12,532,334)	(23,355,268)
Proceeds from Federal Home Loan Bank advances	-	83,900,070
Repayments of Federal Home Loan Bank advances	(7,452,854)	(83,018,597)
Purchase of common stock	(153,044)	(230,158)
Proceeds from issuance of common stock	51,883	50,824
Dividends paid	(945,398)	(948,459)
Net cash provided by financing activities	30,529,259	35,429,248

HFB Financial Corporation
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Increase in Cash and Cash Equivalents	\$ 10,335,575	\$ 15,146,815
Cash and Cash Equivalents, Beginning of Year	<u>25,598,685</u>	<u>10,451,870</u>
Cash and Cash Equivalents, End of Year	<u>\$ 35,934,260</u>	<u>\$ 25,598,685</u>
Supplemental Cash Flows Information		
Interest paid	\$ 1,209,358	\$ 2,905,327
Income taxes paid, net of refunds	\$ 1,115,950	\$ 804,033
Real estate acquired in settlement of loans	\$ 57,144	\$ 34,505
Sale and financing of foreclosed assets	\$ 28,000	\$ -

HFB Financial Corporation
Notes to Consolidated Financial Statements
December 31, 2021 and 2020
(Table Dollar Amounts in Thousands, Except Share Data)

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

Nature of Operations

HFB Financial Corporation (Company) is a bank holding company the principal activity of which is the ownership and management of its wholly owned subsidiary, Hearthside Bank Corporation (formerly known as Home Federal Bank Corporation) (Bank) and the Bank's wholly owned subsidiary, Home Service Corporation (Home).

The Bank is primarily engaged in providing a full range of banking and financial services to individuals and corporate customers located primarily in Bell County, Kentucky, surrounding counties and the surrounding states of Tennessee and Virginia. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examination by those regulatory authorities.

The accounting and reporting policies of the Company and its wholly owned subsidiary conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. The more significant of the policies are described below.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, Bank and Home. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of deferred tax assets, other-than-temporary impairments and fair values of financial instruments.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

At December 31, 2021, the Company's cash accounts exceeded federally insured limits by approximately \$29,052,000 and consisted primarily of cash held at the Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB).

HFB Financial Corporation
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(Table Dollar Amounts in Thousands, Except Share Data)

Interest-Bearing Time Deposits in Banks

Interest-bearing deposits in banks typically mature within five years and are carried at cost.

Debt Securities

Debt securities are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss).

For available-for-sale debt securities that management has no intent to sell and believes it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Equity Investments

The Company measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in net income. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

The Company measures equity securities without a readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment.

For equity securities and equity investments measured under the practicability exception, the Company performs a qualitative assessment for equity investments without readily determinable fair values considering impairment indicators to evaluate whether an impairment exists. If an impairment exists, the Company will recognize a loss based on the difference between carrying value and fair value.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation

HFB Financial Corporation
Notes to Consolidated Financial Statements
December 31, 2021 and 2020
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allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income.

Loans

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

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

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

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

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

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The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable 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 borrower, including the length of the delay, reasons for the delay, borrower's prior payment record and amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, loan's obtainable market price or fair value of the collateral if the loan is collateral dependent.

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

Premises and Equipment

Depreciable assets are carried at cost, net of accumulated depreciation. Depreciation is computed using straight-line and accelerated methods based on the estimated useful lives of the assets.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35–40 years
Leasehold improvements	5–10 years
Equipment	3–5 years

HFB Financial Corporation
Notes to Consolidated Financial Statements
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Long-Lived Asset Impairment

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

Federal Home Loan Bank Stock

FHLB stock is a required investment for institutions that are members of the FHLB system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less cost 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 cost to sell. Revenue and expenses from operations are included in net income or expense from foreclosed assets.

Company-Owned Life Insurance

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

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (Accounting Standards Codification (ASC) 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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Tax positions are recognized if it is more likely than not, based on the technical merits, the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% 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.

With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2018.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries.

Earnings per Share

Earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during each period.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) consists of unrealized appreciation (depreciation) on available-for-sale debt securities and changes in the funded status of the defined benefit pension plan.

Revenue Recognition

The Company applies Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* to some of its revenue. The majority of the Company's revenues come from interest income and other sources, including loans, leases, and securities, that are outside the scope of Topic 606. The Company's services that fall within the scope of Topic 606 are presented within noninterest income in the accompanying statements of income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of Topic 606 primarily include service charges on deposits, interchange income, and the sale of foreclosed assets. See Note 18 for additional information about the Company's revenues that are within the scope of Topic 606.

HFB Financial Corporation
Notes to Consolidated Financial Statements
December 31, 2021 and 2020
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Note 2: Debt Securities

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

	Amortized Cost	Gross Unrealize Gains	Gross Unrealize Losses	Fair Value
December 31, 2021				
Collateralized debt obligation	\$ 2,527	\$ -	\$ (354)	\$ 2,173
Mortgage-backed securities				
Government-sponsored entities residential	32,939	238	(316)	32,861
Private-label residential	14,927	59	(167)	14,819
State and political subdivisions	37,570	2,050	(7)	39,613
US Treasury notes and bonds	9,922	-	(152)	9,770
	<u>\$ 97,885</u>	<u>\$ 2,347</u>	<u>\$ (996)</u>	<u>\$ 99,236</u>

	Amortized Cost	Gross Unrealize Gains	Gross Unrealize Losses	Fair Value
December 31, 2020				
Collateralized debt obligation	\$ 2,562	\$ -	\$ (974)	\$ 1,588
Mortgage-backed securities				
Government-sponsored entities residential	24,036	509	(1)	24,544
Private-label residential	14,296	167	(1)	14,462
State and political subdivisions	35,572	2,666	-	38,238
	<u>\$ 76,466</u>	<u>\$ 3,342</u>	<u>\$ (976)</u>	<u>\$ 78,832</u>

The amortized cost and fair value of available-for-sale securities at December 31, 2021, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

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	Amortized Cost	Fair Value
One year or less	\$ 1,431	\$ 1,449
After one through five years	23,673	24,325
After five through ten years	11,732	12,595
After ten years	13,183	13,187
Mortgage-backed securities	47,866	47,680
	<u>\$ 97,885</u>	<u>\$ 99,236</u>

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was approximately \$41,250,000 and \$33,715,000 at December 31, 2021 and 2020, respectively.

No gains or losses resulting from sales of available-for-sale securities were realized for 2021. Gross gains of approximately \$147,000 and gross losses of approximately \$0, resulting from sales of available-for-sale securities were realized for 2020.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2021 and 2020, was approximately \$42,814,000 and \$2,064,000, which is approximately 43% and 3%, respectively, of the Company's available-for-sale investment portfolio. These declines primarily resulted from changes in market interest rates, except in the case of the collateralized debt obligation, which is discussed in more detail below.

Management believes the declines in fair value for these securities are temporary.

The following tables show the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020:

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	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021						
Collateralized debt obligation	\$ -	\$ -	\$ 2,173	\$ (354)	\$ 2,173	\$ (354)
Mortgage-backed securities						
Government sponsored entities residential	20,791	(316)	-	-	20,791	(316)
Private-label residential	7,386	(166)	2	(1)	7,388	(167)
State and political subdivisions	2,692	(7)	-	-	2,692	(7)
US Treasury notes and bonds	9,770	(152)	-	-	9,770	(152)
Total temporarily impaired securities	\$ 40,639	\$ (641)	\$ 2,175	\$ (355)	\$ 42,814	\$ (996)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
Collateralized debt obligation	\$ -	\$ -	\$ 1,588	\$ (974)	\$ 1,588	\$ (974)
Mortgage-backed securities						
Government sponsored entities residential	474	(1)	-	-	474	(1)
Private-label residential	-	-	2	(1)	2	(1)
Total temporarily impaired securities	\$ 474	\$ (1)	\$ 1,590	\$ (975)	\$ 2,064	\$ (976)

For the Company's investments in each type of security having a significant effect on unrealized losses, note the following:

U.S. Treasury

The unrealized losses on the Company's investments in U.S. Treasury obligations were caused by fluctuations in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of its amortized cost bases, which may be

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maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

Residential Mortgage-backed Securities

The unrealized losses on the Company's investments in residential mortgage-backed securities were caused by fluctuations in interest rates and illiquidity. The Company expects to recover the amortized cost basis over the term of the securities. 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 the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

State and Political Subdivisions

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

Collateralized Debt Obligation

The unrealized loss on the Company's investment in the collateralized debt obligation relates to an investment in Preferred Term Securities XIX, Ltd. Class B Notes. The unrealized loss was caused by a number of factors, primarily by overall instability in the financial market, limited trading markets for this type of security and poor performance by certain entities in the pool.

The Company determined no portion of the unrealized loss was attributable to credit loss at December 31, 2021. Because the Company does not intend to sell the investment and it is not more likely than not the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the Company does not consider the investment to be other-than-temporarily impaired at December 31, 2021.

Other-Than-Temporary Impairment

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Economic models are used to determine whether an other-than-temporary impairment has occurred on these securities. While all securities are considered, the security primarily impacted by other-than-temporary impairment testing is the collateralized debt obligation.

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For the collateralized debt obligation in the investment portfolio, an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other than temporary. The most significant inputs are the following:

- Market performance indications, credit ratings, prepayment rates and default and deferral rates (actual and projected)

To determine if the unrealized loss for the collateralized debt obligation security is other than temporary, the Company employs a third-party vendor who performs cash flow models of the security. If the Company determines a given collateralized debt obligation security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

Note 3: Loans and Allowance for Loan Losses

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

	2021	2020
Construction and land development	\$ 28,712	\$ 24,487
Real estate		
Residential	167,379	178,298
Other	6,779	6,616
Commercial		
Real estate	66,255	61,750
Industrial	28,128	24,645
Consumer	9,289	8,024
Other loans	1,152	932
	<hr/>	<hr/>
Gross loans	307,694	304,752
Less		
Net deferred loan fees	134	227
Allowance for loan losses	4,210	3,849
	<hr/>	<hr/>
Net loans	<u>\$ 303,350</u>	<u>\$ 300,676</u>

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

	2021							Total
	Construction and Land Development	Real Estate		Commercial			Other Loans	
		Residential	Other	Real Estate	Industrial	Consumer		
Allowance for Loan Losses								
Balance, beginning of year	\$ 587	\$ 1,826	\$ 115	\$ 653	\$ 474	\$ 175	\$ 19	\$ 3,849
Provision (credit) charged to expense	(18)	406	(6)	218	(305)	121	3	419
Losses charged off	(28)	-	-	-	-	(61)	-	(89)
Recoveries	3	-	-	-	-	27	1	31
Balance, end of year	<u>\$ 544</u>	<u>\$ 2,232</u>	<u>\$ 109</u>	<u>\$ 871</u>	<u>\$ 169</u>	<u>\$ 262</u>	<u>\$ 23</u>	<u>\$ 4,210</u>
Ending balance								
Individually evaluated for impairment	<u>\$ 35</u>	<u>\$ 493</u>	<u>\$ -</u>	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 599</u>
Ending balance								
Collectively evaluated for impairment	<u>\$ 509</u>	<u>\$ 1,739</u>	<u>\$ 109</u>	<u>\$ 800</u>	<u>\$ 169</u>	<u>\$ 262</u>	<u>\$ 23</u>	<u>\$ 3,611</u>
Loans								
Ending balance	<u>\$ 28,712</u>	<u>\$ 167,379</u>	<u>\$ 6,779</u>	<u>\$ 66,255</u>	<u>\$ 28,128</u>	<u>\$ 9,289</u>	<u>\$ 1,152</u>	<u>\$ 307,694</u>
Ending balance								
Individually evaluated for impairment	<u>\$ 195</u>	<u>\$ 1,583</u>	<u>\$ -</u>	<u>\$ 1,100</u>	<u>\$ 365</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,243</u>
Ending balance								
Collectively evaluated for impairment	<u>\$ 28,517</u>	<u>\$ 165,796</u>	<u>\$ 6,779</u>	<u>\$ 65,155</u>	<u>\$ 27,763</u>	<u>\$ 9,289</u>	<u>\$ 1,152</u>	<u>\$ 304,451</u>

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	2020								
	Construction and Land Development	Real Estate		Commercial Real Estate			Consumer	Other Loans	Total
		Residential	Other	Estate	Industrial				
Allowance for Loan Losses									
Balance, beginning of year	\$ 455	\$ 2,146	\$ 46	\$ 434	\$ 279	\$ 215	\$ 4	\$ 3,579	
Provision (credit) charged to expense	129	(341)	69	219	195	(18)	15	268	
Losses charged off	-	(16)	-	-	-	(35)	-	(51)	
Recoveries	3	37	-	-	-	13	-	53	
Balance, end of year	<u>\$ 587</u>	<u>\$ 1,826</u>	<u>\$ 115</u>	<u>\$ 653</u>	<u>\$ 474</u>	<u>\$ 175</u>	<u>\$ 19</u>	<u>\$ 3,849</u>	
Ending balance									
Individually evaluated for impairment	<u>\$ 39</u>	<u>\$ 213</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 540</u>	
Ending balance									
Collectively evaluated for impairment	<u>\$ 548</u>	<u>\$ 1,613</u>	<u>\$ 115</u>	<u>\$ 599</u>	<u>\$ 240</u>	<u>\$ 175</u>	<u>\$ 19</u>	<u>\$ 3,309</u>	
Loans									
Ending balance	<u>\$ 24,487</u>	<u>\$ 178,298</u>	<u>\$ 6,616</u>	<u>\$ 61,750</u>	<u>\$ 24,645</u>	<u>\$ 8,024</u>	<u>\$ 932</u>	<u>\$ 304,752</u>	
Ending balance									
Individually evaluated for impairment	<u>\$ 750</u>	<u>\$ 1,251</u>	<u>\$ -</u>	<u>\$ 1,128</u>	<u>\$ 722</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,851</u>	
Ending balance									
Collectively evaluated for impairment	<u>\$ 23,737</u>	<u>\$ 177,047</u>	<u>\$ 6,616</u>	<u>\$ 60,622</u>	<u>\$ 23,923</u>	<u>\$ 8,024</u>	<u>\$ 932</u>	<u>\$ 300,901</u>	

Internal Risk Categories

Loan grades are numbered 1 through 7. Grades 1 through 3 are considered satisfactory grades. The grade of 3.5, or Pass-Watch, is considered acceptable with exceptions. The grade of 4, or Special Mention, represents loans of lower quality and is considered criticized. The grades of 5, or Substandard, and 6, or Doubtful, refer to assets that are classified. The use and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

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

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

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

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Pass-Watch (3.5) loans generally have the same characteristics as other pass-graded loans; however, Company management has deemed close monitoring of such credits necessary.

Special Mention (4) loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (5) loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful (6) loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (7) loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Construction and Land Development: Construction and land development loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Residential Real Estate: The residential real estate loans are generally secured by owner-occupied 1–4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

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Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Commercial Industrial: The commercial industrial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line-of-credit loans, such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

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

	2021							Total
	Construction and Land Development	Real Estate		Commercial		Consumer	Other Loans	
		Residential	Other	Real Estate	Industrial			
Pass	\$ 28,566	\$ 165,237	\$ 6,779	\$ 63,000	\$ 27,755	\$ 9,279	\$ 1,152	\$ 301,768
Special	-	-	-	-	-	-	-	-
Substandard	146	2,142	-	3,255	373	10	-	5,926
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 28,712</u>	<u>\$ 167,379</u>	<u>\$ 6,779</u>	<u>\$ 66,255</u>	<u>\$ 28,128</u>	<u>\$ 9,289</u>	<u>\$ 1,152</u>	<u>\$ 307,694</u>
	2020							Total
	Construction and Land Development	Real Estate		Commercial		Consumer	Other Loans	
		Residential	Other	Real Estate	Industrial			
Pass	\$ 23,797	\$ 176,273	\$ 6,616	\$ 60,454	\$ 23,913	\$ 8,015	\$ 932	\$ 300,000
Special	-	-	-	-	-	-	-	-
Substandard	690	2,025	-	1,296	732	9	-	4,752
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 24,487</u>	<u>\$ 178,298</u>	<u>\$ 6,616</u>	<u>\$ 61,750</u>	<u>\$ 24,645</u>	<u>\$ 8,024</u>	<u>\$ 932</u>	<u>\$ 304,752</u>

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

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

	2021						
	30–59 Days Past Due	60–89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
Construction and land development	\$ -	\$ 58	\$ -	\$ 58	\$ 28,654	\$ 28,712	\$ -
Real estate							
Residential	36	236	112	384	166,995	167,379	-
Other	-	-	-	-	6,779	6,779	-
Commercial							
Real estate	-	-	917	917	65,338	66,255	-
Industrial	-	-	-	-	28,128	28,128	-
Consumer	9	28	-	37	9,252	9,289	-
Other loans	-	-	-	-	1,152	1,152	-
Total	\$ 45	\$ 322	\$ 1,029	\$ 1,396	\$ 306,298	\$ 307,694	\$ -

	2020						
	30–59 Days Past Due	60–89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
Construction and land development	\$ -	\$ 92	\$ -	\$ 92	\$ 24,395	\$ 24,487	\$ -
Real estate							
Residential	367	191	71	629	177,669	178,298	-
Other	-	-	-	-	6,616	6,616	-
Commercial							
Real estate	920	-	-	920	60,830	61,750	-
Industrial	20	-	-	20	24,625	24,645	-
Consumer	90	-	-	90	7,934	8,024	-
Other loans	-	-	-	-	932	932	-
Total	\$ 1,397	\$ 283	\$ 71	\$ 1,751	\$ 303,001	\$ 304,752	\$ -

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

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

	2021				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized*
Loans without a specific valuation allowance					
Construction and land development	\$ 107	\$ 141	\$ -	\$ 382	\$ 8
Residential					
Real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial					
Real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Industrial	\$ 365	\$ 366	\$ -	\$ 543	\$ -
Consumer	\$ -	\$ -	\$ -	\$ -	\$ -
Other loans	\$ -	\$ -	\$ -	\$ -	\$ -
Loans with a specific valuation allowance					
Construction and land development	\$ 88	\$ 88	\$ 35	\$ 90	\$ 3
Residential					
Real estate	\$ 1,583	\$ 1,586	\$ 493	\$ 1,417	\$ 34
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial					
Real estate	\$ 1,100	\$ 1,190	\$ 71	\$ 1,114	\$ 26
Industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer	\$ -	\$ -	\$ -	\$ -	\$ -
Other loans	\$ -	\$ -	\$ -	\$ -	\$ -
Total					
Construction and land development	\$ 195	\$ 229	\$ 35	\$ 472	\$ 11
Residential					
Real estate	\$ 1,583	\$ 1,586	\$ 493	\$ 1,417	\$ 34
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial					
Real estate	\$ 1,100	\$ 1,190	\$ 71	\$ 1,114	\$ 26
Industrial	\$ 365	\$ 366	\$ -	\$ 543	\$ -
Consumer	\$ -	\$ -	\$ -	\$ -	\$ -
Other loans	\$ -	\$ -	\$ -	\$ -	\$ -

*Cash basis income approximates interest income recognized.

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	2020				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized*
Loans without a specific valuation allowance					
Construction and land development	\$ 658	\$ 666	\$ -	\$ 720	\$ 34
Residential					
Real estate	\$ -	\$ -	\$ -	\$ 23	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial					
Real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer	\$ -	\$ -	\$ -	\$ -	\$ -
Other loans	\$ -	\$ -	\$ -	\$ -	\$ -
Loans with a specific valuation allowance					
Construction and land development	\$ 92	\$ 92	\$ 39	\$ 93	\$ 3
Residential					
Real estate	\$ 1,251	\$ 1,251	\$ 213	\$ 867	\$ 39
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial					
Real estate	\$ 1,128	\$ 1,140	\$ 54	\$ 1,147	\$ 53
Industrial	\$ 722	\$ 722	\$ 234	\$ 361	\$ 6
Consumer	\$ -	\$ -	\$ -	\$ -	\$ -
Other loans	\$ -	\$ -	\$ -	\$ -	\$ -
Total					
Construction and land development	\$ 750	\$ 758	\$ 39	\$ 813	\$ 37
Residential					
Real estate	\$ 1,251	\$ 1,251	\$ 213	\$ 890	\$ 39
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial					
Real estate	\$ 1,128	\$ 1,140	\$ 54	\$ 1,147	\$ 53
Industrial	\$ 722	\$ 722	\$ 234	\$ 361	\$ 6
Consumer	\$ -	\$ -	\$ -	\$ -	\$ -
Other loans	\$ -	\$ -	\$ -	\$ -	\$ -

*Cash basis income approximates interest income recognized.

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The following table presents the Company's nonaccrual loans at December 31, 2021 and 2020. This table excludes performing troubled debt restructurings.

	<u>2021</u>	<u>2020</u>
Construction and land development	\$ 58	\$ 598
Real estate		
Residential	1,236	851
Other	-	-
Commercial		
Real estate	1,100	208
Industrial	365	722
Consumer	-	-
Other loans	-	-
	<u> </u>	<u> </u>
Total	<u>\$ 2,759</u>	<u>\$ 2,379</u>

At December 31, 2021 and 2020, the Company had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the state interest rate or a permanent reduction of the recorded investment in the loan.

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

Newly classified troubled debt restructurings:

	<u>2021</u>		
	<u>Number of</u>	<u>Pre-Modification</u>	<u>Post-Modification</u>
	<u>Loans</u>	<u>Recorded</u>	<u>Recorded</u>
		<u>Balance</u>	<u>Balance</u>
Real estate			
Residential	1	\$ 1,124	\$ 1,124
Commercial			
Industrial	1	365	365
	<u> </u>	<u> </u>	<u> </u>
Total	<u>2</u>	<u>\$ 1,489</u>	<u>\$ 1,489</u>

The 2021 modifications related to the consolidation and rate modification of four loans to one borrower that were considered troubled debt restructurings at December 31, 2020. No loans modified in 2021 subsequently defaulted.

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	2020		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Real estate			
Residential	2	\$ 779	\$ 779
Commercial			
Industrial	3	1,205	1,205
Total	5	\$ 1,984	\$ 1,984

The prevailing modifications in 2020 were extension of payment terms.

The 2021 and 2020 troubled debt restructurings described above led to specific reserves in the allowance for loan losses calculation of approximately \$453,000 and \$372,000 at December 31, 2021 and 2020, respectively; however, they did not result in any charge offs during the years ended December 31, 2021 and 2020.

Note 4: Premises and Equipment

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

	2021	2020
Land	\$ 1,698	\$ 1,698
Buildings and improvements	11,193	11,179
Construction in progress	34	34
Furniture and equipment	7,890	7,645
	20,815	20,556
Less accumulated depreciation	12,856	12,213
Net premises and equipment	\$ 7,959	\$ 8,343

Note 5: Leases

Operating leases – The Company has two operating leases for office space that expire in various years through 2027. These leases generally contain renewal options for periods ranging from 5 to 10 years and require the Company to pay all executory costs (property taxes, maintenance, and insurance). One of the leases has a fee that increases by 2.00% per year; while the other has a fee that increases based upon an annual consumer price index factor (estimated at 1.50% as of the adoption of Topic 842). Termination fees may be incurred in the event of early termination. The

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Company has made accounting policy elections to not apply recognition requirements of lease guidance to short-term leases and to not separate lease and nonlease components where applicable.

The lease costs, which is included as a component of net occupancy expenses on the consolidated income statement, and other required information for the year ended December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Lease cost		
Operating lease cost	\$ 120	\$ 139
Other information		
Cash paid for amounts included in the measurement of operating lease obligations:	\$ 97	\$ 95
Weighted average remaining lease term	5.05 years	5.84 years
Weighted average discount rate	2.06%	2.06%

Future minimum lease payments and a reconciliation to the consolidated balance sheet at December 31, 2021, are as follows:

2022	\$ 99
2023	113
2024	60
2025	61
2026	62
Thereafter	<u>63</u>
Total lease payments	458
Less interest costs	<u>20</u>
Present value of operating lease obligation	<u>\$ 438</u>

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Note 6: Time Deposits

Time deposits in denominations of \$250,000 or more were approximately \$20,289,000 and \$26,511,000 at December 31, 2021 and 2020, respectively.

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

2022	\$ 68,439
2023	8,840
2024	5,879
2025	3,427
2026	5,190
	<hr/>
	<u>\$ 91,775</u>

Note 7: Short-Term Borrowings

Federal Reserve Bank Line of Credit

In 2021 and 2020, the Company had a line of credit available with the FRB equal to approximately 100% of securities pledged. The line of credit bears interest at a daily variable rate, which is set by the FRB. There were no borrowings or securities pledged under this line at December 31, 2021 and 2020.

Federal Home Loan Bank Lines of Credit

In 2021 and 2020, the Company had available a Cash Management Advance (CMA) line of credit with the FHLB. The line had maximum available balances of \$24,000,000 in 2021 and 2020. At the Company's option, advances on the CMA bear a variable rate of interest, as set by the FHLB, with 90-day maximum terms, or a fixed rate of interest, as set by the FHLB, with 30-day maximum terms. Borrowings with variable rates of interest were \$0 at both December 31, 2021 and 2020. Borrowings at fixed rates of interest were \$0 at both December 31, 2021 and 2020, respectively. These balances are included in FHLB advances in the consolidated balance sheets and discussed in Note 8. The variable rate CMA may be prepaid at any time without a penalty. The fixed rate CMA may not be prepaid prior to maturity. The line of credit is collateralized by 1–4 family mortgage loans.

At December 31, 2020, the Company had two standby letters of credit from the FHLB for public deposit collateralization totaling \$2,500,000. The letters matured on February 12, 2021, and March 1, 2021.

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Community Trust Bank Line of Credit (Federal Funds Sweep Account)

In 2021 and 2020, the Company had available a 15-day revolving line of credit up to a maximum of \$5,000,000. The line of credit bears interest at a daily variable rate, which is set by Community Trust Bank. The line of credit is unsecured. There were no borrowings under this line of credit at December 31, 2021 and 2020.

Compass Bank Line of Credit (Federal Funds Sweep Account)

In 2021 and 2020, the Company had available a 14-day revolving line of credit up to a maximum of \$2,500,000. The line of credit bears interest at a daily variable rate, which is set by Compass Bank. The line of credit is unsecured. There were no borrowings under this line of credit at December 31, 2021 and 2020.

Zions Bank Line of Credit (Federal Funds Sweep Account)

In 2021 and 2020, the Company had available a 30-day revolving line of credit up to a maximum of \$6,000,000. The line of credit bears interest at a daily variable rate. The line of credit is unsecured. There were no borrowings under this line of credit at December 31, 2021 and 2020.

Note 8: Federal Home Loan Bank Advances

	2021	2020
Federal Home Loan Bank advances	\$ 20,000	\$ 27,453

The FHLB advances are secured by the Company's investment in FHLB stock, as well as a blanket lien on qualifying residential mortgage loans. At December 31, 2021, the Company had approximately \$126,392,000 in residential mortgage loans pledged as collateral for outstanding and available advances. Certain advances, at interest rates from 0.65% to 0.90% are subject to restrictions or penalties in the event of prepayment; however, are available to be put back to the FHLB by the Company at certain option dates preceding the stated maturity dates.

Aggregate annual maturities of FHLB advances at December 31, 2021, are:

2021	\$ -
2028 and thereafter	20,000
	\$ 20,000

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Note 9: Income Taxes

The provision for income taxes includes these components:

	<u>2021</u>	<u>2020</u>
Taxes currently payable		
Federal	\$ 837	\$ 663
State	236	153
Deferred income taxes		
Federal	(122)	(20)
State	<u>(24)</u>	<u>(4)</u>
Income tax expense	<u>\$ 927</u>	<u>\$ 792</u>

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

	<u>2021</u>	<u>2020</u>
Computed at the statutory rate at 21%	\$ 961	\$ 886
Increase (decrease) resulting from		
State income taxes, net of federal benefit	168	118
Tax-exempt income	(210)	(187)
Increase in cash surrender value of life insurance	(41)	(42)
Other	<u>49</u>	<u>17</u>
Actual tax expense	<u>\$ 927</u>	<u>\$ 792</u>

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

	<u>2021</u>	<u>2020</u>
Deferred tax assets		
Deferred compensation	\$ 586	\$ 526
Allowance for loan losses	1,060	984
Defined benefit pension plan obligation	197	249
Nonaccrual loan interest	7	15
Other real estate owned	-	1
Net operating loss carryforward – Kentucky	-	12
	<u>1,850</u>	<u>1,787</u>
Total assets		
Deferred tax liabilities		
Federal Home Loan Bank stock dividends	(385)	(391)
Defined benefit pension plan obligation	(46)	(34)
Depreciation	(580)	(637)
Accrual to cash method adjustment	(185)	(138)
Unrealized gain on available-for-sale securities	(344)	(615)
Deferral of loan fee income	(352)	(375)
Other	-	(4)
	<u>(1,892)</u>	<u>(2,194)</u>
Total liabilities		
Net deferred tax liability	<u>\$ (42)</u>	<u>\$ (407)</u>

Retained earnings include approximately \$2,096,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of June 30, 1988, for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses, including redemption of bank stock, payment of excess dividends loss of “bank” status, would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. At December 31, 2021, the unrecorded deferred income tax liability on the above amount was approximately \$440,000.

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Note 10: Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in stockholders' equity at December 31, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Net unrealized gains on available-for-sale securities	\$ 1,351	\$ 2,366
Net defined benefit pension plan deferred amounts	<u>(772)</u>	<u>(965)</u>
	579	1,401
Tax expense	<u>148</u>	<u>366</u>
Net-of-tax amount	<u>\$ 431</u>	<u>\$ 1,035</u>

Amounts reclassified from accumulated other comprehensive income and the affected line items in the financial statements during the years ended **December 31, 2021 and 2020**, were as follows:

<u>Component</u>	<u>Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)</u>		<u>Affected Line Item</u>
	<u>2021</u>	<u>2020</u>	
Realized securities gains reclassified into income	\$ -	\$ 147	Noninterest income, net realized gains on sales of available-for-sale-securities
Related income tax expense	<u>-</u>	<u>37</u>	Provision for income taxes
	<u>\$ -</u>	<u>\$ 110</u>	Net reclassified amount
Unrealized gains (losses) on pension assets	\$ 178	\$ (348)	Components are included in the computation of projected benefit obligation and presented in Note
Amortization of defined benefit pension plan items			Components are included in the computation of net
Transition obligation	<u>26</u>	<u>26</u>	periodic benefit income and presented in Note 12
	204	(322)	Total reclassified amount before tax
Related income tax benefit (expense)	<u>(52)</u>	<u>75</u>	Deferred tax assets
	<u>\$ 152</u>	<u>\$ (247)</u>	Net reclassified amount
Total reclassifications for the year, net of tax	<u>\$ 152</u>	<u>\$ (137)</u>	

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Note 11: Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, common equity Tier I capital and Tier 1 capital (as defined) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2021 and 2020, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, the most recent notification from the Bank's regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based capital, common equity Tier 1 capital and Tier I leverage ratios, as set forth in the table. There are no conditions or events that have occurred since that notification that management believes have changed the Bank's category.

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

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	Actual		Minimum Capital Requirement		Minimum Required to be Well Capitalized Under Prompt Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Total capital						
(to risk-weighted assets)	\$ 53,702	17.91%	\$ 23,990	8.00%	\$ 29,988	10.00%
Tier I capital						
(to risk-weighted assets)	\$ 49,946	16.66%	\$ 17,993	6.00%	\$ 23,990	8.00%
Common equity Tier I capital						
(to risk-weighted assets)	\$ 49,946	16.66%	\$ 13,495	4.50%	\$ 19,492	6.50%
Tier I capital						
(to average assets)	\$ 49,946	10.80%	\$ 18,494	4.00%	\$ 23,117	5.00%
As of December 31, 2020						
Total capital						
(to risk-weighted assets)	\$ 50,966	18.23%	\$ 22,363	8.00%	\$ 27,953	10.00%
Tier I capital						
(to risk-weighted assets)	\$ 47,467	16.98%	\$ 16,772	6.00%	\$ 22,363	8.00%
Common equity Tier I capital						
(to risk-weighted assets)	\$ 47,467	16.98%	\$ 12,579	4.50%	\$ 18,170	6.50%
Tier I capital						
(to average assets)	\$ 47,467	11.13%	\$ 17,056	4.00%	\$ 21,320	5.00%

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer was 2.50% at December 31, 2021 and 2020. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2021, approximately \$6,731,000 of retained earnings were available for dividend declaration by the Bank to the Company without prior regulatory approval.

Basel III Capital Rules

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implemented the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards, as well as certain provisions of the *Dodd-Frank Act*. These rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules defined the components of capital and addressed other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also

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addressed risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduced a new capital measure called "Common Equity Tier 1" (CET1), (ii) specified that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) defined CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expanded the scope of the deductions/adjustments as compared to existing regulations.

Note 12: Related-Party Transactions

At December 31, 2021 and 2020, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of approximately \$861,000 and \$807,000, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held by the Company at December 31, 2021 and 2020, totaled approximately \$2,366,000 and \$2,262,000, respectively.

Note 13: Employee Benefits

Hearthside Bank Corporation 401(k)/Employee Stock Ownership Plan

The Company has a 401(k)/employee stock ownership plan (KSOP) covering substantially all employees upon completion of one year of service. Employees may contribute up to the Internal Revenue Service limitation. The Company matches 100% of the employee's contribution on the first 4% of the employee's compensation. Company contributions to the KSOP were approximately \$184,000 and \$183,000 for 2021 and 2020, respectively.

The KSOP contains 88,672 and 89,489 shares of Company stock for the years ended December 31, 2021 and 2020, respectively, all of which are allocated.

The Company is obligated at the option of each beneficiary to repurchase shares of the KSOP upon the beneficiary's termination or after retirement. At December 31, 2021, the fair value of the 88,672 allocated shares held by the KSOP is approximately \$2,815,000. In addition, there are

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12,267 outstanding shares held by former employees that are subject to a KSOP-related repurchase option. The fair value of all shares subject to the repurchase obligation is approximately \$389,000.

Supplemental Retirement Plan – Life Insurance Funded

The Company also has supplemental retirement plan arrangements for the benefit of certain officers and directors. These arrangements are funded by life insurance contracts that have been purchased by the Company and a portion of the death benefit has been endorsed to the employee. The Company recorded income from the life insurance policies of approximately \$196,000 and \$199,000 in 2021 and 2020, respectively. The Company has a liability recorded of approximately \$255,000 and \$269,000 at December 31, 2021 and 2020, respectively, for the postretirement liability related to the future premiums for these policies. The Company's recorded assets in the policies are approximately \$10,047,000 and \$9,851,000 at December 31, 2021 and 2020, respectively.

Deferred Compensation Agreements – Rabbi Trusts

Prior to its conversion to a stock organization, the Company maintained an unfunded deferred compensation plan for members of the board of directors who elected to participate in any one year. Benefits were payable upon a participating director's retirement, resignation, disability or death unless the plan committee permitted earlier distributions in the event of a participant's emergency or necessity. The Company established individual grantor trusts (Rabbi Trusts) for each director who had deferred compensation, contributed funds sufficient to equal the deferred fees for each director and purchased a total of 44,473 shares of Company common stock at its conversion date. The assets of the individual Rabbi Trusts are available to the general creditors of the Company in the event of the Company's insolvency. In 1994, the Company adopted a new deferred compensation agreement for the directors similar to the old agreement. All deferred payments are paid to these same Rabbi Trusts. At December 31, 2021 and 2020, there were 46,146 shares held by the Rabbi Trusts, respectively.

There were purchases of shares by the Rabbi Trusts of 0 and 2,000 shares during the years ended December 31, 2021 and 2020, respectively. There were no distributions of stock by the Rabbi Trusts to trust beneficiaries during the years ended December 31, 2021 and 2020. The Company's liability at December 31, 2021 and 2020, was approximately \$1,465,000 and \$1,384,000, respectively. The stock in the grantor trusts is shown as a contra-capital account until distributed to the directors over a five-year period beginning at their retirement, resignation or death.

Additionally, at December 31, 2021 and 2020, there was approximately \$761,000 and \$637,000, respectively, held in a certificate of deposit at the Bank relating to deferred compensation obligations to be settled in cash. These amounts are included in the certificates of deposit line item on the December 31, 2021 and 2020, consolidated balance sheets.

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Defined Benefit Pension Plan

Effective July 1, 2015, the Company withdrew from a multiple-employer pension plan, the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra Plan) and created a successor single-employer defined benefit pension plan (DB Plan) covering all employees who were covered under the Pentegra Plan. Participation in the DB Plan was frozen at inception.

The Company makes contributions to the plan that are not less than the minimum funding requirement under Internal Revenue Code Section 430 or greater than the maximum deductible amount under Code Section 404 for a taxable employer. The minimum required contribution for the plan year ended June 30, 2022, is \$0 and the maximum amount is approximately \$2,921,000.

The Company uses a December 31 measurement date for the plans. Information about the DB Plan's funded status at December 31, 2021 and 2020, includes:

	<u>2021</u>	<u>2020</u>
Change in benefit obligation		
Beginning of year	\$ (5,667)	\$ (5,296)
Interest cost	(109)	(151)
Actuarial gain (loss)	137	(578)
Benefits paid	266	358
Settlements	232	-
	<u>(5,141)</u>	<u>(5,667)</u>
Change in fair value of plan assets		
Beginning of year	4,825	4,738
Actual return on plan assets	225	445
Benefits paid	(266)	(358)
Settlements	(232)	-
	<u>4,552</u>	<u>4,825</u>
End of year	<u>(5,141)</u>	<u>(5,667)</u>
Funded status at end of year	<u>\$ (589)</u>	<u>\$ (842)</u>

Assets and liabilities recognized in the consolidated balance sheets at December 31, 2021 and 2020, include:

	<u>2021</u>	<u>2020</u>
Deferred tax assets	<u>\$ 197</u>	<u>\$ 249</u>
Liabilities	<u>\$ (589)</u>	<u>\$ (842)</u>

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Amounts recognized in accumulated other comprehensive income (loss) not yet recognized as components of net periodic benefit income for the years ended December 31, 2021 and 2020, include:

	<u>2021</u>	<u>2020</u>
Net loss	\$ (550)	\$ (717)
Transition obligation	<u>(222)</u>	<u>(248)</u>
	<u>\$ (772)</u>	<u>\$ (965)</u>

Information about the DB Plan's projected and accumulated benefit obligations in excess of plan assets for the years ended December 31, 2021 and 2020, includes the following:

	<u>2021</u>	<u>2020</u>
Projected benefit obligation	<u>\$ (5,141)</u>	<u>\$ (5,667)</u>
Accumulated benefit obligation	<u>\$ (5,141)</u>	<u>\$ (5,667)</u>
Fair value of plan assets	<u>\$ 4,552</u>	<u>\$ 4,825</u>

Changes in plan assets and benefit obligations recognized in net periodic benefit income for the years ended December 31, 2021 and 2020, include:

	<u>2021</u>	<u>2020</u>
Components of net periodic benefit income		
Interest cost	\$ 109	\$ 151
Expected return on plan assets	(230)	(224)
Settlement expense	24	-
Amortization of transition obligation	26	26
Other	<u>22</u>	<u>9</u>
Net periodic benefit income	<u>\$ (49)</u>	<u>\$ (38)</u>

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Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the years ended December 31, 2021 and 2020, include:

	<u>2021</u>	<u>2020</u>
Net periodic benefit income	\$ (49)	\$ (38)
Accumulated loss	178	(348)
Amortization of transition obligation	<u>26</u>	<u>26</u>
Total recognized in other comprehensive income (loss)	<u>204</u>	<u>(322)</u>
Total recognized in net periodic benefit income and other comprehensive income (loss)	<u>\$ 253</u>	<u>\$ (284)</u>

The estimated net loss and transition obligation for the DB Plan that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are approximately \$3,000 and \$26,000, respectively.

Significant assumptions at December 31, 2021 and 2020, include:

	<u>2021</u>	<u>2020</u>
Weighted-average assumptions used to determine benefit obligation		
Discount rate	2.50%	2.00%
Weighted-average assumptions used to determine benefit cost		
Discount rate	2.00%	3.00%
Expected return on plan assets	5.00%	5.00%

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2021:

2022	\$	369
2023		375
2024		437
2025		436
2026		299
2027–2031		<u>1,442</u>
	<u>\$</u>	<u>3,358</u>

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreements permit investments in cash and cash equivalents, equity mutual funds, fixed income mutual funds, and real assets and alternatives mutual funds, based on certain target allocation percentages. Asset allocation is primarily based on a strategy to provide for preservation of capital with an emphasis on long-term growth without undue exposure to risk.

Plan assets are rebalanced quarterly. At December 31, 2021 and 2020, plan assets by class are as follows:

	2021		2020	
	Actual	Target	Actual	Target
Cash and cash equivalents	2.38%	3.00%	1.64%	3.00%
Mutual funds – equities	24.20	24.00	25.09	24.00
Mutual funds – fixed income	67.16	67.00	67.15	67.00
Mutual funds – real assets and alternatives	<u>6.26</u>	<u>6.00</u>	<u>6.12</u>	<u>6.00</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash and cash equivalents, equity mutual funds, fixed income mutual funds, and real assets and alternatives mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include equity mutual funds and fixed income mutual funds. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy.

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The fair values of the DB Plan's assets at December 31, 2021 and 2020, by asset class are as follows:

	2021			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Money market	\$ 108	\$ 108	\$ -	\$ -
Mutual funds – equities				
International equities	245	121	124	-
Large capitalization growth	173	-	173	-
Large capitalization value	181	36	145	-
S&P 500 funds	232	-	232	-
Small capitalization	85	-	85	-
Middle capitalization	154	-	154	-
Emerging market equities	32	32	-	-
Mutual funds – fixed income				
International bonds	384	384	-	-
Total return bonds	2,413	603	1,810	-
U.S. corporate – high yield	130	130	-	-
Floating rate debt	130	130	-	-
Emerging market bonds	-	-	-	-
Mutual funds – real assets and alternatives				
Global real estate	114	114	-	-
Global infrastructure	58	58	-	-
Commodities and natural	113	113	-	-
	\$ 4,552	\$ 1,829	\$ 2,723	\$ -

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	2020				
	Fair Value Measurements Using				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents					
Money market	\$ 79	\$ 79	\$ -	\$ -	
Mutual funds – equities					
International equities	274	119	155	-	
Large capitalization growth	197	-	197	-	
Large capitalization value	194	38	156	-	
S&P 500 funds	248	-	248	-	
Small capitalization	99	-	99	-	
Middle capitalization	163	-	163	-	
Emerging market equities	37	37	-	-	
Mutual funds – fixed income					
International bonds	410	410	-	-	
Total return bonds	2,555	640	1,915	-	
U.S. corporate – high yield	138	138	-	-	
Floating rate debt	135	135	-	-	
Emerging market bonds	-	-	-	-	
Mutual funds – real assets and alternatives					
Global real estate	120	120	-	-	
Global infrastructure	57	57	-	-	
Commodities and natural	119	119	-	-	
	<u>\$ 4,825</u>	<u>\$ 1,892</u>	<u>\$ 2,933</u>	<u>\$ -</u>	

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Note 14: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2021		
	Income	Weighted- Average Shares	Per Share Amount
Net income (income available to common stockholders)	\$ 3,648		
Basic earnings per share		1,181,528	\$ 3.09
		Year Ended December 31, 2020	
	Income	Weighted- Average Shares	Per Share Amount
Net income (income available to common stockholders)	\$ 3,429		
Basic earnings per share		1,185,113	\$ 2.89

There were no options to purchase shares of common stock or other dilutive securities outstanding as of December 31, 2021 and 2020.

Note 15: Disclosures About Fair Value of Assets and Liabilities

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

- Level 1** Quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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Recurring Measurements

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

	2021			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateralized debt obligation	\$ 2,173	\$ -	\$ -	\$ 2,173
Mortgage-backed securities				
Government sponsored				
entities residential	\$ 32,861	\$ -	\$ 32,861	\$ -
Private-label residential	\$ 14,819	\$ -	\$ 14,819	\$ -
State and political subdivisions	\$ 39,613	\$ -	\$ 39,613	\$ -
US Treasury notes and bonds	\$ 9,770	\$ 9,770	\$ -	\$ -

	2020			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateralized debt obligation	\$ 1,588	\$ -	\$ -	\$ 1,588
Mortgage-backed securities				
Government sponsored				
entities residential	\$ 24,544	\$ -	\$ 24,544	\$ -
Private-label residential	\$ 14,462	\$ -	\$ 14,462	\$ -
State and political subdivisions	\$ 38,238	\$ -	\$ 38,238	\$ -

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Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2021. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the following table for inputs and valuation techniques used for Level 3 securities.

Third-party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities' relationship to other benchmark quoted investment securities.

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Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Collateralized Debt Obligation
Balance, January 1, 2020	\$ 1,953
Total unrealized depreciation included in other comprehensive income (loss)	(346)
Settlements	(19)
Balance, December 31, 2020	1,588
Total unrealized appreciation included in other comprehensive income (loss)	621
Settlements	(36)
Balance, December 31, 2021	\$ 2,173

Nonrecurring Measurements

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

	2021				
	Fair Value Measurements Using				
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value				
Collateral-dependent impaired loans	\$ 1,068	\$ -	\$ -	\$ 1,068	

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	2020			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Value	(Level 1)	(Level 2)	(Level 3)
Collateral-dependent impaired loans	\$ 1,129	\$ -	\$ -	\$ 1,129

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

Collateral-dependent Impaired Loans, Net of ALLL

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

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

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Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2021 and 2020:

2021				
	Fair Value	Valuation Technique	Unobservable Inputs	Range
Collateralized debt obligations	\$2,173	Discounted cash flow	Constant prepayment rate Discount rate Default rate (annual)	1%–5% 3.64% .50%–2.0%
Collateral-dependent impaired loans	\$1,068	Market comparable properties	Marketability discount Weighted average	20%–50% 31.0%
2020				
	Fair Value	Valuation Technique	Unobservable Inputs	Range
Collateralized debt obligations	\$1,588	Discounted cash flow	Constant prepayment rate Discount rate Default rate (annual)	1%–5% 5.83% .50%–2.0%
Collateral-dependent impaired loans	\$1,129	Market comparable properties	Marketability discount Weighted average	20%–40% 30.0%

Uncertainty of Fair Value Measurements

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

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Collateralized Debt Obligations

The significant unobservable inputs used in the fair value measurement of the Company's collateralized debt obligations are constant prepayment rates, implied discount margin and default rates. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

Fair Value of Financial Instruments

The following tables present estimated fair values of the Company's financial instruments at December 31, 2021 and 2020:

	2021					
	Carrying Amount	Fair Value Estimate	Assets or Liabilities Measured at Fair Value	Fair Value Measurements Using		
				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets						
Cash and cash equivalents	\$ 35,934	\$ 35,934	\$ -	\$ 35,934	\$ -	\$ -
Interest-bearing time deposits	\$ 503	\$ 503	\$ -	\$ 503	\$ -	\$ -
Available-for-sale securities	\$ 99,236	\$ 99,236	\$ 99,236	\$ 9,770	\$ 87,293	\$ 2,173
Loans held for sale	\$ 689	\$ 689	\$ -	\$ -	\$ 689	\$ -
Loans, net allowance for loan losses	\$ 303,350	\$ 310,201	\$ -	\$ -	\$ -	\$ 310,201
Federal Home Loan Bank stock	\$ 2,140	\$ 2,140	\$ -	\$ -	\$ 2,140	\$ -
Accrued interest receivable	\$ 1,371	\$ 1,371	\$ -	\$ -	\$ 1,371	\$ -
Financial Liabilities						
Deposits	\$ 388,416	\$ 388,424	\$ -	\$ -	\$ 388,424	\$ -
Federal Home Loan Bank advances	\$ 20,000	\$ 20,327	\$ -	\$ -	\$ 20,327	\$ -
Accrued interest payable	\$ 13	\$ 13	\$ -	\$ -	\$ 13	\$ -

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	2020					
	Carrying Amount	Fair Value Estimate	Assets or Liabilities Measured at Fair Value	Fair Value Measurements Using		
				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets						
Cash and cash equivalents	\$ 25,599	\$ 25,415	\$ -	\$ 25,599	\$ -	\$ -
Interest-bearing time deposits	\$ 501	\$ 501	\$ -	\$ 501	\$ -	\$ -
Available-for-sale securities	\$ 78,832	\$ 78,832	\$ 78,832	\$ -	\$ 77,244	\$ 1,588
Loans held for sale	\$ 1,227	\$ 1,227	\$ -	\$ -	\$ 1,227	\$ -
Loans, net allowance for loan losses	\$ 300,676	\$ 308,720	\$ -	\$ -	\$ -	\$ 308,720
Federal Home Loan Bank stock	\$ 2,140	\$ 2,140	\$ -	\$ -	\$ 2,140	\$ -
Accrued interest receivable	\$ 1,510	\$ 1,510	\$ -	\$ -	\$ 1,510	\$ -
Financial Liabilities						
Deposits	\$ 349,387	\$ 349,842	\$ -	\$ -	\$ 349,842	\$ -
Federal Home Loan Bank advances	\$ 27,453	\$ 28,292	\$ -	\$ -	\$ 28,292	\$ -
Accrued interest payable	\$ 32	\$ 32	\$ -	\$ -	\$ 32	\$ -

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk. Other significant estimates and concentrations not discussed in those footnotes include:

General Litigation

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

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Investments

The Company invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such change could materially affect the amounts reported in the accompanying consolidated balance sheets. The investment securities held in the Company's defined benefit plan are also exposed to these risks.

Pension Benefit Obligation

The Company has a defined benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Impact of COVID-19 on the Company

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

The CARES Act included several provisions designed to help financial institutions like the Company in working with their customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a TDR until January 1, 2022. The Company has taken advantage of this provision to extend certain payment modifications to loan customers in need. As of December 31, 2021, and 2020, the Company had approximately \$54,000 and \$4,700,000 of outstanding loans that were modified under the CARES Act guidance, that remained on modified terms. The Company modified other loans during 2021 and 2020 under the guidance that have since returned to normal repayment status as of December 31, 2021.

The CARES Act also approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The *2021 Consolidated Appropriations Act* approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Company, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets

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certain requirements. The SBA guarantees repayment of the loans to the Company if the borrower's loan is not forgiven and is then not repaid by the customer. The Company earns a 1% interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan. The Company originated approximately \$7,599,000 and \$14,319,000 in PPP loans during 2021 and 2020, of which approximately \$4,245,000 and \$8,832,000 remained outstanding at December 31, 2021 and 2020.

Note 17: Commitments and Credit Risk

Commitments to Originate Loans and Unused Lines of Credit

Commitments to originate loans and lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitment or line may expire without being drawn upon, the total commitment amounts and unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2021, the Company had outstanding commitments to originate loans and unused lines of credit to borrowers aggregating approximately \$22,216,000 and \$19,361,000 for commercial lines and open-end consumer lines, respectively. At December 31, 2020, the Company had granted unused lines of credit to borrowers aggregating approximately \$17,171,000 and \$16,561,000 for commercial lines and open-end consumer lines, respectively.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

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The Company had total outstanding standby letters of credit amounting to approximately \$69,000 and \$403,000 at December 31, 2021 and 2020, respectively. Letters of credit outstanding at December 31, 2021, had remaining terms ranging from approximately 3 months to eight and one-half years. Letters of credit outstanding at December 31, 2020, had remaining terms of 37 days to nine and one-half years.

Note 18: Revenue from Contracts with Customers

All the Company's revenue from contracts with customers in the scope of Topic 606 is recognized within noninterest income in the accompanying consolidated statements of income. The following table presents the Company's noninterest income within the scope of Topic 606 by revenue stream for the years ended December 31, 2021 and 2020:

	Years Ended December 31	
	2021	2020
Noninterest income within the scope of Topic 606		
Customer service fees, including overdraft protection fee		
Overdraft and nonsufficient funds fees	\$ 959	\$ 957
Service charges on checking and savings accounts	276	260
ATM and interchange fees	1,629	1,367
	<u>1,629</u>	<u>1,367</u>
Total	<u>\$ 2,864</u>	<u>\$ 2,584</u>

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

Customer Service Fees. The Company generates revenues through fees charged to depositors related to deposit account maintenance fees, overdrafts, nonsufficient funds, ATM fees, wire transfers and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time. Interchange fees are earned primarily from debit cardholder transactions conducted through the MasterCard payment network and other networks. Interchange fees from cardholders transactions represent a percentage of the underlying transaction value and are received and recognized daily, concurrent with the transaction processing services provided to the cardholder.

Note 19: Subsequent Events

Subsequent events have been evaluated through February 28, 2022, which is the date the consolidated financial statements were available to be issued.

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Note 20: Changes in Accounting Principles

Future Changes

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss model, the current expected credit loss model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL model utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized.

The CECL model represents a significant change from existing practice and may result in material changes to the Company’s accounting for financial instruments. The Company is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of our portfolios at the date of adoption. The new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those years.

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Note 21: Condensed Financial Information (Parent Company Only)

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

Condensed Balance Sheets

	December 31	
	2021	2020
Assets		
Cash and cash equivalents	\$ 187	\$ 14
Investment in common stock of subsidiary	50,377	48,502
Deferred income tax	-	12
Other assets	13	7
Total assets	\$ 50,577	\$ 48,535
Liabilities	\$ 54	\$ 8
Stockholders' Equity	50,523	48,527
Total liabilities and stockholders' equity	\$ 50,577	\$ 48,535

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31	
	2021	2020
Income – Dividends from subsidiary	\$ 1,200	\$ 1,075
Expenses – Other	32	29
Income Before Equity in Undistributed Income of Subsidiaries	1,168	1,046
Equity in Undistributed Income of Subsidiary	2,480	2,383
Net Income	\$ 3,648	\$ 3,429
Comprehensive Income	\$ 3,043	\$ 4,178

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Condensed Statements of Cash Flows

	Years Ended December 31	
	2021	2020
Operating Activities		
Net income	\$ 3,648	\$ 3,429
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed income of subsidiary	(2,480)	(2,383)
Deferred income taxes	12	-
Net change in other assets and other liabilities	40	(1)
Net cash provided by operating activities	1,220	1,045
Financing Activities		
Cash dividends	(945)	(948)
Purchase of common stock	(153)	(230)
Proceeds from issuance of common stock	51	109
Net cash used in financing activities	(1,047)	(1,069)
Net Change in Cash and Cash Equivalents	173	(24)
Cash and Cash Equivalents, Beginning of Year	14	38
Cash and Cash Equivalents, End of Year	\$ 187	\$ 14

Board of Directors

Robert V. Costanzo

Circuit Judge 44th Judicial Circuit;
Co-Chairman of the Board; Director

David B. Cook

Co-Chairman of the Board; Director
Secretary for the Board

Frances Coffey Rasnic

Director

Joseph Coker

Attorney at Law; Director

J. Stanley Alexander Jr.

Director

D. Alex Cook

President/CEO; Director

Fred Busroe

Attorney at Law; Director

Executive Officers

D. Alex Cook

President/CEO

David B. Cook

Co-Chairman of the Board;
Secretary for the Board

Robert V. Costanzo

Circuit Judge 44th Judicial Circuit;
Co-Chairman of the Board

Office Locations

Main Office

1602 Cumberland Avenue
Middlesboro, Kentucky

Branch Office

Village Center
185 Finance Street
Harlan, Kentucky

Branch Office

520 Fifth Avenue
New Tazewell, Tennessee

Branch Office

102 Cumberland Avenue
Harlan, Kentucky

Branch Office

300 Main Street
Jacksboro, Tennessee

Branch Office

6792 Cumberland Gap Parkway
Harrogate, Tennessee

Loan Production Office

Franklin Square Shopping Center
9700 Kingston Pike Suite #8
Knoxville, TN 37922

General Information

**Independent Certified
Public Accountants**

BKD, LLP
P.O. Box 628
Evansville, Indiana 47704

Annual Meeting

The 2021 Annual Meeting of
Stockholders will be held on April
27, 2022 at 11:00 a.m. at Hearthside
Bank, Annex Building Training
Room; Middlesboro, Kentucky.

Annual Report

A copy of the Company's Annual
Report for the fiscal year ended
December 31, 2021 can be
obtained by written request to:

General Counsel

Joseph Coker
P.O. Box 134
Jacksboro, Tennessee 37757

Transfer Agent and Registrar

Computershare, Inc.
P.O. Box 505000
Louisville, KY 40233

John Moore
HFB Financial Corporation
1602 Cumberland Avenue
Middlesboro, Kentucky 40965