Town Center Bank

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

BKD
CPAs & Advisors

Town Center Bank

December 31, 2021 and 2020

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Independent Auditor's Report

Board of Directors
Town Center Bank
Frankfort, Illinois

Opinion

We have audited the financial statements of Town Center Bank, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Town Center Bank as 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 Financial Statements" section of our report. We are required to be independent of Town Center Bank 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the judgment made by a reasonable user based on the 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 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 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 Town Center Bank'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Town Center Bank'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

Chicago, Illinois
March 16, 2022

Town Center Bank

Balance Sheets

(Dollar Amounts in Thousands, Except Share and Per Share Data)

December 31, 2021 and 2020

Assets

	2021	2020
Cash and due from banks	$ 497	$ 589
Interest-bearing deposits with banks	20,864	16,978
Federal funds sold	5,731	10,589
Cash and cash equivalents	27,092	28,156
Securities available-for-sale	13,053	14,193
Loans, net of allowance for loan losses of $1,143 in 2021 and $1,134 in 2020	105,389	109,531
Federal Home Loan Bank stock	260	260
Premises and equipment, net	152	205
Right-of-use asset - operating lease	490	253
Deferred income taxes	2,381	2,747
Accrued interest receivable and other assets	530	647
Total assets	$ 149,347	$ 155,992

Liabilities and Shareholders' Equity

	2021	2020
Liabilities		
Deposits		
Noninterest bearing	$ 43,059	$ 38,451
Interest bearing	82,533	68,147
Total deposits	125,592	106,598
Federal Home Loan Bank advances	6,000	7,500
Federal Reserve Bank borrowings	-	25,869
Operating lease liability	490	253
Accrued interest payable and other liabilities	781	552
Total liabilities	132,863	140,772
Shareholders' Equity		
Common stock $1 par value; 3,234,000 shares authorized at December 31, 2021 and 2020; 2,333,660 shares issued and outstanding at December 31, 2021 and 2020	2,333	2,333
Additional paid-in capital	20,785	20,785
Accumulated deficit	(6,588)	(8,196)
Accumulated other comprehensive income (loss)	(46)	298
Total shareholders' equity	16,484	15,220
Total liabilities and shareholders' equity	$ 149,347	$ 155,992

Town Center Bank

Statements of Income and Comprehensive Income
(Dollar Amounts in Thousands, Except Share and Per Share Data)
Years Ended December 31, 2021 and 2020

	2021	2020
Interest Income		
Loans, including fees	$ 6,381	$ 5,209
Securities	236	339
Federal funds sold and other	26	17
Total interest income	6,643	5,565
Interest Expense		
Deposits	338	756
Federal funds purchased	-	1
Federal Home Loan Bank and Federal Reserve Bank advances	68	138
Total interest expense	406	895
Net Interest Income	6,237	4,670
Provision for Loan Losses	65	220
Net Interest Income After Provision for Loan Losses	6,172	4,450
Noninterest Income		
Service charges on deposits	98	116
Mortgage banking income	148	204
Gain on sale of available-for-sale securities	-	20
Gain on sale of other real estate	-	5
Other income	100	122
Total noninterest income	346	467
Noninterest Expense		
Salaries and employee benefits	1,904	1,610
Occupancy and equipment	405	399
Data processing	787	735
Professional fees	317	340
FDIC deposit insurance	44	55
Advertising and marketing	46	92
Other real estate expense	-	1
Other	768	629
Total noninterest expense	4,271	3,861

Town Center Bank

Statements of Income and Comprehensive Income
(Dollar Amounts in Thousands, Except Share and Per Share Data)
Years Ended December 31, 2021 and 2020

	2021	2020
Income Before Income Taxes	$ 2,247	$ 1,056
Income Tax Expense	639	328
Net Income	1,608	728
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of tax	(344)	297
Reclassification adjustment for realized gains included in net income	-	(20)
Total other comprehensive income (loss)	(344)	277
Comprehensive Income	$ 1,264	$ 1,005
Basic and Diluted Net Income Per Share	$ 0.69	$ 0.31
Basic and Diluted Weighted Average Common Shares Outstanding	2,333,660	2,333,660

Town Center Bank

Statements of Shareholders' Equity
(Dollar Amounts in Thousands)
Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2020	$ 2,333	$ 20,785	$ (8,924)	$ 21	$ 14,215
Net income	-	-	728	-	728
Other comprehensive income	-	-	-	277	277
Balance, December 31, 2020	2,333	20,785	(8,196)	298	15,220
Net income	-	-	1,608	-	1,608
Other comprehensive loss	-	-	-	(344)	(344)
Balance, December 31, 2021	$ 2,333	$ 20,785	$ (6,588)	$ (46)	$ 16,484

Town Center Bank

Statements of Cash Flows

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Net income	$ 1,608	$ 728
Items not requiring (providing) cash		
Provision for loan losses	65	220
Net realized gain on sale of securities	-	(20)
Gain on sale of other real estate owned	-	(5)
Depreciation of premises and equipment	77	101
Net amortization of securities	121	161
Noncash operating lease expense	175	55
Net change in deferred loan origination fees and costs	(177)	(251)
Deferred income taxes	457	328
Changes in		
Operating lease liability	(175)	(55)
Net change in accrued interest receivable and other assets	117	(156)
Net change in accrued interest payable and other liabilities	240	347
Net cash provided by operating activities	2,508	1,453
Investing Activities		
Securities available-for-sale		
Sales	-	1,500
Maturities, prepayments and calls	5,095	5,857
Purchases	(4,522)	(4,423)
Net decrease (increase) in loans	4,254	(29,173)
Purchase of Federal Home Loan Bank stock	-	(173)
Redemption of Federal Home Loan Bank Stock	-	63
Proceeds from disposal of premises and equipment	-	5
Net change in interest bearing time deposits held at banks	-	242
Purchases of premises and equipment	(24)	(16)
Net cash provided by (used in) investing activities	4,803	(26,118)

Town Center Bank

Statements of Cash Flows
(Dollar Amounts in Thousands, Except Share and Per Share Data)
Years Ended December 31, 2021 and 2020

	2021	2020
Financing Activities		
Net increase in deposits	$ 18,994	$ 19,538
Advances on Federal Home Loan Bank	5,000	6,500
Paydowns on Federal Home Loan Bank	(6,500)	(4,000)
Advances on Paycheck Protection Program liquidity fund	-	33,824
Paydowns on Paycheck Protection Program liquidity fund	(25,869)	(7,955)
Net cash provided by (used in) financing activities	(8,375)	47,907
Net Increase (Decrease) in Cash and Cash Equivalents	(1,064)	23,242
Cash and Cash Equivalents, Beginning of Year	28,156	4,914
Cash and Cash Equivalents, End of Year	$ 27,092	$ 28,156
Supplemental Cash Flows Information		
Interest paid	$ 487	$ 884
Supplemental Noncash Disclosures		
Unrealized gains (losses) on securities available-for-sale	$ (344)	$ 277
Right-of-use (ROU) assets obtained in exchange for new operating lease liabilities	$ 412	$ 59

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Town Center Bank (Bank) provides financial services through its offices in Frankfort and New Lenox, Illinois. Its primary deposit products are checking, savings and term certificate accounts, and its primary lending products are residential mortgage, commercial, commercial real estate, construction, land development and consumer loans. Substantially, all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. The customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Use of Estimates

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

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions and federal funds sold.

Interest-Bearing Time Deposits in Other Banks

Interest-bearing time deposits in other banks mature within three years and are carried at cost.

Securities

Accounting principles generally accepted in the United States of America require that debt and equity securities be classified into one of three reporting categories and accounted for as follows: (1) held-to-maturity securities reported at amortized cost, (2) trading securities reported at fair value with unrealized gains and losses included in earnings and (3) available-for-sale securities reported at fair value with unrealized gains and losses net of related taxes reported as an increase or decrease in other comprehensive income.

The amortization of premiums and accretion of discounts are recognized as adjustments to interest income in a manner that approximates the level-yield method. Realized gains and losses on securities sold are computed based on the adjusted cost of the specific securities sold.

Securities available-for-sale are securities that are intended to be held for indefinite periods of time, but which may not be held to maturity. These securities may be used as a part of the Bank's asset/liability management strategy and may be sold in response to changes in interest rates, deterioration of issuer's creditworthiness, or due to a desire to increase capital or liquidity.

Realized securities gains and losses are determined on a specific identification basis and are reported in the statement of comprehensive income (loss) as securities gains and losses.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

For all classes of loans, interest income is discontinued at the time a loan is 90 days delinquent unless the loan is well secured and in process of collection unless the loan is well-secured and collection is considered certain. Past due status is based on the contractual terms of the loan. In all cases, for all classes of loans, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to nonaccrual status in accordance with the Bank's policy, typically after 90 days of nonpayment.

For all classes of loans, all interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such 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.

Concentration of Credit Risk

Most of the Bank's business activity is with customers located in the south and west suburbs of Chicago, Illinois. Therefore, the Bank's exposure to credit risk is significantly affected by changes in the economy in the Chicago area. There are no significant concentrations of loans to any one industry or customer, except that, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

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 earnings. 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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: commercial, commercial real estate, residential real estate and installment. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. These enhancements did not result in material change to the level of the allowance.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

<u>Residential Real Estate</u>

Loans in this segment primarily include owner-occupied 1-4 family residences secured by 1st liens and home equity loans secured by 2nd liens. The Bank generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not generally grant loans that would be classified as subprime upon origination. All loans in this segment are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower or borrowers. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial Real Estate

Loans in this segment are primarily income-producing properties throughout the Chicago area. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans. Loans in this segment also include speculative real estate development loans for which payment is derived from sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Commercial

Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer

Loans in this segment are generally to individuals and are supported by non-real estate collateral. The repayment is dependent on the credit quality of the individual borrower.

Allocated Component

The allocated component relates to loans that are classified as impaired. Based on internal credit ratings, loans are evaluated for impairment on a loan-by-loan basis. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDRs are classified as impaired.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Transfers of Financial Assets

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

Other Real Estate Owned

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired (included in other assets), establishing a new cost basis and included in other assets. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Federal Home Loan Bank (FHLB) Stock

The Bank is a member of FHLB Chicago. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is recognized on the straight-line method. Banking equipment is generally depreciated over 5 years. Furniture and fixtures are depreciated over estimated useful lives generally ranging from 5 to 15 years. Leasehold improvements are depreciated on the straight-line basis over the shorter of the lease term, including expected renewal periods, or estimated useful life of the asset.

Long-Lived Asset Impairment

The Bank 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 are 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.

Loan Commitments and Related Financial Instruments

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

Stock-Based Compensation

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options. Options will have a dilutive effect only when the average market price over the reporting period for the stock exceeds the exercise price. Dilutive earnings per share does not assume the exercise of instruments that would have an antidilutive effect on earnings per share.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale which are also recognized as separate components of shareholders' equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the financial statements.

Interest Rate Risk

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair values of the Bank's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

Dividend Restriction

Banking regulations require maintaining certain capital levels that may limit the amount of dividends paid by the Bank to shareholders. Since the Bank has an accumulated deficit at December 31, 2021, there are no retained earnings available for dividends.

Fair Value of Financial Instruments

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

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Note 2: Securities

The amortized cost and fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows at year end:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Securities available-for-sale				
U.S. Government Agencies	$ 90	$ -	$ (1)	$ 89
Mortgage-backed securities - residential	1,049	14	(1)	1,062
State and municipal securities	712	12	(8)	716
Collateralized mortgage obligations - residential	11,261	78	(153)	11,186
Total securities available-for-sale	$ 13,112	$ 104	$ (163)	$ 13,053
December 31, 2020				
Securities available-for-sale				
U.S. Government Agencies	$ 250	$ 5	$ -	$ 255
Mortgage-backed securities - residential	1,484	33	(1)	1,516
State and municipal securities	714	29	(1)	742
Collateralized mortgage obligations - residential	11,368	312	-	11,680
Total securities available-for-sale	$ 13,816	$ 379	$ (2)	$ 14,193

(Dollar Amounts in Thousands, Except Share and Per Share Data)

The amortized cost and fair value of the securities at December 31, 2021, by contractual maturity, are as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	90	89
Due after five years through ten years	-	-
Due after ten years	712	716
	802	805
Mortgage-backed securities and collateralized mortgage obligations	12,310	12,248
	$ 13,112	$ 13,053

At year-end 2021 and 2020, there were no holdings of securities of any one issuer, other than the U.S. Government and its sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

Securities pledged at December 31, 2021 and 2020, had a fair value of $9,223 and $8,446, respectively, and were pledged to secure public deposits and federal funds purchased line of credit.

Gross gains of $0 resulting from sales of available-for-sale securities were realized for 2021. There were gains of $20 from sales of securities during 2020. Proceeds from sales of securities during the years ended December 31, 2021 and 2020, totaled $0 and $1,500, respectively.

Certain investments in debt securities are reported in the financial statement at an amount less than historical cost. Total fair value of these investments at December 31, 2021 and 2020, was $7,580 and $539, respectively, which is approximately 58% and 4% of the Company's investment portfolio. These declines primarily resulted from increases in market interest rates subsequent to the acquisition dates. Management feels the declines in fair value for these securities are temporary.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

The following tables summarize securities with unrealized losses at December 31, 2021 and 2020, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More			Total
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2021						
U.S. Government Agencies	$ 90	$ (1)	$ -	$ -	90	$ (1)
Mortgage-backed securities - residential	218	(1)	-	-	218	(1)
State and municipal securities	-	-	261	(8)	261	(8)
Collateralized mortgage obligations - residential	7,011	(153)	-	-	7,011	(153)
	$ 7,319	$ (155)	$ 261	$ (8)	$ 7,580	$ (163)
December 31, 2020						
Mortgage-backed securities - residential	$ -	$ -	$ 277	$ (1)	$ 277	$ (1)
State and municipal securities	262	(1)	-	-	262	(1)
	$ 262	$ (1)	$ 277	$ (1)	$ 539	$ (2)

Management evaluates securities for other-than-temporary impairment as economic or market concerns warrant such evaluation. Consideration is given to the length of time and extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The following table shows the components of other comprehensive income from net unrealized gain on securities available-for-sale for the years ended December 31, 2021 and 2020:

	2021	2020
Balance, beginning of year	$ 298	$ 21
Net unrealized holding gain (loss) arising during the period, net of tax	(344)	297
Reclassification adjustment for net gain realized in net income	-	(20)
Balance, end of year	$ (46)	$ 298

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Note 3: Loans and Allowance for Loan Losses

Loans at December 31, 2021 and 2020, were as follows:

	2021	2020
Residential real estate		
1-4 family, owner occupied	$ 3,021	$ 3,998
1-4 family, non-owner occupied	840	1,973
Commercial real estate		
Commercial, owner occupied	14,371	14,606
Commercial, non-owner occupied	37,204	36,582
Construction	6,083	3,085
Land development	316	595
Farmland	585	644
Commercial	34,777	43,304
Consumer	9,733	6,453
Total loans	106,930	111,240
Deferred loan origination fees and costs, net	(398)	(575)
Allowance for loan losses	(1,143)	(1,134)
Loans, net	$ 105,389	$ 109,531

(Dollar Amounts in Thousands, Except Share and Per Share Data)

The following table presents the activity in the allowance for loan losses by class of loans for the years ended December 31, 2021 and 2020:

	Beginning Balance	Provision for (Recovery of) Loan Losses	Loans Charged Off	Recoveries	Ending Balance
December 31, 2021					
Residential real estate					
1-4 family, owner occupied	$ 36	$ (10)	$ -	$ 4	$ 30
1-4 family, non-owner occupied	16	(9)	-	-	7
Commercial real estate					
Commercial, owner occupied	155	24	-	-	179
Commercial, non-owner occupied	445	41	-	-	486
Construction	32	38	-	-	70
Land development	6	(3)	-	-	3
Farmland	-	-	-	-	-
Commercial	75	19	-	-	94
Consumer	103	152	(60)	-	195
Unallocated	266	(187)	-	-	79
	$ 1,134	$ 65	$ (60)	$ 4	$ 1,143
December 31, 2020					
Residential real estate					
1-4 family, owner occupied	$ 37	$ (10)	$ -	$ 9	$ 36
1-4 family, non-owner occupied	6	10	-	-	16
Commercial real estate					
Commercial, owner occupied	198	(105)	-	62	155
Commercial, non-owner occupied	374	71	-	-	445
Construction	22	10	-	-	32
Land development	9	(3)	-	-	6
Farmland	-	-	-	-	-
Commercial	60	15	-	-	75
Consumer	104	4	(14)	9	103
Unallocated	38	228	-	-	266
	$ 848	$ 220	$ (14)	$ 80	$ 1,134

(Dollar Amounts in Thousands, Except Share and Per Share Data)

The following table presents the balance in the allowance for loan losses by class of loans based on impairment method as of December 31, 2021 and 2020:

	Allowance for Loan Losses			Loan Balances		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
December 31, 2021						
Residential real estate						
1-4 family, owner occupied	$ -	$ 30	$ 30	$ -	$ 3,021	$ 3,021
1-4 family, non-owner occupied	-	7	7	161	679	840
Commercial real estate						
Commercial, owner occupied	-	179	179	-	14,371	14,371
Commercial, non-owner occupied	-	486	486	-	37,204	37,204
Construction	-	70	70	-	6,083	6,083
Land development	-	3	3	-	316	316
Farmland	-	-	-	-	585	585
Commercial	-	94	94	-	34,777	34,777
Consumer	23	172	195	70	9,663	9,733
	23	1,041	1,064	231	106,699	106,930
Unallocated	-	79	79	-	-	-
Total	$ 23	$ 1,120	$ 1,143	$ 231	$ 106,699	$ 106,930
December 31, 2020						
Residential real estate						
1-4 family, owner occupied	$ -	$ 36	$ 36	$ -	$ 3,998	$ 3,998
1-4 family, non-owner occupied	-	16	16	239	1,734	1,973
Commercial real estate						
Commercial, owner occupied	-	155	155	1,493	13,113	14,606
Commercial, non-owner occupied	-	445	445	538	36,044	36,582
Construction	-	32	32	-	3,085	3,085
Land development	-	6	6	-	595	595
Farmland	-	-	-	-	644	644
Commercial	-	75	75	60	43,244	43,304
Consumer	23	80	103	74	6,379	6,453
	23	845	868	2,404	108,836	111,240
Unallocated	-	266	266	-	-	-
Total	$ 23	$ 1,111	$ 1,134	$ 2,404	$ 108,836	$ 111,240

(Dollar Amounts in Thousands, Except Share and Per Share Data)

The following table presents information related to loans individually evaluated for impairment for December 31, 2021 and 2020:

	2021			2020		
	Average Balance	Interest Income Recognized	Cash Income Recognized	Average Balance	Interest Income Recognized	Cash Income Recognized
Residential real estate						
1-4 family, owner occupied	$ 538	$ -	$ -	$ 538	$ -	$ -
1-4 family, non-owner occupied	161	190	190	239	22	22
Commercial real estate						
Commercial, owner occupied	-	-	-	1,500	-	-
Commercial, non-owner occupied	70	26	26	74	5	5
Construction	-	-	-	-	-	-
Land development	-	-	-	-	-	-
Farmland	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Consumer	-	-	-	66	-	-
Total	$ 769	$ 216	$ 216	$ 2,417	$ 27	$ 27

The following table presents information related to loans individually evaluated for impairment as of December 31, 2021:

	Unpaid Principal Balance	Partial Charge-Offs	Loan Balance	Allowance for Loan Losses Allocated
With no related allowance recorded				
Residential real estate				
1-4 family, owner occupied	$ -	$ -	$ -	$ -
1-4 family, non-owner occupied	232	71	161	-
Commercial real estate				
Commercial, owner occupied	-	-	-	-
Commercial, non-owner occupied	-	-	-	-
Construction	-	-	-	-
Land development	-	-	-	-
Farmland	-	-	-	-
Commercial	-	-	-	-
Consumer	-	-	-	-
	232	71	161	-

(Dollar Amounts in Thousands, Except Share and Per Share Data)

	Unpaid Principal Balance	Partial Charge-Offs	Loan Balance	Allowance for Loan Losses Allocated
With an allowance recorded				
Residential real estate				
1-4 family, owner occupied	$ -	$ -	$ -	$ -
1-4 family, non-owner occupied	-	-	-	-
Commercial real estate				
Commercial, owner occupied	-	-	-	-
Commercial, non-owner occupied	-	-	-	-
Construction	-	-	-	-
Land development	-	-	-	-
Farmland	-	-	-	-
Commercial	-	-	-	-
Consumer	70	-	70	23
	70	-	70	23
Total	$ 302	$ 71	$ 231	$ 23

The following table presents information related to loans individually evaluated for impairment as of December 31, 2020:

	Unpaid Principal Balance	Partial Charge-Offs	Loan Balance	Allowance for Loan Losses Allocated
With no related allowance recorded				
Residential real estate				
1-4 family, owner occupied	$ -	$ -	$ -	$ -
1-4 family, non-owner occupied	310	71	239	-
Commercial real estate				
Commercial, owner occupied	1,493	-	1,493	-
Commercial, non-owner occupied	538	-	538	-
Construction	-	-	-	-
Land development	-	-	-	-
Farmland	-	-	-	-
Commercial	60	-	60	-
Consumer	-	-	-	-
	2,401	71	2,330	-

(Dollar Amounts in Thousands, Except Share and Per Share Data)

	Unpaid Principal Balance	Partial Charge-Offs	Loan Balance	Allowance for Loan Losses Allocated
With an allowance recorded				
Residential real estate				
1-4 family, owner occupied	$ -	$ -	$ -	$ -
1-4 family, non-owner occupied	-	-	-	-
Commercial real estate				
Commercial, owner occupied	-	-	-	-
Commercial, non-owner occupied	-	-	-	-
Construction	-	-	-	-
Land development	-	-	-	-
Farmland	-	-	-	-
Commercial	-	-	-	-
Consumer	74	-	74	23
	74	-	74	23
Total	$ 2,475	$ 71	$ 2,404	$ 23

The following tables present the aging of the past due loans as of December 31, 2021 and 2020, by class of loans. Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

	Year Ended December 31, 2021						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than or Equal to 90 Days Past Due	Total Past Due	Nonaccrual	Loans Not Past Due	Total
Residential real estate							
1-4 family, owner occupied	$ -	$ -	$ -	$ -	$ -	$ 3,021	$ 3,021
1-4 family, non-owner occupied	-	-	-	-	-	840	840
Commercial real estate							
Commercial, owner occupied	-	-	-	-	-	14,371	14,371
Commercial, non-owner occupied	-	-	-	-	-	37,204	37,204
Construction	-	-	-	-	-	6,083	6,083
Land development	-	-	-	-	-	316	316
Farmland	-	165	-	165	-	420	585
Commercial	-	278	-	278	-	34,499	34,777
Consumer	-	-	-	-	-	9,733	9,733
Total	$ -	$ 443	$ -	$ 443	$ -	$ 106,487	$ 106,930

Town Center Bank
Notes to Financial Statements
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	Year Ended December 31, 2020						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than or Equal to 90 Days Past Due	Total Past Due	Nonaccrual	Loans Not Past Due	Total
Residential real estate							
1-4 family, owner occupied	$ -	$ -	$ -	$ -	$ -	$ 3,998	$ 3,998
1-4 family, non-owner occupied	-	-	-	-	-	1,973	1,973
Commercial real estate							
Commercial, owner occupied	-	-	-	-	1,493	13,113	14,606
Commercial, non-owner occupied	-	-	-	-	-	36,582	36,582
Construction	-	-	-	-	-	3,085	3,085
Land development	-	-	-	-	-	595	595
Farmland	-	-	-	-	-	644	644
Commercial	-	-	-	-	60	43,244	43,304
Consumer	-	-	-	-	538	5,915	6,453
Total	$ -	$ -	$ -	$ -	$ 2,091	$ 109,149	$ 111,240

Troubled Debt Restructurings

The Bank has not allocated specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2021 and 2020. The Bank has not committed to lend additional amounts as of December 31, 2021 and 2020, to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ending December 31, 2021 and 2020, there were no loans that were modified as troubled debt restructurings.

A loan is considered to be in payment default once it is 60 days contractually past due under the modified terms.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed generally on a monthly basis but no less than quarterly.

Loans Rated Watch

Loans classified as watch have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Loans Rated Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Loans Rated Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass rated loans. Included in pass rated loans are homogenous residential real estate loans that are monitored based on the past due status of the loan. Management evaluates the risk category of these loans when a loan becomes delinquent or a borrower requests a concession. Loans listed as not rated are indirect automobile and consumer, non-real estate loans and are monitored based on the past due status of the loan.

As of December 31, 2021 and 2020, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Year Ended December 31, 2021					
	Not Rated	Pass	Watch	Substandard	Doubtful	Total
Residential real estate						
1-4 family, owner occupied	$ -	$ 3,021	$ -	$ -	$ -	$ 3,021
1-4 family, non-owner occupied	-	679	-	161	-	840
Commercial real estate						
Commercial, owner occupied	-	10,869	3,502	-	-	14,371
Commercial, non-owner occupied	-	37,204	-	-	-	37,204
Construction	-	6,083	-	-	-	6,083
Land development	-	316	-	-	-	316
Farmland	-	585	-	-	-	585
Commercial	-	34,777	-	-	-	34,777
Consumer	9,663	-	-	70	-	9,733
Total	$ 9,663	$ 93,534	$ 3,502	$ 231	$ -	$ 106,930

(Dollar Amounts in Thousands, Except Share and Per Share Data)

	Year Ended December 31, 2020					
	Not Rated	Pass	Watch	Substandard	Doubtful	Total
Residential real estate						
1-4 family, owner occupied	$ -	$ 3,998	$ -	$ -	$ -	$ 3,998
1-4 family, non-owner occupied	-	1,734	-	239	-	1,973
Commercial real estate						
Commercial, owner occupied	-	11,182	1,931	1,493	-	14,606
Commercial, non-owner occupied	-	36,044	-	538	-	36,582
Construction	-	3,085	-	-	-	3,085
Land development	-	233	362	-	-	595
Farmland	-	644	-	-	-	644
Commercial	-	43,244	-	60	-	43,304
Consumer	6,379	-	-	74	-	6,453
Total	$ 6,379	$ 100,164	$ 2,293	$ 2,404	$ -	$ 111,240

Impact of COVID-19 on the Bank

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 could ultimately affect the financial position, results of operations and cash flows of the Bank as well as the Bank'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 Bank into 2021.

The CARES Act included several provisions designed to help financial institutions like the Bank in working with their customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring (TDR) until January 1, 2022. The Bank has taken advantage of this provision to extend certain payment modifications to loan customers in need due to pandemic restrictions. The Bank did not determine these modifications as TDRs under the prior methodology; however, due to the change in reporting guidance allowed under the CARES Act chose to report these loans under Section 4013. The Bank 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 Bank, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Bank if the borrower's loan is not forgiven and is then not repaid by the customer. The Bank earns a 1% interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan. The Bank originated approximately $25,793 and $44,003 in PPP loans during 2021 and 2020, respectively, of which $25,361 are still outstanding at December 31, 2021.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Note 4: Premises and Equipment

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

	2021	2020
Furniture, fixtures and equipment	$ 829	$ 805
Leasehold improvements	583	583
	1,412	1,388
Less accumulated depreciation	(1,260)	(1,183)
	$ 152	$ 205

Depreciation expense was $78 and $101 in 2021 and 2020, respectively.

Note 5: Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Bank adopted Topic 842 on January 1, 2019 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Bank elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. Also, the Bank elected to keep short-term leases with an initial term of 12 months or less off the balance sheet.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Rent expense, including certain common area expenses such as real estate taxes, was $250 and $231 in 2021 and 2020, respectively. Rent commitments, before considering renewal options that generally are present, are as follows:

2022	$ 174
2023	174
2024	158
2025	11
2026	-
Thereafter	-
	$ 517

Note 6: Deposits

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

	2021	2020
Noninterest-bearing demand deposits	$ 43,059	$ 38,451
Interest-bearing deposits		
Interest-bearing demand (NOW)	16,401	10,443
Money market accounts	36,212	28,204
Savings accounts	7,429	5,135
Certificates of deposit, less than $100	6,062	6,345
Certificates of deposit, $100 through $250	9,662	9,364
Certificates of deposit, greater than $250	6,767	8,656
	$ 125,592	$ 106,598

Schedule of maturities of certificates of deposit were as follows:

2022	$ 11,423
2023	3,863
2024	3,955
2025	576
2026	2,674
	$ 22,491

The Bank had no brokered deposits included in certificates of deposit as of December 31, 2021 and 2020.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Note 7: Federal Home Loan Bank Advances

At December 31, 2021 and December 31, 2020, advances from the Federal Home Loan Bank of Chicago (FHLB) were as follows:

	2021	2020
FHLB borrowing at an interest rate of 1.90%, due June 21, 2021	$ -	$ 1,000
FHLB borrowing at an interest rate of 0.00%, due May 3, 2021	-	4,000
FHLB borrowing at an interest rate of 0.63%, due September 30, 2021	-	1,500
FHLB borrowing at an interest rate of 0.76%, due March 7, 2022	1,000	1,000
FHLB borrowing at an interest rate of 0.00%, due May 31, 2022	5,000	-
	$ 6,000	$ 7,500

The fixed rate advances are payable at their maturity dates, subject to a prepayment penalty for early repayments. At December 31, 2021, the Company had pledged loans totaling $60,632 for additional advances which, after discounts are applied by the Federal Home Loan Bank, results in remaining availability for borrowings of $24,262.

Note 8: Federal Reserve Bank Borrowings

The Bank is eligible to borrow through a line of credit with the Federal Reserve Bank of Chicago discount window. The line of credit is collateralized by pledged home equity line of credit loans approximating $2,122 at December 31, 2021. The Bank is eligible to borrow a total amount of up to approximately $1,486. There were no outstanding borrowings from the Federal Reserve Bank on this line of credit at or during the years ending December 31, 2021 and 2020.

During the year ended December 31, 2020, the Bank began borrowing from the Paycheck Protection Program Liquidity Facility (PPPLF) established as a result of the CARES Act. This arrangement has a maximum borrowing limit of collateral pledged in the form of Paycheck Protection Program (PPP) loans and will be reduced as PPP loans are forgiven, per SBA guidelines. Borrowing terms require repayments that coincide with maturity dates or early payments of PPP loans as payments are made of loans are forgiven by the SBA. As of December 31, 2020, maturity dates range from April 13, 2022 to May 6, 2022. This borrowing facility was based on a fixed interest rate of 0.35% set by the Federal Reserve. The borrowings were secured by the related PPP loans $25,869 at December 31, 2020. The PPPLF was fully repaid during 2021 with the forgiveness of the corresponding loans.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Note 9: Income Taxes

Income tax expense for the years ended December 31, 2021 and 2020, consists of:

	2021	2020
Current		
Federal	$ -	$ -
State	182	-
	182	-
Deferred	457	328
Income tax expense	$ 639	$ 328

Deferred tax assets and liabilities as of December 31, 2021 and 2020, were due to the following:

	2021	2020
Deferred tax assets		
Depreciation	$ 44	$ 41
Deferred loan fees	127	193
Net operating loss carryforwards	2,234	2,709
Other	87	14
Gross deferred tax assets	2,492	2,957
Deferred tax liabilities		
Allowance for loan losses	(95)	(113)
Other	(16)	(97)
Gross deferred tax liabilities	(111)	(210)
Net deferred tax asset	$ 2,381	$ 2,747

Federal net operating losses of approximately $7,433 and state loss carryforward of approximately $8,962 are being carried forward and will be available to reduce future taxable income. The federal net operating loss will begin to expire in 2030 if not utilized and the state net operating loss will begin to expire in 2022 if not utilized.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

The effective tax rate differs from the federal statutory rate due to the establishment of the valuation allowance discussed above, which offsets the current year income tax benefit. The Bank does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

The Bank is subject to U.S. federal income tax as well as income tax of the State of Illinois.

There were no interest and penalties recorded in the statement of operations for the years ended December 31, 2021 and 2020.

Note 10: Related Party Transactions

Loans to principal officers, directors, and their affiliates were as follows for the years ended December 31, 2021 and 2020:

	2021	2020
Beginning balance	$ 2,781	$ 2,597
New loans	256	703
Net decrease in existing lines of credit	(1,799)	(519)
Ending balance	$ 1,238	$ 2,781

Deposits from principal officers, directors and their affiliates at December 31, 2021 and 2020, were $3,202 and $2,094, respectively.

The Chairman of the Board as well as other members of the Board of Directors of the Bank are shareholders and Board members of the Bank’s core banking process system entity. Fees paid for core banking process system totaled $380 and $306 in 2021 and 2020, respectively.

Note 11: Stock Options

The Board of Directors granted options to buy Bank stock to officers and employees under the Bank’s Stock Incentive Plan, which provides for the issuance of options to purchase up to 432,000 shares of the Bank’s common stock. The Bank believes that such awards better align the interests of its employees with those of its shareholders. Stock option awards were granted with an exercise price of $10, which was the initial offering price of the Bank’s common stock in 2006. Option awards have a vesting period of three years and have a ten-year contractual term. In 2012, there were 423,000 of available options which were cancelled in 2012. The Board of Directors approved the re-granting of these options with an exercise price of $3 in 2012. These options were then granted in 2013. In 2016, the Board of Directors approved an amendment to extend the plan until 2026. The fair value of options, as of the grant date, is expensed over the vesting period.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

The fair value of each option award is estimated on the date of grant using an option valuation model (Black-Scholes). Expected volatilities have been based on historical volatilities of the SNL MicroCap Bank index. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the grant date.

On August 18, 2015, 36,000 options granted to an employee were amended to expire five years from the employee's retirement date of September 30, 2015.

On October 19, 2016, the Bank re-granted 35,000 employee options which had expired on October 17, 2016, at an exercise price of $3. These options are fully vested and mature on October 19, 2026.

On September 18, 2018, the Bank re-granted 8,000 employee options which had expired on September 18, 2018, at an exercise price of $4. These options are fully vested and mature on September 18, 2028.

On January 4, 2019, the Bank re-granted 20,000 employee options which were to expire on January 4, 2020, at an exercise price of $3.30. These options are fully vested and mature on January 4, 2029.

A summary of the activity in the stock option plan for 2021 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at beginning of year	385,000	$ 3.02	3.65
Expired	-	-	-
Granted	-	-	-
Exercised	-	-	-
Forfeited	(24,000)	3.33	-
Outstanding at end of year	361,000	3.33	2.23

There was no compensation cost recognized in 2021 and 2020.

Note 12: Regulatory Capital Requirements

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 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 weighting and other factors.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification which management believes have changed the Bank's category. The below minimum capital requirements exclude the capital conservation buffer (2.50% at December 31, 2021 and 2020) set forth under capital rules implemented under Basel III. The Bank's capital ratios exceed the minimum capital requirements with the buffer. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. At December 31, 2021, the most recent notification from the Bank's regulator categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action.

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

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Total Capital (to Risk-Weighted Assets)	$ 15,716	16.1%	$ 7,789	8.0%	$ 9,736	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	14,573	15.0%	5,842	6.0%	7,789	8.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	14,573	15.0%	4,381	4.5%	6,329	6.5%
Tier 1 Capital (to Average Assets)	14,573	10.1%	5,786	4.0%	7,232	5.0%

(Dollar Amounts in Thousands, Except Share and Per Share Data)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total Capital (to Risk-Weighted Assets)	$ 13,309	14.4%	$ 7,373	8.0%	$ 9,217	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	12,175	13.2%	5,530	6.0%	7,373	8.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	12,175	13.2%	4,147	4.5%	5,991	6.5%
Tier 1 Capital (to Average Assets)	12,175	9.8%	4,985	4.0%	6,231	5.0%

Note 13: Commitments

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows as of December 31, 2021 and 2020:

	2021	2020
Unused lines of credit - variable rate	$ 24,262	$ 19,498
Standby letters of credit - variable rate	56	74

Note 14: Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2 Significant other 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

Level 3 Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability

The Bank used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities

The fair values for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans

Impaired loans are record loans at fair value on a nonrecurring basis. However, on occasion, a loan is considered impaired and an allowance for loan loss is established. A loan is considered impaired when it is probable that all of the principal and interest due under the original terms of the loan may not be collected. Once a loan is identified as impaired, management will measure impairment. The fair value of loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. Impaired loans that are valued based on the present value of future cash flows are not considered in the fair value hierarchy.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at December 31, 2021				
Securities available-for-sale				
U.S. Government Agencies	$ 89	$ -	$ 89	$ -
Mortgage-backed securities - residential	1,062	-	1,062	-
State and municipal securities	716		716	
Collateralized mortgage obligations - residential	11,187	-	11,187	-
	$ 13,054	$ -	$ 13,054	$ -
Assets at December 31, 2020				
Securities available-for-sale				
U.S. Government Agencies	$ 255	$ -	$ 255	$ -
Mortgage-backed securities - residential	1,516	-	1,516	-
State and municipal securities	742		742	
Collateralized mortgage obligations - residential	11,680	-	11,680	-
	$ 14,193	$ -	$ 14,193	$ -

There were no assets or liabilities measured on a nonrecurring basis during the years ended December 31, 2021 and 2020. There were no changes in valuation techniques during the year ended December 31, 2021.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

The carrying amounts and estimated fair values of financial instruments at December 31, 2021, are as follows:

	Carrying Amount	Estimated Fair Value
Financial assets		
Cash and cash equivalents	$ 27,092	$ 27,092
Securities available-for-sale	13,053	13,053
Loans, net	105,389	106,596
Federal Home Loan Bank stock	260	260
Accrued interest receivable	390	390
Financial liabilities		
Deposits	$ 125,592	$ 125,365
Federal Home Loan Bank and PPPLF advances	6,000	5,989
Accrued interest payable	28	28

The carrying amounts and estimated fair values of financial instruments at December 31, 2020, are as follows:

	Carrying Amount	Estimated Fair Value
Financial assets		
Cash and cash equivalents	$ 28,156	$ 28,156
Securities available-for-sale	14,193	14,193
Loans, net	109,531	111,127
Federal Home Loan Bank stock	260	260
Accrued interest receivable	502	502
Financial liabilities		
Deposits	$ 106,598	$ 106,771
Federal Home Loan Bank advances	33,369	33,364
Accrued interest payable	109	109

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Loans

The fair value of loans is calculated based on exit price using various components using yield, credit and liquidity marks. A third-party calculates the exit price using a Sendero asset/liability model based off information from the Bank's loan information.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (*i.e.*, their carrying amounts). The carrying amounts of interest-bearing deposits without maturity dates and variable-rate certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on like-term certificates of deposit.

FHLB Advances

The fair values of the Bank's FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 classification.

Off-Balance-Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

(Dollar Amounts in Thousands, Except Share and Per Share Data)

Note 15: Earnings Per Share

The factors used in the basic and diluted income per share computations for the years ended December 31, 2021 and 2020, are as follows:

	2021	2020
Net income	$ 1,608	$ 728
Weighted average common shares outstanding	2,333,660	2,333,660
Basic and diluted income per common share	$ 0.69	$ 0.31

Note 16: Subsequent Events

The Bank is seeking shareholder approval to form a holding company that would own 100% of the Bank's stock. As March 16, 2022, this approval process has yet to be finalized.

The Bank evaluated its December 31, 2021 financial statements for subsequent events through March 16, 2022, which is the date the financial statements were available to be issued.