

Town and Country Financial Corporation

Independent Auditor's Report
and Consolidated Financial Statements
and Supplementary Information

December 31, 2021 and 2020

Town and Country Financial Corporation

December 31, 2021 and 2020

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Independent Auditor's Report

Board of Directors
Town and Country Financial Corporation
Springfield, Illinois

Opinion

We have audited the consolidated financial statements of Town and Country Financial Corporation and its subsidiaries, 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 Town and Country Financial Corporation and its subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 and Country Financial Corporation and its subsidiaries 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 Town and Country Financial Corporation and its subsidiaries' ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued or 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 the 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 Town and Country Financial Corporation and its subsidiaries' 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 Town and Country Financial Corporation and its subsidiaries' 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

Decatur, Illinois
March 11, 2022

Town and Country Financial Corporation

Consolidated Balance Sheets

December 31, 2021 and 2020

Assets	2021	2020
Cash and due from banks	\$ 8,347,742	\$ 9,078,771
Interest-bearing demand deposits	61,558,098	68,158,019
Cash and cash equivalents	69,905,840	77,236,790
Interest-bearing time deposit in bank	249,000	494,000
Available-for-sale securities	151,703,226	117,415,852
Loans held for sale	2,840,208	11,659,187
Loans, net of allowance for loan losses of \$10,183,297 and \$10,115,197 at December 31, 2021 and 2020	621,637,393	630,386,906
Premises and equipment, net of accumulated depreciation of \$15,779,943 and \$14,667,710 at December 31, 2021 and 2020	20,066,094	20,369,229
Federal Reserve and Federal Home Loan Bank stock	2,822,160	2,822,160
Foreclosed assets held for sale, net	544,764	487,779
Cash surrender value of life insurance	15,752,239	15,357,759
Mortgage servicing rights	7,550,906	5,942,270
Goodwill	6,317,994	6,317,994
Core deposit intangibles	306,071	568,417
Other	7,331,446	8,606,112
Total assets	\$ 907,027,341	\$ 897,664,455
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	\$ 392,483,038	\$ 344,272,959
Interest bearing, savings and money market	295,608,028	258,165,004
Time	91,923,305	124,539,736
Total deposits	780,014,371	726,977,699
Other borrowings	21,903,136	70,608,000
Junior subordinated debt owed to unconsolidated parties	14,136,451	14,083,745
Deferred income taxes	197,570	94,660
Other liabilities	5,703,535	10,180,911
Total liabilities	821,955,063	821,945,015
Stockholders' Equity		
Preferred stock, no par value; \$1,000 liquidation value; authorized 1,000,000 shares; issued and outstanding 0 shares	-	-
Common stock, no par value; authorized 5,000,000 shares; issued 2,983,608 shares; outstanding 2,842,789 and 2,844,483 shares at December 31, 2021 and 2020	1,657,560	1,657,560
Additional paid-in capital	10,685,197	10,624,164
Retained earnings	73,198,918	63,219,461
Accumulated other comprehensive income	1,203,095	1,722,016
Treasury stock, at cost	86,744,770	77,223,201
Common 140,819 and 139,125 shares at December 31, 2021 and 2020	1,672,492	1,503,761
Total stockholders' equity	85,072,278	75,719,440
Total liabilities and stockholders' equity	\$ 907,027,341	\$ 897,664,455

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

	2021	2020
Interest and Dividend Income		
Loans	\$ 26,895,456	\$ 28,207,686
Securities		
Taxable	1,577,324	1,736,924
Tax-exempt	984,046	1,088,175
Other	66,803	105,898
Dividends on Federal Home Loan and Federal Reserve Bank stock	124,843	139,252
Deposits with financial institutions	123,515	100,152
Total interest and dividend income	29,771,987	31,378,087
Interest Expense		
Deposits	980,940	3,462,665
Other borrowings	1,134,479	1,861,706
Total interest expense	2,115,419	5,324,371
Net Interest Income	27,656,568	26,053,716
Provision for Loan Losses	-	5,000,000
Net Interest Income After Provision for Loan Losses	27,656,568	21,053,716
Noninterest Income		
Fiduciary activities	914,535	813,139
Customer service fees	1,357,167	1,318,292
Other service charges and fees	2,467,849	2,261,497
Unrealized gains (losses) recognized on equity securities, net	27,375	(4,260)
Mortgage banking income, net	11,208,707	11,914,904
Other	692,411	1,091,675
Total noninterest income	16,668,044	17,395,247
Noninterest Expense		
Salaries and employee benefits	18,050,886	19,042,831
Net occupancy expense	1,529,238	1,485,222
Equipment expense	839,172	759,202
Other	8,822,424	7,999,116
Total noninterest expense	29,241,720	29,286,371
Income Before Income Taxes	15,082,892	9,162,592
Provision for Income Taxes	3,851,700	2,095,930
Net Income Available to Common Stockholders	\$ 11,231,192	\$ 7,066,662
Basic Earnings Per Share	\$ 3.95	\$ 2.48
Weighted Average Shares Outstanding	2,843,645	2,847,820

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

	2021	2020
Net Income	\$ 11,231,192	\$ 7,066,662
Other Comprehensive Income (Loss)		
Change in fair value of derivative financial instruments, net of taxes of \$138,162 and \$(174,304) for 2021 and 2020, respectively	346,448	(437,074)
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of \$(345,105) and \$679,894, for 2021 and 2020, respectively	(865,369)	1,704,867
	(518,921)	1,267,793
Comprehensive Income	\$ 10,712,271	\$ 8,334,455

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

	Common Stock - Issued			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount	Additional Paid-in Capital				
Balance, January 1, 2020	2,983,608	\$ 1,657,560	\$10,624,135	\$ 56,950,304	\$ 454,223	\$ (1,494,740)	\$ 68,191,482
Net income	-	-	-	7,066,662	-	-	7,066,662
Other comprehensive income	-	-	-	-	1,267,793	-	1,267,793
Dividends on common stock, \$0.28 per share	-	-	-	(797,505)	-	-	(797,505)
Stock compensation expense, net of forfeitures	-	-	(8,992)	-	-	-	(8,992)
Stock compensation forfeitures (13,750)	-	-	49,288	-	-	(49,288)	-
Issuance of 10,000 treasury shares to restricted stock plan	-	-	(40,267)	-	-	40,267	-
Balance, December 31, 2020	2,983,608	\$ 1,657,560	\$10,624,164	\$ 63,219,461	\$ 1,722,016	\$ (1,503,761)	\$ 75,719,440
Net income	-	-	-	11,231,192	-	-	11,231,192
Other comprehensive income (loss)	-	-	-	-	(518,921)	-	(518,921)
Dividends on common stock, \$0.44 per share	-	-	-	(1,251,735)	-	-	(1,251,735)
Treasury stock purchased (5,694)	-	-	-	-	-	(186,478)	(186,478)
Stock compensation expense, net of forfeitures	-	-	78,780	-	-	-	78,780
Issuance of 4,000 treasury shares to restricted stock plan	-	-	(17,747)	-	-	17,747	-
Balance, December 31, 2021	2,983,608	\$ 1,657,560	\$10,685,197	\$ 73,198,918	\$ 1,203,095	\$ (1,672,492)	\$ 85,072,278

Town and Country Financial Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Net income	\$ 11,231,192	\$ 7,066,662
Items not requiring (providing) cash		
Depreciation	1,171,064	1,218,239
Provision for loan losses	-	5,000,000
Amortization of premiums and discounts on securities	761,909	925,823
Change in fair value of mortgage servicing rights	387,340	5,568,664
Deferred income taxes	309,853	(2,009,210)
Unrealized (gains) losses recognized on equity securities	(27,375)	4,260
Gain on sale and write downs of property and equipment	106,450	-
Gains on loan sales	(8,034,279)	(13,696,542)
Net loss on foreclosed assets	95,649	222,077
Amortization of core deposit intangibles	262,346	262,346
Net amortization of purchase accounting adjustments	38,523	29,596
Stock compensation cost	78,780	(8,992)
Increase in cash surrender value of life insurance	(394,480)	(395,849)
Loans originated for sale	(252,192,631)	(436,940,360)
Proceeds from sales of loans originated for sale	234,173,797	431,451,001
Changes in		
Other assets	928,419	(567,774)
Other liabilities	(3,588,418)	2,547,630
Net cash provided by (used in) operating activities	(14,691,861)	677,571
Investing Activities		
Net change in interest-bearing time deposits in banks	245,000	490,000
Purchases of available-for-sale securities	(61,810,252)	(1,106,489)
Proceeds from maturities of available-for-sale securities	25,550,495	28,771,239
Net change in loans	41,161,166	(37,764,639)
Purchase of premises and equipment	(1,008,655)	(543,380)
Cost from the capitalization of foreclosed assets	-	27,625
Proceeds from the sale of foreclosed assets	326,012	319,914
Purchase of Federal Home Loan Bank Stock	-	(305,760)
Proceeds from sale of property and equipment	3,550	-
Net cash provided by (used in) investing activities	4,467,316	(10,111,490)
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	85,653,103	156,145,389
Net decrease in certificates of deposit	(32,616,431)	(84,266,019)
Proceeds from other borrowings	-	880,000
Repayment of other borrowings	(670,000)	(1,815,000)
Proceeds from Federal Home Loan Bank advance	12,890,136	79,688,000
Repayment of Federal Home Loan Bank advances	(60,925,000)	(78,970,000)
Purchase of treasury stock	(186,478)	-
Dividends paid on common stock	(1,251,735)	(797,505)
Net cash provided by financing activities	2,893,595	70,864,865
Increase (Decrease) in Cash and Cash Equivalents	(7,330,950)	61,430,946
Cash and Cash Equivalents, Beginning of Year	77,236,790	15,805,844
Cash and Cash Equivalents, End of Year	\$ 69,905,840	\$ 77,236,790
Supplemental Cash Flows Information		
Interest paid	\$ 2,262,946	\$ 5,758,500
Income taxes paid (net of refunds)	\$ 2,380,925	\$ 2,352,114
Real estate acquired in settlement of loans	\$ 478,646	\$ 278,894
Transfer of loans held for sale to portfolio loans	\$ 1,024,111	\$ 2,891,177

Town and Country Financial Corporation

Notes to Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

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

Nature of Operations

Town and Country Financial Corporation (“Company”) is a bank holding company, which through its subsidiaries provide a full range of banking and financial services to individuals, organizations, and businesses in central and metro-east areas of Illinois. Additionally, the Company owns one wholly owned subsidiary, Town and Country Bank. During 2020, the Company ceased operations of Town and Country Risk Management, Inc., a captive insurance corporation, and Town and Country Community Development Corporation. The Company is subject to competition from other financial institutions. The Company and its bank subsidiary are subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Town and Country Bank (“Bank”) and the Bank’s wholly-owned subsidiary Town and Country Banc Mortgage Services, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, other-than-temporary impairments (OTTI), fair value of financial instruments and goodwill and other intangibles.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2021 and 2020, cash equivalents consisted primarily of noninterest bearing deposits and interest bearing demand deposits.

At December 31, 2021, the Company had approximately \$11,108,000 in cash accounts that exceeded federally insured limits.

Interest-bearing Deposits in Banks

The interest-bearing deposit in bank matures within two years and is carried at cost.

Town and Country Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plans to sell but which may be sold in the future, are 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).

The Company's consolidated statements of income reflect the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale debt securities that management has no intent to sell and believes that 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 accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

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 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, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on 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 if accrued in the current year. 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

Town and Country Financial Corporation

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Discounts and premiums on purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

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.

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 collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified 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 that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the 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 loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

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Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Premises and Equipment

Land is carried at cost. Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

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

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 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.

Federal Reserve and Federal Home Loan Bank Stock

Federal Reserve and Federal Home Loan Bank stock are required investments for institutions that are members of the Federal Reserve and Federal Home Loan Bank systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain key individuals. Bank-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.

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 and changes in the valuation allowance are included in net income or expense from foreclosed assets.

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Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. All goodwill is allocated to the banking segment of the business. No impairment was recognized during the years ended December 31, 2021 and 2020.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over seven years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation.

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company has elected to initially and subsequently measure the mortgage servicing rights for consumer mortgage loans using the fair value method. Under the fair value method, the servicing rights are carried in the consolidated balance sheet at fair value and the changes in said value are reported in earnings in the period in which the changes occur.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change and may have an adverse impact on the value of the mortgage servicing right and may result in a reduction to noninterest income.

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

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Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Share-Based Compensation

Compensation cost is measured using the fair value of an award on the grant dates and is recognized over the service period, which is usually the vesting period. Compensation cost related to the non-vested portion of awards outstanding is based on the grant-date fair value of those awards. The Company has an incentive restricted stock award plan which is described more fully in Note 16.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Trust Assets and Fees

Assets held in fiduciary or agency capacities are not included in the consolidated balance sheets, since such items are not assets of the Company.

Fees from trust activities are recorded on the cash basis, for the period in which the service is provided. Fees are a function of the market value of assets managed and administered and the volume of transactions and fees for other services rendered, as set forth in the underlying trust agreements. The Company manages or administers trust accounts with assets totaling approximately \$170,209,012 and \$166,775,010 as of December 31, 2021 and 2020, respectively.

Income Taxes

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

Town and Country Financial Corporation

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Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

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

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. The restricted stock did not have a material effect on diluted earnings per share. Treasury stock shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities, unrealized depreciation on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income and change in derivative financial instruments that qualify for hedge accounting.

Revenue Recognition

Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606"), establishes a revenue recognition model for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. Most of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans and investment securities, and revenue related to mortgage servicing activities, which are subject to other accounting standards. A description of the revenue-generating activities that are within the scope of ASC 606, and included in other non-interest income in the Company's consolidated statements of income are as follows:

Service charges on deposits. The Company generates revenue from fees charged for deposit account maintenance, overdrafts, wire transfers, and check fees. The revenue related to deposit fees is recognized at the time the performance obligation is satisfied.

ATM/debit card revenue. The Company generates revenue through service charges on the use of its ATM machines and interchange income from the use of Company issued credit and debit cards. The revenue is recognized at the time the service is used and the performance obligation is satisfied.

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Other non-interest income. The Company records gains on the sale of loans and the sale of OREO properties after the transactions are complete and transfer of ownership has occurred.

As each of the Company's facilities is located in markets with similar economies, no disaggregation of revenue is necessary.

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 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 troubled debt restructuring (TDR) until January 1, 2022. The Company has taken advantage of this provision to extend certain payment modifications to loan customers in need. Outstanding loans that were modified during 2020 under the CARES Act guidance, that remain on modified terms were \$2,841,831 and \$47,826,923 as of December 31, 2021 and 2020, respectively.

The CARES Act also approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The *2021 Consolidated Appropriations Act* approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Company, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Company if the borrower's 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 \$22,374,498 in PPP loans during 2021, of which \$6,688,118 are still outstanding at December 31, 2021. During 2020, the Company originated \$45,671,340 in PPP loans, of which \$38,177 are still outstanding at December 31, 2021.

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Note 2: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale Securities:				
December 31, 2021:				
U.S. government and agency securities	\$ 25,869,750	\$ 101,970	\$ (249,321)	\$ 25,722,399
Mortgage-backed securities	76,429,628	1,397,712	(359,785)	77,467,555
State and political subdivisions	41,591,099	1,639,342	-	43,230,441
Trust preferred securities	5,806,119	845	(524,133)	5,282,831
	<u>\$ 149,696,596</u>	<u>\$ 3,139,869</u>	<u>\$ (1,133,239)</u>	<u>\$ 151,703,226</u>
December 31, 2020:				
U.S. government agencies	\$ 5,137,003	\$ 219,714	\$ -	\$ 5,356,717
Mortgage-backed securities	57,102,503	2,617,787	(10,768)	59,709,522
State and political subdivisions	45,122,840	1,795,282	-	46,918,122
Trust preferred securities	5,836,402	-	(1,404,911)	4,431,491
Corporates	1,000,000	-	-	1,000,000
	<u>\$ 114,198,748</u>	<u>\$ 4,632,783</u>	<u>\$ (1,415,679)</u>	<u>\$ 117,415,852</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.

	Available-for-sale	
	Amortized Cost	Fair Value
Within one year	\$ 660,000	\$ 661,158
One to five years	25,074,820	25,358,960
Five to ten years	14,697,998	14,836,828
After ten years	27,028,031	28,095,894
	<u>67,460,849</u>	<u>68,952,840</u>
Mortgage-backed securities	76,429,628	77,467,555
Trust preferred securities	5,806,119	5,282,831
Totals	<u>\$ 149,696,596</u>	<u>\$ 151,703,226</u>

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$40,401,405 at December 31, 2021 and \$43,897,193 at December 31, 2020.

There were no sales of available-for-sale securities in 2021 or 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 \$66,469,584 and \$6,640,762, which is approximately 44% and 6%, respectively, of the Company's available-for-sale investment portfolio. These declines primarily resulted from recent changes in market interest rates and failure of certain investments to maintain consistent credit quality ratings.

The following table shows 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,

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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:

Description of Securities	December 31, 2021				Total	
	Less than 12 Months		12 Months or More		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Available-for-sale securities:						
U.S. government and agency securities	\$ 20,497,925	\$ (249,321)	\$ -	\$ -	\$ 20,497,925	\$ (249,321)
Mortgage-backed securities	39,454,683	(315,827)	1,319,441	(43,958)	40,774,124	(359,785)
Trust preferred securities	-	-	5,197,535	(524,133)	5,197,535	(524,133)
Total temporarily impaired securities	\$ 59,952,608	\$ (565,148)	\$ 6,516,976	\$ (568,091)	\$ 66,469,584	\$ (1,133,239)

Description of Securities	December 31, 2020				Total	
	Less than 12 Months		12 Months or More		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Available-for-sale securities:						
Mortgage-backed securities	\$ 1,688,879	\$ (10,473)	\$ 520,392	\$ (295)	\$ 2,209,271	\$ (10,768)
Trust preferred securities	-	-	4,431,491	(1,404,911)	4,431,491	(1,404,911)
Total temporarily impaired securities	\$ 1,688,879	\$ (10,473)	\$ 4,951,883	\$ (1,405,206)	\$ 6,640,762	\$ (1,415,679)

U.S. Government Agencies and Mortgage-backed Securities

The unrealized losses on the Company's investment in U.S. Government agencies and mortgage-backed securities were caused by changes 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 illiquidity, 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.

Trust Preferred Securities (TruPSs)

The unrealized loss on the TruPSs was primarily caused by the long-term nature of the pooled trust preferred securities, a lack of demand or inactive market for these securities, and concerns regarding the financial institutions that have issued the underlying trust preferred securities. The Company currently expects certain issuing financial institutions to settle the securities at a price less than the amortized cost basis of the investment (that is, the Company expects to recover less than the entire amortized cost basis of the security). Credit losses were calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the securities to the carrying value of the investment. 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 new, lower amortized cost basis, which may be maturity, it does not consider the remainder of the investment in TruPSs to be other-than-temporarily impaired at December 31, 2021.

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Other-than-temporary Impairment

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model. For securities where the security is not a beneficial interest in securitized financial assets, the Company uses debt and equity securities impairment model.

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 securities primarily impacted by other-than-temporary impairment testing are pooled trust preferred securities. For each pooled trust preferred security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), 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:

- Prepayments
- Default rates
- Loss severity

The pooled trust preferred securities relate to trust preferred securities issued by financial institutions throughout the United States. Other inputs may include performance indicators of the underlying financial institutions including profitability, capital ratios, and asset quality.

To determine if the unrealized loss for pooled trust preferred securities is other-than-temporary, the Company projects total estimated defaults of the underlying assets (financial institutions) and multiplies that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected collateral loss. If the Company determines that a given pooled trust preferred security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

Credit Losses Recognized on Investments

Certain debt securities have experienced fair value deterioration due to credit losses, as well as due to other market factors, but are not otherwise other-than-temporarily impaired.

The following table provides information about debt securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income.

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	Accumulated credit losses	
	2021	2020
Credit losses on debt securities held		
Beginning of year	\$ 32,417	\$ 34,903
Reductions due to final settlement	-	-
Reductions due to increases in expected cash flows	(11,111)	(2,486)
End of year	\$ 21,306	\$ 32,417

Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

	2021	2020
Mortgage loans on real estate		
Residential 1-4 family	\$ 140,014,729	\$ 125,969,006
Commercial	345,850,734	310,367,848
Construction and land development	41,297,521	64,899,480
Agriculture	9,002,078	8,353,933
Total mortgage loans on real estate	536,165,062	509,590,267
Commercial	85,602,595	120,194,025
Agriculture	7,680,437	8,258,165
Consumer Installment loans	2,631,528	3,464,730
	632,079,622	641,507,187
Less		
Allowance for loan losses	10,183,297	10,115,197
Deferred loan fees	258,932	1,005,084
Net loans	\$ 621,637,393	\$ 630,386,906

The Company purchases loans from other institutions. The outstanding balance of loans purchased from other financial institutions was \$43,443,538 and \$52,289,250 as December 31, 2021 and 2020, respectively. The outstanding balance of loans sold to other financial institutions serviced by the Company was \$52,403,246 and \$67,657,866 as December 31, 2021 and 2020, respectively.

The loan portfolio includes a concentration of loans secured by commercial real estate properties amounting to \$345,850,734 and \$310,367,848 as of December 31, 2021 and 2020, respectively. Generally, these loans are collateralized by assets of the borrower. The loans are expected to be repaid from cash flows or from proceeds from the sale of selected assets of the borrower.

The loan portfolio includes a concentration of loans for construction and land development amounting to \$41,297,521 and \$64,899,480 as of December 31, 2021 and 2020, respectively. Generally, these loans are collateralized by building or land being developed. The loans are expected to be repaid from cash flows or from proceeds from the sale of selected assets of the borrower.

The Company maintains lending policies and procedures designed to focus lending efforts on the type, location and duration of loans most appropriate for its business model and markets. The Company's principal lending activity is the origination of residential and commercial investor real estate loans, commercial loans, agricultural, and consumer loans. The primary lending market is where the Company's branches are located in central and metro-East areas of Illinois and the surrounding counties. Generally, loans are collateralized by assets of the borrower and guaranteed by the principals of the borrowing entity.

The Board of Directors reviews and approves the Company's lending policy on an annual basis. Quarterly, the Board of Directors review the allowance for loan losses and reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans.

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The Company does not accrue interest on any asset which is maintained on a cash basis because of deterioration in the financial position of the borrower, any asset for which payment in full of interest or principal is not expected, or any asset upon which principal or interest has been in default for a period of ninety days or more unless it is both well secured and in the process of collection. A non-accrual asset may be restored to an accrual status when none of its principal and interest is due and unpaid, or when it otherwise becomes well secured and in the process of collection.

The Company's third party loan review conducts periodic independent loan reviews of outstanding loans. The primary objective of the independent loan review function is to ensure the maintenance of a quality loan portfolio and minimize the potential for loan losses. The third party loan review is performed on sample of existing loans for compliance with internal policies and procedures.

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:

Year Ended December 31, 2021	Mortgage Loans on Real Estate								Total
	Residential 1-4 Family	Commercial	Construction and land development	Agriculture	Commercial	Agriculture	Consumer	Unallocated	
Allowance for loan losses:									
Balance, beginning of year	\$ 1,685,428	\$ 4,182,603	\$ 579,114	\$ 132,589	\$ 834,431	\$ 51,201	\$ 30,341	\$ 2,619,490	\$ 10,115,197
Provision charged to expense	1,132,403	848,108	(71,928)	(117,099)	(120,405)	14,083	9,425	(1,694,587)	-
Losses charged off	(43,690)	(5,673)	-	-	(20,912)	-	(93,314)	-	(163,589)
Recoveries	107,582	-	11,153	14,918	11,212	-	86,824	-	231,689
Balance, end of year	\$ 2,881,723	\$ 5,025,038	\$ 518,339	\$ 30,408	\$ 704,326	\$ 65,284	\$ 33,276	\$ 924,903	\$ 10,183,297
Ending balance: individually evaluated for impairment	\$ 11,786	\$ -	\$ 17,235	\$ -	\$ 12,526	\$ -	\$ -	\$ -	\$ 41,547
Ending balance: collectively evaluated for impairment	2,869,937	5,025,038	501,104	30,408	691,800	65,284	33,276	924,903	10,141,750
Ending balance	\$ 2,881,723	\$ 5,025,038	\$ 518,339	\$ 30,408	\$ 704,326	\$ 65,284	\$ 33,276	\$ 924,903	\$ 10,183,297
Loans:									
Ending balance	\$ 140,014,729	\$ 345,850,734	\$ 41,297,521	\$ 9,002,078	\$ 85,602,595	\$ 7,680,437	\$ 2,631,528	\$ -	\$ 632,079,622
Ending balance: individually evaluated for impairment	\$ 2,904,264	\$ 3,803,868	\$ 646,839	\$ -	\$ 78,017	\$ -	\$ -	\$ -	\$ 7,432,988
Ending balance: collectively evaluated for impairment	\$ 137,110,465	\$ 342,046,866	\$ 40,650,682	\$ 9,002,078	\$ 85,524,578	\$ 7,680,437	\$ 2,631,528	\$ -	\$ 624,646,634

Year Ended December 31, 2020	Mortgage Loans on Real Estate								Total
	Residential 1-4 Family	Commercial	Construction and land development	Agriculture	Commercial	Agriculture	Consumer	Unallocated	
Allowance for loan losses:									
Balance, beginning of year	\$ 1,147,233	\$ 2,970,891	\$ 387,136	\$ 246,183	\$ 525,087	\$ 48,969	\$ 22,678	\$ 515,563	\$ 5,863,740
Provision charged to expense	773,026	1,276,694	180,538	(39,769)	660,163	2,232	43,189	2,103,927	5,000,000
Losses charged off	(234,996)	(64,982)	-	(94,838)	(364,022)	-	(120,810)	-	(879,648)
Recoveries	165	-	11,440	21,013	13,203	-	85,284	-	131,105
Balance, end of year	\$ 1,685,428	\$ 4,182,603	\$ 579,114	\$ 132,589	\$ 834,431	\$ 51,201	\$ 30,341	\$ 2,619,490	\$ 10,115,197
Ending balance: individually evaluated for impairment	\$ 42,147	\$ 1,218	\$ 17,271	\$ -	\$ 57,623	\$ -	\$ -	\$ -	\$ 118,259
Ending balance: collectively evaluated for impairment	1,643,281	4,181,385	561,843	132,589	776,808	51,201	30,341	2,619,490	9,996,938
Ending balance	\$ 1,685,428	\$ 4,182,603	\$ 579,114	\$ 132,589	\$ 834,431	\$ 51,201	\$ 30,341	\$ 2,619,490	\$ 10,115,197
Loans:									
Ending balance	\$ 125,969,006	\$ 310,367,848	\$ 64,899,480	\$ 8,353,933	\$ 120,194,025	\$ 8,258,165	\$ 3,464,730	\$ -	\$ 641,507,187
Ending balance: individually evaluated for impairment	\$ 665,096	\$ 4,945,744	\$ 899,137	\$ 225,986	\$ 132,307	\$ -	\$ -	\$ -	\$ 6,868,270
Ending balance: collectively evaluated for impairment	\$ 125,303,910	\$ 305,422,104	\$ 64,000,343	\$ 8,127,947	\$ 120,061,718	\$ 8,258,165	\$ 3,464,730	\$ -	\$ 634,638,917

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The unallocated amounts in the above tables represent qualitative factors, including local and national economic trends that have not been specifically allocated to the portfolio segments.

Management's opinion as to the ultimate collectability of loans is subject to estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of the borrowers.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. The analysis is performed on commercial loans at origination. In addition, significant lending relationships, new commercial and commercial real estate loans, and watch list credits are reviewed annually by an independent third party in order to verify risk ratings. The Company uses the following definitions for risk rating.

Pass - Loans classified as pass are well protected by the ability of the borrower to pay or by the value of the asset or underlying collateral.

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

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

Doubtful - 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 – Loans classified as loss are the portion of the loan that is considered uncollectible so that its continuance as an asset is not warranted. The amount of the loss determined will be charged-off.

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

Residential 1-4 Family and Equity Lines of Credit Real Estate: The residential 1-4 family and equity lines of credit real estate loans are generally secured by owner-occupied family residences. Repayment 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.

Construction and Land Development Real Estate: Construction and land development real estate 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.

Agricultural and Agricultural Real Estate Loan: Agricultural loans are generally comprised of seasonal operating lines to grain farmers to plant and harvest corn and soybeans and term loans to fund the purchase of equipment. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop. Loan-to-value ratios on loans secured by farmland generally do not exceed 75% and have amortization periods limited to twenty five years. Federal government-assistance lending programs through the Farm Service Agency and U.S. Department of Agriculture are used to mitigate the level of credit risk when deemed appropriate.

Commercial: The commercial 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.

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The following table presents 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:

		Mortgage Loans on Real Estate							
		Residential 1-4 Family	Commercial	Construction and land development	Agriculture	Commercial	Agriculture	Consumer	Total
December 31, 2021	Pass	\$ 136,005,176	\$ 328,499,896	\$ 40,431,802	\$ 8,812,022	\$ 84,511,951	\$ 7,664,333	\$ 2,631,528	\$ 608,556,708
	Special Mention	1,105,289	13,546,970	218,880	190,056	1,012,627	16,104	-	16,089,926
	Substandard	2,695,252	3,093,535	646,839	-	150	-	-	6,435,776
	Doubtful	175,275	710,333	-	-	77,867	-	-	963,475
	Loss	33,737	-	-	-	-	-	-	33,737
	Total	\$ 140,014,729	\$ 345,850,734	\$ 41,297,521	\$ 9,002,078	\$ 85,602,595	\$ 7,680,437	\$ 2,631,528	\$ 632,079,622
		Residential 1-4 Family	Commercial	Construction and land development	Agriculture	Commercial	Agriculture	Consumer	Total
December 31, 2020	Pass	\$ 124,394,505	\$ 294,861,444	\$ 64,066,337	\$ 8,127,947	\$ 118,453,930	\$ 8,226,540	\$ 3,464,730	\$ 621,595,433
	Special Mention	1,055,522	10,560,661	-	-	1,637,585	31,625	-	13,285,393
	Substandard	298,704	3,893,849	833,143	225,986	23,259	-	-	5,274,941
	Doubtful	220,275	751,401	-	-	79,251	-	-	1,050,927
	Loss	-	300,493	-	-	-	-	-	300,493
	Total	\$ 125,969,006	\$ 310,367,848	\$ 64,899,480	\$ 8,353,933	\$ 120,194,025	\$ 8,258,165	\$ 3,464,730	\$ 641,507,187

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.

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

December 31, 2021	30-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Greater than 90 Days & Accruing
Mortgage loans on real estate						
Residential 1-4 family	\$ 1,585,344	\$ 3,240,026	\$ 4,825,370	\$ 135,189,359	\$ 140,014,729	\$ 2,662,981
Commercial	452,519	983,030	1,435,549	344,415,185	345,850,734	-
Construction and land development	-	633,550	633,550	40,663,971	41,297,521	218,880
Agriculture	-	-	-	9,002,078	9,002,078	-
Commercial	-	78,017	78,017	85,524,578	85,602,595	-
Agriculture	-	-	-	7,680,437	7,680,437	-
Consumer	29,224	2,700	31,924	2,599,604	2,631,528	2,700
Total	\$ 2,067,087	\$ 4,937,323	\$ 7,004,410	\$ 625,075,212	\$ 632,079,622	\$ 2,884,561

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December 31, 2020	30-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Greater than 90 Days & Accruing
Mortgage loans on real estate						
Residential 1-4 family	\$ 1,326,508	\$ 3,949,967	\$ 5,276,475	\$ 120,692,531	\$ 125,969,006	\$ 3,498,898
Commercial	-	1,338,267	1,338,267	309,029,581	310,367,848	-
Construction and land development	185,316	336,636	521,952	64,377,528	64,899,480	-
Agriculture	-	225,986	225,986	8,127,947	8,353,933	-
Commercial	275,454	100,163	375,617	119,818,408	120,194,025	-
Agriculture	-	-	-	8,258,165	8,258,165	-
Consumer	22,647	-	22,647	3,442,083	3,464,730	-
Total	\$ 1,809,925	\$ 5,951,019	\$ 7,760,944	\$ 633,746,243	\$ 641,507,187	\$ 3,498,898

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 loans and loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

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

December 31, 2021:	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific valuation allowance						
Mortgage Loans on Real Estate:						
Residential 1-4 Family	\$ 2,781,573	\$ 2,885,414	\$ -	\$ 2,880,369	\$ 78,507	\$ 91,433
Commercial	3,803,868	4,026,871	-	3,895,444	31,222	217,659
Construction and land development	601,603	601,603	-	766,762	70,462	19,321
Agriculture	-	-	-	-	-	-
Commercial	150	150	-	150	-	-
Agriculture	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Loans with a specific valuation allowance						
Mortgage Loans on Real Estate:						
Residential 1-4 Family	\$ 122,691	\$ 122,691	\$ 11,786	\$ 122,691	\$ 16,154	\$ -
Commercial	-	-	-	-	-	-
Construction and land development	45,236	45,236	17,235	45,236	-	-
Agriculture	-	-	-	-	-	-
Commercial	77,867	77,867	12,526	80,857	14,502	2,178
Agriculture	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total:						
Mortgage Loans on Real Estate:						
Residential 1-4 Family	\$ 2,904,264	\$ 3,008,105	\$ 11,786	\$ 3,003,060	\$ 94,661	\$ 91,433
Commercial	3,803,868	4,026,871	-	3,895,444	31,222	217,659
Construction and land development	646,839	646,839	17,235	811,998	70,462	19,321
Agriculture	-	-	-	-	-	-
Commercial	78,017	78,017	12,526	81,007	14,502	2,178
Agriculture	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
	\$ 7,432,988	\$ 7,759,832	\$ 41,547	\$ 7,791,509	\$ 210,847	\$ 330,591

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December 31, 2020:	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific valuation allowance						
Mortgage Loans on Real Estate:						
Residential 1-4 Family	\$ 486,932	\$ 486,932	\$ -	\$ 553,422	\$ 15,547	\$ 17,012
Commercial	4,297,841	4,297,841	-	4,432,192	178,101	178,301
Construction and land development	851,501	954,665	-	871,680	34,308	34,295
Agriculture	225,986	225,986	-	233,747	-	-
Commercial	79,832	79,832	-	84,511	3,772	4,002
Agriculture	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Loans with a specific valuation allowance						
Mortgage Loans on Real Estate:						
Residential 1-4 Family	\$ 178,164	\$ 178,164	\$ 42,147	\$ 182,063	\$ 5,620	\$ 1,358
Commercial	647,903	647,903	1,218	687,659	39,184	38,485
Construction and land development	47,636	47,636	17,271	55,873	-	-
Agriculture	-	-	-	-	-	-
Commercial	52,475	52,475	57,623	56,509	1,633	1,825
Agriculture	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total:						
Mortgage Loans on Real Estate:						
Residential 1-4 Family	\$ 665,096	\$ 665,096	\$ 42,147	\$ 735,485	\$ 21,167	\$ 18,370
Commercial	4,945,744	4,945,744	1,218	5,119,851	217,285	216,786
Construction and land development	899,137	1,002,301	17,271	927,553	34,308	34,295
Agriculture	225,986	225,986	-	233,747	-	-
Commercial	132,307	132,307	57,623	141,020	5,405	5,827
Agriculture	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
	<u>\$ 6,868,270</u>	<u>\$ 6,971,434</u>	<u>\$ 118,259</u>	<u>\$ 7,157,656</u>	<u>\$ 278,165</u>	<u>\$ 275,278</u>

Interest income recognized on impaired loans includes interest accrued and collected on the outstanding balances of accruing impaired loans as well as interest cash collections on non-accruing impaired loans for which the ultimate collectability is not certain.

The following table presents the Company's nonaccrual loans at December 31, 2021 and 2020. This table excludes performing troubled debt restructurings of \$11,305 and \$0.

	2021	2020
Mortgage loans on real estate		
Residential 1-4 family	\$ 577,045	\$ 451,069
Commercial	983,030	1,338,267
Construction and land development	414,670	336,636
Agriculture	-	225,986
Commercial	78,017	100,163
Agriculture	-	-
Consumer	-	-
Total	<u>\$ 2,052,762</u>	<u>\$ 2,452,121</u>

When economic concessions have been granted to borrowers who have experienced financial difficulties, the loan is designated as a troubled debt restructured loan (TDR). These concessions typically result from loss mitigation activities and could include: reduction in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Troubled debt restructured loans are considered impaired at the time of restructuring and typically are returned to accrual status after considering the borrower's sustained

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repayment performance, as agreed, for a reasonable period of at least six months or once the granted concessions have ended or are no longer applicable.

The following table presents the recorded balance, at original cost, of troubled debt restructured loans as of December 31, 2021 and 2020.

	Total Troubled Debt Restructuring	Troubled debt restructurings performing in accordance with modified terms		Troubled debt restructurings not performing in accordance with modified terms
		Accruing	Nonaccrual	
December 31, 2021:				
Mortgage loans on real estate				
Residential 1-4 family	\$ 262,243	\$ 250,938	\$ 11,305	\$ -
Commercial	152,397	152,397	-	-
Construction and loan development	-	-	-	-
Agriculture	-	-	-	-
Commercial	-	-	-	-
Agriculture	-	-	-	-
Consumer	-	-	-	-
Total	\$ 414,640	\$ 403,335	\$ 11,305	\$ -

	Total Troubled Debt Restructuring	Troubled debt restructurings performing in accordance with modified terms		Troubled debt restructurings not performing in accordance with modified terms
		Accruing	Nonaccrual	
December 31, 2020:				
Mortgage loans on real estate				
Residential 1-4 family	\$ 280,005	\$ 280,005	\$ -	\$ -
Commercial	211,906	211,906	-	-
Construction and loan development	-	-	-	-
Agriculture	-	-	-	-
Commercial	-	-	-	-
Agriculture	-	-	-	-
Consumer	-	-	-	-
Total	\$ 491,911	\$ 491,911	\$ -	\$ -

At December 31, 2021 and 2020, six and eight loans, respectively, designated as TDR were on accrual status. These loans performed in accordance with modified terms for a period of 6 months or more.

There were no newly classified troubled debt restructurings in 2021 or 2020 due to the Company adopting Section 4013 of the CARES Act (See Note 1).

The troubled debt restructures described above had no impact to allowance for loan losses or charge offs during the years ended December 31, 2021 and 2020.

There were no troubled debt restructures modified in the past 12 months that subsequently defaulted, in 2021.

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No foreclosed residential real estate properties were held as of December 31, 2021. At December 31, 2020, the balance of real estate owned includes \$156,342 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2021 and 2020, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is \$1,273,147 and \$1,352,765.

Note 4: Premises and Equipment

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

	2021	2020
Land	\$ 6,226,990	\$ 6,226,990
Buildings and improvements	20,180,042	20,053,469
Equipment	8,945,216	8,323,278
Leasehold improvements	493,789	433,202
	<u>35,846,037</u>	<u>35,036,939</u>
Less accumulated depreciation	15,779,943	14,667,710
Net premises and equipment	<u>\$ 20,066,094</u>	<u>\$ 20,369,229</u>

Note 5: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2021 and 2020 were:

	2021	2020
Balance as of January 1	\$ 6,317,994	\$ 6,317,994
Goodwill acquired during the year	-	-
Balance as of December 31	<u>\$ 6,317,994</u>	<u>\$ 6,317,994</u>

All goodwill is allocated to the banking segment of the business.

Note 6: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2021 and 2020, were:

	2021		2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	\$ 3,487,736	\$ 3,181,665	\$ 3,487,736	\$ 2,919,319

Amortization expense for the years ended December 31, 2021 and 2020, was \$262,346 for both years. Estimated amortization expense for each of the following two years is:

2022	262,346
2023	43,725

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Note 7: Mortgage Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of mortgage loans serviced for others were \$868,965,948 and \$862,943,588 at December 31, 2021 and 2020, respectively.

The following summarizes the activity pertaining to mortgage servicing rights measured using the fair value method for years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Fair value as of the beginning of the period	\$ 5,942,270	\$ 7,483,329
Additions		
Servicing obligations that result from asset transfers	1,995,976	4,027,605
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model*	850,000	(4,265,000)
Other changes	(1,237,340)	(1,303,664)
Fair Value at the end of the period	<u>\$ 7,550,906</u>	<u>\$ 5,942,270</u>

*Reflects changes in discount rates and prepayment speed assumptions

Note 8: Interest-bearing Deposits

Interest-bearing deposits in denominations of \$250,000 or more were \$10,104,458 on December 31, 2021 and \$13,714,452 on December 31, 2020.

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

2022	\$ 72,245,015
2023	12,061,384
2024	4,707,859
2025	1,505,553
2026	1,403,494
	<u>\$ 91,923,305</u>

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Note 9: Junior Subordinated Debentures

The Company has three junior subordinated debt issues owed to individual statutory trusts, each of which are wholly-owned, subsidiaries owned, unconsolidated subsidiaries the details of which are outlined in the table below. The individual statutory trusts were formed to issue cumulative preferred securities.

	Date formed	Call date	Maturity date	Interest rate term	Adjustment periods	Interest rate at December 31, 2021	Balance owed at December 31, 2021	Interest rate at December 31, 2020
Statutory Trust II	3/17/2004	3/17/2009	3/17/2034	Floating 3 mo LIBOR + 279	Adjusts quarterly, each 3/15, 6/15, 9/15, 12/15	3.006%	\$ 4,124,000	3.019%
Statutory Trust III	3/22/2007	3/22/2012	3/22/2037	Fixed until call, then floating 3 mo LIBOR + 168	Adjusts quarterly, each 3/15, 6/15, 9/15, 12/15	1.883%	7,732,000	1.897%
WPI Statutory Trust II	7/7/2007	9/15/2007	6/15/2037	Floating 3 mo LIBOR + 145	Adjusts quarterly, each 3/15, 6/15, 9/15, 12/15	1.653%	3,093,000	1.667%

¹Fair value was \$2,280,451 and \$2,227,745 as of December 31, 2021 and 2020, respectively.

The Company's obligations with respect to the issuance of the preferred securities constitute a full and unconditional guarantee of the obligations with respect to the preferred securities. Interest on the junior subordinated debentures and distributions on the preferred securities are payable quarterly in arrears. Distributions on the preferred securities are cumulative. The Company has the right, at any time, so long as no events of default has occurred and is continuing, to defer payments of interest on the junior subordinated debentures, which will require deferral of distribution of the preferred securities, for a period not exceeding 20 consecutive quarterly periods, provided that such deferral may not extend beyond the stated maturity of the junior subordinated debentures. The preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at maturity or their earlier redemption.

Interest expense on the junior subordinated debt was \$370,694 and \$458,471 for the years ended December 31, 2021 and 2020, respectively.

Note 10: Other Borrowings

Other borrowings consisted of the following components:

	2021	2020
Federal Home Loan Bank advances	\$ 16,208,136	\$ 64,243,000
CIBC Bank USA notes	5,695,000	6,365,000
	<u>\$ 21,903,136</u>	<u>\$ 70,608,000</u>

The Federal Home Loan Bank advances are secured by mortgage loans and investment securities totaling \$279,790,814 at December 31, 2021. Advances, at interest rates from 0.00% to 1.05% and maturity dates from March 2022 through December 2028 are subject to restrictions or penalties in event of prepayment.

The CIBC Bank USA (formerly The Private Bank) notes consist of a term note with a balance of \$5,695,000 and \$6,365,000 as of December 31, 2021 and 2020, respectively and a line of credit with no balance as of December 31, 2021 and 2020, respectively. The notes are secured by the Company's stock in its Bank subsidiary. The notes reprice quarterly at 3 month LIBOR plus 215 basis points with a floor of 2.50%. The rate was 2.50% as of December 31, 2021 and 2020. The maturity date is April 2023 for the term note and April 2022 for the line of credit. The Company has debt covenant requirements related to total capital to Risk-Weighted Assets, Tier 1 Leverage Capital Ratio, minimum return on assets, and non-performing loans to primary capital.

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Aggregate annual maturities of other borrowings at December 31, 2021, are:

2022	\$ 5,670,000
2023	5,155,000
2024	700,000
2025	7,888,000
Thereafter	<u>2,490,136</u>
	<u>\$ 21,903,136</u>

Note 11: Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. The Company is no longer subject to U.S. Federal or Illinois income tax examinations by tax authorities for years before 2018. During the years ended December 31, 2021 and December 31, 2020, the Company recognized no expense for interest or penalties.

The income tax expense includes these components:

	<u>2021</u>	<u>2020</u>
Taxes currently payable (receivable)	\$ 3,541,847	\$ 4,105,140
Deferred income taxes	309,853	(2,009,210)
Income tax expense	<u>\$ 3,851,700</u>	<u>\$ 2,095,930</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 (21%)	\$ 3,167,407	\$ 1,924,144
Increase (decrease) resulting from		
Tax exempt interest	(332,953)	(386,269)
State income taxes	980,218	590,391
Dividends received	(227)	(238)
Cash surrender value of life insurance	(82,841)	(76,360)
Other	120,096	44,262
Actual tax expense	<u>\$ 3,851,700</u>	<u>\$ 2,095,931</u>

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

	2021	2020
Deferred tax assets		
Allowance for loan losses	\$ 2,989,145	\$ 2,973,229
Loss on other-than-temporary impairment of securities	29,531	29,531
Fair market value on acquired assets	145,011	149,054
Other	905,238	852,379
	<u>4,068,925</u>	<u>\$ 4,004,193</u>
Deferred tax liabilities		
Depreciation	(642,545)	(573,274)
Mortgage servicing rights	(2,152,386)	(1,693,844)
Unrealized gains on available-for-sale securities	(572,168)	(917,273)
Fair market value on acquired liabilities	(231,617)	(246,641)
Core Deposit Intangible	(87,246)	(162,027)
Other	(580,533)	(505,794)
	<u>(4,266,495)</u>	<u>(4,098,853)</u>
Net deferred liability	<u>\$ (197,570)</u>	<u>\$ (94,660)</u>

Note 12: Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	2021	2020
Net unrealized gain on AFS securities	\$ 2,017,741	\$ 3,219,590
Net unrealized loss on derivative used as cash flow hedge	(323,744)	(808,354)
Net unrealized loss on AFS securities for which a portion of an OTTI has been recognized in income	(11,111)	(2,486)
	<u>1,682,886</u>	<u>2,408,750</u>
Tax Effect	479,791	686,734
Net-of-tax amount	<u>\$ 1,203,095</u>	<u>\$ 1,722,016</u>

Note 13: 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 Company'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 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 Company's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

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

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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 capital, Tier I risk-based capital, common equity Tier 1 risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Town and Country Bank						
Total capital (to risk-weighted assets)	\$ 98,853	14.7%	\$ 53,983	8.0%	\$ 67,479	10.0%
Tier I capital (to risk-weighted assets)	90,418	13.4	40,487	6.0	53,983	8.0
Common equity Tier I capital (to risk-weighted assets)	90,418	13.4	30,081	4.5	43,451	6.5
Tier I capital (to average assets)	90,418	10.0	36,046	4.0	45,058	5.0
As of December 31, 2020						
Town and Country Bank						
Total capital (to risk-weighted assets)	\$ 91,243	13.5%	\$ 54,193	8.0%	\$ 67,741	10.0%
Tier I capital (to risk-weighted assets)	82,776	12.3	40,645	6.0	54,193	8.0
Common equity Tier I capital (to risk-weighted assets)	82,776	12.3	30,199	4.5	43,621	6.5
Tier I capital (to average assets)	82,776	9.3	35,612	4.0	44,515	5.0

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. The net unrealized gain or loss on available-for-sale securities and derivatives are not included in computing regulatory capital.

The Company and Bank are subject to certain restrictions on the amount of dividends that they may declare 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 implement 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 revise 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 define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a

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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) introduce a new capital measure called “Common Equity Tier 1” (CET1), (ii) specify that Tier 1 capital consist of CET1 and “Additional Tier 1 Capital” instruments meeting specified requirements, (iii) define 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) expand the scope of the deductions/adjustments as compared to existing regulations.

Note 14: 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 \$1,496,003 and \$1,047,217, respectively.

In management’s opinion, such loans and other extensions of credit 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.

Note 15: Employee Benefits

The Company has an Employee Stock Ownership Plan (ESOP) to provide retirement benefits for substantially all employees. All full time employees who meet certain age and length of service requirements are eligible to participate in the ESOP. Dividends on allocated shares of common stock are allocated directly to the participant’s account. All shares held by the ESOP have been allocated to the Plan participants and are included in the computation of weighted average common shares outstanding.

The Plan owned 128,089 and 125,943 shares of the Company’s common stock as of December 31, 2021 and 2020, respectively. The market value of those shares totaled \$3,484,021 and \$2,581,832 as of December 31, 2021 and 2020, respectively.

In the event a terminated Plan participant desires to sell his or her shares of the Company’s stock, the Company may choose to purchase the shares from the participant at their fair market value as determined by an independent appraiser.

A portion of the Company’s contributions is based upon the employees’ contributions and another portion of the Company’s contribution is at the discretion of the Board of Directors. Employer contributions charged to expense were \$534,739 and \$431,528 for years ended December 31, 2021 and 2020, respectively.

Also, the Company has a non-qualified executive incentive retirement plan (Plan) that covers one member of management. Contributions to the Plan are based upon the Company meeting certain financial performance measures and are deferred until the employee reaches the normal retirement age of 65. Retirement benefits are paid out of the general assets of the Company. The retirement benefit is paid out in monthly installments for a 13 year period and equals the deferral account balance. The liability recorded was \$81,955 and \$60,791 at December 31, 2021 and 2020, respectively. The Company’s expense for the plan was \$21,165 and \$6,751 for 2021 and 2020, respectively.

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Note 16: Stock-Based Compensation

The Company's Board of Directors adopted the 2015 Stock Compensation Plan (Plan) on June 25, 2015. The purpose of the Plan is to align the interests of the Company and its stockholders to employees, officers and directors. The Plan authorizes up to 100,000 shares of restricted stock to be granted to eligible participants over the life of the Plan. At December 31, 2021, there were 32,750 shares available to be issued under the Plan. From the time employees are granted the restricted shares, those shares are considered issued and the employee is given all rights of ownership including dividend and voting rights.

Year granted	Shares granted	Estimated grant date fair value	Number of shares outstanding	Weighted Average vesting period remaining	Number of shares vested	Shares forfeited	Compensation expense	Additional expense to be incurred
2015	52,500	11.52	-	-	45,000	7,500	-	-
2017	10,000	21.30	2,500	0.25	3,750	3,750	21,300	10,243
2018	9,500	21.20	1,500	0.875	500	7,500	8,480	12,720
2019	2,500	20.98	-	-	-	2,500	-	-
2020	10,000	19.50	10,000	3.333	-	-	39,000	152,750
2021	4,000	25.00	4,000	4.313	-	-	10,000	90,000

Note 17: Operating Leases

The Company has several non-cancellable operating leases, primarily for office space, that expire over the next two years and require the company to pay all executory costs such as maintenance and insurance. Rental expense for this lease and equipment was \$160,236 and \$120,840 for the years ended December 31, 2021 and 2020, respectively.

All operating leases expire in 2022 with option to renew. Minimum lease payments under operating leases are \$60,803 for 2022.

Note 18: Financial Instruments

In the normal course of business, the Company uses various derivative financial instruments to manage its interest rate risk and market risks so as to accommodate the needs of its customers. These instruments carry varying degrees of credit, interest rate and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the accompanying consolidated financial statements and are measured at fair value.

Cash Flow Hedge

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company has entered into various interest rate swap agreements for portions of its floating rate debt. The agreements provide for the Company to receive interest from the counterparty at three month LIBOR or SOFR and to pay interest to the counterparty at a fixed rate ranging from 2.03% to 2.05% on notional amounts of \$12,500,000 at December 31, 2021. Under the agreement, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge

Town and Country Financial Corporation
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ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Other Derivatives

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company enters into interest rate swap agreements from time to time. The Company currently has outstanding aggregate interest rate swaps of \$93,212,894. The agreements provide for the Company to receive interest from the counterparty at a fixed rate ranging from 3.37% to 5.39% and to pay a variable rate ranging from 67% of one month LIBOR plus 221.1 basis points to one month LIBOR plus 325 basis points. The Company also has agreements with a counterparty whereby the Company receives interest at a rate ranging from 67% of one month LIBOR plus 221.1 basis points to one month LIBOR plus 325 basis points and pays interest to the counterparty at a fixed rate ranging from 3.37% to 5.39%. Under all agreements, the net interest paid or received is included in interest income. The nine interest rate swap agreements are economic hedges and are not considered accounting hedges.

The following table presents the fair value of derivative instruments as of December 31, 2021 and 2020:

		2021	
Derivative designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location
Interest rate swaps	Other Assets	\$ -	Other Liabilities
Total derivatives		<u>\$ -</u>	<u>\$ 323,744</u>
		2021	
Derivative not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location
Interest rate swaps	Other Assets	\$ 1,225,851	Other Liabilities
Total derivatives		<u>\$ 1,225,851</u>	<u>\$ 1,225,851</u>
		2020	
Derivative designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location
Interest rate swaps	Other Assets	\$ -	Other Liabilities
Total derivatives		<u>\$ -</u>	<u>\$ 808,354</u>
		2020	
Derivative not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location
Interest rate swaps	Other Assets	\$ 3,369,778	Other Liabilities
Total derivatives		<u>\$ 3,369,778</u>	<u>\$ 3,369,778</u>

The following tables present the effect of derivative instruments on the consolidated statements of income for the years ended December 31, 2021 and 2020:

Fair Value Hedges	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income	
		2021	2020
Interest rate swaps	Interest income - Loans	\$ (2,143,926)	\$ 2,099,104
Interest rate swaps	Interest income - Loans	2,143,926	(2,099,104)
		<u>\$ -</u>	<u>\$ -</u>

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Notes to Consolidated Financial Statements
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Note 19: 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 supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents 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:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Available-for sale securities				
U.S. government and agencies	\$ 25,722,399	\$ -	\$ 25,722,399	\$ -
Mortgage-backed securities	77,467,555	-	77,467,555	-
State and political subdivisions	43,230,441	-	43,230,441	-
Trust preferred securities	5,282,831	-	-	5,282,831
Total available-for sale securities	\$ 151,703,226	\$ -	\$ 146,420,395	\$ 5,282,831
Equity securities	\$ 65,000	\$ 65,000	\$ -	\$ -
Mortgage Servicing Rights	7,550,906	-	-	7,550,906
Hedged Federal Home Loan Bank Advances	(5,000,000)	-	(5,000,000)	-
Interest rate swap agreements	(323,744)	-	(323,744)	-
Interest rate swap agreements	1,225,851	-	1,225,851	-

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	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)
December 31, 2020				
Available-for sale securities				
U.S. government agencies	\$ 5,356,717	\$ -	\$ 5,356,717	\$ -
Mortgage-backed securities	59,709,522	-	59,709,522	-
State and political subdivisions	46,918,122	-	46,918,122	-
Trust preferred securities	4,431,491	-	-	4,431,491
Corporates	1,000,000	-	1,000,000	-
Total available-for sale securities	\$ 117,415,852	\$ -	\$ 112,984,361	\$ 4,431,491
Equity securities	\$ 37,625	\$ 37,625	\$ -	\$ -
Mortgage Servicing Rights	5,942,270	-	-	5,942,270
Hedged Federal Home Loan Bank Advances	(24,000,000)	-	(24,000,000)	-
Interest rate swap agreements	(808,354)	-	(808,354)	-
Interest rate swap agreements	3,369,778	-	3,369,778	-

Following is a description of the valuation methodologies and inputs used for assets and liabilities 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 and liabilities 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 table below for inputs and valuation techniques used for Level 3 securities.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Management measures mortgage servicing rights through the completion of a proprietary model. Inputs to the model are developed by staff and are reviewed by management. The model is tested quarterly using baseline data to check its accuracy. Management obtains fair value calculations from a third party model.

Town and Country Financial Corporation

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Hedged Federal Home Loan Bank Advances

Certain variable rate Federal Home Loan Bank (FHLB) advances have been converted to fixed rate advances by entering into interest rate swap agreements. The fair value of those variable rate loans is based on discounting the estimated cash flows using interest rates determined by the respective interest rate swap agreement. FHLB estimates are classified within Level 2 of the valuation hierarchy based on the unobservable inputs used.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and is calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities are the responsibility of the Chief Financial Officer's (CFO) office. The CFO's office, in consultation with an independent firm, generates fair value estimates on a quarterly basis. The CFO's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

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:

	Pooled Trust Preferred Securities	
	2021	2020
Beginning balance January 1	\$ 4,431,491	\$ 4,968,375
Total realized and unrealized gains and losses		
Included in net income	-	-
Included in other comprehensive income		
Unrealized appreciation on available-for-sale securities	881,623	(509,393)
Settlements	(30,283)	(27,491)
Ending balance, December 31	\$ 5,282,831	\$ 4,431,491

Realized and unrealized gains and losses for items reflected in the table above has no effect to net income in the consolidated statements of income in 2021 or 2020.

The reconciliation of mortgage servicing rights is included in Note 7.

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Nonrecurring Measurements

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

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Impaired loans	\$ 204,247	\$ -	\$ -	\$ 204,247
December 31, 2020				
Impaired loans	\$ 807,918	\$ -	\$ -	\$ 807,918

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 ALL

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

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. 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 management by comparison to historical results.

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Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

Unobservable (Level 3) Inputs	Fair Value at December 31, 2021	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Pooled Trust Preferred Securities	\$ 5,282,831	Discounted cash flow	Constant prepayment rate Probability of default Loss severity	1% annually 0.50% for the remaining life 90% with a 2 year lag
Collateral-dependent impaired loans	204,247	Market comparable properties	Marketability Discount	7% - 59% (16.9%) 2.25% - 3.262% (3.052%)
Mortgage servicing rights	7,550,906	Discounted cash flow	Discount rate PSA standard prepayment	170 - 308 (174)

Unobservable (Level 3) Inputs	Fair Value at December 31, 2020	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Pooled Trust Preferred Securities	\$ 4,431,491	Discounted cash flow	Constant prepayment rate Probability of default Loss severity	1% annually 0.50% for the remaining life 90% with a 2 year lag
Collateral-dependent impaired loans	807,918	Market comparable properties	Marketability Discount	0.2% - 110% (12.8%) 2.25% - 2.827% (2.671%)
Mortgage servicing rights	5,942,270	Discounted cash flow	Discount rate PSA standard prepayment	199 - 441 (220)

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's other financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020.

	December 31, 2021	Fair Value Measurements Using		
		Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Financial assets				
Cash and cash equivalents	\$ 69,905,840	\$ 69,905,840	\$ -	\$ -
Interest bearing time deposits	249,000	249,000	-	-
Loans held for sale	2,840,208	-	-	2,840,208
Loans, net of allowance for loan losses	621,637,393	-	-	673,670,822
Federal Reserve and Federal Home Loan Bank stock	2,822,160	-	-	2,822,160
Interest receivable	2,714,103	2,714,103	-	-
Financial liabilities				
Deposits	780,014,371	688,091,066	92,069,741	-
Junior subordinated debentures	14,136,451	-	-	10,209,651
Other Borrowings	16,903,136	-	-	16,600,999
Interest payable	113,228	113,228	-	-
Unrecognized financial instruments (net of contract amount)	-	-	-	-
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

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December 31, 2020	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)
Financial assets				
Cash and cash equivalents	\$ 77,236,790	\$ 77,236,790	\$ -	\$ -
Interest bearing time deposits	494,000	494,000	-	-
Loans held for sale	11,659,187	-	-	11,659,187
Loans, net of allowance for loan losses	630,386,906	-	-	669,057,486
Federal Reserve and Federal Home Loan Bank stock	2,822,160	-	-	2,822,160
Interest receivable	2,876,424	2,876,424	-	-
Financial liabilities				
Deposits	726,977,699	602,437,963	124,905,428	-
Junior subordinated debentures	14,083,745	-	-	9,550,800
Other Borrowings	46,608,000	-	-	47,025,386
Interest payable	260,755	260,755	-	-
Unrecognized financial instruments (net of contract amount)	-	-	-	-
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest-bearing Time Deposits, Federal Reserve and Federal Home Loan Bank Stock, Interest Receivable and Interest Payable

The carrying amount approximates fair value.

Loans Held For Sale

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

Loans

Fair value is estimated by discounting the future cash flows using the current rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar maturities.

Junior Subordinated Debentures and Other Borrowings

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the

Town and Country Financial Corporation

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December 31, 2021 and 2020

difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

Note 20: 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 notes include:

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 that such change could materially affect the amounts reported in the accompanying balance sheets.

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.

Note 21: Commitments and Credit Risk

The Company grants commercial, mortgage and consumer loans and receives deposits from customers primarily located within central and metro-East Illinois. The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors ability to honor their contracts is dependent upon the economic conditions within central and metro-East Illinois.

Commitments to Originate Loans

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

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December 31, 2021 and 2020

At December 31, 2021 and 2020, the Company had outstanding commitments to originate loans aggregating approximately \$43,174,961 and \$35,803,972, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to \$16,232,961 and \$33,556,472 at December 31, 2021 and 2020, respectively, with the remainder at floating market rates.

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. 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.

The Company had total outstanding standby letters of credit amounting to \$1,022,627 and \$918,920, at December 31, 2021 and 2020, respectively, with terms ranging from 1 day to 25 months. At December 31, 2021 and 2020, the Company's deferred revenue under standby letter of credit agreements was nominal.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2021, the Company had granted unused lines of credit to borrowers aggregating approximately \$68,102,705 and \$33,752,678 for commercial lines and open-end consumer lines, respectively. At December 31, 2020, unused lines of credit to borrowers aggregated approximately \$91,831,606 for commercial lines and \$34,376,497 for open-end consumer lines.

Note 22: Subsequent Event

Subsequent events have been evaluated through March 11, 2022, which is the date the consolidated financial statements were available to be issued.

Note 23: Future Change in Accounting Principles

Current Expected Credit Loss

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

Town and Country Financial Corporation
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

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-sales 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 exiting 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 has selected the WARM (Weighted Average Remaining Maturity) method for their CECL calculation and will be running it parallel to the current allowance for loan losses calculation to evaluate 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 annual periods beginning after December 15, 2022, and any interim periods within.

Supplementary Information

Town and Country Financial Corporation
Consolidating Balance Sheet Information
December 31, 2021

	Town and Country Financial Corporation	Town and Country Bank (A)	Subtotal	Eliminations	Consolidated
Assets					
Cash and due from banks	\$ 103,408	\$ 8,347,742	\$ 8,451,150	\$ 103,408	\$ 8,347,742
Interest bearing demand deposits	5,577,338	61,558,098	67,135,436	5,577,338	61,558,098
Interest-bearing time deposits in banks	-	249,000	249,000	-	249,000
Investment in subsidiaries	98,343,923	-	98,343,923	98,343,923	-
Available-for-sale securities	-	151,703,226	151,703,226	-	151,703,226
Federal Reserve and Federal Home Loan Bank Stock	-	2,822,160	2,822,160	-	2,822,160
Loans, net	817,620	620,819,773	621,637,393	-	621,637,393
Loans held for sale	-	2,840,208	2,840,208	-	2,840,208
Premises and equipment, net	41,713	20,024,381	20,066,094	-	20,066,094
Mortgage servicing rights	-	7,550,906	7,550,906	-	7,550,906
Foreclosed assets held for sale, net	-	544,764	544,764	-	544,764
Cash surrender value of life insurance	463,187	15,289,052	15,752,239	-	15,752,239
Goodwill	-	6,317,994	6,317,994	-	6,317,994
Core deposit intangibles	-	306,071	306,071	-	306,071
Other assets	240,765	7,090,681	7,331,446	-	7,331,446
Total Assets	<u>\$ 105,587,954</u>	<u>\$ 905,464,056</u>	<u>\$ 1,011,052,010</u>	<u>\$ 104,024,669</u>	<u>\$ 907,027,341</u>
Liabilities and Stockholders' Equity					
Deposits					
Non-interest bearing	\$ -	\$ 392,586,446	\$ 392,586,446	\$ 103,408	\$ 392,483,038
Interest bearing, savings and money market	-	301,185,366	301,185,366	5,577,338	295,608,028
Time	-	91,923,305	91,923,305	-	91,923,305
Total deposits	-	785,695,117	785,695,117	5,680,746	780,014,371
Junior subordinated debt owed to unconsolidated parties	14,136,451	-	14,136,451	-	14,136,451
Other borrowings	5,695,000	16,208,136	21,903,136	-	21,903,136
Deferred income taxes	104,451	93,119	197,570	-	197,570
Other liabilities	579,774	5,123,761	5,703,535	-	5,703,535
Total liabilities	<u>20,515,676</u>	<u>807,120,133</u>	<u>827,635,809</u>	<u>5,680,746</u>	<u>821,955,063</u>
Stockholders' Equity					
Common stock	1,657,560	952,070	2,609,630	952,070	1,657,560
Additional paid-in capital	10,685,197	33,177,097	43,862,294	33,177,097	10,685,197
Retained earnings	73,198,918	62,913,079	136,111,997	62,913,079	73,198,918
Accumulated comprehensive income	1,203,095	1,301,677	2,504,772	1,301,677	1,203,095
	86,744,770	98,343,923	185,088,693	98,343,923	86,744,770
Treasury stock, at cost	1,672,492	-	1,672,492	-	1,672,492
Total stockholders' equity	<u>85,072,278</u>	<u>98,343,923</u>	<u>183,416,201</u>	<u>98,343,923</u>	<u>85,072,278</u>
Total liabilities and stockholders' equity	<u>\$ 105,587,954</u>	<u>\$ 905,464,056</u>	<u>\$ 1,011,052,010</u>	<u>\$ 104,024,669</u>	<u>\$ 907,027,341</u>

(A) Includes the consolidated presentation of Town and Country Bank and Town and Country Banc Mortgage Services, Inc. (wholly-owned subsidiary).

Town and Country Financial Corporation

Consolidating Statement of Income Information

Year ended December 31, 2021

	Town and Country Financial Corporation	Town and Country Bank (A)	Subtotal	Eliminations	Consolidated
Interest and Dividend Income					
Loans	\$ 44,882	\$ 26,850,574	\$ 26,895,456	\$ -	\$ 26,895,456
Securities					
Taxable	-	1,577,324	1,577,324	-	1,577,324
Tax-exempt	-	984,046	984,046	-	984,046
Other	2,160	64,643	66,803	-	66,803
Dividends on Federal Home Loan and Federal Reserve Bank stock	-	124,843	124,843	-	124,843
Deposits with financial institutions	13,287	113,569	126,856	3,341	123,515
Total interest and dividend income	<u>60,329</u>	<u>29,714,999</u>	<u>29,775,328</u>	<u>3,341</u>	<u>29,771,987</u>
Interest expense					
Deposits	-	984,281	984,281	3,341	980,940
Other borrowings	676,700	457,779	1,134,479	-	1,134,479
Total interest expense	<u>676,700</u>	<u>1,442,060</u>	<u>2,118,760</u>	<u>3,341</u>	<u>2,115,419</u>
Net interest income (loss)	(616,371)	28,272,939	27,656,568	-	27,656,568
Provision for loan losses	-	-	-	-	-
Net interest income (loss) after provision for loan losses	<u>(616,371)</u>	<u>28,272,939</u>	<u>27,656,568</u>	<u>-</u>	<u>27,656,568</u>
Non-interest income					
Customer service fees	-	1,357,167	1,357,167	-	1,357,167
Other service charges and fees	-	2,467,849	2,467,849	-	2,467,849
Loan servicing income	-	2,455,067	2,455,067	-	2,455,067
Fees on loans sold	-	1,106,701	1,106,701	-	1,106,701
Gain on sale of loans	-	8,034,279	8,034,279	-	8,034,279
Change in mortgage servicing rights	-	(387,340)	(387,340)	-	(387,340)
Unrealized losses recognized on equity securities	27,375	-	27,375	-	27,375
Fiduciary activities	-	914,535	914,535	-	914,535
Other	117,422	574,989	692,411	-	692,411
Earnings of subsidiaries	12,380,330	-	12,380,330	12,380,330	-
Total non-interest income	<u>12,525,127</u>	<u>16,523,247</u>	<u>29,048,374</u>	<u>12,380,330</u>	<u>16,668,044</u>
Non-interest expense					
Salaries	919,309	14,172,242	15,091,551	-	15,091,551
Employee benefits	199,170	2,760,165	2,959,335	-	2,959,335
Occupancy expense, net of rental income	45,082	1,484,156	1,529,238	-	1,529,238
Equipment expense	6,218	832,954	839,172	-	839,172
Other	(37,305)	8,859,729	8,822,424	-	8,822,424
Total non-interest expense	<u>1,132,474</u>	<u>28,109,246</u>	<u>29,241,720</u>	<u>-</u>	<u>29,241,720</u>
Income before income taxes	<u>10,776,282</u>	<u>16,686,940</u>	<u>27,463,222</u>	<u>12,380,330</u>	<u>15,082,892</u>
Income tax expense (credit)	(454,910)	4,306,610	3,851,700	-	3,851,700
Net income	<u>\$ 11,231,192</u>	<u>\$ 12,380,330</u>	<u>\$ 23,611,522</u>	<u>\$ 12,380,330</u>	<u>\$ 11,231,192</u>

(A) Includes the consolidated presentation of Town and Country Bank and Town and Country Banc Mortgage Services, Inc. (wholly-owned subsidiary).

Town and Country Financial Corporation
Consolidating Balance Sheet Information December 31, 2021
And
Statement of Income Information Year ended December 31, 2021

	Town and Country Financial Corporation	Town and Country Bank (A)	Subtotal	Eliminations	Consolidated
Other Assets					
Interest receivable	\$ 7,736	\$ 2,706,367	\$ 2,714,103	\$ -	\$ 2,714,103
Accounts receivable	740	1,761,040	1,761,780	-	1,761,780
Prepaid expenses	5,010	722,465	727,475	-	727,475
Income taxes receivable	(288,238)	769,803	481,565	-	481,565
Miscellaneous	66,517	1,131,006	1,197,523	-	1,197,523
Investment in Statutory Trust II & III	449,000	-	449,000	-	449,000
	<u>240,765</u>	<u>7,090,681</u>	<u>7,331,446</u>	<u>-</u>	<u>7,331,446</u>
Other Liabilities					
Interest payable	59,821	53,407	113,228	-	113,228
Accrued expenses	353,812	2,455,344	2,809,156	-	2,809,156
Accounts payable	166,141	2,615,010	2,781,151	-	2,781,151
	<u>579,774</u>	<u>5,123,761</u>	<u>5,703,535</u>	<u>-</u>	<u>5,703,535</u>
Other Non-interest Income					
Credit life	-	71	71	-	71
Interest on life insurance	13,470	381,010	394,480	-	394,480
Other	103,952	193,908	297,860	-	297,860
	<u>117,422</u>	<u>574,989</u>	<u>692,411</u>	<u>-</u>	<u>692,411</u>
Other Non-interest Expenses					
Office supplies	8,768	171,589	180,357	-	180,357
Check printing	-	(64,653)	(64,653)	-	(64,653)
Telephone	5,830	290,480	296,310	-	296,310
Postage and freight	861	228,494	229,355	-	229,355
Armored carrier	-	117,784	117,784	-	117,784
Legal fees	20,306	40,431	60,737	-	60,737
Other professional fees	62,308	997,290	1,059,598	-	1,059,598
Data processing	31,837	2,389,971	2,421,808	-	2,421,808
ATM network	-	144,019	144,019	-	144,019
Correspondent bank	-	73,418	73,418	-	73,418
Commissions and services	-	689,439	689,439	-	689,439
Advertising	-	634,069	634,069	-	634,069
Public relations	250	154,826	155,076	-	155,076
Directors' fees	199,250	-	199,250	-	199,250
Regulatory assessment	-	375,014	375,014	-	375,014
Insurance expense	-	86,361	86,361	-	86,361
Travel and entertainment	26,851	108,013	134,864	-	134,864
Dues and subscriptions	15,726	147,889	163,615	-	163,615
Charitable contributions	-	10,500	10,500	-	10,500
Teller shortages	-	376	376	-	376
Appraisal and credit fees	-	595,794	595,794	-	595,794
Net loss on sale and write-downs of foreclosed assets	-	95,649	95,649	-	95,649
Net (loss) on sale of other assets	-	(3,550)	(3,550)	-	(3,550)
ORE / Repossession expense	-	53,454	53,454	-	53,454
Intercompany operations	(470,820)	470,820	-	-	-
Other	61,528	1,052,252	1,113,780	-	1,113,780
	<u>(37,305)</u>	<u>8,859,729</u>	<u>8,822,424</u>	<u>-</u>	<u>8,822,424</u>

(A) Includes the consolidated presentation of Town and Country Bank and Town and Country Banc Mortgage Services, Inc. (wholly-owned subsidiary).