Cornerstone Bancorp, Inc. and Subsidiary

Consolidated Financial Report

December 31, 2020

Contents

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Independent Auditor's Report

To the Board of Directors
Cornerstone Bancorp, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Cornerstone Bancorp, Inc. and Subsidiary (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2020 and 2019 and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
Cornerstone Bancorp, Inc. and Subsidiary

Opinion

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

Plante & Moran, PLLC

March 29, 2021

Cornerstone Bancorp, Inc. and Subsidiary

Consolidated Balance Sheet

	December 31, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 7,136,286	$ 4,611,720
Interest-bearing deposits in other financial institutions	173,312,209	54,032,121
Cash and cash equivalents	180,448,495	58,643,841
Investment securities - Available-for-sale (Note 2)	85,265,074	98,311,978
Other securities	2,561,163	2,133,309
Loans held for sale	24,413,582	2,103,674
Loans, net of allowance for loan losses (Note 3)	587,905,665	463,814,357
Premises and equipment (Note 4)	4,290,612	3,313,990
Accrued interest receivable	2,427,102	1,702,006
Other assets	3,871,499	2,951,207
Total assets	**$ 891,183,192**	**$ 632,974,362**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing deposits	$ 306,118,701	$ 166,436,734
Interest-bearing deposits	490,085,154	400,007,158
Total deposits (Note 5)	796,203,855	566,443,892
Securities sold under agreements to repurchase	11,920,483	6,173,381
Junior subordinated debentures (Note 6)	10,310,000	10,310,000
Borowing facilities (Note 10)	19,755,263	8,500,000
Accrued interest payable	137,153	169,438
Other liabilities	5,414,552	3,372,971
Total liabilities	843,741,306	594,969,682
Stockholders' Equity		
Preferred Stock - $0.001 par value:		
Authorized - 500,000 shares	-	-
No shares issued or outstanding at December 31, 2020 or 2019		
Common stock - $0.001 par value:		
Authorized - 1,350,000 and 10,000,000 shares at December 31, 2020 and 2019, respectively		
Issued and Outstanding - 994,088 shares at December 31, 2020 and 2019	994	994
Additional paid-in capital	34,063,334	34,063,334
Retained earnings	13,879,168	5,504,831
Accumulated other comprehensive income	536,572	96,612
Unearned stock-based compensation	(1,038,182)	(1,661,091)
Total stockholders' equity	47,441,886	38,004,680
Total liabilities and stockholders' equity	**$ 891,183,192**	**$ 632,974,362**

See Notes to Consolidated Financial Statements.

Cornerstone Bancorp, Inc. and Subsidiary

Consolidated Statement of Income

	Year Ended December 31, 2020	Year Ended December 31, 2019
Interest Income		
Loans, including fees	$ 28,890,746	$ 22,572,229
Investment securities	2,304,969	3,372,698
Total interest income	31,195,715	25,944,927
Interest Expense		
Deposits	3,433,731	4,316,805
Securities sold under agreements to repurchase	59,499	24,635
Junior subordinated debentures	503,520	581,596
Borrowing facilities	536,678	427,842
Total interest expense	4,533,428	5,350,878
Net Interest Income - Before provision for loan losses	26,662,287	20,594,049
Provision for Loan Losses (Note 3)	900,000	-
Net Interest Income - After provision for loan losses	25,762,287	20,594,049
Noninterest Income		
Service charges on deposits	597,966	568,051
Trust fees	3,224,418	3,087,158
Gains on sales of loans held for sale	6,105,390	1,406,352
Other operating income	294,988	290,091
Total noninterest income	10,222,762	5,351,652
Noninterest Expenses		
Salaries and employee benefits (Notes 8 and 9)	15,712,637	14,614,184
Occupancy (Note 4)	1,238,334	973,297
Data processing	1,438,333	1,278,884
Mortgage commissions and third-party fees	3,239,237	722,945
Legal, audit, and professional fees	789,504	416,194
Other real estate owned	645	(505,406)
Regulatory assessments	350,735	208,780
Other operating expense	1,545,502	1,239,589
Total noninterest expenses	24,314,927	18,948,467
Income - Before income tax expense	11,670,122	6,997,234
Income Tax Expense (Note 7)	3,295,785	1,897,035
Net Income	**$ 8,374,337**	**$ 5,100,199**

Consolidated Statement of Comprehensive Income

	Year Ended	
	December 31, 2020	December 31, 2019
Net Income	$ 8,374,337	$ 5,100,199
Other Comprehensive Income:		
Unrealized holding gains on investment securities - Available-for-sale	1,164,811	1,413,108
Unrealized holding losses on interest rate swap	(549,401)	(503,951)
Tax effect	(175,450)	(259,181)
Other Comprehensive Income - Net of tax	439,960	649,976
Comprehensive Income	**$ 8,814,297**	**$ 5,750,175**

See Notes to Consolidated Financial Statements.

Consolidated Statement of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Stock-Based Compensation	Treasury Stock	Total Stockholders' Equity
Balance - January 1, 2019	$ 752	$ 20,116,333	$ 25,139,587	$ (553,364)	$ -	$ (2,940,954)	$ 41,762,354
Net income	-	-	5,100,199	-	-	-	5,100,199
Other comprehensive income, net	-	-	-	649,976	-	-	649,976
Dividends paid	-	-	(24,734,955)	-	-	-	(24,734,955)
Grant - 35,259 shares of restricted common stock	35	1,868,692	-	-	(1,868,727)	-	-
Issuance - 206,989 shares of common stock	207	12,627,532	-	-		-	12,627,739
Issuance - 45,127 shares of treasury stock	-	(549,223)	-	-	-	2,940,954	2,391,731
Stock compensation expense	-	-	-	-	207,636	-	207,636
Balance - December 31, 2019	994	34,063,334	5,504,831	96,612	(1,661,091)	-	38,004,680
Net income	-	-	8,374,337	-	-	-	8,374,337
Other comprehensive income, net	-	-	-	439,960	-	-	439,960
Stock compensation expense	-	-	-	-	622,909	-	622,909
Balance - December 31, 2020	**$ 994**	**$ 34,063,334**	**$ 13,879,168**	**$ 536,572**	**$ (1,038,182)**	**$ -**	**$ 47,441,886**

Cornerstone Bancorp, Inc. and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash Flows from Operating Activities		
Net income	$ 8,374,337	$ 5,100,199
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization on premises and equipment	326,491	268,961
Provision for loan losses	900,000	-
Amortization and accretion on securities - Net	753,194	710,814
Change in fair value of community reinvestment fund	(19,954)	(11,009)
Gains on sale of other real estate owned	-	(23,162)
Gains on sales of loans held for sale	(6,105,390)	(1,406,352)
Originations of loans held for sale	(291,629,388)	(81,417,313)
Proceeds from sale of loans held for sale	273,400,920	81,633,690
Deferred income tax (benefit) expense	(550,317)	71,836
Deferred loan fees	2,325,885	(23,681)
Stock-based compensation	622,909	207,636
Net cash (used in) provided by operating activities:		
Accrued interest receivable	(725,096)	(20,932)
Other assets	(259,282)	(180,243)
Accrued interest payable	(32,285)	30,768
Other liabilities	1,199,837	344,851
Net cash (used in) provided by operating activities	(11,418,139)	5,286,063
Cash Flows from Investing Activities		
Activity in available-for-sale investment securities:		
Maturities, prepayments, and calls	33,869,446	29,828,225
Purchases	(20,410,925)	(28,991,264)
(Purchase) redemption of other securities	(407,900)	26,100
Net increase in loans	(125,287,043)	(49,892,493)
Proceeds from sale of other real estate owned	-	536,787
Additions to premises and equipment	(1,303,113)	(372,729)
Net cash used in investing activities	(113,539,535)	(48,865,374)
Cash Flows from Financing Activities		
Net change in deposits	229,759,963	58,641,056
Net change in securities sold under agreements to repurchase	5,747,102	1,756,780
Net change in borrowings under line of credit	(6,350,000)	6,000,000
Borrowings under term note	8,500,000	14,235,000
Repayments of borrowings under term note	(894,737)	(14,235,000)
Borrowings under subordinated debt	10,000,000	-
Dividends paid on common stock	-	(24,734,955)
Issuance of common stock	-	12,627,739
Issuance of treasury stock	-	2,391,731
Net cash provided by financing activities	246,762,328	56,682,351
Net Change in Cash and Cash Equivalents	121,804,654	13,103,040
Cash and Cash Equivalents - Beginning of year	58,643,841	45,540,801
Cash and Cash Equivalents - End of year	**$ 180,448,495**	**$ 58,643,841**
Supplemental Cash Flow and Noncash Information		
Cash paid for:		
Interest	4,565,713	5,320,110
Income taxes	3,345,000	1,850,000
Noncash transactions		
Loans held-for-sale transferred to loans, net	2,030,150	92,001

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Operations - Cornerstone Bancorp, Inc. (the "Corporation") and its wholly owned subsidiary, Cornerstone National Bank & Trust Company (the "Bank"), provide a variety of financial services to individuals and businesses in the Chicago metropolitan area through their main office in Palatine, Illinois, and branch offices in Crystal Lake, Lake Zurich, Naperville, and Schaumburg, Illinois. Their primary deposit products are demand deposits, savings, money market, and term certificate accounts, and their primary lending products are commercial and commercial mortgage loans. The Corporation has a mortgage banking operation in which residential mortgage loans are originated and sold to the secondary market.

Use of Estimates - In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of investment securities.

During 2020, the COVID-19 pandemic arose with related monetary easing by the Federal Reserve and legislative actions by U.S. Congress. From the time the national emergency was declared through December 31, 2020, the most impacted estimate has been the Corporation’s estimate of the allowance for loan losses. While it is not yet possible to estimate the complete impact on future earnings, the Corporation has made specific estimates in these consolidated financial statements which may change significantly as more information becomes available.

Basis of Presentation and Consolidation - The consolidated financial statements include the accounts of the Corporation and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents - For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold which have original maturities within 90 days.

Investment Securities - Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities. For purchase premiums and discounts on noncallable debt securities, the amounts are recognized into income over the term of the securities. For premiums on callable debt securities, the premium is amortized into income over the period until the first call date. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Other Securities - Other securities consist of Federal Home Loan Bank and Federal Reserve Bank Stock and the Corporation's investment in a Community Reinvestment Act mutual fund ("CRA Fund"). The stock investments are carried at cost, which approximates fair value, based on the redemption provisions of each institution. The investment in the CRA Fund is carried at fair value, and any changes in fair value are recorded through the Statement of Income.

Loans Held for Sale - Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income. For the years ended December 31, 2020 and 2019, the majority of such loans were sold to three investors.

Loans - The Corporation grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in the Chicago metropolitan area. The ability of the Corporation's debtors to honor their contracts is partially dependent upon the real estate and general economic conditions in this area.

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

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. 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 is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans are considered delinquent when customers fail to make their payments in accordance with the contractual loan agreement. If a loan matures and principal remains outstanding, the loan is considered delinquent until the loan is paid off or renewed.

Gross loans are reported at the Corporation's recorded investment. The recorded investment is the borrower's principal balance less partial charge-offs, if any.

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

The allowance 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 specific, general, and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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 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. Specific reserves are measured on a loan-by-loan basis for impaired 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.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer loans for impairment disclosures.

Troubled debt restructuring of loans is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loans should be reported as a Troubled Debt Restructure (TDR). A loan is a TDR when the Corporation, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession to the borrower by modifying or renewing a loan under terms that the Corporation would not otherwise consider. To make this determination, the Corporation must determine whether (a) the borrower is experiencing financial difficulties and (b) the Corporation granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some deterioration in a borrower’s financial condition does not automatically mean the borrower is experiencing financial difficulties.

In March of 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed into law. Among other things, the CARES Act suspends the requirements related to accounting for TDRs for certain loan modifications related to the COVID-19 pandemic. As a result of the pandemic, the Corporation provided a modification program to borrowers that included certain concessions such as interest only or payment deferrals. The Company granted pandemic-related modifications of loans totaling $61,023,000. As of December 31, 2020, there were $7,311,000 of loans that remained under a modification agreement but are not disclosed as TDRs. Regardless of whether a modification is classified as a TDR, the Company continues to apply policies for risk rating, accruing interest, and classifying loans as impaired.

Premises and Equipment - Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 years to 40 years.

Other Real Estate Owned - Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of the 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 costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate owned.

Securities Sold Under Agreements to Repurchase - Securities sold under agreements to repurchase, which are classified as secure borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

cash received in connection with the transaction. The Corporation may be required to provide additional collateral based on the fair value of the underlying securities.

Income Taxes - Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the various temporary differences between the book and tax basis of the various consolidated balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

At December 31, 2020 and 2019, the Corporation evaluated tax positions taken for filing with the Internal Revenue Service and all state jurisdictions in which it operates. The Corporation believes that income tax filing positions will be sustained under examination and does not anticipate any adjustments that would result in a material adverse effect on the Corporation's financial condition, results of operations, or cash flows. Accordingly, the Corporation has not recorded any reserves or related accruals for interest and penalties for uncertain tax positions at December 31, 2020 and 2019.

Comprehensive Income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and certain interest rate swap agreements, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income. At December 31, 2020, the components of accumulated other comprehensive income consist of net unrealized holding gains on securities available-for-sale of $2,050,179, unrealized holding losses on interest rate swap contracts of $1,299,585, and a net income tax expense of $214,022. At December 31, 2019, the components of accumulated other comprehensive income consist of net unrealized holding gains on securities available-for-sale of $885,368, unrealized holding losses on interest rate swap contracts of $750,184, and a net income tax expense of $38,572.

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 Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising Costs - All advertising costs incurred by the Corporation are expensed in the period in which they are incurred.

Off-Balance-Sheet Instruments - In the ordinary course of business, the Corporation has entered into commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Equity Compensation Plans - The Corporation measures the cost of employee services received in exchange for equity awards, including stock options and restricted stock awards. Compensation related to stock options is based on the estimated grant date fair value of the awards. Compensation related to restricted stock awards is based on the market price of the Company's common stock at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Trust Assets - Assets held by the Corporation in a fiduciary, agency, or custody capacity for its trust department customers are not included in the accompanying consolidated financial statements since such items are not assets of the Corporation. The Corporation charges client fees based on a percentage of the market value of assets held in client accounts. As the Corporation's services are performed over time on an ongoing basis, its clients obtain the benefits of such services as they are performed. Therefore, the Corporation satisfies its performance obligations and records income during the year as services are rendered.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Reclassifications - Certain amounts appearing in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation of the consolidated financial statements.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including March 29, 2021, which is the date the consolidated financial statements were available to be issued.

Recent Accounting Pronouncements - In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets including the Corporation’s loans and available-for-sale debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity’s current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Corporation’s year ending December 31, 2023. Upon adoption the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This standard is expected to have a significant effect on the Corporation’s consolidated financial statements. The Corporation is assessing the impact of ASU 2016-13 on its accounting and disclosures and has determined that a loss rate model will be used for calculation of future risk assessments upon the ASU’s adoption in 2023. The Corporation has accumulated historical data by loan pools and collateral classifications and anticipates calculation of estimates in 2021 through 2022 on a test basis to confirm model processes and to determine financial statement impact prior to adoption in 2023.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*. The ASU provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendment only applies to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The ASU was effective upon issuance on March 12, 2020 and can be applied through December 31, 2022. The Corporation is in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on its results of operations, financial position, and liquidity.

Note 2 - Investment Securities

The amortized cost and estimated fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-Sale				
U.S. government agencies	$ 5,065,100	$ 168,317	$ -	$ 5,233,417
Mortgage-backed securities and collateralized mortgage obligations	19,490,757	449,906	(19,007)	19,921,656
State and municipal securities	36,019,064	703,864	-	36,722,928
Corporate debt securities	22,639,974	780,380	(33,281)	23,387,073
Total	$ 83,214,895	$ 2,102,467	$ (52,288)	85,265,074

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-Sale				
U.S. government agencies	$ 17,075,570	$ 162,988	$ -	$ 17,238,558
Mortgage-backed securities and collateralized mortgage obligations	10,808,235	168,990	(18,176)	10,959,049
State and municipal securities	50,210,812	432,226	(11,719)	50,631,319
Corporate debt securities	19,331,993	191,269	(40,210)	19,483,052
Total	$ 97,426,610	$ 955,473	$ (70,105)	$ 98,311,978

At December 31, 2020 and 2019, securities with a carrying value of approximately $20,317,000 and $13,708,000, respectively, were pledged to secure repurchase agreements, borrowings, public deposits and for other purposes required or permitted by law.

Note 2 - Investment Securities (Continued)

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2020 are as follows:

	December 31, 2020	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 16,183,097	$ 16,318,101
Due after one year through five years	44,215,944	45,704,854
Due after five years through ten years	3,325,097	3,320,463
Total	63,724,138	65,343,418
Mortgage-backed securities and collateralized mortgage obligations	19,490,757	19,921,656
Total	$ 83,214,895	$ 85,265,074

There were no sales of investments in 2020 or 2019.

Note 2 - Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	December 31, 2020			
	<12 Months		>12 Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	$ -	$ -	$ -	$ -
Mortgage-backed securities and collateralized mortgage obligations	(12,767)	2,071,550	(6,240)	523,162
State and municipal securities	-	-	-	-
Corporate debt securities	(7,090)	1,110,038	(26,191)	1,970,778
Total	$ (19,857)	$ 3,181,588	$ (32,431)	$ 2,493,940

	December 31, 2019			
	<12 Months		>12 Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	$ -	$ -	$ -	$ -
Mortgage-backed securities and collateralized mortgage obligations	-	-	(18,176)	848,723
State and municipal securities	(6,643)	2,895,825	(5,076)	3,689,747
Corporate debt securities	(40,210)	5,120,990	-	-
Total	$ (46,853)	$ 8,016,815	$ (23,252)	$ 4,538,470

Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, the Corporation has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is primarily due to increased market interest rates. The fair value is expected to recover as the bonds approach their maturity date.

Note 3 - Loans

A summary of the balances of loans follows:

	December 31	
	2020	2019
Mortgage loans on real estate:		
1-4 family residential	$ 52,643,788	$ 63,483,729
Commercial	245,482,989	235,769,207
Construction and land development	4,709,085	3,709,748
Vacant land and farm land	3,296,161	2,171,515
Multi-family residential	37,266,949	34,214,380
Total mortgage loans on real estate	343,398,972	339,348,579
Commercial and industrial loans	117,576,733	128,049,960
Paycheck Protection Program loans	131,244,614	-
Consumer loans	1,631,784	2,126,874
Cash secured loans	4,131,760	1,881,773
Total loans	597,983,863	471,407,186
Less allowance for loan losses	7,234,987	7,075,503
Net deferred loan fees	2,843,211	517,326
Total loans, net	$ 587,905,665	$ 463,814,357

During 2020, the Bank funded loans under the Small Business Administration's (SBA) Paycheck Protection Program (PPP) designed to provide liquidity to small businesses during the COVID-19 pandemic. The loans are guaranteed by the SBA and loan proceeds to borrowers are forgivable by the SBA if certain criteria are met. The Company originated PPP loans totaling $208,085,000 during the year. PPP processing fees received from the SBA totaling $7,190,000 were deferred, along with loan origination costs, and are being recognized as interest income using the effective yield method. Upon forgiveness of a loan and resulting repayment by the SBA, any unrecognized net fee for a given loan is recognized as interest income. Fees totaling $4,785,000 were recognized in 2020.

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to approximately $14,947,000 at December 31, 2020 and $14,836,000 at December 31, 2019.

Note 3 - Loans (Continued)

Activity in the allowance for loan losses for 2020 and 2019 is summarized as follows:

	Year Ended December 31, 2020				
	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Allowance for loan losses:					
Commercial and industrial	$ 1,312,581	$ (800,000)	$ -	$ 1,219,711	$ 1,732,292
Consumer	61,132	-	-	(48,078)	13,054
Construction and land development	60,745	-	-	7,374	68,119
Commerical real estate	4,128,776	-	-	66,603	4,195,379
1-4 family residential	841,712	-	59,484	(262,549)	638,647
Multi-family residential	417,415	-	-	(7,479)	409,936
Vacant land and farm land	24,924	-	-	19,887	44,811
Unallocated	228,218	-	-	(95,469)	132,749
Total	$ 7,075,503	$ (800,000)	$ 59,484	$ 900,000	$ 7,234,987

	Year Ended December 31, 2019				
	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Allowance for loan losses:					
Commercial and industrial	$ 1,538,789	$ -	$ 85,264	$ (311,472)	$ 1,312,581
Consumer	19,652	(5,258)	5,258	41,480	61,132
Construction and land development	63,771	-	-	(3,026)	60,745
Commerical real estate	4,030,474	-	500	97,802	4,128,776
1-4 family residential	840,250	-	-	1,462	841,712
Multi-family residential	349,763	-	-	67,652	417,415
Vacant land and farm land	34,300	-	-	(9,376)	24,924
Unallocated	112,740	-	-	115,478	228,218
Total	$ 6,989,739	$ (5,258)	$ 91,022	$ -	$ 7,075,503

Note 3 - Loans (Continued)

The allowance for loan losses and loan balances as of December 31, 2020 and 2019 are as follows:

	Year Ended December 31, 2020		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Ending allowance attributable to loans:			
Commercial and industrial	$ -	$ 1,732,292	$ 1,732,292
Paycheck Protection Program	-	-	-
Consumer	-	13,054	13,054
Construction and land development	-	68,119	68,119
Commerical real estate	-	4,195,379	4,195,379
1-4 family residential	-	638,647	638,647
Multi-family residential	-	409,936	409,936
Vacant land and farm land	-	44,811	44,811
Unallocated	-	132,749	132,749
Total	$ -	$ 7,234,987	$ 7,234,987
Ending loans:			
Commercial and industrial	$ 2,435,407	$ 115,141,326	$ 117,576,733
Paycheck Protection Program	-	131,244,614	131,244,614
Consumer	-	1,631,784	1,631,784
Construction and land development	167,842	4,541,243	4,709,085
Commerical real estate	5,357,964	240,125,025	245,482,989
1-4 family residential	458,239	52,185,549	52,643,788
Multi-family residential	-	37,266,949	37,266,949
Vacant land and farm land	937,662	2,358,499	3,296,161
Cash secured	-	4,131,760	4,131,760
Total	$ 9,357,114	$ 588,626,749	$ 597,983,863

Note 3 - Loans (Continued)

	Year Ended December 31, 2019		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Ending allowance attributable to loans:			
Commercial and industrial	$ -	$ 1,312,581	$ 1,312,581
Consumer	-	61,132	61,132
Construction and land development	-	60,745	60,745
Commerical real estate	-	4,128,776	4,128,776
1-4 family residential	-	841,712	841,712
Multi-family residential	-	417,415	417,415
Vacant land and farm land	-	24,924	24,924
Unallocated	-	228,218	228,218
Total	$ -	$ 7,075,503	$ 7,075,503
Ending loans:			
Commercial and industrial	$ 1,061,588	$ 126,988,372	$ 128,049,960
Consumer	-	2,126,874	2,126,874
Construction and land development	210,056	3,499,692	3,709,748
Commerical real estate	9,153,387	226,615,820	235,769,207
1-4 family residential	762,719	62,721,010	63,483,729
Multi-family residential	-	34,214,380	34,214,380
Vacant land and farm land	937,662	1,233,853	2,171,515
Cash secured	-	1,881,773	1,881,773
Total	$ 12,125,412	$ 459,281,774	$ 471,407,186

Note 3 - Loans (Continued)

Credit Risk Rating

The following is a summary of the loan portfolio by loan risk grades at December 31, 2020 and 2019:

	December 31, 2020				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 115,141,326	$ 1,636,732	$ 798,675	$ -	$ 117,576,733
Paycheck Protection Program	131,244,614	-	-	-	131,244,614
Consumer	1,631,784	-	-	-	1,631,784
Construction and land development	4,541,243	-	167,842	-	4,709,085
Commerical real estate	240,125,026	1,124,732	4,233,231	-	245,482,989
1-4 family residential	52,185,549	-	458,239	-	52,643,788
Multi-family residential	37,266,949	-	-	-	37,266,949
Vacant land and farm land	2,358,499	-	937,662	-	3,296,161
Cash secured	4,131,760	-	-	-	4,131,760
Total	$ 588,626,750	$ 2,761,464	$ 6,595,649	$ -	$ 597,983,863

	December 31, 2019				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 126,988,372	$ 1,017,401	$ 44,187	$ -	$ 128,049,960
Consumer	2,126,874	-	-	-	2,126,874
Construction and land development	3,499,692	-	210,056	-	3,709,748
Commerical real estate	226,615,820	6,696,900	2,456,487	-	235,769,207
1-4 family residential	62,721,010	219,934	542,785	-	63,483,729
Multi-family residential	34,214,380	-	-	-	34,214,380
Vacant land and farm land	1,233,853	-	937,662	-	2,171,515
Cash secured	1,881,773	-	-	-	1,881,773
Total	$ 459,281,774	$ 7,934,235	$ 4,191,177	$ -	$ 471,407,186

The Corporation categorized each loan into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The Corporation uses the following definitions for credit risk ratings:

Pass - Credits not covered by the definitions presented below are pass credits, which are not considered to be adversely rated.

Special Mention - Loans classified as special mention, or watch credits, have a potential weakness or weaknesses 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 may sustain some loss if the deficiencies are not corrected.

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

Note 3 - Loans (Continued)

Age Analysis of Past Due and Nonaccrual Loans

The following tables detail the age analysis of past due and nonaccrual loans at December 31, 2020 and 2019:

	Year Ended December 31, 2020						
	Loans on Accrual Status						
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Nonaccrual Loans	Total Past Due and Nonaccrual	Current	Total Loans Receivable
Commercial and industrial	$ -	$ -	$ -	$ 798,675	$ 798,675	$ 116,778,058	$ 117,576,733
Paycheck Protection Program	-	-	-	-	-	131,244,614	131,244,614
Consumer	-	-	-	-	-	1,631,784	1,631,784
Construction and land development	-	-	-	167,842	167,842	4,541,243	4,709,085
Commercial real estate	418,293	-	-	2,638,332	3,056,625	242,426,364	245,482,989
1-4 family residential	681,259	-	-	458,239	1,139,498	51,504,290	52,643,788
Multi-family residential	-	-	-	-	-	37,266,949	37,266,949
Vacant land and farm land	-	-	-	937,662	937,662	2,358,499	3,296,161
Cash secured	2,187	-	-	-	2,187	4,129,573	4,131,760
Total	$ 1,101,739	$ -	$ -	$ 5,000,750	$ 6,102,489	$ 591,881,374	$ 597,983,863

	Year Ended December 31, 2019						
	Loans on Accrual Status						
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Nonaccrual Loans	Total Past Due and Nonaccrual	Current	Total Loans Receivable
Commercial and industrial	$ -	$ -	$ -	$ 44,187	$ 44,187	$ 128,005,773	$ 128,049,960
Consumer	-	-	-	-	-	2,126,874	2,126,874
Construction and land development	-	-	-	210,056	210,056	3,499,692	3,709,748
Commercial real estate	-	222,197	-	2,177,641	2,399,838	233,369,369	235,769,207
1-4 family residential	263,886	-	-	542,785	806,671	62,677,058	63,483,729
Multi-family residential	-	-	-	-	-	34,214,380	34,214,380
Vacant land and farm land	-	-	-	937,662	937,662	1,233,853	2,171,515
Cash secured	-	-	-	-	-	1,881,773	1,881,773
Total	$ 263,886	$ 222,197	$ -	$ 3,912,331	$ 4,398,414	$ 467,008,772	$ 471,407,186

Note 3 - Loans (Continued)

Impaired Loans

A loan is considered impaired when it is probable that not all principal and interest amounts will be collected according to the loan contract. Individual commercial loans are evaluated for impairment. Impaired loans are written down by the establishment of a specific allowance where necessary.

The Corporation had no additional funds committed to be advanced in connection with impaired loans at December 31, 2020. The Corporation had $872,000 of additional funds committed to be advanced in connection with impaired loans at December 31, 2019.

Information regarding impaired loans is as follows as of and for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	$ 798,675	$ 1,598,675	$ -	$ 1,760,138	$ -
Construction and land development	167,842	796,848	-	185,681	-
Commercial real estate	2,638,332	3,077,795	-	2,743,219	-
Vacant land and farm land	937,662	937,662	-	937,662	-
1-4 family residential	458,239	458,239	-	464,250	-
Total	$ 5,000,750	$ 6,869,219	$ -	$ 6,090,950	$ -

	Year Ended December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	$ 805,893	$ 817,909	$ -	$ 859,029	$ 44,983
Construction and land development	210,056	802,993	-	242,265	-
Commercial real estate	3,414,321	3,788,531	-	3,514,488	75,110
Vacant land and farm land	937,662	937,662	-	963,517	38,683
1-4 family residential	762,719	852,975	-	915,803	18,446
Total	$ 6,130,651	$ 7,200,070	$ -	$ 6,495,102	$ 177,222

For purposes of the disclosure above, recorded investment represents the borrower's unpaid principal balance, less partial charge-offs to date.

Note 3 - Loans (Continued)

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Corporation offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted.

There were no loans modified in a TDR during the years ended December 31, 2020 and 2019.

None of the troubled debt restructurings that were modified or renewed during 2020 or 2019 subsequently defaulted.

Note 4 - Premises and Equipment

A summary of the cost and accumulated depreciation and amortization of premises and equipment at December 31 is as follows:

	2020	2019
Land	$ 810,000	$ 810,000
Buildings and building improvements	4,511,069	4,511,069
Furniture, fixtures, and equipment	2,612,768	2,329,172
Leasehold improvements	325,618	317,571
Construction in progress	998,813	24,487
Total premises and equipment	9,258,268	7,992,299
Accumulated depreciation	(4,967,656)	(4,678,309)
Net premises and equipment	$ 4,290,612	$ 3,313,990

Note 4 – Premises and Equipment (Continued)

The Bank operates its Crystal Lake and Lake Zurich branch facilities, its Naperville and Schaumburg business banking centers, and a loan operations center subject to operating leases. The Bank also leases copiers in each facility that are also subject to operating leases. Future minimum rental commitments under these leases are as follows:

2021	$ 296,147
2022	214,008
2023	160,072
2024	93,864
Thereafter	227,494
Total undiscounted lease payments	991,585
Less imputed interest	(115,106)
Total lease liability	$ 876,479

The Crystal Lake lease expired in December 2020 and was extended on a month-to-month basis.

The Lake Zurich lease expires in March 2021.

The Naperville lease expires in June 2022 and contains two options to extend the term of the lease for five years at the conclusion of the initial lease term at a market rate of rent in effect at the commencement of each option period.

The loan operations center lease expires in October 2023 and contains two options to extend the term of the lease for five years at the conclusion of the initial lease term with an increase to the base rent of 2.0% per year.

The Schaumburg lease expires in June 2027 and contains two options to extend the term of the lease for three years at the conclusion of the initial lease term at the current market rent rate.

The Corporation leases copiers in each of its locations under leases that expire between March 2021 and May 2025.

The Corporation has recorded a lease obligation for the operating leases described above in the amount of $876,479 and $578,198 as of December 31, 2020 and 2019, respectively, with a corresponding right to use asset in the amount of $846,156 and $560,013 as of December 31, 2020 and 2019, respectively, in other liabilities and other assets, in the consolidated financial statements. These amounts were calculated using a discount rate of 4.00 percent. The Corporation's leases have a weighted average remaining term of 4.7 years.

Total rent expense approximated $390,000 and $275,000 for the years ended December 31, 2020 and 2019, respectively.

During 2020, the Corporation purchased a banking facility in Crystal Lake and will relocate its existing operation to this new facility. Additionally, the Corporation entered into a lease in Deer Park, Illinois for office space and will relocate the Lake Zurich operation to this location. Both new branches became operational in March 2021. The cumulative cost of these new locations is included in construction in progress.

Note 5 - Deposits

The following is a summary of the distribution of deposits at December 31:

	2020	2019
Noninterest-bearing deposits	$ 306,118,701	$ 166,436,734
NOW accounts	69,449,563	56,930,070
Savings and money market accounts	353,934,074	267,447,537
Time:		
Under $250,000	24,606,445	31,883,646
$250,000 and over	42,095,072	43,745,905
Total	$ 796,203,855	$ 566,443,892

At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	$ 40,925,205
2022	7,552,830
2023	15,812,198
2024	1,483,060
2025	928,224
Total	$ 66,701,517

Deposits from related parties held by the Corporation totaled approximately $26,886,000 and $23,975,000 at December 31, 2020 and 2019, respectively.

Note 6 - Junior Subordinated Debentures

The Corporation has established a Delaware statutory trust (the "Trust") for the sole purpose of issuing trust-preferred securities and related trust common securities. The proceeds from the issuance were used by the Trust to purchase junior subordinated debentures of the Corporation, which is the sole asset of the Trust. Concurrently with the issuance of the trust-preferred securities, the Corporation issued guarantees for the benefit of the holders of the trust-preferred securities. The trust-preferred securities are issues that qualify, and are treated by the Corporation, as Tier I regulatory capital. The Corporation wholly owns all of the common securities of the Trust. The trust-preferred securities issued by the Trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the debentures has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment.

At December 31, 2020 and 2019, the outstanding balance of the junior subordinated debentures was $10,310,000. The subordinated debentures have a stated maturity date of March 31, 2034 and a floating interest rate per annum reset quarterly equal to the three-month LIBOR plus 2.85% (3.07% at December 31, 2020 and 4.95% at December 31, 2019). Interest is payable quarterly, and all payments have been paid as agreed.

The Corporation entered into an interest rate swap contract with a notional value of $5,000,000 to convert a portion of its junior subordinated debentures to a fixed rate of interest. The swap contract expires with the maturity of the underlying junior subordinated debentures and carries a fixed rate of 5.997%. The interest rate swap agreement contains language outlining collateral pledging requirements for each counterparty. Collateral must be posted when the market value exceeds certain threshold limits. The interest rate swap qualifies as a cash flow hedge and, as a result, the unrealized gain (loss) on the swap instrument is reflected in other comprehensive income (loss) until the swap is terminated or matures. An unrealized loss of $549,401 and $503,951 was recorded in other comprehensive income at December 31, 2020 and 2019, respectively.

The trust-preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at the stated maturity date or upon redemption. The debentures are callable by the Corporation with 90 days’ notice to the holders. The Trust’s ability to pay amounts due on the trust-preferred securities is solely dependent upon the Corporation making payment on the related junior subordinated debentures. The Corporation has the right to defer payment of interest on the debentures.

The Corporation’s obligation under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitutes a full and unconditional guarantee by the Corporation of the Trust’s obligations under the trust-preferred securities issued by the Trust.

Note 7 - Income Taxes

The components of the net deferred tax asset, included in other assets at December 31, are as follows:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 2,062,333	$ 2,016,872
Deferred compensation	334,230	232,221
Nonaccrual loan interest	227,276	186,825
Other, net	185,480	-
Total deferred tax assets	2,809,319	2,435,918
Deferred tax liabilities:		
Unearned stock awards	260,672	420,572
Accretion on securities available for sale	12,991	136,282
Depreciation and amortization	185,922	94,841
Prepaid expenses	35,733	29,365
Other, net	8,826	-
Net unrealized gain on securities available for sale and interest rate swap - net	214,022	38,572
Total deferred tax liabilities	718,166	719,632
Net deferred tax asset	$ 2,091,153	$ 1,716,286

The allocation of income taxes between current and deferred portions at December 31 is as follows:

	2020	2019
Current expense	$ 3,846,102	$ 1,825,199
Deferred (benefit) expense	(550,317)	71,836
Total	$ 3,295,785	$ 1,897,035

The reason for the differences between income tax expense at the federal statutory income tax rate and the recorded income tax expense at December 31 are summarized as follows:

	2020	2019
Income tax calculated at statutory rate (21%)	$ 2,450,726	$ 1,469,419
Add (subtract) tax effect of:		
State income tax - net of federal tax benefit	875,843	509,074
Tax-exempt securities	(176,427)	(178,566)
Meals, entertainment and related expenses	92,011	50,337
Other items - net	53,632	46,771
Provision for income taxes	$ 3,295,785	$ 1,897,035

Note 8 – Profit Sharing Plan

The Corporation sponsors a 401(k) profit-sharing plan for substantially all employees. The plan provides for the Corporation to make a required matching contribution up to 25% of employee contributions up to 8% of their salary. The Corporation may also make additional profit-sharing contributions at the discretion of the board of directors. Contributions to the plan totaled $1,354,000 and $922,000 for the years ended December 31, 2020 and 2019, respectively.

Note 9 - Equity Compensation Plans

The Corporation's equity compensation plans consist of a stock incentive plan, restricted stock awards, and stock appreciation rights.

The stock incentive plan permits the grant of both incentive stock options and nonqualified stock options to its directors, officers, and employees for up to 107,470 shares of common stock. Option awards are granted with an exercise price equal to the market price of the entity's stock at the date of grant; those option awards generally vest based on five years of continuous service and must be exercised within 10 years of the grant date. There are no options outstanding and 8,326 shares available for grant at December 31, 2020 and 2019. There were no options granted during 2020 or 2019. There was no compensation cost charged against income for the stock incentive plan in 2020 and 2019.

Restricted stock awards entitle holders to voting and dividend rights upon grant. The awards vest to the awardee over a three-year period from the date of grant and are subject to forfeiture until they vest. The awards become immediately vested in the event of a change in control of the Corporation or the death or disability of the awardee. Information related to restricted stock award activity is as follows:

	2020		2019	
	Shares	Price	Shares	Price
Unvested stock awards at January 1	35,259		-	
Granted	-		35,259	$ 53.00
Forfeited	-		-	
Vested	(11,758)		-	
Unvested stock awards at December 31	23,501		35,259	

Compensation expense is recognized over the vesting period of the restricted award based on the market value of the award on the issue date. Compensation expense of approximately $622,900 and $207,600 was charged against income in 2020 and 2019, respectively. Total unrecognized compensation cost of the restricted awards approximated $1,038,000 as of December 31, 2020 which will be recognized over the next 1.7 years.

Under the stock appreciation rights plan, senior management and key officers are granted share unit awards, the value of which is calculated using the intrinsic value method and is equal to the incremental increase in the net book value, as defined, per share of the common stock of the Bank between the date of award and the date of full vesting. The share unit awards vest over a four-year period from the date of the grant. Share units totaling 1,289 and 1,010 were awarded for the years ended December 31, 2020 and 2019, respectively. Plan liabilities of approximately $1,173,000 and $815,000, consisting of share units of 4,985 and 4,361, were recorded at December 31, 2020 and 2019, respectively. Share units matured totaled approximately $335,000 and $248,000 during 2020 and 2019, respectively. The Corporation incurred plan expenses of $606,000 and $383,000 during the years ended December 31, 2020 and 2019, respectively.

Note 10 – Borrowing Facilities

Federal Home Loan Bank of Chicago - The Corporation is a member of the Federal Home Loan Bank of Chicago (FHLBC). Through the membership, the Corporation maintains a collateral pledge agreement covering secured advances whereby the Corporation has agreed to keep on hand, free of all other pledges, liens, and encumbrances, specifically identified whole first mortgages on improved residential property not more than 90-days delinquent to secure advances from the FHLBC. All of the Bank's FHLBC common stock is also pledged as additional collateral for any outstanding advances. There were no advances outstanding at both December 31, 2020 and 2019. At December 31, 2020, the Corporation had the ability to borrow approximately $76,811,000 under its credit facilities with the FHLBC.

Line Of Credit - The Corporation has a line of credit with another financial institution (its Senior Lender). The details of the line of credit are shown in the table below:

	2020	2019
Total commitment	$ 3,000,000	$ 8,500,000
Outstanding at December 31	$ 2,150,000	$ 8,500,000
Maturity Date	March 15, 2022	June 30, 2020
Interest rate structure	One-Month LIBOR + 2.00%	One-Month LIBOR + 2.25%
Interest rate floor	2.00%	2.25%
Interest rate at December 31	2.13%	3.95%
Required payments	Interest - Quarterly	Interest - Quarterly
Collateral	100% of the voting stock of the Bank	100% of the voting stock of the Bank

Term Debt - During 2020, the Corporation entered into a term note with its Senior Lender. The details of the term note are shown in the table below:

	2020	2019
Total commitment	$ 8,500,000	$ -
Outstanding at December 31	$ 7,605,263	$ -
Maturity Date	March 15, 2025	Not Applicable
Interest rate structure	One-Month LIBOR + 1.80%	Not Applicable
Interest rate floor	1.80%	Not Applicable
Interest rate at December 31	2.00%	Not Applicable
Required payments	Principal of $447,368 Plus Interest - Quarterly	Not Applicable
Collateral	100% of the voting stock of the Bank	Not Applicable

Note 10 – Borrowing Facilities (Continued)

Subordinated Debt - In order to support the Bank through its participation in the Paycheck Protection Program, the Corporation entered into a $10,000,000 subordinated debt facility which closed June 29, 2020. The details of the subordinated debt are shown in the table below:

	2020	2019
Total commitment	$ 10,000,000	$ -
Outstanding at December 31	$ 10,000,000	$ -
Maturity Date	June 29, 2025	Not Applicable
Interest rate structure	Variable on Each Anniversary Date	Not Applicable
Interest rate at December 31	6.00%	Not Applicable
Required payments	Interest - Monthly	Not Applicable
Collateral	Unsecured	Not Applicable

The subordinated debt is pre-payable by the Corporation with prior approval of its Senior Lender.

Note 11 - Off-Balance-Sheet Activities

Credit-Related Financial Instruments - The Corporation is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2020 and 2019, the following financial instruments, whose contract amounts represent credit risk, were outstanding:

	Contract Amount	
	2020	2019
Unfunded commitments under lines of credit	$ 220,256,615	$ 178,114,129
Commercial and standby letters of credit	5,490,017	6,102,086
Commitments to originate mortgage loans		
subject to interest rate lock contracts	18,181,400	8,805,070

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

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized, may contain a specified maturity date, and may not be drawn upon to the total extent to which the Corporation is committed.

Note 11 - Off-Balance-Sheet Activities (Continued)

Commercial and standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is essentially the same as extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

Collateral Requirements – To reduce credit risk related to the use of credit-related financial instruments, the Corporation might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Corporation's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

If the counterparty does not have the right and ability to redeem the collateral or the Corporation is permitted to sell or repledge the collateral on short notice, the Corporation records the collateral in its consolidated balance sheet at fair value with a corresponding obligation to return it.

Repurchase Agreements – Securities sold under agreements to repurchase totaled approximately $11,920,000 and $6,173,000 at December 31, 2020 and 2019, respectively. At December 31, 2020, all of these financings had overnight maturities and were secured by approximately $13,923,000 of agency and mortgage backed securities which were owned and under the control of the Corporation. Risk could arise when the collateral pledged for the repurchase agreement declines in fair value. The Corporation minimizes the risk by monitoring the value of the collateral pledged. At the point in time where the collateral has declined in fair value, the Corporation is required to provide additional collateral based on the value of the underlying securities.

Legal Contingencies – Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's consolidated financial statements.

Restrictions on Cash and Cash Equivalents – At December 31, 2019, the Bank was required to maintain average balances on hand or with the Federal Reserve Bank of $2,931,000. On March 26, 2020, the Federal Reserve Bank eliminated reserve requirements for certain depository institutions, including the Bank. As such, the Bank did not have a reserve requirement at December 31, 2020. The Corporation was also required to post cash collateral to the counterparty of its interest rate swap. This restricted cash totaled $1,380,000 and $960,000 at December 31, 2020 and 2019, respectively.

Other Contingencies – The Corporation sells mortgage loans on a nonrecourse basis. In connection with the Corporation's loan sales, the Corporation makes representations and warranties customary in the industry relating to, among other things, compliance with laws, regulations, and program standards and accuracy of information. If there is a breach of the representations and warranties by the Corporation, typically the Corporation corrects these flaws. If the flaws cannot be corrected, the Corporation may be required to repurchase these loans. As of December 31, 2020 and 2019, the Corporation recorded a liability of $100,000 and $50,000, respectively, for these potential contingencies.

Note 12 - Restrictions on Dividends

Banking regulations place certain restrictions on dividends paid by the Bank to the Corporation. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. At December 31, 2020, the Bank is allowed to pay dividends of $8,900,000 to the Corporation without prior regulatory approval.

Note 13 - Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are presented in the table. This table does not include the 2.5 percent capital conservation buffer requirement. A Bank with a capital conservation buffer greater than 2.5 percent of risk-weighted assets would not be restricted by payout limitations. However, if the 2.5 percent threshold is not met, the Bank would be subject to increased limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero.

	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollar Amounts In Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total capital to risk-weighted assets	$ 82,292	14.0%	$ 47,098	8.0%	$ 58,872	10.0%
Tier I capital to risk-weighted assets	$ 75,057	12.8%	$ 35,323	6.0%	$ 47,098	8.0%
Common equity tier I capital to risk-weighted assets	$ 75,057	12.8%	$ 26,492	4.5%	$ 38,267	6.5%
Tier I capital to average assets	$ 75,057	8.2%	$ 36,546	4.0%	$ 45,682	5.0%
As of December 31, 2019						
Total capital to risk-weighted assets	$ 62,132	11.2%	$ 44,409	8.0%	$ 55,498	10.0%
Tier I capital to risk-weighted assets	$ 55,193	9.9%	$ 33,299	6.0%	$ 44,398	8.0%
Common equity tier I capital to risk-weighted assets	$ 55,193	9.9%	$ 24,974	4.5%	$ 36,074	6.5%
Tier I capital to average assets	$ 55,193	8.5%	$ 26,033	4.0%	$ 32,541	5.0%

Note 14 - Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties other than in a forced liquidation. Fair value is best determined based upon quoted market prices. In many instances, however, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The standard excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

The estimated fair values and related carrying or notional amounts of the Corporation's financial instruments at December 31 are as follows (in thousands):

	December 31, 2020		December 31, 2019	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 180,448	$ 180,448	$ 58,644	$ 58,644
Investment securities - Available-for-sale	85,265	85,265	98,312	98,312
Other securities	2,561	2,561	2,133	2,133
Loans held for sale	24,414	24,969	2,104	2,131
Loans - Net	587,906	592,544	463,814	462,396
Accrued interest receivable	2,427	2,427	1,702	1,702
Financial liabilities:				
Deposits	$ (796,204)	$ (796,975)	$ (566,444)	$ (566,568)
Securities sold under agreements to repurchase	(11,920)	(11,919)	(6,173)	(6,166)
Junior subordinated debentures	(10,310)	(11,013)	(10,310)	(7,835)
Borrowings under line of credit	(2,150)	(2,150)	(8,500)	(8,500)
Borrowings under term debt	(7,605)	(7,605)	-	-
Borrowings under subordinated debt	(10,000)	(10,190)	-	-
Accrued interest payable	(137)	(137)	(169)	(169)
Interest rate swap	(1,300)	(1,300)	(750)	(750)

Note 15 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.

Note 15 - Fair Value Measurements (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Fair values of interest rate swap contracts are based on amounts payable to or receivable from counterparties based on the contractual terms of the agreements.

The following tables present information about the Corporation's assets and liabilities measured at fair value on a recurring basis at December 31, 2020 and 2019 and the valuation techniques used by the Corporation to determine those fair values.

	December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Assets				
Investment securities:				
U.S. government agencies	$ -	$ 5,233,417	$ -	$ 5,233,417
Mortgage-backed securities and collateralized mortgage obligations	-	19,921,656	-	19,921,656
State and municipal securities	-	36,722,928	-	36,722,928
Corporate debt securities	-	23,387,073	-	23,387,073
Total investment securities	-	85,265,074	-	85,265,074
Other securities:				
Community reinvestment fund	1,030,963	-	-	1,030,963
	$ 1,030,963	$ 85,265,074	$ -	$ 86,296,037
Liabilities				
Interest rate swap	$ -	$ 1,299,584	$ -	$ 1,299,584

Note 15 - Fair Value Measurements (Continued)

	December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Assets				
Investment securities:				
U.S. government agencies	$ -	$ 17,238,558	$ -	$ 17,238,558
Mortgage-backed securities and collateralized mortgage obligations	-	10,959,049	-	10,959,049
State and municipal securities	-	50,631,319	-	50,631,319
Corporate debt securities	-	19,483,052	-	19,483,052
Total investment securities	-	98,311,978	-	98,311,978
Other securities:				
Community reinvestment fund	1,011,009	-	-	$ 1,011,009
	$ 1,011,009	$ 98,311,978	$ -	$ 99,322,987
Liabilities				
Interest rate swap	$ -	$ 750,184	$ -	$ 750,184

The Corporation also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include other real estate owned and impaired loans. The Corporation has estimated the fair values of these assets based primarily on Level 3 inputs. Other real estate and impaired loans are generally valued using the fair value of collateral provided by third-party appraisals. These valuations include assumptions related to cash flow projections, discount rates, and recent comparable sales. The numerical range of unobservable inputs for these valuation assumptions is not meaningful.

The following tables present information about the Corporation's assets measured at fair value on a non-recurring basis at December 31, 2020 and 2019 and the valuation techniques used by the Corporation to determine those fair values.

	December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Impaired loans	$ -	$ -	$ 5,000,750	$ 5,000,750

	December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Impaired loans	$ -	$ -	$ 6,130,651	$ 6,130,651