Citizens Commerce Bancshares, Inc.

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

Citizens Commerce Bancshares, Inc.
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Independent Auditor's Report

Board of Directors
Citizens Commerce Bancshares, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Citizens Commerce Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in 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 Citizens Commerce Bancshares, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Citizens Commerce Bancshares, Inc. 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 the 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 Citizens Commerce Bancshares, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

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Independent Auditor's Report (Continued)

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 Citizens Commerce Bancshares, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Citizens Commerce Bancshares, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

MCM CPAs & Advisors LLP

Lexington, Kentucky
May 13, 2022

Citizens Commerce Bancshares, Inc.
Consolidated Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 20,700,465	$ 32,090,239
Securities available for sale	46,651,559	39,035,468
Loans held for sale	421,000	2,360,906
Loans, net of $2,864,537 and $2,610,925 in allowance for loan losses in 2021 and 2020, respectively	233,519,346	212,144,392
Bank premises and equipment, net	5,246,524	5,457,969
Federal Home Loan Bank stock	1,470,900	1,470,900
Other real estate owned and repossessed assets	517,117	491,185
Bank owned life insurance	3,056,551	2,890,824
Interest receivable	930,809	950,957
Other assets	1,537,921	1,459,693
Total assets	$ 314,052,192	$ 298,352,533
Liabilities and stockholders' equity		
Deposits		
Demand - noninterest bearing	$ 55,391,397	$ 48,498,365
Savings, NOW and money market	147,526,689	127,604,865
Time	72,883,433	89,158,048
Total deposits	275,801,519	265,261,278
Securities sold under agreements to repurchase	4,023,906	2,815,293
Interest payable	21,314	41,443
Other liabilities	1,928,068	814,563
Total liabilities	281,774,807	268,932,577
Stockholders' equity		
Common stock, no par value; 45,000,000 shares authorized and 3,792,434 and 3,792,623 shares issued and outstanding as of December 31, 2021 and 2020, respectively	20,071,663	20,073,213
Additional paid-in capital	819,312	771,142
Retained earnings	12,198,105	8,279,766
Accumulated other comprehensive (loss) income	(811,695)	295,835
Total stockholders' equity	32,277,385	29,419,956
Total liabilities and stockholders' equity	$ 314,052,192	$ 298,352,533

See accompanying notes.

Citizens Commerce Bancshares, Inc.
Consolidated Statements of Income
Years Ended December 31, 2021 and 2020

	2021	2020
Interest income		
Loans, including fees	$ 12,228,984	$ 10,195,283
Securities		
U.S. Treasury, government agencies and other	524,189	395,905
Municipal bonds	626,770	746,900
Other	54,693	80,911
	13,434,636	11,418,999
Interest expense		
Deposits	845,769	1,565,111
Other borrowings	13,613	25,906
	859,382	1,591,017
Net interest income	12,575,254	9,827,982
Provision for loan losses	180,000	535,000
Net interest income after provision for loan losses	12,395,254	9,292,982
Other income		
Service charges and fees	1,158,722	1,009,738
Net gain on securities	50,531	21,911
Gain on sale of loans held for sale	789,184	687,445
Gain on sale of Visa stock	-	137,889
Other	128,727	131,158
Total other income, net	2,127,164	1,988,141
Other expenses		
Salaries and benefits	4,562,302	4,369,625
Occupancy and equipment	1,069,746	1,006,545
Data processing	786,328	723,536
Professional fees	198,012	184,172
Regulatory assessments	87,595	81,265
Franchise tax	112,411	346,297
Other	1,475,027	1,333,955
Total other expenses	8,291,421	8,045,395
Net income before income taxes	6,230,997	3,235,728
Income tax expense	1,705,446	655,863
Net income	$ 4,525,551	$ 2,579,865
Income per share		
Basic	$ 1.19	$ 0.66
Diluted	1.19	0.66

See accompanying notes.

Citizens Commerce Bancshares, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020

	2021	**2020**
Net income	$ 4,525,551	$ 2,579,865
Other comprehensive income		
Unrealized holding (loss) gain arising during the period	(1,353,060)	1,134,770
Less: reclassification adjustment for gains included in net income	(50,531)	(21,911)
Net unrealized (loss) gain	(1,403,591)	1,112,859
Tax effect	296,061	(233,701)
Total other comprehensive income	(1,107,530)	879,158
Comprehensive income	$ 3,418,021	$ 3,459,023

See accompanying notes.

Citizens Commerce Bancshares, Inc.
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2021 and 2020

	Common stock shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balances, January 1, 2020	3,988,518	$ 20,073,213	$ 1,875,392	$ 5,699,901	$ (583,323)	$ 27,065,183
Net income	-	-	-	2,579,865	-	2,579,865
Stock option expense	-	-	100,615	-	-	100,615
Stock buyback	(195,895)	-	(1,204,865)	-	-	(1,204,865)
Other comprehensive income	-	-	-	-	879,158	879,158
Balances, December 31, 2020	3,792,623	20,073,213	771,142	8,279,766	295,835	29,419,956
Net income	-	-	-	4,525,551	-	4,525,551
Stock option expense	-	-	48,170	-	-	48,170
Stock buyback	(189)	(1,550)	-	-	-	(1,550)
Dividends paid	-	-	-	(607,212)	-	(607,212)
Other comprehensive loss	-	-	-	-	(1,107,530)	(1,107,530)
Balances, December 31, 2021	3,792,434	$ 20,071,663	$ 819,312	$ 12,198,105	$ (811,695)	$ 32,277,385

See accompanying notes.

Citizens Commerce Bancshares, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	$ 4,525,551	$ 2,579,865
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	405,538	389,477
Amortization and accretion of securities	233,461	238,745
Provision for loan losses	180,000	535,000
Gain on sale of loans held for sale	(789,184)	(687,445)
Originations of loans held for sale	(50,803,587)	(50,051,197)
Proceeds from loans held for sale	53,532,677	48,730,536
Gain on securities	(50,531)	(21,911)
Deferred taxes	1,374,521	1,248,935
Gain on sale of Visa stock	-	(137,889)
Write down of other real estate owned and repossessed assets	107,239	59,084
Loss on disposal of Bank premises and equipment	7,429	3,440
Increase in cash surrender value of life insurance	(165,727)	(153,176)
Stock options vested	48,170	100,615
Changes in		
Interest receivable	20,148	(56,605)
Other assets	(1,156,688)	(623,532)
Interest payable	(20,129)	(30,892)
Other liabilities	1,113,505	92,827
Net cash provided by operating activities	8,562,393	2,215,877
Cash flows from investing activities		
Proceeds from maturities, calls and paydowns of securities available for sale	7,507,114	11,471,868
Purchases of securities available for sale	(16,709,726)	(7,313,065)
Purchase of FHLB stock	-	(160,000)
Net change in loans	(21,689,610)	(20,415,222)
Proceeds from sale of Visa stock	-	137,889
Purchase of bank premises and equipment	(201,522)	(406,343)
Proceeds from sale of other real estate owned	1,485	-
Net cash used in investing activities	(31,092,259)	(16,684,873)
Cash flows from financing activities		
Net change in deposits	10,540,241	33,315,483
Net change in securities sold under agreements to repurchase	1,208,613	(2,357,920)
Dividends paid	(607,212)	-
Common stock buyback	(1,550)	(1,204,865)
Net cash provided by financing activities	11,140,092	29,752,698
Net change in cash and cash equivalents	(11,389,774)	15,283,702
Cash and cash equivalents at beginning of year	32,090,239	16,806,537
Cash and cash equivalents at end of year	$ 20,700,465	$ 32,090,239

See accompanying notes.

Citizens Commerce Bancshares, Inc.
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	2021	2020
Supplemental cash flow information		
Interest paid	$ 879,511	$ 1,621,909
Income taxes refunded	372,500	(84,185)
Supplemental non-cash information		
Transfers from loans to other real estate owned and repossessed assets	134,656	1,485

See accompanying notes.

Note A - Nature of Organization and Operations

The accompanying consolidated financial statements include the accounts of Citizens Commerce Bancshares, Inc. (the "Company") and its wholly-owned subsidiary, Citizens Commerce Bank (the "Bank"). Material intercompany accounts and transactions have been eliminated in consolidation.

The Bank operates under a state non-member charter. As a state bank, the Bank is subject to regulation by the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation and the Company, a bank holding company, is regulated by the Federal Reserve Bank.

Note B - Summary of Significant Accounting Policies

1. Basis of Presentation: The consolidated financial statements include the accounts of the Company and the Bank and are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and practices within the banking industry. The Accounting Standards Codification ("ASC") produced by the Financial Standards Board ("FASB") is the sole source of authoritative GAAP.

2. Subsequent Events: Subsequent events for the Company have been considered through the date of the Independent Auditor's Report, which represents the date the consolidated financial statements were available to be issued.

3. Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

   The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. The majority of the Bank's loan portfolio consists of residential and commercial loans in Woodford County, Kentucky, and surrounding counties. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in this local market.

   While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for losses on loans may change materially in the near term.

4. Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Net cash flows are reported for loan, deposit, repurchase agreements, and federal funds transactions.

5. Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Note B - Summary of Significant Accounting Policies (Continued)

5. Securities (Continued): Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to callable and/or maturity date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

   Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

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

   Interest income on mortgage and commercial loans is discontinued and placed on non-accrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due mortgage loans may have an impairment analysis performed resulting in a charge off to the extent principal or interest are deemed uncollectible. Consumer loans continue to accrue interest until they are charged off no later than 120 days past due unless the loan is in the process of collection. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

   All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

7. Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregated cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Loans are sold servicing released. At December 31, 2021 and 2020, there were $421,000 and $2,360,906 in loans held for sale, respectively.

Note B - Summary of Significant Accounting Policies (Continued)

8. Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

   The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDRs") and classified as impaired.

   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.

   Loans classified as non-accrual with a balance over $100,000 are individually evaluated for impairment. Impairment for all impaired loans is calculated on a loan-by-loan basis using either the estimated fair value of the loan's collateral less estimated selling costs (for collateral dependent loans) or the present value of the loan's cash flows (for non-collateral dependent loans). Any calculated impairment is recognized as a valuation allowance within the overall allowance for loan losses and a charge through the provision for loan losses. The Bank may charge off any portion of the impaired loan with a corresponding decrease to the valuation allowance when such impairment is deemed uncollectible.

   TDRs are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. For TDRs that subsequently default, the Bank determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired. The Bank incorporates recent historical experience related to TDRs including the performance of TDRs that subsequently default into the calculation of the allowance by loan portfolio segment.

Note B - Summary of Significant Accounting Policies (Continued)

8. Allowance for Loan Losses (Continued): The general component covers loans that are collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not included in the separately identified impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as commercial loans below the individual evaluation threshold, as well as those loans that are individually evaluated but are not considered impaired. The general component is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans (including TDRs); levels of and trends in charge-offs and recoveries; migration of loans to the classification of special mention, substandard, or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

   Management has identified the following portfolio segments and their associated risks which are used in the Note D loan disclosures:

   - Commercial loans are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advanced for equipment purchases or to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. Financial information is obtained from the borrower to evaluate ability to repay the loans.
   - Real estate loans (commercial, residential, and construction) are affected by the local real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. Appraisals are obtained to support the loan amount.
   - Consumer loans are dependent on local economies. Consumer loans are generally secured by consumer assets but may be unsecured. The Bank evaluates the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios.

9. Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

10. Other Real Estate Owned: Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Note B - Summary of Significant Accounting Policies (Continued)

11. Revenue from Contracts with Customers: All of the Bank's revenue from customers in the scope of ASC 606 are recognized within non-interest income. A description of the Bank's revenue streams accounted for under ASC 606 are as follows:

    Service Charges and Fees

    The Bank earns revenue from transaction-based, account maintenance, and overdraft services. Transaction-based service fees are recognized at the time the transactions are executed as that is the point in time the Bank fulfills the customers' request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the Bank satisfies the performance obligations. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges are withdrawn from the customer's account balance. Debit and card interchange revenue represents fees assessed within the payment card system for acceptance of card-based transactions. Interchange fees are recognized at a point in time when the transaction is authorized. Revenues are collected and recognized daily through the payment network settlement process.

    Gain/Loss on Sales of Other Real Estate Owned ("OREO")

    Gain or loss on sale of foreclosed properties is recorded when control of the property transfers to the buyer, which generally occurs at the time of transfer of the deed. If the Bank finances the sale of the foreclosed property to the buyer, the Bank assess whether the buyer is committed to perform their obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed property is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer.

    Other Non-interest Income

    Other non-interest income represents a variety of revenue streams. Income is recorded once the performance obligations are satisfied, generally on the accrual basis or on a cash basis if not material and/or considered constrained.

12. Advertising: The Bank expenses advertising costs as incurred.

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

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

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

    The Company recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other expense.

Note B - Summary of Significant Accounting Policies (Continued)

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

16. Stock-Based Compensation: Compensation cost is recognized for stock options awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options.

    Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

17. Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

18. Earnings Per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options.

19. Comprehensive Income: Comprehensive income consists of net income and other comprehensive (loss) income. Other comprehensive (loss) income includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity.

20. Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives. 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.

21. 401K Profit Sharing Plan: The Citizens Commerce Bancshares, Inc. KSOP Trust ("KSOP") covers substantially all full-time employees of the bank with at least one year of service. The Company recognizes compensation expense equal to the amount of cash contributed to the KSOP.

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

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

Note B - Summary of Significant Accounting Policies (Continued)

24. New Pronouncements: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduces the current expected credit loss ("CECL") model and replaces the incurred loss model. Credit losses on financial instruments measured at amortized cost will be determined using a current expected credit loss model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts.

    In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. Credit losses relating to available-for-sale debt securities will be recognized through an allowance for credit losses. The amount of the credit loss is limited to the amount by which fair value is below amortized cost of the available-for-sale debt security. The amendments should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the period adopted. A prospective approach is required for securities with other-than-temporary impairment recognized prior to adoption. The amendment is effective for fiscal year ended December 31, 2023. Early adoption is permitted.

    The Bank is currently evaluating the impact of the above ASU on the future consolidated financial statements.

    In February 2016, the FASB issued ASU 2016-2, *Leases* (Topic 842). The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ended December 31, 2022.

    The Bank has evaluated the impact of the above ASU on the future consolidated financial statements and does not anticipate any impact upon adoption.

25. New Federal Regulations: As a result of the economic impact of the COVID-19 coronavirus pandemic, the Coronavirus Aid Relief, and Economic Security ("CARES") Act was enacted in the United States on March 27, 2020. The Bank is approved by the Small Business Administration's ("SBA") to fund loans under the SBA Paycheck Protection Program ("PPP") created as part of the CARES Act. The PPP loans have 1.00% interest rates, lender fees, two or five-year terms (depending on date of origination) and may qualify for forgiveness. These loans funded by the Bank are subject to the terms and conditions applicable to all loans made pursuant to the PPP, as administered by the SBA under the CARES Act. The PPP calls for these loans to be fully guaranteed by the SBA. All PPP loans are carried in the Bank's Commercial loan portfolio.

    On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act ("Economic Aid Act") was signed into law. This Act made various changes to the PPP that affect all PPP loans including those funded under the CARES Act. The Economic Aid Act opens a new PPP loan period for first loans and implements a second loan draw for certain PPP borrowers, each through March 31, 2021. The Bank participated in this program.

    As of December 31, 2021 and 2020, the Company had PPP loans under the above regulations with an outstanding balance of $2,085,186 and $6,131,651, respectively.

Note B - Summary of Significant Accounting Policies (Continued)

25. New Federal Regulations (Continued): An additional provision of the CARES Act, Section 4013 provides financial institutions the option to suspend requirements to categorize certain loan modifications as TDRs, as long as specific criteria are met. To qualify, the loan modifications must be made on a good-faith basis in response to the COVID-19 pandemic, must occur between March 1, 2020 and the earlier of December 31, 2020 or the 60th day after the end of the COVID-19 pandemic is declared by the President of the United States, and the loans must have been paid current (less than 30 days past due prior to any relief) as of December 31, 2019. In compliance with Section 4013 of the CARES Act, the Bank has granted modification requests to defer principal and/or interest payments or modify interest rates on various loans across all portfolio segments.

    Of the loan modifications that have been granted in compliance with Section 4013 of the CARES Act, there were 6 loan modifications still actively on deferral carrying an aggregate balance of $6,921,038 as of December 31, 2020. There were no loans actively on deferral as of December, 31, 2021.

Note C - Investment Securities

The aggregate fair value amounts of investment securities and their amortized cost basis at December 31, 2021 and 2020 were as follows:

2021				
Available for sale	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U. S. Government agencies	$ 9,201,046	$ 113,058	$ (143,701)	$ 9,170,403
Municipal securities	18,072,891	287,028	(124,448)	18,235,471
Collateralized mortgage obligations	7,121,192	146,454	(138,831)	7,128,815
Government sponsored entity mortgage backed securities residential	12,282,492	63,690	(229,312)	12,116,870
Total securities	$ 46,677,621	$ 610,230	$ (636,292)	$ 46,651,559

2020				
Available for sale	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U. S. Government agencies	$ 10,041,864	$ 314,938	$ (16,920)	$ 10,339,882
Municipal securities	16,848,167	619,407	(670)	17,466,904
Collateralized mortgage obligations	3,619,813	327,532	-	3,947,345
Government sponsored entity mortgage backed securities residential	7,148,095	142,176	(8,934)	7,281,337
Total securities	$ 37,657,939	$ 1,404,053	$ (26,524)	$ 39,035,468

Note C - Investment Securities (Continued)

Security sales during the year ended December 31, 2021 and 2020 were $988,612 and $0, respectively. Proceeds of $1,585,670 and $6,380,963 were received from securities called or matured during the period ending December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Company recognized a gain of $50,531 and $21,911, respectively.

The amortized cost and fair value of the debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage backed securities, are shown separately.

December 31, 2021		
Available for sale	Amortized cost	Fair value
Due within one year	$ 1,312,824	$ 1,328,868
Due from one to five years	474,478	479,775
Due from five to ten years	6,747,443	6,813,038
Due after ten years	18,739,192	18,784,193
Collateralized mortgage obligations	7,121,192	7,128,815
Government sponsored entity mortgage backed securities residential	12,282,492	12,116,870
	$ 46,677,621	$ 46,651,559

At year end December 31, 2021 and 2020, investment securities with a carrying value of $29,751,004 and $27,120,661, respectively were pledged to secure public deposits, FHLB advances, or for other purposes.

At year end December 31, 2021 and 2020, all holdings of securities including the U.S. Government and its agencies and various municipal securities, are in amounts greater than 10% of stockholders' equity.

Note C - Investment Securities (Continued)

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

	2021					
	Less than 12 months		12 months or more		Total	
Description of securities	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Available for sale						
U.S. Government agencies	$ -	$ -	$ 3,643,440	$ (143,701)	$ 3,643,440	$ (143,701)
Municipal securities	4,615,841	(124,448)	-	-	4,615,841	(124,448)
Collateralized mortgage obligations	8,554	(5)	2,906,630	(138,826)	2,915,184	(138,831)
Government sponsored entity mortgage-backed securities residential	9,256,800	(224,106)	239,019	(5,206)	9,495,819	(229,312)
Total	$ 13,881,195	$ (348,559)	$ 6,789,089	$ (287,733)	$ 20,670,284	$ (636,292)

	2020					
	Less than 12 months		12 months or more		Total	
Description of securities	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Available for sale						
U.S. Government agencies	$ 3,848,960	$ (16,920)	$ -	$ -	$ 3,848,960	$ (16,920)
Municipal securities	45,000	(670)	-	-	45,000	(670)
Collateralized mortgage obligations	-	-	-	-	-	-
Government sponsored entity mortgage-backed securities residential	2,230,725	(2,024)	262,525	(6,910)	2,493,250	(8,934)
Total	$ 6,124,685	$ (19,614)	$ 262,525	$ (6,910)	$ 6,387,210	$ (26,524)

Unrealized losses have not been recognized into income because the issuer bonds are of high credit quality (rated AA or higher) at acquisition and as of December 31, 2021, management does not intend to sell and it is likely that management would not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as bonds approach maturity.

At December 31, 2021, there were 24 available-for-sale debt securities with unrealized losses having depreciated 3% from the Company's amortized cost basis. These securities are guaranteed by either the U.S. government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of the reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note D - Loans

Loans at December 31 were as follows:

	2021	2020
Commercial	$ 16,130,023	$ 18,657,720
Real estate		
Commercial	89,150,366	78,974,397
Residential	120,041,016	105,734,416
Construction	8,035,144	8,235,980
Consumer and other	2,296,547	2,558,214
Total loans	235,653,096	214,160,727
Net deferred loan costs	730,787	594,590
Total loans and deferred cost	236,383,883	214,755,317
Allowance for loan losses	(2,864,537)	(2,610,925)
Loans, net	$ 233,519,346	$ 212,144,392

Note D - Loans (Continued)

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

December 31, 2021	Commercial	Commercial real estate	Residential real estate	Construction real estate	Consumer and other	Total
Allowance for loan losses						
Beginning balance	$ 28,025	$ 1,409,133	$ 1,089,833	$ 25,515	$ 58,419	$ 2,610,925
Provision for loan losses	2,935	94,483	76,537	1,711	4,334	180,000
Recoveries	30,308	-	51,646	-	7,100	89,054
Loans charged-off	(14,567)	-	-	-	(875)	(15,442)
Total ending allowance balance	$ 46,701	$ 1,503,616	$ 1,218,016	$ 27,226	$ 68,978	$ 2,864,537

December 31, 2020	Commercial	Commercial real estate	Residential real estate	Construction real estate	Consumer and other	Total
Allowance for loan losses						
Beginning balance	$ 38,676	$ 1,063,505	$ 817,795	$ 20,094	$ 42,976	$ 1,983,046
Provision for loan losses	10,434	286,920	220,630	5,421	11,595	535,000
Recoveries	13,792	58,708	51,922	-	8,516	132,938
Loans charged-off	(34,877)	-	(514)	-	(4,668)	(40,059)
Total ending allowance balance	$ 28,025	$ 1,409,133	$ 1,089,833	$ 25,515	$ 58,419	$ 2,610,925

Note D - Loans (Continued)

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

	Commercial	Commercial real estate	Residential real estate	Construction real estate	Consumer and other	Total
Allowance for loan losses						
Ending allowance balance attributable to loans						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	46,701	1,503,616	1,218,016	27,226	68,978	2,864,537
Total ending allowance balance	$ 46,701	$ 1,503,616	$ 1,218,016	$ 27,226	$ 68,978	$ 2,864,537
Loans						
Loans individually evaluated for impairment	$ -	$ -	$ 138,057	$ -	$ -	$ 138,057
Loans collectively evaluated for impairment	16,102,120	89,150,366	120,566,544	8,035,144	2,391,652	236,245,826
	$ 16,102,120	$ 89,150,366	$ 120,704,601	$ 8,035,144	$ 2,391,652	$ 236,383,883

Note D - Loans (Continued)

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

	Commercial	Commercial real estate	Residential real estate	Construction real estate	Consumer and other	Total
Allowance for loan losses						
Ending allowance balance attributable to loans						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	28,025	1,409,133	1,089,833	25,515	58,419	2,610,925
Total ending allowance balance	$ 28,025	$ 1,409,133	$ 1,089,833	$ 25,515	$ 58,419	$ 2,610,925
Loans						
Loans individually evaluated for impairment	$ -	$ -	$ 489,150	$ -	$ -	$ 489,150
Loans collectively evaluated for impairment	18,516,554	78,974,397	105,888,250	8,235,980	2,650,986	214,266,167
	$ 18,516,554	$ 78,974,397	$ 106,377,400	$ 8,235,980	$ 2,650,986	$ 214,755,317

Note D - Loans (Continued)

The following tables present information related to impaired loans by class of loans as of and for the years ended December 31, 2021 and 2020:

	December 31, 2021					
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized	Cash basis interest recognized
With no related allowance recorded						
Real estate						
Residential	$ 138,057	$ 138,057	$ -	$ 140,564	$ 7,594	$ 7,594
Total	$ 138,057	$ 138,057	$ -	$ 140,564	$ 7,594	$ 7,594

	December 31, 2020					
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Average recorded investment	Interest income recognized	Cash basis interest recognized
With no related allowance recorded						
Real estate						
Residential	$ 489,150	$ 489,150	$ -	$ 503,406	$ 24,744	$ 24,744
Total	$ 489,150	$ 489,150	$ -	$ 503,406	$ 24,744	$ 24,744

Note D - Loans (Continued)

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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

	Nonaccrual		Loans past due over 90 days still accruing	
	2021	2020	2021	2020
Commercial real estate	$ -	$ -	$ 20,313	$ 15,738
Real estate				
Commercial	-	-	-	-
Residential	139,136	277,782	280,936	308,542
Construction	-	-	-	-
Consumer and others	-	-	5,130	-
Total	$ 139,136	$ 277,782	$ 306,379	$ 324,280

Interest income that would have been recorded if nonaccrual loans were on a current basis in accordance with their original terms for the years ended December 31, 2021 and 2020 was $10,937 and $14,110, respectively.

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

	December 31, 2021			
	30 - 89 days past due	Past due 90 days or more	Total current loans	Total
Commercial real estate	$ 888,859	$ 20,313	$ 15,192,948	$ 16,102,120
Real estate				
Commercial	-	-	89,150,366	89,150,366
Residential	118,244	420,072	120,166,285	120,704,601
Construction	-	-	8,035,144	8,035,144
Consumer and others	-	5,130	2,386,522	2,391,652
Total	$ 1,007,103	$ 445,515	$ 234,931,265	$ 236,383,883

Note D - Loans (Continued)

	December 31, 2020			
	30 - 89 days past due	Past due 90 days or more	Total current loans	Total
Commercial real estate	$ -	$ 15,738	$ 18,500,816	$ 18,516,554
Real estate				
Commercial	314,439	-	78,659,958	78,974,397
Residential	237,488	586,324	105,553,588	106,377,400
Construction	-	-	8,235,980	8,235,980
Consumer and others	-	-	2,650,986	2,650,986
Total	$ 551,927	$ 602,062	$ 213,601,328	$ 214,755,317

Troubled Debt Restructurings

As of December 31, 2021 and 2020, the Company has a recorded investment in TDRs of $138,057 and $211,367, respectively. The Company has allocated $0 of specific reserves to those loans at December 31, 2021 and 2020 and has not committed to lend additional amounts to customers with outstanding loans that are classified as TDRs.

There were no loans modified as TDRs during the years ended December 31, 2021 and 2020.

There were no TDRs for which a payment defaulted within twelve months following the modifications during the years ended December 31, 2021 and 2020.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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 credit risk. This analysis is performed on all loans at inception. For loan relationships with an outstanding balance greater than $500,000 this analysis is performed on an annual basis. The Company uses the following definitions for risk ratings with loans meeting such definitions consider classified:

- *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 borrower 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 as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Note D - Loans (Continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

Based on the most recent analysis performed, the risk category of loans as of December 31, 2021 and 2020 were as follows:

	December 31, 2021				
	Pass	Special mention	Substandard	Doubtful	Total
Commercial real estate	$ 14,865,967	$ -	$ 1,236,153	$ -	$ 16,102,120
Real estate					
Commercial	86,184,436	-	2,965,930	-	89,150,366
Residential	120,238,140	-	466,461	-	120,704,601
Construction	8,035,144	-	-	-	8,035,144
Consumer and others	2,391,652	-	-	-	2,391,652
Total	$ 231,715,339	$ -	$ 4,668,544	$ -	$ 236,383,883

	December 31, 2020				
	Pass	Special mention	Substandard	Doubtful	Total
Commercial real estate	$ 17,690,971	$ 15,738	$ 809,845	$ -	$ 18,516,554
Real estate					
Commercial	77,046,650	884,421	1,043,326	-	78,974,397
Residential	105,538,357	-	839,043	-	106,377,400
Construction	8,235,980	-	-	-	8,235,980
Consumer and others	2,650,986	-	-	-	2,650,986
Total	$ 211,162,944	$ 900,159	$ 2,692,214	$ -	$ 214,755,317

In the normal course of business, the Bank makes loans to its directors and executive officers on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers. The aggregate amount of loans to such related parties at December 31, 2021 and 2020 was $69,847 and $104,919, respectively.

Note E - Bank Premises and Equipment

Premises and equipment as of December 31 were as follows:

	2021	2020
Land	$ 1,219,238	$ 1,219,238
Building	5,866,128	5,777,686
Furniture, fixtures and equipment	2,546,147	3,311,704
Leasehold improvements	86,495	86,495
	9,718,008	10,395,123
Less: accumulated depreciation	(4,471,484)	(4,937,154)
Total bank premises and equipment, net	$ 5,246,524	$ 5,457,969

Depreciation expense, included in occupancy and equipment in the Consolidated Statements of Income, amounted to $405,538 and $389,477 in 2021 and 2020, respectively.

Note F - Income Taxes

The components of the provision for income taxes as of December 31 were as follows:

	2021	2020
Current	$ 330,925	$ (159,764)
Deferred	1,374,521	815,627
Total	$ 1,705,446	$ 655,863

Effective tax rates differ from federal statutory rates applied to financial statement income due to the following:

	2021	2020
Federal statutory rate (26% for 2021 and 21% for 2020) times financial statement income	$ 1,619,721	$ 679,502
Effect of		
Tax exempt interest	(3,414)	(4,106)
Bank owned life insurance	(26,470)	(18,744)
Kentucky deferred tax asset and benefit	93,546	-
Other, net	22,063	(789)
Total	$ 1,705,446	$ 655,863

Note F - Income Taxes (Continued)

Deferred tax assets and liabilities as of December 31 are shown below:

	2021	2020
Deferred tax assets		
Net operating loss carryforward	$ 611,815	$ 1,957,455
Nonaccrual loan interest	7,848	4,633
Tax credit carryforward	2,000	2,000
Other	28,150	13,421
Contingent liability	-	1,385
Other real estate owned	32,484	7,287
Net unrealized losses on available for sale securities	6,775	-
Total deferred tax assets	689,072	1,986,181
Deferred tax liabilities		
Allowance for loan losses	(227,999)	(221,953)
Deferred loan fees/costs	(263,355)	(279,840)
Depreciation	(141,025)	(97,355)
FHLB dividends	(94,016)	(75,936)
Other	(81,488)	(62,162)
Net unrealized gains on available for sale securities	-	(289,281)
Total deferred tax liabilities	(807,883)	(1,026,527)
Deferred tax (liability) asset	$ (118,811)	$ 959,654

Net deferred tax liabilities are reported in other liabilities and net deferred tax assets are reported in other assets on the consolidated balance sheets.

The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. The Company did not record any amounts of interest and penalties in the consolidated statements of income for the years ended December 31, 2021 and 2020 and did not have an amount accrued for interest and penalties at December 31, 2021 and 2020.

On April 9, 2019, the state of Kentucky enacted legislation that repealed the bank franchise tax that the Bank has historically been subject to, in lieu of income taxes. Starting on January 1, 2021 the Company is subject to income taxes the same as any other Kentucky corporation and the Company and its subsidiary will file consolidated federal and Kentucky income tax returns. For 2020, the Company and its subsidiary file a U.S. Corporation federal income tax return and the Company files a Kentucky Corporation income tax return. These returns are subject to examination by taxing authorities for all years after 2018.

Note F - Income Taxes (Continued)

At December 31, 2021, the Company has a net operating loss carryforward of approximately $2,900,000, which begins to expire in 2029.

Note G - Deposits

Time deposits of $250,000 or more were $21,437,579 and $28,592,516 at December 31, 2021 and 2020, respectively. The scheduled maturities of time deposits for the next five years are as follows:

2022	$ 57,958,561
2023	11,347,486
2024	2,212,525
2025	389,894
2026	974,967
	$ 72,883,433

Certain directors and executive officers and companies in which they have a beneficial ownership are depositors of the Bank with balances of $15,041,462 and $12,290,368 at year end 2021 and 2020, respectively.

Note H - Financial Instruments with Off-balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit and commitments to extend credit in the form of unused lines of credit. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2021 and 2020, the Bank had the following financial instruments, substantially all of which were at variable rates:

	2021	2020
Commitments to extend credit	$ 38,587,000	$ 29,338,000

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 Bank evaluates each customer's creditworthiness on a case-by-case basis. Based on an evaluation of the creditworthiness of borrowers for which the Bank has made commitments to extend credit, a liability of $0 and $6,593 was accrued at year end 2021 and 2020, respectively, for expected losses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Collateral held, if any, varies but primarily includes real estate.

Note I - Regulatory Matters

Banks and bank holding companies are 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 a bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of a bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. A bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In July 2013, the Federal Reserve Board and the Office of the Comptroller of the Currency ("OCC") issued final rules that revised the capital framework applicable to the Bank. The Federal Deposit Insurance Corporation ("FDIC") approved the revised capital framework as an interim final rule. The revised framework implements the Basel II regulator capital reforms and certain changes required by the Dodd-Frank Act, including Basel III's regulatory capital definitions and minimum ratios and its introduction of capital conservation buffer, which limits the institutions payouts. The new rules became effective January 1, 2015 with certain transition provisions fully phased in on January 2019.

Quantitative measures established by regulation to ensure capital adequacy require a bank to maintain minimum amounts and ratios (set forth in the following table) of total risk-based capital, Common Equity Tier I capital, and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to adjusted total assets (as defined). Management believes, as of December 31, 2021, that the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. However, under certain regulatory actions and agreements, regulating agencies may set forth capital requirements that are significantly higher than those defined in the prompt corrective action regulations.

In 2020, the Company elected to adopt regulatory capital simplification rules permitting a community bank organization to utilize one measure of regulatory capital, the community bank leverage ratio (also known as the "CBLR"), to determine regulatory capital adequacy. The CBLR requires a higher amount of Tier 1 capital to average assets than the standard leverage ratio to be considered well capitalized. However, meeting this higher standard eliminates the need to compute and monitor the Tier 1 risk-based capital ratio, the Common Equity Tier 1 risk-based capital ratio and the total risk-based capital ratio as well as maintain the 2.50% regulatory capital buffer necessary to avoid limitations on equity distributions and discretionary bonus payments.

Other criteria required to be able to utilize the CBLR as the sole measure of capital adequacy include 1.) total assets less than $10.0 billion, 2.) trading assets and liabilities equal to less than 5.0% of total assets and 3.) off-balance sheet exposures, such as the unused portion of conditionally cancellable lines of credit, equal to less than 25% of total assets. The Bank meets all three of these criteria and has elected to utilize the CBLR as their measure of regulatory capital adequacy.

Note I - Regulatory Matters (Continued)

In October 2020, the OCC issued OCC Bulletin 2020-89, Regulatory Capital Rule: Temporary Changes to and Transition for The CBLR Framework, which adopted two interim final rules that temporarily lowers the required leverage ratio from 9% to 8%, to be considered well capitalized, effective the second quarter of 2020. It establishes a minimum CBLR of 8% for the second through fourth quarters of 2020, 8.5% for 2021, and 9% thereafter, and maintains a two-quarter grace period for qualifying community banking organizations whose leverage ratios fall no more than 100 basis points below the applicable CBLR requirement.

The following table represents the Bank's actual and required capital ratios at December 31, 2021 and 2020 under the prompt corrective action regulations. The Bank meets and or exceeds established well capitalized thresholds for both years presented and under the guidance being followed for 2021 and 2020.

	2021					
	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier I capital (to average assets)	$ 33,282	10.63%	$ 26,604	8.50%	$ 26,604	8.50%

	2020					
	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier I capital (to average assets)	$ 28,226	9.69%	$ 23,303	8.00%	$ 23,303	8.00%

Note J - Stock Option Plan

The Company's 2018 Equity Incentive Plan (the "Plan") permits the grant of shares to its employees for up to 350,000 shares of common stock as awards under the Plan. Awards under the Plan can mean incentive stock options, non-qualified stock options, restricted stock awards, and restricted stock unit awards. Awards are generally granted with an exercise price equal to the fair value of the Company's common stock at the date of grant. If there is no public market for the shares of common stock on the grant date, the fair market value will be determined by the Plan's Oversight Committee in good faith, generally by engaging a third-party specialist to determine fair value. Those awards have vesting periods ranging from immediately to five years and have ten-year contractual terms.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are non-transferable.

Note J - Stock Option Plan (Continued)

The fair value of options granted was determined using the following weighted-average assumptions as of the grant date.

	2021	2020
Risk-free interest rate	1.21%	0.38%
Expected term	5 years	5 years
Expected stock price volatility	21.51%	16.43%
Dividend yield	3.43%	0.00%

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

	2021	2020
Outstanding, beginning of year	260,132	216,500
Forfeit	(2,775)	(12,500)
Issued	7,500	56,132
Outstanding, end of year	264,857	260,132
Weighted average exercise price		
Outstanding at beginning of year	$ 6.16	$ 6.00
Granted	7.00	6.75
Outstanding at year end	6.21	6.16
Exercisable at end of year	6.26	6.23
Weighted average remaining contractual life (years) on outstanding options	7.9	8.8
Eligible for exercise (vested)	184,757	179,632
Expected to vest	272,357	260,132
Weighted average fair value of options granted	1.17	1.18

For the years ended December 31, 2021 and 2020, the Company recognized compensation costs of $48,176 and $100,615, respectively which are included in salaries and benefits on the Consolidated Statements of Income. At December 31, 2021 and 2020, unrecognized compensation expense related to non-vested stock options was $104,701 and $98,662, respectively and is expected to be realized over the vesting period of the options.

Note K - Earnings per Common Share

The factors used in the earnings per common share computation were as follows.

	2021	2020
Basic		
Net income available to common shareholders	$ 4,525,551	$ 2,579,865
Weighted average common shares outstanding	3,792,582	3,873,978
Basic income per common share	$ 1.19	$ 0.66
Diluted		
Net income available to common shareholders	$ 4,525,551	$ 2,579,865
Weighted average common shares outstanding for basic earnings per common share	3,792,582	3,873,978
Add: dilutive effects of assumed exercises of warrants	-	-
Average shares and dilutive potential common shares	3,792,582	3,873,978
Diluted income per common share	$ 1.19	$ 0.66

Note L - Benefit Plan

The Bank maintains a KSOP with 401(k) provisions that covers substantially all employees. In 2014, the Bank amended the plan and elected to contribute 3% to all employees. Effective July 1, 2009, the Plan was amended, and matching contributions are to be made in cash rather than Company stock. At all times, however, the Company shall have the discretion to make matching contributions in Company stock. Expense for the year ended December 31, 2021 and 2020 was $116,875 and $112,710, respectively and is included in compensation expense.

A participant receiving an allocation of stock from the KSOP has an option to require the Company to repurchase the shares received at the fair value on an annual basis. The Company completed a 1-for-10 reverse stock split effective November 30, 2018. As of December 31, 2021 and 2020, 60,057 and 60,246 shares, respectively are allocated to participants and could become subject to put options. The fair value of these shares is $420,399 and $406,661 at December 31, 2021 and 2020, respectively.

Note M - Fair Value

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

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Note M - Fair Value (Continued)

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

The Company used the following methods and significant assumptions to estimate the fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated on market prices of similar securities, or matrix pricing, which is a mathematical technique, used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Matrix pricing relies on the securities' relationship to similarly traded securities, benchmark curves, and the benchmarking of like securities. Matrix pricing utilizes observable market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. In instances where broker quotes are used, these quotes are obtained from market makers or broker-dealers recognized to be market participants. This valuation method is classified as Level 2 in the fair value hierarchy. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. After the review of the appraisal, the Company typically applies a discount for liquidation and other considerations. The discounts range from 0% to 20% for all collateral-dependent loans and other real estate owned.

Note M - Fair Value (Continued)

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

	2021			
		Fair value measurements at December 31 using		
	Carrying value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable input (level 3)
Financial assets				
Investment securities				
available-for-sale				
U. S. Government agencies	$ 9,170,403	$ -	$ 9,170,403	$ -
Municipal securities	18,235,471	-	18,235,471	-
Collateralized mortgage obligations	7,128,815	-	7,128,815	-
Government sponsored entity mortgage backed securities residential	12,116,870	-	12,116,870	-
	$ 46,651,559	$ -	$ 46,651,559	$ -

	2020			
		Fair value measurements at December 31 using		
	Carrying value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable input (level 3)
Financial assets				
Investment securities				
available-for-sale				
U. S. Government agencies	$ 10,339,882	$ -	$ 10,339,882	$ -
Municipal securities	17,466,904	-	17,466,904	-
Collateralized mortgage obligations	3,947,345	-	3,947,345	-
Government sponsored entity mortgage backed securities residential	7,281,337	-	7,281,337	-
	$ 39,035,468	$ -	$ 39,035,468	$ -

Note M - Fair Value (Continued)

Assets measured at fair value on a non-recurring basis as of December 31, 2021 are summarized below:

	2021			
		Fair value measurements at December 31 using		
	Carrying value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable input (level 3)
Other real estate owned				
Commercial real estate	$ 512,117	$ -	$ -	$ 512,117
Repossessed assets	5,000	-	-	5,000
Impaired loans	138,057	-	-	$ 138,057
Total	$ 655,174	$ -	$ -	$ 655,174

Assets measured at fair value on a non-recurring basis as of December 31, 2020 are summarized below:

	2020			
		Fair value measurements at December 31 using		
	Carrying value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable input (level 3)
Other real estate owned				
Commercial real estate	$ 465,300	$ -	$ -	$ 465,300
Repossessed assets	25,885	-	-	25,885
Impaired loans	489,150	-	-	489,150
Total	$ 980,335	$ -	$ -	$ 980,335

Total other real estate owned and repossessed assets of $517,117 included approximately $512,117 of properties which are measured at fair value less costs to sell and resulted in write-downs of approximately $109,640 for the year ending December 31, 2021. Total other real estate owned and repossessed assets of $491,185 included approximately $465,300 of properties which are measured at fair value less costs to sell and resulted in write-downs of approximately $34,700 for the year ending December 31, 2020.