First State Bank

Built on Belief

2020 annual report

FIRST STATE BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements December 31st, 2020 and 2019 with Independent Auditors' Report

First State Bank

Dear Shareholder:

I am pleased to report our consolidated net income for 2020 was $5,991,820 which is up 12.17% from 2019. Net interest income (up 5.53%) contributed to our success. Our allowance for loan loss as of 12/31/2020 was $5,573,163 or 1.75% of total loans. Net charge offs for 2020 were $627,917 (0.19% of average loans) which is down from $634,777 (0.19%) in 2019.

Other 2020 highlights included:

- Net Loans were $309,993,894 at year-end down 5.55% from prior year
- Investment Securities were $206,910,129 up $88.9 million
- Deposits were $511,340,039 at year-end adding $90.6 million in balances
- Total shareholders' equity was $63,276,558 up $9.1 million
- First State Bank paid $1,267,200 in dividends for 2020 (21.15% of earnings).

2020 was a year to remember. The pandemic caused closures, fear, masks, and social distancing. Many businesses re-evaluated how to deliver goods and services. Your bank remained strong and produced great results even with all the challenges.

This interest rate environment created an opportunity to refinance home loans and help customers and businesses with their cost of funds. The bank sold $56 million of new home loans into the secondary market and generated $1.5 million in fees while the commercial team originated $8 million in PPP (Paycheck Protection Program) loans.

In April of 2020 your company raised $15 million in subordinated debt to assist in future growth opportunities. In September 2020 we signed a definitive agreement to purchase Community Holding Company and the Inez Deposit Bank in Martin and Lawrence County, KY. This deal was closed on February 19, 2021 and has added four banking centers and approximately $145 million in assets to our operation. We expect earnings accretion in the first year of operations.

We are pleased to report the current appraised value of First State Bancorp, Inc. stock as of 12/31/2020 is $86.50/share, up 5.17% from 12/31/2019.

Finally, after 20 years we gave our logo and vision a refresh. We've been "Built on Belief" since 1884. Many things have changed since then, but our beliefs remain the same. We believe in rural communities. We believe in the value of hard work. We believe in looking you in the eye and telling the truth. We believe in doing what's right. We believe your value has nothing to do with money. We believe how you treat people matters. And we believe when we build up our customers, our communities, and each other, we can make a lifelong difference.

First State Bank, "Built on Belief"

Thank you for your continued support.

Sincerely,
Michael P Pell
President / CEO

First State Bank

DAVID E. RICHEY
CHIEF FINANCIAL OFFICER

2020 was another great year for First State Bancorp, Inc. even among the pandemic. We were able to maintain a strong level of earnings in a year that had significant deposit growth along with lower interest rates in the market. Lower interest rates lead to a compressed net interest margin. Lower net interest margin was offset by having strong non-interest income, especially in the residential mortgage area.

Shareholders equity grew significantly due to earnings growth and improved fair market value of the investment portfolio. 2020 was the 16th consecutive year of improved net income for the company.

In 2020, your investment in First State Bancorp, Inc. returned a dividend of $1.60 per share up from $1.40 one year ago. The book value of your stock ended the year at $79.89 per share, up from $68.42 one year ago. Thank you for your role in making First State Bank a success.

Financial Highlights and Selected Financial Data

The following table sets forth certain information covering the consolidated financial position and results of operations of the company at the dates indicated.

	As of December 31,		
	2020	2019	2018
Balance Sheet: (in thousands)			
Assets	$603,029	$494,586	$462,816
Loans receivable, net	313,381	328,217	321,144
Investments	206,910	118,019	97,447
Deposits	511,340	420,729	407,692
Stockholders' equity	63,277	54,187	46,531

	For the Year Ended December 31,		
	2020	2019	2018
Results of operations:			
Net income	5,991,820	5,341,967	4,885,558
Per share data (common stock):			
Basic earnings per share	7.57	6.74	6.17
Year end book value	79.89	68.42	58.75
Dividends declared (common)	1,267,200	1,108,741	982,049
Performance ratios:			
Return on average assets	1.05%	1.09%	1.06%
Return on average equity	10.09%	10.35%	11.05%
Net interest margin (for the year)*	3.38%	3.72%	3.72%
Equity to assets (at year end)	10.49%	10.96%	10.05%
Allowance to total loans	1.75%	1.35%	1.24%

First State Bank

IN MEMORY OF OUR BOARD MEMBER, BARRY L. MCFARLAND

On December 2, 2020, our good friend and Board member, Barry L. McFarland, passed away. Barry served with distinction on the First State Bancorp and First State Bank Board of Directors for 45 years. Barry was a loving husband, father and grandfather. A prominent and successful businessman, Barry was also a very active community leader and supporter. His generous spirit and dedicated work touched the lives of countless individuals and communities. Barry was widely loved by all of us who had the privilege and pleasure to work with him. He will be greatly missed.

We Love to Volunteer ...

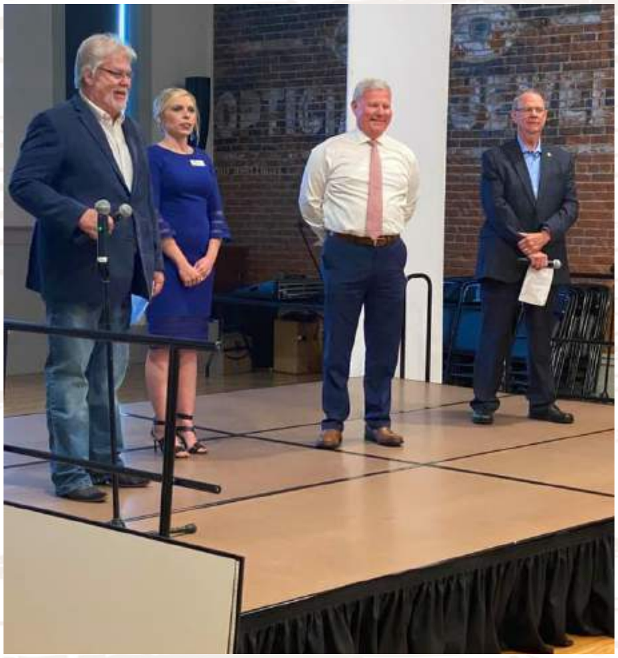
Showing our spirit at FSB Night in North Adams.

Presenting a check to Western Brown Athletics.

The team attending the Brown County Chamber Breakfast.

The team enjoying the SOAR Banquet.

and Serve Our Communities!



Proud host of the 48th Annual
Ernie Blankenship Radio Telethon.

Enjoying FSB Night in Fayetteville.

Representing FSB at Farm & Family
Night in Maysville.

Supporting the Adams County
Shop-with-a-Cop Program.

TABLE OF CONTENTS

CLARK SCHAEFER HACKETT
CPAs & Advisors

One East Fourth Street, Suite 1200, Cincinnati, Ohio 45202
P. 513.241.3111 | F. 513.241.1212 | cshco.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
First State Bancorp, Inc. and Subsidiary:

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of First State Bancorp, Inc. and Subsidiary which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, shareholders' 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.

Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 purposes 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.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First State Bancorp, Inc. and Subsidiary as of December 31, 2020 and 2019, 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 18, 2021

First State Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2020 and 2019

		2020	2019
Assets			
Cash and due from banks:			
Cash and cash items	$	3,334,700	2,706,362
Due from banks		51,262,738	20,892,847
Federal funds sold		1,528,000	461,000
		56,125,438	24,060,209
Investment securities, available-for-sale		200,728,540	116,540,228
Investment securities, held-to-maturity		6,181,589	1,478,522
Federal Home Loan Bank, at cost		1,331,600	1,281,100
Other equity securities		61,945	-
Loans held-for-sale		3,386,800	-
Loans receivable, net		309,993,894	328,217,008
Accrued interest receivable		2,535,593	2,021,020
Premises and equipment, net		10,103,683	10,221,422
Other real estate owned		-	95,600
Bank owned life insurance		9,475,518	6,825,568
Intangible assets, net		29,308	67,683
Goodwill, net		1,243,752	1,488,784
Income tax receivable		211,214	91,811
Net deferred tax asset		-	472,047
Other assets		1,619,726	1,816,720
Total assets	$	603,028,600	494,677,722
Liabilities and Shareholders' Equity			
Deposits:			
Demand	$	92,330,629	65,163,603
Savings and interest checking		276,204,607	226,479,240
Time deposits		142,804,803	129,085,990
Total		511,340,039	420,728,833
Federal Home Loan Bank advances		10,237,728	15,250,022
Subordinated debt, net		14,725,543	-
Net deferred tax liability		543,741	-
Accrued interest payable		120,773	189,260
Other liabilities		2,784,218	4,323,063
Total liabilities		539,752,042	440,491,178
Shareholders' equity:			
Common stock, no par value, 4,000,000 and 2,000,000 shares authorized at December 31, 2020 and 2019, respectively 792,000 issued and outstanding at December 31, 2020 and 2019		5,178,533	5,178,533
Additional paid-in capital		1,800,000	1,800,000
Retained earnings		50,765,992	46,028,321
Accumulated other comprehensive income		5,532,033	1,179,690
Total shareholders' equity		63,276,558	54,186,544
Total liabilities and shareholders' equity	$	603,028,600	494,677,722

See accompanying notes to the consolidated financial statements

First State Bancorp, Inc. and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2020 and 2019

	2020	2019
Interest income:		
Interest and fees on loans	$ 17,699,792	17,455,513
Interest on investment securities:		
Taxable	2,851,140	2,067,674
Tax-exempt	911,621	1,128,733
Interest on federal funds sold and deposits in banks	123,567	441,643
	21,586,120	21,093,563
Interest expense:		
Savings and interest checking	743,209	1,211,251
Other time deposits	1,742,228	2,384,424
Federal funds purchased and FHLB advances	220,292	158,234
Subordinated debt, net	582,375	-
	3,288,104	3,753,909
Net interest income	18,298,016	17,339,654
Provision for loan losses	1,713,748	1,074,778
Net interest income after provision for loan losses	16,584,268	16,264,876
Other income (loss):		
Earnings on bank owned life insurance	149,950	149,024
Gain on sale of investments	2,117,206	783,512
Gain on sale of loans	1,511,745	338,109
Loss on sale of other real estate owned	(16,373)	(10,074)
Loss on sale of fixed assets	(24,355)	(5,433)
Service charges on deposit accounts	1,070,853	1,328,104
ATM service charges and other fees, net	1,268,319	1,108,989
	6,077,345	3,692,231
Other expenses:		
Salaries, directors' fees and employee benefits	8,769,238	7,890,049
Software and equipment expenses	1,561,178	1,330,705
Supplies and postage expenses	322,764	298,543
Taxes other than federal income taxes	610,930	533,813
Occupancy expenses	711,703	731,135
FDIC insurance premiums and assessments	101,000	61,500
Professional fees	685,862	399,412
Telephone and data expenses	190,833	202,805
Marketing expenses	446,288	397,297
Amortization of intangible assets and goodwill	283,405	313,684
Impairment loss on fixed assets	42,245	103,923
Other operating expenses	1,622,384	1,284,162
	15,347,830	13,547,028
Income before federal income taxes	7,313,783	6,410,079
Federal income taxes	1,321,963	1,068,112
Net income	5,991,820	5,341,967
Net income per share of common stock	$ 7.57	6.74

See accompanying notes to the consolidated financial statements

	2020	2019
Net income	$ 5,991,820	5,341,967
Other comprehensive income:		
Unrealized holding gains during the period on securities available-for-sale, net of deferred tax expense of $1,156,952 and $909,861	2,692,801	2,803,838
Reclassification adjustment for gains included in net income on securities available-for-sale, net of deferred tax expense of $444,613 and $164,538	1,672,593	618,974
Other comprehensive income	4,365,394	3,422,812
Comprehensive income	$ 10,357,214	8,764,779

See accompanying notes to the consolidated financial statements

First State Bancorp, Inc. and Subsidiary
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2020 and 2019

	Common Stock	Additional Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2019	$ 5,178,533	1,800,000	-	41,795,095	(2,243,122)	46,530,506
Net income	-	-	-	5,341,967	-	5,341,967
Other comprehensive income, net of tax	-	-	-	-	3,422,812	3,422,812
Purchase of 617 shares of treasury stock	-	-	(44,042)	-	-	(44,042)
Proceeds from sale of 617 shares of treasury stock	-	-	44,042	-	-	44,042
Cash dividends declared ($1.40 per share)	-	-	-	(1,108,741)	-	(1,108,741)
Balance, December 31, 2019	5,178,533	1,800,000	-	46,028,321	1,179,690	54,186,544
Net income	-	-	-	5,991,820	-	5,991,820
Reclassification of unrealized gains due to adoption of ASU 2016-01	-	-	-	13,051	(13,051)	-
Other comprehensive income, net of tax	-	-	-	-	4,365,394	4,365,394
Purchase of 3,067 shares of treasury stock	-	-	(251,873)	-	-	(251,873)
Proceeds from sale of 3,067 shares of treasury stock	-	-	251,873	-	-	251,873
Cash dividends declared ($1.60 per share)	-	-	-	(1,267,200)	-	(1,267,200)
Balance, December 31, 2020	$ 5,178,533	1,800,000	-	50,765,992	5,532,033	63,276,558

See accompanying notes to the consolidated financial statements

		2020	2019
Operating activities:			
Net income	$	5,991,820	5,341,967
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of premiums and discounts on securities, net		644,046	1,734,085
Gain on sale of investments		(2,117,206)	(783,512)
Gain on sale of mortgage loans		(1,511,745)	(338,109)
Proceeds from sale of mortgage loans		57,353,407	14,687,158
Loans disbursed for sale in the secondary market		(59,228,462)	(13,368,032)
Provision for loan losses		1,713,748	1,074,778
Loss on sale of other real estate owned		16,373	10,074
Impairment loss on fixed assets		42,245	103,923
Depreciation expense		732,159	664,964
Loss on sale of fixed assets		24,355	5,433
Earnings on bank owned life insurance		(149,950)	(149,024)
Amortization of debt issuance costs		32,532	-
Amortization of intangible assets, goodwill and other assets		742,037	459,743
Deferred federal income tax benefit		(141,164)	(111,198)
Changes in assets and liabilities:			
Accrued interest receivable		(501,522)	(107,127)
Other assets		(381,039)	(186,010)
Accrued interest payable		(68,487)	25,419
Other liabilities		(1,538,845)	1,112,531
Net cash provided by operating activities		1,654,302	10,177,063
Investing activities:			
Repayment of mortgage-backed securities		19,848,803	6,744,335
Proceeds from sale, call and maturities of securities available-for-sale		38,166,628	59,406,258
Purchases of securities available-for-sale		(135,736,300)	(82,340,133)
Purchase of securities held-to-maturity		(4,250,000)	(1,000,000)
Net decrease (increase) in loans		16,352,915	(9,260,483)
Capital expenditures		(729,333)	(1,361,413)
Proceeds from sale of other real estate owned		235,678	20,426
Proceeds from sale of fixed assets		48,313	-
Purchase of bank owned life insurance		(2,500,000)	-
Purchase of FHLB stock		(50,500)	(202,500)
Net cash used by investing activities		(68,613,796)	(27,993,510)
Financing activities:			
Net increase in deposits		90,611,206	13,037,052
Net (repayments of) proceeds from FHLB advances		(5,012,294)	9,939,133
Net proceeds from issuance of subordinated debt		14,693,011	-
Dividends paid		(1,267,200)	(1,108,741)
		-	-
Purchase of treasury stock		(251,873)	(44,042)
Proceeds from sale of treasury stock		251,873	44,042
Net cash provided by financing activities		99,024,723	21,867,444
Change in cash and due from banks		32,065,229	4,050,997
Cash and due from banks, beginning of year		24,060,209	20,009,212
Cash and due from banks, end of year	$	56,125,438	24,060,209
Supplemental disclosures of cash flow information:			
Change in unrealized gain on securities	$	5,509,295	4,332,674
Real estate owned acquired through foreclosure	$	156,451	185,682
Cash paid during the year for:			
Federal income taxes	$	1,475,000	1,221,000
Interest	$	3,356,591	3,728,490
Accumulated other comprehensive income reclassification due to adoption of ASU 2016-01	$	13,051	-

See accompanying notes to the consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:

The following accounting policies are set forth to facilitate the understanding of data presented in the consolidated financial statements:

Nature of operations
First State Bancorp, Inc. (the Company) and First State Bank (the Bank) revenues, operating income and assets are primarily from the banking industry. The Bank operates thirteen branches in Adams, Brown, Highland, Fayette, Clinton, and Hamilton Counties in Ohio. The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in South Central Ohio. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations or businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic environment in the area.

The Bank is a state-chartered bank subject to regulation by the Ohio Department of Commerce, Division of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). The Bank is also a member of the Federal Home Loan Bank (FHLB) system, and as a member, maintains a required investment in the capital stock of the FHLB of Cincinnati.

Deposit accounts are insured within certain limitations by the Deposit Insurance Fund (DIF), which is administered by the FDIC. An annual premium is required by the DIF for insurance of such deposits.

During the year ended December 31, 2020 stockholders approved an increase to the authorized number of shares of common stock by 2,000,000 shares to 4,000,000 shares.

Basis of presentation
The accounting and reporting policies of the Company conform with accounting principles generally accepted in United States of America (GAAP) as contained in the Accounting Standards Codification (ASC) issued by the Financial Accounting Standards Board (FASB) and general practices within the financial services industry.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary the Bank. All significant intercompany transactions have been eliminated in consolidation.

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

Cash flows
Cash and cash equivalents include deposits with other financial institutions with maturities fewer than 90 days and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

The Company and Bank may at times maintain deposit accounts with other financial institutions in excess of FDIC limits. The Company and Bank have not experienced any losses in such accounts and do not believe they are exposed to any significant credit risk on cash.

Investment securities
Investment securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available-for-sale when they might be sold before maturity for any reason, including liquidity needs, changes in market interest rates, or asset/liability management strategies. Investment securities available-for-sale are carried at fair value with unrealized holding gains and losses reported separately in shareholders' equity, net of applicable taxes. Available-for-sale equity securities are reported at fair value, with unrealized holding gains and losses recognized in the consolidated income statement.

Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. 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 more likely than not 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 criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized in the consolidated 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 amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans held-for-sale
Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate 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.

Mortgage loans held-for-sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

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

Loans are placed on non-accrual status at 90 days delinquent or when management believes the borrower's financial condition, after considering economic and business conditions and collection efforts, is such that collection of interest is doubtful. Interest income is not reported when full loan repayment is in doubt, typically when payments are past due over 90 days and evaluated as such by management. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely.

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, until qualifying for return to accrual. 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.

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 uncollectability 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, current loan to value, 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 individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current environmental factors.

A loan is impaired when, based on current information and events, it is probable 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, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status 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 relevant 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.

In situations where for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan’s effective rate at inception including the probability of re-default. If a TDR is considered to be a collateral dependent loan, the loan is reported net, at the fair value of collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and 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. 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: current loan to value, current credit score, levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; 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 concentrations. The following portfolio segments have been identified: residential real estate, commercial real estate, commercial and industrial and consumer. The Bank reviews the credit risk exposure of all its portfolio segments by internally assessing risk factors. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, and reduced credit availability.

Servicing rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the consolidated income statement effect recorded in gains on sale of loans. Fair value is based on market prices for comparable mortgage servicing contracts when available, or alternatively, based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to their carrying amount. Impairment, if any, is recognized through a valuation allowance to the extent that fair value is less than the carrying amount. If the Bank later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income is recorded in other service charges and fees within the consolidated income statement. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Lender risk account
The Bank provides credit enhancements to the FHLB of Cincinnati by sharing losses with other members of the program in an aggregated pool. A Fixed Lender Risk Account (LRA) has been established and is maintained by the FHLB on behalf of the Bank and other members selling mortgages to the FHLB of Cincinnati. The LRA amount is established as a percentage applied to the sum of the initial unpaid principal balance of each mortgage in the aggregated pool at the time of the purchase of the mortgage as determined by the FHLB and is funded by the deduction from the proceeds of sale of each mortgage in the aggregated pool to the FHLB. These accounts are held by the FHLB and the Bank bears the risk of receiving less than 100% of its LRA contribution in the event of losses, either by the Bank or other members selling mortgages in the aggregated pool. Any portion of the LRA not used to pay losses will be released over a thirty-year period and will not start until the end of five years after the initial fill-up period. The fair value of the LRA is recorded in other assets and increased noninterest income within the consolidated financial statements.

Other real estate owned (OREO)
Other real estate owned is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of real estate property collateralizing a 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 as incurred.

Premises and equipment
Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation computed on straight-line methods over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 3 to 39 years. Furniture, fixtures and equipment are depreciated over useful lives ranging from 3 to 20 years. Gains and losses on dispositions are included in current operations. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized.

Federal Home Loan Bank 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.

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 consolidated balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due which are probable at settlement.

Intangible assets

Intangible assets consist of premiums paid for core deposits. Intangible assets are stated at cost, less accumulated amortization computed on straight line and net present value methods over the estimated life of the related premium, and consist of the following:

	2020	2019
Intangible assets, net - January 1	$ 67,683	136,334
Amortization expense	(38,375)	(68,651)
Intangible assets, net - December 31	$ 29,308	67,683

Accumulated amortization was $4,262,188 and $4,223,813 at December 31, 2020 and 2019, respectively. Future amortization expense is as follows:

2021	18,966
2022	8,280
2023	2,062
	$ 29,308

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill consists of the branch acquisition of the Washington Court House branch in 2014 and the merger of First Safety Bank in 2016. The Company made the accounting policy election to test goodwill for impairment at the entity level and to amortize the goodwill on straight line basis over ten years upon acquisition.

Goodwill consists of the following:

	2020	2019
Goodwill, net - January 1	$ 1,488,784	1,733,814
Amortization expense	(245,032)	(245,030)
Goodwill, net - December 31	$ 1,243,752	1,488,784

Accumulated amortization was $1,206,556 and $961,524 at December 31, 2020 and 2019, respectively. Future net amortization expense is as follows:

2021	$ 245,031
2022	245,031
2023	245,031
2024	205,068
2025	191,744
Thereafter	111,847
	$ 1,243,752

Income taxes

Income tax expense is the total of the current year income tax due, the change in deferred federal income taxes and benefit of available tax credits. Deferred federal income taxes represent the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for federal income tax purposes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Net income per share of common stock

Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements.

Comprehensive income

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

The following information discloses the reclassification adjustments for each component of accumulated other comprehensive income, including the consolidated statement of income items affected as of December 31, 2020:

Accumulated Other Comprehensive Loss Components	Reclassification Amount	Affected Line Item in the Consolidated Statements of Income
Unrealized gains on securities available-for-sale	$ 2,117,206	Net realized gain on sale of securities
	(444,613)	Federal income tax expense
Total reclassifications for the period	$ 1,672,593	Reclassification adjustment, net of tax

The following information discloses the reclassification adjustments for each component of accumulated other comprehensive income, including the consolidated statement of income items affected as of December 31, 2019:

Accumulated Other Comprehensive Loss Components	Reclassification Amount	Affected Line Item in the Consolidated Statements of Income
Unrealized gains on securities available-for-sale	$ 783,512	Net realized gain on sale of securities
	(164,538)	Federal income tax expense
Total reclassifications for the period	$ 618,974	Reclassification adjustment, net of tax

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to its shareholders.

Advertising
Advertising and marketing costs are expensed as incurred. Advertising and marketing expense was $446,288 and $397,297 for the years ended December 31, 2020 and 2019 respectively.

Off-balance sheet financial instruments
In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Subsequent events
The Company has evaluated subsequent events for recognition and disclosure through February 18, 2021, which is the date the consolidated financial statements were available to be issued.

Recent accounting pronouncements
The FASB issued ASU 2016-02 “Leases (Topic 842)”, which requires lessees to recognize lease assets and liabilities on the balance sheet and requires expanded disclosure about leasing arrangements. The new standard is effective for the year ended December 31, 2022. Management has assessed the impact of the new standard, which will be immaterial to the consolidated financial statements.

The FASB issued ASU 2016-13, “Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)”, which changes the impairment model for most financial assets. This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the ASU is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2022. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Management will be evaluating the impact of this ASU over the next several years.

Implementation of new accounting pronouncements
The FASB issued ASU 2016-01 “Financial Instruments-Overall: Subtopic 825-10: Recognition and measurement of financial assets and financial liabilities, which added Topic 321, Investments-equity securities. Under this standard, the Bank will account for investment in certain equity securities at fair value and recognize changes in fair value through the income statement. Management has assessed the impact of the new standard, which will be immaterial to the consolidated financial statements. The initial entry to record the equity securities at fair market value was an adjustment to retained earnings and subsequent adjustments to fair market value are recorded as a part of interest income on investments.

Reclassification
Certain items in the prior year consolidated financial statements were reclassified to conform to the current year presentation. Reclassifications had no effect on prior year net income or shareholders’ equity.

2. INVESTMENT SECURITIES:

The following tables provide information related to investment securities by category at December 31 (in thousands):

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Mortgage-backed securities	$ 67,699	641	184	68,156
Asset-backed securities	9,865	83	25	9,923
State and political subdivisions	116,162	6,506	18	122,650
Total	$ 193,726	7,230	227	200,729
Held-to-maturity:				
Corporate bonds	$ 5,250	10	13	5,247
Qualified affordable housing	932	-	-	932
Total	$ 6,182	10	13	6,179

	Amortized Cost	Recognized Unrealized Gains	Recognized Unrealized Losses	Fair Value
Available for sale:				
Marketable equity securities	$ 41	21	-	62

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Mortgage-backed securities	$ 51,881	563	218	52,226
State and political subdivisions	63,125	1466	341	64,250
Other	41	23	-	64
Total	$ 115,047	2,052	559	116,540
Held-to-maturity:				
Corporate bonds	$ 1,000	-	11	989
Qualified affordable housing	479	-	-	479
Total	$ 1,479	-	11	1,468

The amortized cost and fair value of investment securities, by contractual maturity, are shown below (in thousands). Actual maturities may differ from contractual maturities when a right to call or prepay an obligation exists:

	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Mortgage-backed securities:				
Less than one year	$ 15,182	15,134	1,833	1,829
One to five years	38,809	39,052	24,411	24,427
Five to ten years	13,708	13,970	25,392	25,725
Over ten years	-	-	245	245
Asset-backed securities:				
Less than one year	-	-	-	-
One to five years	3,566	3,544	-	-
Five to ten years	6,299	6,379	-	-
Over ten years	-	-	-	-
State and political subdivisions:				
Less than one year	-	-	-	-
One to five years	4,733	4,988	4,669	4,832
Five to ten years	97,402	102,672	43,729	44,893
Over ten years	14,027	14,990	14,727	14,525
Other	-	-	41	64
Total	$ 193,726	200,729	115,047	116,540
Held-to-maturity:				
Corporate bonds:				
One to five years	$ 2,750	2,760	-	-
Five to ten years	2,500	2,487	1,000	989
Qualified affordable housing:	932	932	479	479
Total	$ 6,182	6,179	1,479	1,468

At December 31, 2020 and 2019 investment securities with an amortized cost of $82,592,636 and $65,185,351, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law. These securities had fair values of $86,183,035 and $66,495,038 at December 31, 2020 and 2019, respectively.

The tables below indicate the length of time individual investment securities have been in a continuous loss position at December 31 (in thousands):

	2020					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 20,981	138	7,421	46	28,402	184
Number of Investments	14		5		19	
Asset-backed securities	1,179	5	1,429	20	2,608	25
Number of Investments	1		2		3	
States and political subdivisions	3,444	18	-	-	3,444	18
Number of Investments	2		-		2	
Total	$ 25,604	161	8,850	66	34,454	227
Number of Investments	17		7		24	
Held-to-maturity:						
Corporate bonds	$ -	-	986	13	986	13
Number of Investments	0		1		1	

	2019					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 12,711	90	7,371	128	20,082	218
Number of Investments	10		13		23	
States and political subdivisions	15,650	341	-	-	15,650	341
Number of Investments	11		-		11	
Total	$ 28,361	431	7,371	128	35,732	559
Number of Investments	21		13		34	
Held-to-maturity:						
Corporate bonds	$ 989	11	-	-	989	11
Number of Investments	1		-		1	

Management does not intend to sell these securities, and it is more likely than not the Bank will retain, and not be required to sell, the securities in an unrealized loss position prior to the recovery of value. The decline in market value is due to fluctuations in market interest rates and not credit quality. The fair values are expected to recover as securities approach their maturity dates.

Qualified Affordable Housing Project Investment
The Bank holds investments in qualified affordable housing projects totaling $931,589 and $478,522 at December 31, 2020 and 2019, respectively. The unfunded commitment at December 31, 2020 related to investments in qualified affordable housing projects are $738,659. The Bank's anticipates fulfilling these commitments as follows:

2021	$ 216,802
2022	370,346
2023	33,250
2024	31,763
2025	23,996
Thereafter	62,502
	$ 738,659

During 2020 and 2019, the Bank recognized tax credits in connection with its investment in qualified affordable housing projects of $46,000 and $16,000, respectively.

3. LOANS RECEIVABLE:

Loans receivable consist of the following, net of deferred loan fees (in thousands):

	2020	2019
Residential real estate:		
Construction	$ 4,751	4,549
Owner occupied	96,844	96,983
Non-owner occupied	39,702	43,442
Commercial real estate:		
Construction	7,541	7,593
Farmland	25,184	24,133
Nonfarm	81,829	83,537
Commercial and industrial	18,282	22,743
Consumer	41,233	49,351
Other	201	373
	315,567	332,704
Less allowance for loan losses	(5,573)	(4,487)
	$ 309,994	328,217

The risk characteristics applicable to each segment of the loan portfolio are described as follows:

Residential real estate loans are secured by 1 - 4 family residences and are generally owner-occupied. The Bank generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels. Repayment can also be impacted by changes in property values of residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial real estate loans, including farmland and nonfarm loans, are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves larger loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Bank's commercial real estate portfolio are diverse, but by geographic location are almost entirely in the Bank's market area. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography and risk grade criteria.

Construction loans related to both residential and commercial loans are underwritten utilizing feasibility studies, independent reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of financing.

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be expected and the collateral; securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrowers to collect amounts due from its customers.

Consumer loans consist substantially of automobile loans. Automobile loans are generally secured by the automobile being financed or other personal assets. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels, and secondarily on the collateral securing the loan. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

During 2020 the Bank participated in the Paycheck Protection Program ("PPP") administrated by the Small Business Administration (SBA) in assisting borrowers with additional liquidity. PPP loans are 100% guaranteed by the SBA and carry a fixed rate of 1% with a two-year contractual maturity, if not forgiven. Payments are deferred until either the date on which the SBA remits the amount of forgiveness proceeds to the lender or the date that is 10 months after the last day of the covered period if the borrower does not apply for forgiveness within that 10 month period. During 2020, 96 PPP loans, totaling approximately$7,873,279 were originated. At December 31, 2020, the balance of PPP loans outstanding was $0 as all unforgiven loans had been sold without recourse. The Bank was paid processing fees from the SBA ranging from 1% to 5% based on the size of the loan, which were recognized upon sale of the loans.

Beginning in April of 2020 under the CARES Act, the Bank allowed borrowers to defer payments due to the COVID-19 pandemic, with the accrual of interest continuing during the payment deferral period. As of December 31, 2020, three loans with outstanding principal totaling approximately $5.8 million were subject to payment deferrals. Each of these loans is anticipated to repay or refinance within the first quarter of 2021 under then current rates and terms.

Allowance for Loan Losses and Recorded Investment in Financing Receivables (in thousands)
December 31, 2020

	Residential Real Estate			Commercial Real Estate						
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	Commercial and Industrial	Consumer	Other	Total
Allowance for loan losses:										
Beginning balance	$ 51	1,396	467	73	231	912	332	1,019	6	4,487
Provision	16	315	59	22	84	986	24	143	65	1,714
Charge-offs	-	(79)	-	-	-	(350)	-	(269)	(97)	(795)
Recoveries	-	61	2	-	-	32	-	36	36	167
Ending balance	$ 67	1,693	528	95	315	1,580	356	929	10	5,573
Ending balance: Individually evaluated for impairment	$ -	16	-	-	-	94	19	-	-	129
Ending balance: Collectively evaluated for impairment	$ 67	1,677	528	95	315	1,486	337	929	10	5,444
Loans receivable:										
Ending balance	$ 4,751	96,844	39,702	7,541	25,184	81,829	18,282	41,233	201	315,567
Ending balance: Individually evaluated for impairment	$ -	78	-	-	-	305	1,830	-	-	2,213
Ending balance: Collectively evaluated for impairment	$ 4,751	96,766	39,702	7,541	25,184	81,524	16,452	41,233	201	313,354

Allowance for Loan Losses and Recorded Investment in Financing Receivables (in thousands)
December 31, 2019

	Residential Real Estate			Commercial Real Estate						
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	Commercial and Industrial	Consumer	Other	Total
Allowance for loan losses:										
Beginning balance	$ 40	1,209	397	59	179	786	291	1,082	4	4,047
Provision	11	219	67	14	52	91	175	346	100	1,075
Charge-offs	-	(35)	-	-	-	(92)	(134)	(439)	(133)	(833)
Recoveries	-	3	3	-	-	127	-	30	35	198
Ending balance	$ 51	1,396	467	73	231	912	332	1,019	6	4,487
Ending balance: Individually evaluated for impairment	$ -	24	-	-	-	106	17	-	-	147
Ending balance: Collectively evaluated for impairment	$ 51	1,372	467	73	231	806	315	1,019	6	4,340
Loans receivable:										
Ending balance	$ 4,549	96,983	43,442	7,593	24,133	83,537	22,743	49,351	373	332,704
Ending balance: Individually evaluated for impairment	$ -	89	-	-	-	317	2,321	-	-	2,727
Ending balance: Collectively evaluated for impairment	$ 4,549	96,894	43,442	7,593	24,133	83,220	20,422	49,351	373	329,977

Credit risk profile categories

The Bank assigns credit risk grades to evaluated loans using grading standards employed by regulatory agencies. The following are the bank's internally assigned grades:

Pass – loans in this category are considered satisfactory or fair. Satisfactory loans represent the Bank's standard or average loans that require a normal amount of supervision. These credits should have orderly updated credit files with borrowers/guarantors that have an acceptable net worth and sufficient income to retire debt.

Special Mention – special mention loans that do not currently expose the Bank to a sufficient degree of risk to warrant a substandard classification. However, it does possess credit deficiencies or potential weaknesses deserving management's close attention. If not corrected, such weaknesses or deficiencies may expose the Bank to an increased risk of loss in the future.

Substandard – an asset classified as substandard is inadequately protected by the current net worth and paying capacity of the borrower or the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – an asset classified as doubtful has all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable.

Loss – the portion of a loan classified as loss is considered uncollectible and of such little value that its continuance as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has absolutely no recovery or salvage value; but rather, it is not practical or desirable to defer reserving for a basically worthless asset even though a partial recovery may occur in the future.

Credit Risk Profile by Internally Assigned Grade (in thousands)
December 31, 2020

	Residential Real Estate			Commercial Real Estate						
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	Commercial and Industrial	Consumer	Other	Total
Grade:										
Pass	$ 4,504	95,741	39,582	7,541	24,594	74,528	18,172	40,691	201	305,554
Special mention	-	442	59	-	590	5,898	97	193	-	7,279
Substandard	247	625	61	-	-	1,403	13	349	-	2,698
Doubtful	-	36	-	-	-	-	-	-	-	36
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 4,751	96,844	39,702	7,541	25,184	81,829	18,282	41,233	201	315,567

Credit Risk Profile by Internally Assigned Grade (in thousands)
December 31, 2019

	Residential Real Estate			Commercial Real Estate						
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	Commercial and Industrial	Consumer	Other	Total
Grade:										
Pass	$ 4,136	95,830	43,283	7,593	22,967	77,147	22,528	48,618	373	322,475
Special mention	-	397	95	-	1,166	4,780	163	268	-	6,869
Substandard	413	719	64	-	-	1,610	52	465	-	3,323
Doubtful	-	37	-	-	-	-	-	-	-	37
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 4,549	96,983	43,442	7,593	24,133	83,537	22,743	49,351	373	332,704

The following tables summarize loans by delinquency, nonaccrual status and impaired loans:

Age Analysis of Loans Receivable (in thousands)
December 31, 2020

	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Total current and accruing	Total financing receivables	Nonaccrual	Recorded investment > 90 days and accruing
Residential real estate:								
Construction	$ -	-	-	-	4,751	4,751	-	-
Owner occupied	145	18	112	275	96,569	96,844	720	-
Non-owner occupied	-	-	-	-	39,702	39,702	82	-
Commercial real estate:								
Construction	-	-	-	-	7,541	7,541	247	-
Farmland	92	-	76	168	25,016	25,184	76	-
Nonfarm	-	-	1,378	1,378	80,451	81,829	1,554	-
Commercial and industrial	5	-	55	60	18,222	18,282	68	-
Consumer	98	116	45	259	40,974	41,233	173	-
Other	42	-	25	67	134	201	25	-
Total	$ 382	134	1,691	2,207	313,360	315,567	2,945	-

Age Analysis of Loans Receivable (in thousands)
December 31, 2019

	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Total current and accruing	Total financing receivables	Nonaccrual	Recorded investment > 90 days and accruing
Residential real estate:								
Construction	$ -	-	-	-	4,549	4,549	-	-
Owner occupied	445	97	291	833	96,150	96,983	740	-
Non-owner occupied	-	20	-	20	43,422	43,442	84	-
Commercial real estate:								
Construction	-	-	-	-	7,593	7,593	-	-
Farmland	-	-	-	-	24,133	24,133	-	-
Nonfarm	-	318	343	661	82,876	83,537	1,888	-
Commercial and industrial	-	-	126	126	22,617	22,743	52	-
Consumer	307	135	65	507	48,844	49,351	282	-
Other	52	-	-	52	321	373	-	-
Total	$ 804	570	825	2,199	330,505	332,704	3,046	-

Impaired Loans (in thousands)
December 31, 2020

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Residential real estate:					
Construction	$ -	-	-	-	-
Owner occupied	-	-	-	-	-
Non-owner occupied	-	-	-	-	-
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Nonfarm	-	-	-	-	-
Commercial and industrial	1,099	1,388	-	1,535	-
Consumer	-	-	-	-	-
Other	-	-	-	-	-
	$ 1,099	1,388	-		-
Loans with an allowance recorded:					
Residential real estate:					
Construction	$ -	-	-	-	-
Owner occupied	75	78	16	79	-
Non-owner occupied	-	-	-	-	-
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Nonfarm	301	305	94	307	-
Commercial and industrial	266	442	19	252	-
Consumer	-	-	-	-	-
Other	-	-	-	-	-
	$ 642	825	129		-
Total:					
Residential real estate:					
Construction	$ -	-	-		-
Owner occupied	75	78	16		-
Non-owner occupied	-	-	-		-
Commercial real estate:					
Construction	-	-	-		-
Farmland	-	-	-		-
Nonfarm	301	305	94		-
Commercial and industrial	1,365	1,830	19		-
Consumer	-	-	-		-
Other	-	-	-		-
	$ 1,741	2,213	129		-

Impaired Loans (in thousands)
December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Residential real estate:					
Construction	$ -	-	-	-	-
Owner occupied	-	-	-	-	-
Non-owner occupied	-	-	-	-	-
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Nonfarm	-	-	-	178	-
Commercial and industrial	1,971	2,062	-	1,730	-
Consumer	-	-	-	-	-
Other	-	-	-	-	-
	$ 1,971	2,062	-		-
Loans with an allowance recorded:					
Residential real estate:					
Construction	$ -	-	-	-	-
Owner occupied	83	89	24	66	-
Non-owner occupied	-	-	-	-	-
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Nonfarm	313	317	106	203	-
Commercial and industrial	237	259	17	251	-
Consumer	-	-	-	-	-
Other	-	-	-	-	-
	$ 633	665	147		-
Total:					
Residential real estate:					
Construction	$ -	-	-		-
Owner occupied	83	89	24		-
Non-owner occupied	-	-	-		-
Commercial real estate:					
Construction	-	-	-		-
Farmland	-	-	-		-
Nonfarm	313	317	106		-
Commercial and industrial	2,208	2,321	17		-
Consumer	-	-	-		-
Other	-	-	-		-
	$ 2,604	2,727	147		-

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs. There were no outstanding commitments to lend additional amounts to borrowers who have impaired loans at December 31, 2020.

Troubled Debt Restructurings

If a borrower is experiencing financial difficulty, the Bank may consider, in certain circumstances, modifying the terms of their loan in a troubled debt restructuring (TDR) to maximize collection of amounts due. Within each of the Company's loan classes, TDRs typically involve either a reduction of the stated interest rate of the loan or an extension of the loan's maturity date(s) with a stated rate lower than the current market rate for a new loan with similar risk. Modifying the terms of loans may result in an increase or decrease to the allowance for loan loss (ALLL) depending upon the terms modified, the method used to measure the ALLL for a loan prior to modification, and whether any charge-offs were recorded on the loan before or at the time of modification.

The following table provides a summary of loans modified in a TDR during the year:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Effect on ALLL upon Modification
		(Dollars in thousands)		
December 31, 2020:				
Troubled Debt Restructurings				
Residential real estate:				
Owner occupied	1	$ 18	23	-
December 31, 2019:				
Troubled Debt Restructurings				
Residential real estate:				
Owner occupied	1	$ 78	101	-

The troubled debt restructured loan shown in the table was modified during 2019 with a lower interest rate and longer repayment terms.

At December 31, 2020 and 2019, the Bank had a recorded investment of $643,411 and $805,318 in TDRs, respectively. The Bank has not committed lend additional amounts to these borrowers. There were no troubled debt restructurings that subsequently defaulted as of December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, $85,428 and $132,674, respectively, of overdrafts on deposit accounts have been reclassified and included in the loan receivable balance.

Loan Servicing
Mortgage loans the Bank services for others are not included in the accompanying consolidated financial statements. The Bank sells loans in the secondary market under terms of a Mortgage Purchase Program (“MPP”) with the Federal Home Loan Bank (“FHLB”) – Cincinnati and the Federal Home Loan Mortgage Corporation. The unpaid principal balance of loans serviced for others, including loan participations, as of December 31, 2020 and 2019 was $119,535,267 and $105,627,695, respectively. Custodial escrow balances maintained in connection with serviced loans (both sold and retained) were $942,493 and $839,102, respectively.

Mortgage servicing rights
The following is an analysis of the activity of mortgage servicing rights, which are included in other assets on the consolidated balance sheets, for the years December 31, 2020 and 2019:

	2020	2019
Balance, beginning of the year	$ 612,334	593,972
Additions, net	557,450	164,424
Amortization	(458,630)	(146,062)
Balance, end of the year	$ 711,154	612,334

No impairment has been identified on the mortgage servicing assets and correspondingly, no valuation allowance has been recognized as of December 31, 2020 and 2019. The Bank recorded gains from sales of mortgage loans including associated servicing rights of $1,511,745 and $338,109 during 2020 and 2019, respectively. These gains are recorded in gain on sale of loans on the consolidated financial statements.

Under terms of the Mortgage Purchase Program, a fixed Lender Risk Account (LRA) is established and is maintained by the FHLB on behalf of the Bank and other members selling mortgages in an aggregated pool to the FHLB - Cincinnati. The Bank had on deposit in LRA with the FHLB - Cincinnati $471,188 and $483,921 at December 31, 2020 and 2019, respectively. These accounts are held by the FHLB and the Bank bears the risk of receiving less than 100% of its LRA contribution in the event of losses, either by the Bank or other members selling mortgages in the aggregated pool. If losses incurred in the pool are greater than the Bank’s LRA contribution, such losses will be deducted from the LRA contribution of other members. Any portion of the LRA not used to pay losses will be released over a thirty-year period starting five years after the initial pool period. The Bank included income (expense) of $43,244 and $63,063 in other income on the statements of operations during the years ended December 31, 2020 and 2019, respectively. The LRA balance included in other assets on the consolidated balance sheets is $306,000 estimated at December 31, 2020 and 2019, respectively. These amounts represent present values of the estimated future cash flows to be received. Unless the Bank is required to repurchase a loan because it did not meet the criteria under the representations and warranties to be covered as part of the aggregated pool, the credit risk on these loans is limited to the amount provided in the LRA.

4. OTHER REAL ESTATE OWNED:

The Bank had $0 and $95,600 in real estate held for sale at December 31, 2020 and 2019, respectively. During 2020 and 2019, there were $64,713 and $59,582, respectively, in foreclosure losses charged-off to the allowance for loan losses. The Bank realized related losses of $16,373 and $10,074 on disposal of foreclosed real estate during 2020 and 2019, respectively. Other real estate owned expenses recognized in other expenses during 2020 and 2019 were immaterial to consolidated financial statements.

5. PREMISES AND EQUIPMENT:

Premises and equipment at December 31 consist of the following (in thousands):

	2020	2019
Land	$ 3,093	2,918
Buildings	8,717	8,885
Equipment	5,216	4,978
Total	17,026	16,781
Accumulated depreciation	(6,922)	(6,560)
	$ 10,104	10,221

6. DEPOSITS:

At December 31, 2020, the scheduled maturity of time deposits is as follows (in thousands):

Under one year	$ 106,976
One to three years	31,457
Three to five years	4,337
More than five years	35
	$ 142,805

Total non-interest bearing deposits were $108,884,923 and $66,229,680 at December 31, 2020 and 2019, respectively.

Time deposits of $250,000 or more were $7,019,125 and $18,785,909 at December 31, 2020 and 2019, respectively.

7. BROKERED DEPOSITS:

The Bank is a network participant in the Certificate of Deposit Account Registry Service (CDARS) network. As part of this network and participation in the CDARS reciprocal program, the Bank can accept FDIC insured deposits as a broker for customers up to $500 million. This program allows the Bank to accept deposits on the customers' behalf, place them in the CDARS program, and receive matching reciprocal funds from the CDARS network. At December 31, 2020 and 2019, the Bank had received approximately $13,661,000 and $12,548,000, respectively, in deposits on behalf of customers and received matching reciprocal funds in the same amount under the CDARS program.

The Bank is a network participant in the Insured Cash Sweep (ICS) network. As part of this network and participation in the ICS reciprocal program, the Bank can accept FDIC insured deposits as a broker for customers with multi-million-dollar savings accounts. This program allows the Bank to accept deposits on the customers' behalf, place them in the ICS program, and receive matching reciprocal funds from the ICS network. At December 31, 2020 and 2019, the Bank had received approximately $31,922,000 and $2,479,000, respectively, in deposits on behalf of customers and received matching reciprocal funds in the same amount under the ICS program.

9. FEDERAL HOME LOAN BANK ADVANCES:

The Bank has fixed-rate advances of $10,237,728 and $15,250,022 at December 31, 2020 and 2019, respectively. The advances mature in various years through 2038. At December 31, 2020 and 2019, interest rates on the fixed rate advances ranged from 1.60% to 1.64%, with a weighted average interest rate on fixed-rate debt of 1.64%.

During 2020, the Bank renewed a "Cash Management Advance" (CMA) credit line with the FHLB to a maximum of $15,000,000. Interest due on advances from the FHLB will be at either a variable rate set daily for 90 days, or a fixed rate for up to 30 days at the Bank's option. There were no amounts outstanding under this agreement at December 31, 2020 and 2019, respectively.

The contractual maturities of the advances by year are as follows (in thousands):

2021	$ 13
2022	13
2023	13
2024	10,013
2025	13
Thereafter	173
	$ 10,238

As collateral for the FHLB advances and potential advances from the FHLB above, the Bank has pledged residential one-to-four family mortgages equal to 100% of the outstanding balance and its investment in FHLB stock.

10. SUBORDINATED DEBT

During 2020, the Company entered into unsecured subordinated debt agreements. The notes are for a combined $15,000,000 principal balance, with a fixed interest rate of 5.25% paid in arrears through semiannual interest only payments, all interest and principal are due upon maturity on April 24, 2030. Unless stipulated events transpire, these notes are redeemable by the Company after April 24, 2025. These notes and related interest are subordinate in right of payment to all senior indebtedness including obligations to general and secured creditors, and unsecured creditors. Balances are shown net of debt issuance costs.

11. FEDERAL INCOME TAXES:

Federal income tax expense (benefit) consists of the following (in thousands):

	2020	2019
Current	$ 1,421	1,166
Deferred	(99)	(98)
Total	$ 1,322	1,068

The effective tax rate varies from the federal statutory tax rate primarily due to the following (in thousands):

	2020	2019
Federal income taxes computed at statutory rates	$ 1,536	1,346
Increase (decrease) in taxes resulting from:		
Tax exempt interest	(205)	(244)
Bank owned life insurance earnings	(31)	(31)
Other	22	(3)
Total	$ 1,322	1,068

The net deferred tax asset (liability) is recorded on the consolidated balance sheet at December 31, 2020 and 2019 and consists of the following (in thousands):

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 1,058	817
Nonaccrual interest	26	22
Intangibles	377	415
Other	1	-
Deferred tax assets	1,462	1,254
Deferred tax liabilities:		
Net unrealized holding gains on securities	(1,475)	(314)
Property and equipment	(335)	(209)
FHLB stock dividends	(11)	(11)
Mortgage servicing rights	(185)	(154)
Other	-	(94)
Deferred tax liabilities	(2,006)	(782)
Net deferred tax (liability) asset	$ (544)	472

12. RETIREMENT PLAN:

The Bank has a 401(k) plan that covers all employees who have completed one year of service and reached a minimum age of 21 years old. The Bank may make discretionary contributions, and contributed $239,659 and $227,553 to the plan during each of the years ended December 31, 2020 and 2019, respectively.

13. COMMITMENTS AND CONTINGENT LIABILITIES:

In the normal course of business, the Bank has outstanding various commitments to extend credit. At December 31, 2020 and 2019, the Bank had approximately $39,798,000 and $33,827,000, respectively, of such commitments, all of which were at variable rates of interest. Commitments to extend credit are agreements to lend. No material losses or liquidity demands are anticipated as a result of these commitments. The Bank had no standby letters of credit outstanding at December 31, 2020 and 2019.

The Bank evaluates each customer's creditworthiness on a case-by-case basis in accordance with the Bank's credit policies. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based upon management's credit evaluation of the customer. Collateral held varies but may include business assets of commercial borrowers as well as personal property and real estate of individual borrowers or guarantors.

The Bank grants agri-business, commercial, residential and installment loans to customers in the surrounding areas of its offices. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their commitments is dependent upon the local economic sector. As of December 31, 2020, the Bank had $27,778,970 of loans outstanding for agricultural purposes, or secured by agricultural property.

On September 25, 2020, the Company and Community Holding Corporation entered into an Agreement and Plan of Merger pursuant to which Community Holding Corporation and its subsidiary, Inez Deposit Bank, would merge with and into First State Bancorp, Inc. The agreement and plan of merger has been approved by the Board of Directors of each institution, and the acquisition is expected to close in the first quarter of 2021, subject to customary conditions including regulatory approval.

14. RELATED PARTY TRANSACTIONS:

Directors, officers and certain related parties had loans outstanding during the years ended December 31, 2020 and 2019. This amount includes unused lines of credit. The directors and officers mentioned above were customers in the ordinary course of business. Additional transactions may be expected in the ordinary course of business in the future. All outstanding loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and did not involve more than a normal risk of collectability or present other unfavorable features.

The following is an analysis of the activity of such loans for the years indicated (in thousands):

	2020	2019
Balance, beginning of year	$ 3,247	3,284
Loans originated	801	83
Repayments	(686)	(515)
Death of director	(1,409)	-
New Directors/Officers	620	395
Balance, end of year	$ 2,573	3,247

The Bank held deposits for directors, officers and certain related parties of $2,289,860 and $4,093,658 at December 31, 2020 and 2019, respectively.

15. 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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Bank has the ability to access.

- Level 2 inputs are significant other observable inputs other than Level 1 prices such as quote prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following methods and assumptions were used by the Bank in estimating the fair value disclosures for financial instruments:

Investment securities
The fair values of available-for-sale securities are determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. Level 1 securities include U.S. Treasuries and exchange-traded equity securities. For securities traded in secondary markets for which quoted market prices are not available, the fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include obligations of U.S. government corporations and agencies, mortgage-backed securities, certificates of deposit, collateralized mortgage obligations and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Loans held-for-sale

These loans are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors.

Impaired loans

Loans for which it is probable that the Bank will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

Mortgage servicing rights

Mortgage servicing rights are evaluated annually for impairment based upon the fair value of the rights as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts (Level 2), when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data.

Other real estate owned

Real estate acquired through foreclosure assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Bank records the foreclosed asset as nonrecurring Level 2.

Lender risk account

The fair value is determined by discounting the expected cash flows by the 10-year and 30-year treasury rate depending on payment terms from the FHLB. The expected cash flows consider a default rate on loans and an estimated loss on defaulted loans. The default rate is based on delinquency data from the FDIC for all institutions in Ohio. The estimated loss is based on the charge-off percentage for loans for all financial institutions in Ohio.

Fair value measurements for certain assets and liabilities measured at fair value on a recurring basis (in thousands):

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
December 31, 2020:				
Mortgage-backed securities	$ 68,156	-	68,156	-
Asset-backed securities	9,923	-	9,923	-
State and political subdivisions	122,650	-	122,650	-
December 31, 2019:				
Mortgage-backed securities	$ 52,226	-	52,226	-
State and political subdivisions	64,250	-	64,250	-
Other equity securities	64	-	64	-

Fair value measurements for certain assets and liabilities measured at fair value on a non-recurring basis (in thousands):

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
December 31, 2020:				
Impaired loans	$ 1,741	-	1,741	-
Real estate owned	-	-	-	-
Mortgage servicing rights	711	-	711	-
Fixed lender risk account	306	-	306	-
December 31, 2019:				
Impaired loans	$ 2,604	-	2,604	-
Real estate owned	96	-	96	-
Mortgage servicing rights	612	-	612	-
Fixed lender risk account	306	-	306	-

In accordance with accounting standards for financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

16. REGULATORY MATTERS:

Banks and holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. The net unrealized gain or loss on available for sale for securities is not included in computing regulatory capital. Management believes as of December 31, 2020, the Bank meets all capital adequacy requirements to which they are 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 in asset growth and expansion, and capital restoration plans are required. At year-end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are presented in the table below (dollars in thousands):

December 31, 2020:	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:						
Consolidated	$ 60,757	17.8%	$ 27,250	8.0%	N/A	
Bank	59,715	16.3%	29,301	8.0%	$ 36,626	10.0%
Tier I (Core) capital to risk-weighted assets:						
Consolidated	56,166	16.5%	20,437	6.0%	N/A	
Bank	55,124	15.1%	21,976	6.0%	29,301	8.0%
Tier I capital (to average assets)						
Consolidated	56,166	9.4%	23,946	4.0%	N/A	
Bank	55,124	9.3%	23,817	4.0%	29,771	5.0%
Tangible capital (to risk-weighted assets)						
Consolidated	56,166	16.5%	15,328	4.5%	N/A	
Bank	55,124	15.1%	16,482	4.5%	22,807	6.5%

December 31, 2019:

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets:						
Consolidated	$ 55,531	16.9%	$ 26,221	8.0%	N/A	
Bank	54,879	15.6%	28,071	8.0%	$ 35,088	10.0%
Tier I (Core) capital to risk-weighted assets:						
Consolidated	51,144	15.6%	19,665	6.0%	N/A	
Bank	50,492	14.4%	21,053	6.0%	28,071	8.0%
Tier I capital (to average assets)						
Consolidated	51,144	10.1%	20,185	4.0%	N/A	
Bank	50,492	10.1%	20,034	4.0%	25,042	5.0%
Tangible capital (to risk-weighted assets)						
Consolidated	51,144	15.6%	14,749	4.5%	N/A	
Bank	50,492	14.4%	15,790	4.5%	22,807	6.5%

Dividend restrictions

All State of Ohio Chartered Banks are subject to the dividend restrictions set forth by the State of Ohio. Under such restrictions, the Bank may not, without the prior approval of the Superintendent of Banks of the State of Ohio, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 2020, that the Bank could declare, without the approval of the Superintendent of Banks of the State of Ohio, amounted to $12,490,317.

17. REVENUE FROM CONTRACTS WITH CUSTOMERS:

The Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within Other income (loss). The following table presents the Bank's sources of non-interest income for the twelve months ended December 31, 2020 and 2019. Items outside the scope of ASC 606 are noted as such.

	2020	2019
Other income (loss):		
Loss on sale of other real estate owned	$ (16,373)	(10,074)
Service charges on deposit accounts	1,070,853	1,328,104
ATM service charges and other fees, net	1,268,319	1,108,989
	$ 2,322,799	2,427,019

A description of the Bank's revenue streams accounted for under ASC 606 follows:

Loss on sale of other real estate owned - the Bank records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of other real estate owned to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on the sale is recorded upon transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

Service charges on deposit accounts - the Bank earns revenue from its deposit customers for transaction-based activities, account maintenance, and overdraft fees. Transaction-based fees, which include services such as stop payment charges, statement rendering, and ACH fees are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

ATM Service charges and other fees, net - The Bank earns fees from cardholder transactions conducted through debit cards and the ATM network. Fees from cardholder transactions are recognized concurrent with the transaction processing services provided to the cardholder. Income is presented on the Consolidated Statements of Income net of expenses. Other income (loss) includes other recurring revenue streams such as wire transaction fees, safe deposit rental income, insurance commissions, and merchant referral income. Transaction fees primarily include check printing sales commissions, collection fees and wire transfer fees which arise from in-branch transactions. Safe deposit rental income arises from fees charged to the customer on an annual basis and recognized upon receipt of payment. Insurance commissions are agent commissions earned by the Bank upon the effective date of the coverage. Revenue is recognized at the point in time when the transaction occurs.

18. CONDENSED FINANCIAL STATEMENTS OF FIRST STATE BANCORP (PARENT COMPANY ONLY):

The following condensed financial information comprising the financial position, results of operations and cash of flows of First State Bancorp, Inc. as of and for years ended, December 31, 2020 and 2019, respectively:

Condensed Balance Sheets

		2020	2019
Assets:			
Cash and cash equivalents	$	15,578,509	586,709
Investment in First State Bank		62,234,571	53,534,835
Other assets		189,021	65,000
Total assets	$	78,022,101	54,186,544
Liabilities:			
Subordinated debt	$	14,725,543	-
Shareholders' Equity:			
Common stock	$	5,178,533	5,178,533
Additional paid-in capital		1,800,000	1,800,000
Retained earnings		50,765,992	46,028,321
Accumulated other comprehensive income		5,532,033	1,179,690
Total shareholders' equity		63,276,558	54,186,544
Total liabilities and shareholders' equity	$	78,002,101	54,186,544

Condensed Statements of Income

		2020	2019
Dividend income from subsidiary	$	1,267,200	1,108,741
Income tax benefit		124,021	-
Interest expense		(582,375)	-
General and administrative expenses		(8,200)	(8,991)
		800,646	1,099,750
Equity in earnings of First State Bank		5,191,174	4,242,217
Net income	$	5,991,820	5,341,967

Condensed Statements of Cash Flows

	2020	2019
Operating activities:		
Net income	$ 5,991,820	5,341,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(5,191,174)	(4,242,217)
Change in assets and liabilities:		
Other assets	(124,021)	-
Amortization of debt issuance costs	32,532	-
	709,157	1,099,750
Financing activities:		
Proceeds from subordinated debt	15,000,000	-
Debt issuance costs	(306,989)	-
Cash dividends paid	(1,267,200)	(1,108,741)
Cash dividends received from Subsidiary	856,832	-
	14,282,643	(1,108,741
Net change in cash	14,991,800	(8,991)
Cash – beginning of year	586,709	595,700
Cash – end of year	$ 15,578,509	586,709

Banking Center Locations

OHIO

Fayetteville
Georgetown
Hillsboro
Manchester
Mt. Orab
Peebles
Ripley
Seaman
St. Bernard
Washington Court House
West Union
Wilmington

Winchester

KENTUCKY

Louisa
Warfield
Yatesville
Inez

937.695.0331

First State Bank → www.fsb4me.com

FDIC

EQUAL HOUSING LENDER