

PERPETUAL FEDERAL SAVINGS BANK OF URBANA

ANNUAL REPORT

September 30, 2019

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ANNUAL MEETING

The Annual Meeting of Stockholders is scheduled for January 22, 2020 at 1:30 p.m. at the Perpetual Federal Savings Bank of Urbana office located at 120 North Main Street, Urbana, Ohio 43078. Further information with regard to the meeting may be found in the Savings Bank’s proxy statement.

December 18, 2019

Dear Shareholder:

This past year brought to a close 141 years of service to our community. Starting in 1878, we have continued the tradition of providing a safe and sound community bank to serve the fine people of Champaign County and the surrounding area. We are grateful you have allowed us the opportunity to provide you with our services.

With the changes to the federal income tax late in 2017, Fed rate movements in a systematic manner and improvement in the credit quality of our loan portfolio, we were able to enjoy a record year of earnings as evidenced by the detail provided to you in this report.

This year saw us complete our conversion from a Federal Savings Bank, regulated by the Office of the Comptroller of the Currency (OCC) to a new State of Ohio Chartered Savings Bank.

Going forward, we will be regulated by the State of Ohio, Division of Financial Institutions (ODFI) and the Federal Deposit Insurance Corporation (FDIC).

Thanks to our in-house team, our attorney and the folks from the Ohio ODFI and the FDIC, this conversion was transparent to our customers and stockholders.

We continue to take pride in receiving a Five-Star Rating by Bauer Financial, the nation's leading independent bank rating firm, www.bauerfinancial.com.

Thank you for your continued investment in Perpetual Federal.

Sincerely,



Michael R. Melvin
President

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
SELECTED FINANCIAL INFORMATION

At or for the year ended September 30,

2019 2018 2017

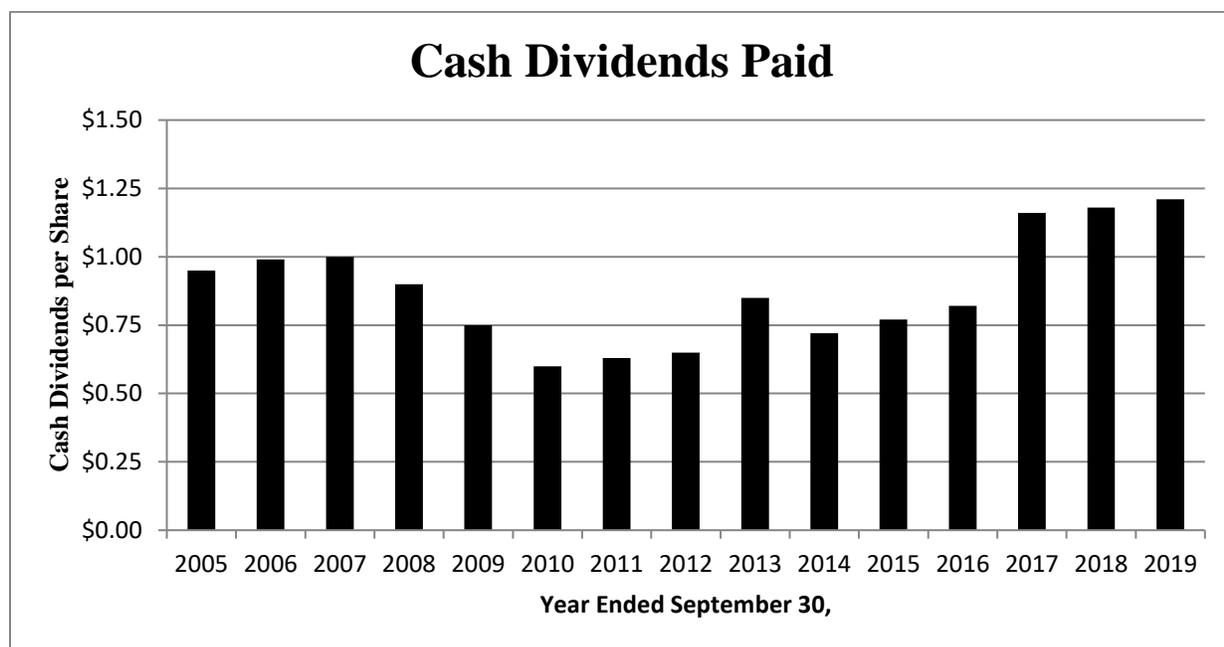
(In thousands, except per share data)

Selected Financial Condition Data:

Total assets	\$ 391,660	\$ 394,833	\$ 392,148
Loans receivable, net	338,905	343,857	341,123
Interest-bearing deposits in other financial institutions	14,498	26,742	26,736
Deposits	304,913	308,119	308,576
Borrowings	10,000	13,000	13,000
Shareholders' equity	75,722	72,589	69,468

Selected Operations Data:

Total interest income	\$ 17,635	\$ 17,560	\$ 16,314
Total interest expense	6,008	5,217	4,938
Net interest income	<u>11,627</u>	<u>12,342</u>	<u>11,376</u>
Provision for loan losses	<u>(126)</u>	<u>(191)</u>	<u>-</u>
Net interest income after provision for loan losses	11,753	12,533	11,376
Noninterest income	17	12	14
Noninterest expense	<u>4,026</u>	<u>3,966</u>	<u>3,624</u>
Income before income tax	7,744	8,579	7,766
Income tax expense	<u>1,622</u>	<u>2,543</u>	<u>2,633</u>
Net income	<u>\$ 6,122</u>	<u>\$ 6,036</u>	<u>\$ 5,133</u>
Earnings per common share:			
Basic	<u>\$ 2.48</u>	<u>\$ 2.44</u>	<u>\$ 2.08</u>
Diluted	<u>\$ 2.48</u>	<u>\$ 2.44</u>	<u>\$ 2.08</u>
Dividends per share	<u>\$ 1.21</u>	<u>\$ 1.18</u>	<u>\$ 1.16</u>



PERPETUAL FEDERAL SAVINGS BANK OF URBANA
SELECTED FINANCIAL INFORMATION (Continued)

	<u>At or for the year ended September 30.</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Other Data:			
Interest rate spread information			
Average during year	2.65%	2.88%	2.69%
End of year	2.41	2.64	2.67
Net interest margin (ratio of net interest income to average interest-earning assets)	3.00	3.17	2.95
Average interest-earning assets to average interest-bearing liabilities	122.56	121.13	120.13
Nonperforming assets to total assets at end of period	0.29	0.32	0.32
Return on assets (ratio of net income to average total assets)	1.56	1.53	1.31
Return on shareholders' equity (ratio of net income to average equity)	8.29	8.54	7.54
Dividend payout ratio	48.82	48.29	55.82
Shareholders' equity to total assets at end of period	19.33	18.38	17.71
Average shareholders' equity to average total assets	18.86	17.94	17.43
Efficiency ratio (ratio of noninterest expense to net interest income and other income)	34.58	32.10	31.82
Number of full service offices	1	1	1

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Perpetual Federal Savings Bank
Urbana, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Perpetual Federal Savings Bank, which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Perpetual Federal Savings Bank as of September 30, 2019 and 2018, 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.


Crowe LLP

Columbus, Ohio
December 11, 2019

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
BALANCE SHEETS
September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and due from banks	\$ 2,323,787	\$ 1,867,884
Interest-bearing deposits	28,932,518	15,578,976
Federal funds sold	<u>114,000</u>	<u>69,000</u>
Total cash and cash equivalents	31,370,305	17,515,860
Interest-bearing time deposits	14,498,000	26,742,000
Securities held to maturity (fair value 2019 - \$1,072,235 fair value 2018 - \$1,009,090)	1,016,535	1,016,516
Federal Home Loan Bank stock - at cost	2,794,200	2,794,200
Loans (net of allowance for loan losses: 2019 - \$5,083,099 2018 - \$5,083,099)	338,904,799	343,857,463
Premises and equipment, net	696,535	608,416
Accrued interest receivable	1,479,785	1,554,946
Other assets	<u>899,927</u>	<u>743,215</u>
 Total assets	 <u>\$ 391,660,086</u>	 <u>\$ 394,832,616</u>
 LIABILITIES		
Deposits	\$ 304,913,321	\$ 308,119,008
Borrowings	10,000,000	13,000,000
Advance payments by borrowers for taxes and insurance	484,016	459,265
Other liabilities	<u>540,808</u>	<u>665,447</u>
Total liabilities	315,938,145	322,243,720
 SHAREHOLDERS' EQUITY		
Serial preferred stock, no par value established, 500,000 shares authorized; none outstanding	-	-
Common stock, \$0.01 par value, 6,000,000 shares authorized; 2,470,032 shares issued and outstanding	24,700	24,700
Additional paid-in capital	11,197,001	11,197,001
Retained earnings	<u>64,500,240</u>	<u>61,367,195</u>
Total shareholders' equity	<u>75,721,941</u>	<u>72,588,896</u>
 Total liabilities and shareholders' equity	 <u>\$ 391,660,086</u>	 <u>\$ 394,832,616</u>

See accompanying notes to financial statements

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
STATEMENTS OF INCOME
Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Interest and dividend income		
Loans, including fees	\$ 16,563,083	\$ 16,729,864
Interest-bearing deposits	886,838	637,525
Tax-exempt securities	31,668	31,668
Other	153,758	160,648
	<u>17,635,347</u>	<u>17,559,705</u>
Interest expense		
Deposits	5,764,198	4,992,432
Borrowings	243,904	224,833
	<u>6,008,102</u>	<u>5,217,265</u>
Net interest income	11,627,245	12,342,440
Provision for loan losses	<u>(125,849)</u>	<u>(190,649)</u>
Net interest income after provision for loan losses	11,753,094	12,533,089
Noninterest income		
Service charges and other fees	5,668	4,478
Other income	11,081	7,194
Total noninterest income	<u>16,749</u>	<u>11,672</u>
Noninterest expense		
Salaries and employee benefits	2,008,275	1,865,621
Occupancy and equipment expense	148,129	100,576
Data processing services	267,680	252,317
State taxes	582,032	557,415
FDIC insurance premium	78,468	108,450
Other expenses	941,711	1,081,155
Total noninterest expense	<u>4,026,295</u>	<u>3,965,534</u>
Income before income tax	7,743,548	8,579,227
Income tax expense	<u>1,621,764</u>	<u>2,543,343</u>
Net income	<u>\$ 6,121,784</u>	<u>\$ 6,035,884</u>
Earnings per common share:		
Basic	<u>\$ 2.48</u>	<u>\$ 2.44</u>
Diluted	<u>\$ 2.48</u>	<u>\$ 2.44</u>

See accompanying notes to financial statements

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended September 30, 2019 and 2018

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Balance at October 1, 2017	\$ 24,700	\$ 11,197,001	\$ 58,245,949	\$ 69,467,650
Cash dividends - \$1.18 per share	-	-	(2,914,638)	(2,914,638)
Net income	-	-	6,035,884	6,035,884
Balance at September 30, 2018	24,700	11,197,001	61,367,195	72,588,896
Cash dividends - \$1.21 per share	-	-	(2,988,739)	(2,988,739)
Net income	-	-	6,121,784	6,121,784
Balance at September 30, 2019	<u>\$ 24,700</u>	<u>\$ 11,197,001</u>	<u>\$ 64,500,240</u>	<u>\$ 75,721,941</u>

See accompanying notes to financial statements

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
STATEMENTS OF CASH FLOWS
Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Net income	\$ 6,121,784	\$ 6,035,884
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	67,820	55,478
Provision for loan losses	(125,849)	(190,649)
Net amortization (accretion) of securities	(19)	(18)
Deferred taxes	34,000	443,000
Loss(Gain) on sale of fixed assets	(4,287)	902
Loss(Gain) on sale of real estate owned	-	(15,392)
Net change in accrued interest receivable	75,161	(188,152)
Net change in other assets and liabilities	<u>(256,265)</u>	<u>2,193,378</u>
Net cash from operating activities	5,912,345	8,334,431
 Cash flows from investing activities		
Net change in interest-bearing time deposits	12,244,000	(6,000)
Purchase of loans	-	(750,000)
Net change in loans	5,078,513	(1,813,393)
Property and equipment purchases	(151,652)	(24,301)
Proceeds from sale of other real estate owned	-	47,892
Net cash from (used in) investing activities	<u>17,170,861</u>	<u>(2,545,802)</u>
 Cash flows from financing activities		
Net change in deposit accounts	(3,205,687)	(456,691)
Net change in official items outstanding	(59,086)	(163,885)
Proceeds from long-term debt	6,000,000	-
Principal payments on long-term debt	(9,000,000)	-
Net change in advance payments		
from borrowers for taxes and insurance	24,751	60,028
Cash dividends paid	<u>(2,988,739)</u>	<u>(2,914,638)</u>
Net cash from (used in) financing activities	<u>(9,228,761)</u>	<u>(3,475,186)</u>
 Net change in cash and cash equivalents	13,854,445	2,313,443
 Cash and cash equivalents at beginning of year	<u>17,515,860</u>	<u>15,202,417</u>
 Cash and cash equivalents at end of year	<u>\$ 31,370,305</u>	<u>\$ 17,515,860</u>

See accompanying notes to financial statements.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Perpetual Federal Savings Bank of Urbana (the “Savings Bank”) is engaged in the business of providing financial products and services through its office in Urbana, Ohio. Champaign, Clark, Delaware, Franklin and Logan counties in Ohio provide the source of substantially all of the Savings Bank’s deposit and lending activities. The majority of the Savings Bank’s income is derived from mortgage loans secured by one- to four-family residential property, commercial and multi-family real estate loans and, to a lesser extent, construction or development loans, consumer loans, commercial business loans, as well as making other investments. The Savings Bank accepts demand, savings and time deposits.

Subsequent Events: The Savings Bank has evaluated subsequent events for recognition and disclosure through December 11, 2019, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

Securities: Debt 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. 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.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipation 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 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.

Federal Home Loan Bank (“FHLB”) Stock: The Savings 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.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan origination fees and costs and the 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. The net amount of fees and costs deferred is recorded in the balance sheets as part of loans.

Interest income is discontinued at the time a loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. 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.

All interest accrued but not received for loans placed on nonaccrual 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. These policies apply to all classes of loans held by the Savings Bank.

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 based on past loan loss experience, known and probable risks in 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 Savings 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.

Multi-family real estate and commercial real estate loans over \$500,000 are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. All loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when the internal grading system indicates a substandard classification.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Savings Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance covers non-impaired loans and loans that are collectively evaluated for impairment 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 experienced by the Savings Bank over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present in the loan portfolio. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; experience, ability and depth of lending management and other relevant staff; and national and local economic trends and conditions.

The portfolio segments include one-to-four family real estate, multi-family real estate, commercial real estate, real estate construction, consumer and commercial loans. One-to-four family, one-to-four family construction and consumer loans rely on the historical cash flows of individual borrowers and on the collateral securing the loan. Multi-family, commercial real estate, commercial real estate construction and commercial segments are comprised of loans with a reliance on historic cash flows of small business borrowers and of small scale investors, as well as the underlying real estate projects or of land. The underwriting criteria across all segments consider the risk attributes to be impacted by weak local economic conditions and a weak real estate market.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 15 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 5 to 7 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are charged to expense as incurred and improvements are capitalized.

Foreclosed Assets: Foreclosed assets are initially reported 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. At September 30, 2019 and at September 30, 2018 the Savings Bank had no other real estate owned.

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

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk: The Savings Bank grants mortgage, consumer, and commercial loans to customers located in the Champaign, Clark and Logan County areas. In addition, the Savings Bank also grants mortgage loans to borrowers in Franklin and Delaware Counties. At year-end 2019, loans to borrowers in Franklin and Delaware Counties comprise 66.0% of gross loans. Almost all of these loans are obtained through an outside loan originator. Also, at September 30, 2019 and 2018 the Savings Bank had \$14,701,205 and \$25,371,175 in deposits at the Federal Home Loan Bank of Cincinnati (“FHLB”) in addition to FHLB stock totaling \$2,794,200 at September 30, 2019 and 2018.

Cash Flows Reporting: Cash and cash equivalents are defined as cash on hand, amounts due from depository institutions, and interest-bearing deposits in other financial institutions with original maturities of 90 days or less.

Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits with other banks and short-term borrowings under its cash management line of credit with the FHLB.

The Savings Bank paid interest of \$5,959,000 and \$5,214,000 and income taxes of \$1,721,000 and \$1,998,000 in 2019 and 2018.

There were no noncash transfers from loans to other real estate owned in 2019 and \$20,000 in 2018.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions have varied maturities and are carried at cost. At September 30, 2019 the weighted average remaining maturity of the Savings Bank’s interest-bearing deposits in other financial institutions was 236 days.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed separately. 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.

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 now are such matters that will have a material effect on the financial statements.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans 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.

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. The diluted earnings per common share is equal to basic earnings per common share as the Savings Bank does not have any activity that would result in a dilutive impact.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividend paid by the Savings Bank to shareholders. See Note 11 for more specific disclosure related to federal savings banks.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications: Certain amounts appearing in the 2018 financial statements and related notes have been reclassified to conform to the 2019 presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of Revenue Recognition Standards: On October 1, 2018, the Savings Bank adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Savings Bank's revenues come from interest income and other sources, including loans and securities, that are outside the scope of ASC 606. The Savings Bank's services that fall within the scope of ASC 606 are presented within Noninterest Income and are recognized as revenue as the Savings Bank satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposits and the sale of OREO.

The Savings Bank adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of October 1, 2018. Results for reporting periods beginning after October 1, 2018 are presented under ASC 606 while prior amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

NOTE 2 -- SECURITIES

The following table summarizes the amortized cost and fair value of securities held-to-maturity at September 30, 2019 and 2018 and the corresponding amounts of gross unrecognized gains and losses:

	Amortized <u>Cost</u>	Gross Unrecognized <u>Gains</u>	Gross Unrecognized <u>Losses</u>	Fair <u>Value</u>
<u>2019</u>				
Held-to-maturity				
State and political subdivisions	\$ 1,016,535	\$ 55,700	-	\$ 1,072,235
Total held-to-maturity	<u>\$ 1,016,535</u>	<u>\$ 55,700</u>	<u>\$ -</u>	<u>\$ 1,072,235</u>
	Amortized <u>Cost</u>	Gross Unrecognized <u>Gains</u>	Gross Unrecognized <u>Losses</u>	Fair <u>Value</u>
<u>2018</u>				
Held-to-maturity				
State and political subdivisions	\$ 1,016,516	-	\$ (7,426)	\$ 1,009,090
Total held-to-maturity	<u>\$ 1,016,516</u>	<u>\$ -</u>	<u>\$ (7,426)</u>	<u>\$ 1,009,090</u>

The amortized cost and fair value of 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.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 2 -- SECURITIES (Continued)

	September 30, 2019		September 30, 2018	
	Amortized	Fair	Amortized	Fair
	<u>Cost</u>	<u>Value</u>	<u>Cost</u>	<u>Value</u>
Held-to-maturity				
Within one year	\$ -	\$ -	\$ -	\$ -
One to five years	20,038	20,150	20,067	19,840
Five to ten years	500,689	524,345	500,819	496,315
Beyond ten years	495,808	527,740	495,630	492,935
Total held-to-maturity	<u>\$ 1,016,535</u>	<u>\$ 1,072,235</u>	<u>\$ 1,016,516</u>	<u>\$ 1,009,090</u>

No securities were pledged at year-end 2019 and 2018. At year-end 2019 and 2018, there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders' equity. No securities were in an unrecognized loss position at September 30, 2019.

At September 30, 2018 there were three securities with unrecognized losses of \$7,426 for a continuous period of less than twelve months. Unrecognized losses on state and political subdivisions have not been recognized into earnings because the securities are of high quality, the securities are classified as held to maturity and it is likely management will not be required to sell the securities prior to their maturity, and the decline is largely due to changes in interest rates since the time of purchase. The fair value is expected to recover as the securities approach maturity.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 -- LOANS RECEIVABLE

Loans receivable consisted of the following at year-end:

	<u>2019</u>	<u>2018</u>
Mortgage loans		
One-to-four family real estate loans	\$ 203,499,686	\$ 207,856,429
Multi-family real estate loans	73,036,051	68,884,346
Commercial real estate loans	55,426,074	58,650,933
Real estate construction loans	346,868	322,257
	<u>332,308,679</u>	<u>335,713,965</u>
Consumer and other loans		
Consumer loans	3,530,633	4,248,331
Commercial loans	8,468,248	9,274,744
	<u>11,998,881</u>	<u>13,523,075</u>
Gross loans	344,307,560	349,237,040
Less:		
Deferred loan origination fees and costs, net	(319,662)	(296,478)
Allowance for loan losses	(5,083,099)	(5,083,099)
	<u>(5,402,761)</u>	<u>(5,379,577)</u>
	<u>\$ 338,904,799</u>	<u>\$ 343,857,463</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended September 30, 2019 and 2018:

	One-to-four Real Estate & Real Estate <u>Construction</u>	Multi-family <u>Real Estate</u>	Commercial <u>Real Estate</u>	Consumer & Commercial	<u>Unallocated</u>	<u>Total</u>
For the year ended September 30, 2019						
Balance at beginning of period	\$ 2,878,154	\$ 1,047,896	\$ 737,979	\$ 419,070	\$ -	\$ 5,083,099
Provision for loan losses	15,790	70,805	(26,455)	(185,989)	-	(125,849)
Recoveries	44,350	-	-	108,043	-	152,393
Charge-offs	(8,079)	-	-	(18,465)	-	(26,544)
Balance at end of period	<u>\$ 2,930,215</u>	<u>\$ 1,118,701</u>	<u>\$ 711,524</u>	<u>\$ 322,659</u>	<u>\$ -</u>	<u>\$ 5,083,099</u>

	One-to-four Real Estate & Real Estate <u>Construction</u>	Multi-family <u>Real Estate</u>	Commercial <u>Real Estate</u>	Consumer & Commercial	<u>Unallocated</u>	<u>Total</u>
For the year ended September 30, 2018						
Balance at beginning of period	\$ 3,071,618	\$ 851,654	\$ 749,283	\$ 410,544	\$ -	\$ 5,083,099
Provision for loan losses	(125,822)	(36,119)	33,847	(62,555)	-	(190,649)
Recoveries	50,269	232,361	75,931	73,031	-	431,592
Charge-offs	(117,911)	-	(121,082)	(1,950)	-	(240,943)
Balance at end of period	<u>\$ 2,878,154</u>	<u>\$ 1,047,896</u>	<u>\$ 737,979</u>	<u>\$ 419,070</u>	<u>\$ -</u>	<u>\$ 5,083,099</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment¹ in loans by portfolio segment and based on impairment method as of September 30, 2019:

Total	One-to-four Real Estate & Real Estate <u>Construction</u>	Multi-family <u>Real Estate</u>	Commercial <u>Real Estate</u>	Consumer & <u>Commercial</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 125	\$ -	\$ -	\$ 54	\$ -	\$ 179
Collectively evaluated for impairment	2,930,090	1,118,701	711,524	322,605	-	5,082,920
Total ending allowance balance	<u>\$ 2,930,215</u>	<u>\$ 1,118,701</u>	<u>\$ 711,524</u>	<u>\$ 322,659</u>	<u>\$ -</u>	<u>\$ 5,083,099</u>
Loans:						
Loans individually evaluated for impairment	\$ 1,724,771	\$ 464,372	\$ 463,450	\$ 349,811		\$ 3,002,404
Loans collectively evaluated for impairment	202,894,928	72,651,590	55,124,178	11,722,441		342,393,137
Total ending loans balance	<u>\$ 204,619,699</u>	<u>\$ 73,115,962</u>	<u>\$ 55,587,628</u>	<u>\$ 12,072,252</u>		<u>\$ 345,395,541</u>

¹ The recorded investment is the principal balance and accrued interest receivable less any deferred fees/costs.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment¹ in loans by portfolio segment and based on impairment method as of September 30, 2018:

Total	One-to-four Real Estate & Real Estate <u>Construction</u>	Multi-family <u>Real Estate</u>	Commercial <u>Real Estate</u>	Consumer & <u>Commercial</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 1,571	\$ -	\$ -	\$ 257	\$ -	\$ 1,828
Collectively evaluated for impairment	<u>2,876,583</u>	<u>1,047,896</u>	<u>737,979</u>	<u>418,813</u>	<u>-</u>	<u>5,081,271</u>
Total ending allowance balance	<u>\$ 2,878,154</u>	<u>\$ 1,047,896</u>	<u>\$ 737,979</u>	<u>\$ 419,070</u>	<u>\$ -</u>	<u>\$ 5,083,099</u>
Loans:						
Loans individually evaluated for impairment	\$ 1,728,127	\$ 52,192	\$ 651,604	\$ 6,058		\$ 2,437,981
Loans collectively evaluated for impairment	<u>207,249,493</u>	<u>68,884,491</u>	<u>58,165,900</u>	<u>13,606,360</u>		<u>347,906,244</u>
Total ending loans balance	<u>\$ 208,977,620</u>	<u>\$ 68,936,683</u>	<u>\$ 58,817,504</u>	<u>\$ 13,612,418</u>		<u>\$ 350,344,225</u>

¹ The recorded investment is the principal balance and accrued interest receivable less any deferred fees/costs.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents impaired loans by class of loans for the year ended September 30, 2019:

	Average of Impaired Loans <u>During the Period</u>	Interest Income Recognized <u>During Impairment</u>	Cash Basis Interest Income <u>Recognized</u>
Construction Loans on:			
One-to-four family real estate	\$ -	\$ -	\$ -
Multi-family real estate	-	-	-
Commercial real estate	-	-	-
One-to-four family real estate:			
Secured by First Liens	1,861,429	62,827	62,827
Secured by Junior Liens	-	-	-
Multi-family real estate	401,266	30,650	30,650
Commercial real estate (Except Land)	555,127	36,710	36,710
Land	-	-	-
Commercial Loans:			
Secured	-	-	-
Unsecured	278,703	17,419	17,419
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	1,663	-	-
Other	6,452	726	726
Total	<u>\$ 3,104,640</u>	<u>\$ 148,332</u>	<u>\$ 148,332</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents impaired loans by class of loans for the year ended September 30, 2018:

	Average of Impaired Loans <u>During the Period</u>	Interest Income Recognized <u>During Impairment</u>	Cash Basis Interest Income <u>Recognized</u>
Construction Loans on:			
One-to-four family real estate	\$ -	\$ -	\$ -
Multi-family real estate	-	-	-
Commercial real estate	-	-	-
One-to-four family real estate:			
Secured by First Liens	1,755,785	48,251	46,678
Secured by Junior Liens	3,908	2,663	2,663
Multi-family real estate	157,675	97,532	97,532
Commercial real estate (Except Land)	707,937	26,772	24,354
Land	-	-	-
Commercial Loans:			
Secured	-	8,174	8,174
Unsecured	-	-	-
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	2,719	-	-
Other	1,264	51	51
Total	<u>\$ 2,629,288</u>	<u>\$ 183,443</u>	<u>\$ 179,452</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2019:

	Unpaid Principal <u>Balance</u>	Recorded <u>Investment</u>	Allowance for Loan Losses <u>Allocated</u>
With no related allowance recorded:			
Construction Loans on:			
One-to-four family real estate	\$ -	\$ -	\$ -
Multi-family real estate	-	-	-
Commercial real estate	-	-	-
One-to-four family real estate:			
Secured by First Liens	2,051,731	1,606,727	-
Secured by Junior Liens	-	-	-
Multi-family real estate	526,825	464,372	-
Commercial real estate (Except Land)	691,370	463,450	-
Land	-	-	-
Commercial Loans:			
Secured	-	-	-
Unsecured	517,441	-	-
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	4,057	-	-
Mobile Home Loans	-	-	-
Other	-	-	-
	<u>3,791,424</u>	<u>2,534,549</u>	<u>-</u>
With an allowance recorded:			
Construction Loans on:			
One-to-four family real estate	-	-	-
Multi-family real estate	-	-	-
Commercial real estate	-	-	-
One-to-four family real estate:			
Secured by First Liens	118,044	118,044	125
Secured by Junior Liens	-	-	-
Multi-family real estate	-	-	-
Commercial real estate (Except Land)	-	-	-
Land	-	-	-
Commercial Loans:			
Secured	-	-	-
Unsecured	349,811	349,811	54
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	-	-	-
Other	-	-	-
	<u>467,855</u>	<u>467,855</u>	<u>179</u>
Total	<u>\$ 4,259,279</u>	<u>\$ 3,002,404</u>	<u>\$ 179</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2018:

	Unpaid Principal <u>Balance</u>	Recorded <u>Investment</u>	Allowance for Loan Losses <u>Allocated</u>
With no related allowance recorded:			
Construction Loans on:			
One-to-four family real estate	\$ -	\$ -	\$ -
Multi-family real estate	-	-	-
Commercial real estate	-	-	-
One-to-four family real estate:			
Secured by First Liens	1,910,757	1,449,970	-
Secured by Junior Liens	-	-	-
Multi-family real estate	114,645	52,192	-
Commercial real estate (Except Land)	879,524	651,604	-
Land	-	-	-
Commercial Loans:			
Secured	-	-	-
Unsecured	566,969	-	-
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	-	-	-
Mobile Home Loans	-	-	-
Other	43,954	1,798	-
	<u>3,515,849</u>	<u>2,155,564</u>	<u>-</u>
With an allowance recorded:			
Construction Loans on:			
One-to-four family real estate	-	-	-
Multi-family real estate	-	-	-
Commercial real estate	-	-	-
One-to-four family real estate:			
Secured by First Liens	294,928	278,157	1,571
Secured by Junior Liens	-	-	-
Multi-family real estate	-	-	-
Commercial real estate (Except Land)	-	-	-
Land	-	-	-
Commercial Loans:			
Secured	-	-	-
Unsecured	-	-	-
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	4,260	4,260	257
Other	-	-	-
	<u>299,188</u>	<u>282,417</u>	<u>1,828</u>
Total	<u>\$ 3,815,037</u>	<u>\$ 2,437,981</u>	<u>\$ 1,828</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of September 30, 2019:

	<u>Nonaccrual</u>	Loans Past Due Over 90 Days Still <u>Accruing</u>
Construction Loans on:		
One-to-four family real estate	\$ -	\$ -
Multi-family real estate	-	-
Commercial real estate	-	-
One-to-four family real estate		
Secured by First Liens	912,900	-
Secured by Junior Liens	-	-
Multi-family real estate	28,727	-
Commercial real estate (Except Land)	188,454	-
Land	-	-
Commercial Loans:		
Secured	-	-
Unsecured	-	-
Consumer Loans:		
Loans on Deposits	-	-
Auto Loans	-	-
Other	-	-
	<hr/>	<hr/>
Total	<u>\$ 1,130,081</u>	<u>\$ -</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of September 30, 2018:

	<u>Nonaccrual</u>	Loans Past Due Over 90 Days Still	
		<u>Accruing</u>	
Construction Loans on:			
One-to-four family real estate	\$ -	\$ -	-
Multi-family real estate	-	-	-
Commercial real estate	-	-	-
One-to-four family real estate			
Secured by First Liens	958,952	-	-
Secured by Junior Liens	-	-	-
Multi-family real estate	52,192	-	-
Commercial real estate (Except Land)	230,768	-	-
Land	-	-	-
Commercial Loans:			
Secured	-	-	-
Unsecured	-	-	-
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	4,260	-	-
Other	1,798	-	-
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 1,247,970</u>	<u>\$ -</u>	<u>-</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents the aging of the recorded investment in past due loans as of September 30, 2019 by class of loans:

	30 - 59 Days <u>Past Due</u>	60 - 89 Days <u>Past Due</u>	Greater than 90 Days <u>Past Due</u>	Total <u>Past Due</u>	Loans Not <u>Past Due</u>	<u>Total</u>
Construction Loans on:						
One-to-four family real estate	\$ -	\$ -	\$ -	\$ -	\$ 347,637	\$ 347,637
Multi-family real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
One-to-four family real estate:						
Secured by First Liens	1,157,906	420,416	184,399	1,762,721	202,509,341	204,272,062
Secured by Junior Liens	-	-	-	-	-	-
Multi-family real estate	461,585	-	28,727	490,312	72,625,650	73,115,962
Commercial real estate (Except Land)	-	-	-	-	55,432,502	55,432,502
Land	-	-	-	-	155,126	155,126
Commercial Loans:						
Secured	-	-	-	-	359,570	359,570
Unsecured	-	-	-	-	8,134,242	8,134,242
Consumer Loans:						
Loans on Deposits	-	-	-	-	194,637	194,637
Auto Loans	-	-	-	-	136,507	136,507
Other	-	-	-	-	3,247,296	3,247,296
Total	<u>\$ 1,619,491</u>	<u>\$ 420,416</u>	<u>\$ 213,126</u>	<u>\$ 2,253,033</u>	<u>\$ 343,142,508</u>	<u>\$ 345,395,541</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The following table presents the aging of the recorded investment in past due loans as of September 30, 2018 by class of loans:

	30 - 59 Days <u>Past Due</u>	60 - 89 Days <u>Past Due</u>	Greater than 90 Days <u>Past Due</u>	Total <u>Past Due</u>	Loans Not <u>Past Due</u>	<u>Total</u>
Construction Loans on:						
One-to-four family real estate	\$ -	\$ -	\$ -	\$ -	\$ 322,430	\$ 322,430
Multi-family real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
One-to-four family real estate:						
Secured by First Liens	1,085,473	137,697	422,071	1,645,241	206,893,364	208,538,605
Secured by Junior Liens	-	-	-	-	116,585	116,585
Multi-family real estate	987,262	-	52,192	1,039,454	67,897,229	68,936,683
Commercial real estate (Except Land)	27,388	-	-	27,388	58,614,728	58,642,116
Land	-	-	-	-	175,388	175,388
Commercial Loans:						
Secured	-	-	-	-	1,200,156	1,200,156
Unsecured	-	-	-	-	8,121,881	8,121,881
Consumer Loans:						
Loans on Deposits	-	-	-	-	240,082	240,082
Auto Loans	-	-	4,260	4,260	84,210	88,470
Other	1,874	-	1,798	3,672	3,958,157	3,961,829
Total	<u>\$ 2,101,997</u>	<u>\$ 137,697</u>	<u>\$ 480,321</u>	<u>\$ 2,720,015</u>	<u>\$ 347,624,210</u>	<u>\$ 350,344,225</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

Troubled Debt Restructurings:

The Savings Bank has a recorded investment in troubled debt restructurings of \$767,000 and \$1.3 million at September 30, 2019 and 2018, respectively. The Savings Bank has allocated \$125 and \$1,571 in specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2019 and 2018 respectively. The Savings Bank has not committed to lend additional amounts as of September 30, 2019 and 2018 to customers with outstanding loans that are classified as troubled debt restructurings.

There were no loans modified as troubled debt restructurings that occurred during the year ending September 30, 2019.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending September 30, 2018:

	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
Troubled Debt Restructurings:			
Construction Loans on:			
One-to-four family real estate	-	\$ -	\$ -
Multi-family real estate	-	-	-
Commercial real estate	-	-	-
One-to-four family real estate			
Secured by First Liens	1	36,000	36,000
Secured by Junior Liens	-	-	-
Multi-family real estate	-	-	-
Commercial real estate (Except Land)	-	-	-
Land	-	-	-
Commercial Loans:			
Secured	-	-	-
Unsecured	-	-	-
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	-	-	-
Other	-	-	-
Total	<u>1</u>	<u>\$ 36,000</u>	<u>\$ 36,000</u>

During the fiscal year ending September 30, 2018, the modification of the terms of the troubled debt restructuring was the refinance of an impaired loan. There was no reduction in the recorded investment of this loan.

The troubled debt restructuring described above had no specifically allocated reserves from the allowance for loan losses during the year ending September 30, 2018.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending September 30, 2019 and the year ending September 30, 2018.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Savings Bank's internal underwriting policy.

The Savings Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Savings Bank analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans aggregated to one borrower with an outstanding balance greater than \$500,000 and newly originated, unsecured commercial loans. This analysis is performed on an annual basis by an independent external firm in addition to the Savings Bank's internal quarterly analysis of its un-aggregated portfolio. The Savings Bank uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually are considered to be pass-rated loans. Loans listed as not rated are less than \$500,000 aggregated to one borrower.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

Loans not meeting the preceding criteria that are analyzed individually as part of the above described process are considered to be pass rated loans. As of September 30, 2019, and based on the analysis performed as of September 30, 2019, the risk category of loans by class of loans is as follows:

	<u>Not Rated</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>
Construction Loans on:						
One-to-four family real estate	\$ 347,637	\$ -	\$ -	\$ -	\$ -	\$ -
Multi-family real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
One-to-four family real estate						
Secured by First Liens	138,574,214	58,763,240	5,208,779	1,725,829	-	-
Secured by Junior Liens	-	-	-	-	-	-
Multi-family real estate	21,794,476	50,799,083	58,031	464,372	-	-
Commercial real estate (Except Land)	14,366,703	40,121,299	616,060	328,440	-	-
Land	155,126	-	-	-	-	-
Commercial Loans:						
Secured	359,570	-	-	-	-	-
Unsecured	2,038,685	5,629,285	379,177	-	87,095	-
Consumer Loans:						
Loans on Deposits	194,637	-	-	-	-	-
Auto Loans	136,507	-	-	-	-	-
Other	2,158,728	1,088,568	-	-	-	-
Total	\$ 180,126,283	\$ 156,401,475	\$ 6,262,047	\$ 2,518,641	\$ 87,095	\$ -

The Savings Bank neither originates nor purchases subprime loans.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

Loans not meeting the preceding criteria that are analyzed individually as part of the above described process are considered to be pass rated loans. As of September 30, 2018, and based on the analysis performed as of September 30, 2018, the risk category of loans by class of loans is as follows:

	<u>Not Rated</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>
Construction Loans on:						
One-to-four family real estate	\$ 322,430	\$ -	\$ -	\$ -	\$ -	\$ -
Multi-family real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
One-to-four family real estate						
Secured by First Liens	144,078,710	61,902,051	1,320,735	1,237,109	-	-
Secured by Junior Liens	116,585	-	-	-	-	-
Multi-family real estate	22,907,624	45,415,211	78,174	535,674	-	-
Commercial real estate (Except Land)	14,289,543	43,260,316	714,455	377,802	-	-
Land	175,388	-	-	-	-	-
Commercial Loans:						
Secured	1,200,156	-	-	-	-	-
Unsecured	116,851	7,530,520	387,415	-	87,095	-
Consumer Loans:						
Loans on Deposits	240,082	-	-	-	-	-
Auto Loans	84,210	-	-	4,260	-	-
Other	2,513,132	1,446,899	-	1,798	-	-
Total	\$ 186,044,711	\$ 159,554,997	\$ 2,500,779	\$ 2,156,643	\$ 87,095	\$ -

The Savings Bank neither originates nor purchases subprime loans.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 3 - LOANS RECEIVABLE (Continued)

The Savings Bank considers the performance of the loan portfolio and its impact on the allowance for loan losses. The Savings Bank also evaluates credit quality based on the performing status of the loan, which was previously presented, and by payment activity. Nonperforming loans include nonaccrual loans and loans past due over 90 days still on accrual. The following table presents the recorded investment in the portfolio based on performance status as of September 30, 2019 and September 30, 2018:

	September 30, 2019:		September 30, 2018:	
	<u>Performing</u>	<u>Nonperforming</u>	<u>Performing</u>	<u>Nonperforming</u>
Construction Loans on:				
One-to-four family real estate	\$ 347,637	\$ -	\$ 322,430	\$ -
Multi-family real estate	-	-	-	-
Commercial real estate	-	-	-	-
One-to-four family real estate				
Secured by First Liens	203,359,162	912,900	207,579,653	958,952
Secured by Junior Liens	-	-	116,585	-
Multi-family real estate	73,087,235	28,727	68,884,491	52,192
Commercial real estate (Except Land)	55,244,048	188,454	58,411,348	230,768
Land	155,126	-	175,388	-
Commercial Loans:				
Secured	359,570	-	1,200,156	-
Unsecured	8,134,242	-	8,121,881	-
Consumer Loans:				
Loans on Deposits	194,637	-	240,082	-
Auto Loans	136,507	-	84,210	4,260
Other	3,247,296	-	3,960,031	1,798
Total	<u>\$ 344,265,460</u>	<u>\$ 1,130,081</u>	<u>\$ 349,096,255</u>	<u>\$ 1,247,970</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2019 and 2018

NOTE 3 -- LOANS RECEIVABLE (Continued)

The Savings Bank has granted loans to certain directors, executive officers and their related business interests (a "Related Party") in compliance with applicable law and regulation. The following is a summary of related party loan activity during 2019:

Balance at beginning of year	\$ 5,868,251
New loans	3,286,000
Repayments	<u>(2,411,082)</u>
Balance at end of year	<u>\$ 6,743,169</u>

Borrowing agreements with the Federal Home Loan Bank of Cincinnati are collateralized in part by a blanket pledge of \$199.1 million of qualifying mortgage loans at year-end 2019. This blanket pledge consists entirely of 1-4 family real estate mortgage loans.

NOTE 4 – REAL ESTATE OWNED

Real estate owned activity was as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ -	\$ 12,500
Loans transferred to real estate owned	-	20,000
Capitalized expenditures	-	-
Direct write-downs	-	-
Sales of real estate owned	<u>-</u>	<u>(32,500)</u>
End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

At September 30, 2019, there was no recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. At September 30, 2018, there were four consumer mortgage loans secured by residential real estate properties with a total recorded investment of \$32,452 for which formal foreclosure proceedings are in process.

Expenses related to foreclosed assets include:

	<u>2019</u>	<u>2018</u>
Net loss (gain) on sales	\$ -	\$ (15,392)
Provision for unrealized losses	-	-
Operating expenses, net of rental income	<u>-</u>	<u>1,396</u>
	<u><u>\$ -</u></u>	<u><u>\$ (13,996)</u></u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 5 -- PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at year end:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 433,582	\$ 433,582
Buildings and improvements	1,060,176	1,060,176
Furniture and equipment	<u>734,625</u>	<u>599,012</u>
Total cost	2,228,383	2,092,770
Accumulated depreciation	<u>(1,531,848)</u>	<u>(1,484,354)</u>
	<u>\$ 696,535</u>	<u>\$ 608,416</u>

NOTE 6 -- DEPOSITS

Deposits are summarized as follows at year-end:

	<u>2019</u>	<u>2018</u>
NOW accounts	\$ 14,935,206	\$ 15,951,585
Passbook accounts	5,806,325	6,480,183
Money fund accounts	31,402,355	30,802,325
Certificates of deposit	<u>252,769,435</u>	<u>254,884,915</u>
	<u>\$ 304,913,321</u>	<u>\$ 308,119,008</u>

The Savings Bank had approximately \$54.7 million and \$45.1 million of time deposits in denominations in excess of \$250,000 at year-end 2019 and 2018.

The Savings Bank accepts deposits from its employees, directors, executive officers and their related business interests. At September 30, 2019, such deposits totaled \$7.7 million, or 2.5% of total deposits. At September 30, 2018, such deposits totaled \$4.5 million, or 1.5% of total deposits. The Savings Bank did not have any brokered deposits at September 30, 2019 and September 30, 2018.

At year-end 2019, scheduled maturities of certificates of deposit were as follows:

Year ending September 30,	
2020	\$ 87,850,618
2021	77,021,797
2022	48,159,431
2023	20,665,040
2024	15,939,693
Thereafter	<u>3,132,856</u>
	<u>\$ 252,769,435</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 7 -- BORROWINGS

Borrowings, consisting of advances from the FHLB, are summarized as follows at year-end:

	Year-end 2019 Interest Rate	<u>2019</u>	<u>2018</u>
Regular fixed rate advances, 3 year original maturity		-	6,000,000
Regular fixed rate advances, 5 year original maturity	1.51 - 2.77%	10,000,000	7,000,000
		<u>\$ 10,000,000</u>	<u>\$ 13,000,000</u>

The Savings Bank's available cash management line of credit totaled \$25,000,000 at year-end 2019. There was no outstanding balance on this line at fiscal year-end 2019 and 2018.

The maximum month-end balance of advances outstanding was \$14,500,000 in 2019 and \$13,000,000 in 2018. The average balance of borrowings outstanding was \$11,917,000 in 2019 and \$13,000,000 in 2018. Advances under the borrowing agreements are collateralized by the Savings Bank's FHLB stock and a blanket pledge of qualifying mortgage loans as detailed in Note 3.

At year-end 2019 and 2018, the Savings Bank had letters of credit from the FHLB totaling \$27,205,000 and \$25,535,000, respectively. The letters of credit are pledged by the Savings Bank to secure public deposits.

At year-end 2019, contractually required annual principal payments were as follows:

Year ending September 30,	
2020	\$ -
2021	4,000,000
2022	-
2023	-
2024	6,000,000
Thereafter	-
	<u>\$ 10,000,000</u>

The Savings Bank may prepay its outstanding advances with the FHLB prior to their contractual maturities. The prepayment of FHLB advances could result in prepayment penalties, some of which could be substantial.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 8 -- INCOME TAXES

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the “Act”), was signed into law. The Act includes many provision that impact the Savings Bank’s income tax expense, including reducing the federal tax rate from 34% to 21% effective January 1, 2018. As a result of the rate reduction, the Savings Bank was required to re-measure, through income tax expense in the period of enactment, its deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. The re-measurement of the net deferred tax asset resulted in additional income tax expense of \$349,000 during the year ending September 30, 2018.

An analysis of income tax expense is as follows:

	<u>2019</u>	<u>2018</u>
Current	\$ 1,587,764	\$ 2,100,343
Deferred	34,000	94,000
Expense due to enactment of federal tax reform	-	349,000
	<u>\$ 1,621,764</u>	<u>\$ 2,543,343</u>

Income taxes for financial reporting purposes differ from the amount computed by applying the statutory federal tax rate for reason noted in the table below (21% for the year ended September 30, 2019 and 24.28% blended rate for the year ended September 30, 2018):

	<u>2019</u>	<u>2018</u>
Income tax computed at the statutory rate	\$ 1,626,145	\$ 2,083,036
Tax effect of:		
Impact of federal tax reform	-	349,000
Tax exempt interest	(5,955)	(6,991)
Other items	1,574	118,298
	<u>\$ 1,621,764</u>	<u>\$ 2,543,343</u>

The sources of gross deferred tax assets and gross deferred tax liabilities (rounded to thousands) at year-end are as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax assets		
Allowance for loan losses	\$ 936,000	\$ 962,000
Interest income on nonaccrual loans	84,000	66,000
Other	-	23,000
Deferred tax liabilities		
FHLB stock dividends	(435,000)	(435,000)
Prepaid expenses	(33,000)	(41,000)
Deferred loan fees/costs	(11,000)	(7,000)
Other	(7,000)	-
Net deferred tax asset	<u>\$ 534,000</u>	<u>\$ 568,000</u>

Sufficient taxes have been paid in prior years to warrant recording the deferred tax asset without a valuation allowance.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 8 -- INCOME TAXES (Continued)

No deferred tax liability is required to be recorded for the Savings Bank's tax bad debt reserves arising before December 31, 1987, totaling \$2,779,000, unless it is apparent that the reserves will reverse in the near future. Unrecognized deferred taxes on these reserves total \$584,000 at September 30, 2019 and 2018. If the portion of retained earnings representing these reserves is used for any purpose other than to absorb bad debts, it will be added to future taxable income and the related tax will be recognized as expense.

At September 30, 2019, the Savings Bank had no unrecognized tax benefits. The Savings Bank does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months. No amounts were recorded for interest or penalties in the income statement for the fiscal years ended September 30, 2019 and 2018 and no amounts have been accrued for interest or penalties at September 30, 2019 and 2018.

The Savings Bank is subject to U.S. federal income tax as well as a capital-based financial institutions tax in the State of Ohio. The Savings Bank is no longer subject to examination by taxing authorities for years prior to 2016.

NOTE 9 -- EMPLOYEE BENEFITS

The Savings Bank maintains a non-contributory profit sharing plan for all employees who meet certain qualifications. Employees are eligible to participate in the plan if they are 21 years of age or older and have completed one year of employment with more than 1,000 hours of service to the Savings Bank. Employer contributions are based on the Savings Bank's return on average assets for the year before nonrecurring items and are allocated to participants based on their annual salary. Employer contributions vest on a graduated basis at the rate of 20% per year in years two through six so that the employee is 100% vested upon completion of six years of service. Contribution expense for the plan was \$237,000 and \$148,000 for 2019 and 2018.

NOTE 10 -- COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES

Litigation: The Savings Bank is periodically subjected to claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, that as of September 30, 2019, these matters are not expected to have a material effect on financial condition or results of operations.

Loan Commitments: Certain financial instruments, including commitments to extend credit, standby letters of credit and financial guarantees, are used to meet financing needs of customers. These involve, to varying degrees, credit risk more than the amount reported in the financial statements. Exposure to credit loss if the other party does not perform is represented by the contractual amount for commitments to extend credit, standby letters of credit and financial guarantees written. The same credit policies are used for commitments and conditional obligations as are used for loans. The amount of collateral obtained, if deemed necessary, on extension of credit is based on management's credit evaluation and generally consists of residential or commercial real estate. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being used, the total commitments do not necessarily represent future cash requirements.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 10 -- COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES (Continued)

The Savings Bank had commitments to make fixed-rate loans at market rates totaling \$3.7 million and \$2.3 million at year-end 2019 and 2018. The interest rates on fixed-rate commitments ranged from 3.50% to 6.00% at year-end 2019 and 4.25% to 5.75% at year-end 2018. Loan commitments are generally for 30 days. The Savings Bank was committed on unfunded portions of approved variable-rate lines of credit of \$1.3 million and \$4.6 million year-end 2019 and 2018.

NOTE 11 -- REGULATORY MATTERS

As an FDIC insured, federally-chartered savings bank, the Savings Bank is subject to regulatory capital requirements administered by the FDIC and other federal banking agencies. Capital adequacy guidelines and 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. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision’s capital guidelines for U.S. banks (Basel III Rules) became effective for the Savings Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Among other requirements, under the Basel III Rules, the Savings Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The fully phased in capital conservation buffer for 2019 is 2.50%. Management believes that as of September 30, 2019, the Savings 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. At September 30, 2019 and 2018, the most recent regulatory notifications categorized the Savings 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 following is a reconciliation of shareholders’ equity (in thousands), as reflected on the accompanying balance sheets, to regulatory capital at year-end 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Total shareholders' equity	\$ 75,722	\$ 72,589
Nonallowable assets	-	-
Tier 1 (core) and tangible capital	<u>75,722</u>	<u>72,589</u>
Additional capital items:		
General valuation allowance (limited)	2,894	2,978
Other assets required to be deducted	<u>-</u>	<u>-</u>
Total risk-based capital	<u>\$ 78,616</u>	<u>\$ 75,567</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 11 -- REGULATORY MATTERS (Continued)

At year-end 2019 and 2018, actual capital levels, minimum, and well capitalized levels under the Basel III Rules were (dollars in thousands):

	<u>Actual</u>		<u>Minimum Required For Capital Adequacy Purposes</u>		<u>Minimum Required to Be Well Capitalized Under Prompt Corrective Action Regulations</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2019</u>						
Total Capital to risk weighted assets	\$ 78,616	34.3%	\$ 18,351	8.0%	\$ 22,939	10.0%
Tier 1 (Core) Capital to risk weighted assets	75,722	33.0	13,763	6.0	18,351	8.0
Common Tier 1 (CET1)	75,722	33.0	10,323	4.5	14,910	6.5
Tier 1 (Core) Capital to average assets	75,722	19.4	15,645	4.0	19,557	5.0
<u>2018</u>						
Total Capital to risk weighted assets	\$ 75,567	32.0%	\$ 18,897	8.0%	\$ 23,621	10.0%
Tier 1 (Core) Capital to risk weighted assets	72,589	30.7	14,172	6.0	18,897	8.0
Common Tier 1 (CET1)	72,589	30.7	10,629	4.5	15,353	6.5
Tier 1 (Core) Capital to average assets	72,589	18.4	15,762	4.0	19,703	5.0

In addition to certain federal income tax considerations, federal banking regulations impose limitations on the payment of dividends and other capital distributions by federal savings associations. Generally, capital distributions are limited to the current year to date undistributed net income and prior two years' undistributed net income, as long as the Savings Bank remains well capitalized after the proposed distribution. Federal regulations also prohibit a federal savings association from declaring or paying any dividends or from repurchasing any of its stock if, as a result of such action, the regulatory capital of the Savings Bank would be reduced below the amount required to be maintained for the liquidation account established in connection with the Savings Bank's mutual to stock conversion which took place in 1991. The minimum capital conservation buffer that must be maintained in order to have no dividend payout limitations is 2.50%. The Savings Bank was well within that limit at September 30, 2019.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 12 -- FAIR VALUES OF FINANCIAL INSTRUMENTS

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 can access as of the measurement date.

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

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

The Savings Bank had no assets or liabilities carried at fair value and measured on a recurring basis at September 30, 2019 or 2018.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

NOTE 12 -- FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

At September 30, 2019 and 2018, assets and liabilities measured on a non-recurring basis are not material.

The methods utilized to estimate fair value of financial instruments at September 30, 2018 did not necessarily represent an exit price. In accordance with our adoption of ASU 2016-01 on October 1, 2018, the methods utilized to measure the fair value of financial instruments at September 30, 2019, represent exit prices.

The carrying value and estimated fair value of the Savings Bank's financial instruments not carried at fair value are as follows:

	<u>Carrying Amount</u>	<u>Fair Value Measurements at</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<u>September 30, 2019 Using:</u>					
(Dollars in thousands)					
Financial assets					
Cash and cash equivalents	\$ 31,370,305	\$ 31,370,000			\$ 31,370,000
Interest-bearing time deposits					
in other financial institutions	14,498,000		14,589,000		14,589,000
Securities held to maturity	1,016,535		1,072,000		1,072,000
Federal Home Loan Bank stock	2,794,200				N/A
Loans, net	338,904,799			347,136,000	347,136,000
Accrued interest receivable	1,479,785			1,480,000	1,480,000
Financial liabilities					
Demand and savings deposits	(52,143,886)	(52,144,000)			(52,144,000)
Certificates of deposit	(252,769,435)		(254,787,000)		(254,787,000)
FHLB advances	(10,000,000)		(10,098,000)		(10,098,000)
Accrued interest payable	(93,943)		(94,000)		(94,000)
<u>September 30, 2018 Using:</u>					
(Dollars in thousands)					
Financial assets					
Cash and cash equivalents	\$ 17,515,860	\$ 17,516,000			\$ 17,516,000
Interest-bearing time deposits					
in other financial institutions	26,742,000		26,712,000		26,712,000
Securities held to maturity	1,016,516		1,009,000		1,009,000
Federal Home Loan Bank stock	2,794,200				N/A
Loans, net	343,857,463			341,816,000	341,816,000
Accrued interest receivable	1,554,946			1,555,000	1,555,000
Financial liabilities					
Demand and savings deposits	(53,234,093)	(53,234,000)			(53,234,000)
Certificates of deposit	(254,884,915)		(245,873,000)		(245,873,000)
FHLB advances	(13,000,000)		(12,746,000)		(12,746,000)
Accrued interest payable	(45,219)		(45,000)		(45,000)

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
STOCKHOLDER INFORMATION

TRANSFER AGENT

The transfer agent for Perpetual Federal Savings Bank of Urbana's common stock is:

Continental Stock Transfer & Trust
1 State Street
30th Floor
New York, NY 10004-1561
(212) 509-4000

STOCKHOLDER AND GENERAL INQUIRIES/ANNUAL REPORTS

Copies of the annual report may be obtained without charge by contacting:

Ms. Mary Heaston
Perpetual Federal Savings Bank of Urbana
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PERPETUAL FEDERAL SAVINGS BANK OF URBANA
CORPORATE INFORMATION

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BOARD OF DIRECTORS

Dr. Steven R. Bohl, Chairman of the Board
Retired, Bohl & Bauer, DDS, Urbana, Ohio,

Hobert H. Neiswander
Retired President of Rothschild
Berry Farm, Urbana, Ohio

Michael R. Melvin
President and Chief Executive Officer,
Perpetual Federal Savings Bank of Urbana

Scott A. Fannin
Owner, Willman Furniture Company,
Urbana, Ohio.

Jesse L. Henson
Retired Vice President, W. B. Marvin
Manufacturing, Urbana, Ohio

M. Todd Woodruff
Auctioneer and Owner, Woodruff
Enterprises, Inc., Springfield, Ohio

David P. Vernon
Owner, Vernon Family Funeral Homes,
Urbana, Ohio

OFFICERS

Michael R. Melvin
President and Chief Executive Officer

Christine Anne Phelps
Exec. Vice President-Corp. Secretary

Mary E. Heaston
Sr. Vice President

Jared E. Riblet
Treasurer

John M. Harrigan
Vice President

W. Bradley Millice
Vice President

Jennifer J. Miller
Assistant Secretary

PERPETUAL FEDERAL SAVINGS BANK OF URBANA
CORPORATE INFORMATION

STAFF

Tanya Comer, Customer Service
Aimee Franczkowski, Customer Service
Michael Nitchman, Loan Consultant
Liza Souders, Loan Processing
Tamara Stamper, Loan Processing
Gregory Tullis, Service Maintenance
Eric Warrick, Compliance Manager

April Engstrom, Customer Service
Sarah McHenry, Customer Service
Shelbe Rice, Customer Service
Patti Spangler, Customer Service
Beth Tullis, Customer Service
Nancy Valentine, Customer Service
Lisa Wells, Customer Service

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