

**PERPETUAL FEDERAL SAVINGS BANK OF URBANA**

**ANNUAL REPORT**

September 30, 2020

PERPETUAL FEDERAL SAVINGS BANK OF URBANA

ANNUAL REPORT  
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ANNUAL MEETING

**The Annual Meeting of Stockholders is scheduled for January 20, 2021 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, 2020

Dear Shareholder:

You may have noticed in your proxy statement that two of our long serving directors have opted to retire from your Board of Directors.

Jesse L. Henson and Hobert H. Neiswander joined Perpetual's Board in June of 1987 bringing to a close thirty-three years of dedicated service for each.

Director responsibility includes making independent, honest, and informed judgments about the bank's business. Both of these gentlemen have done an outstanding job of overseeing the interests of the shareholders they represent over these many years.

On behalf of their fellow directors, officers, and staff of the Bank, I extend our gratitude for the service you have given.

After coming off two years of record earnings, this year's report will reflect more normal earnings trend for the institution similar to income reported for 2015, 2016 and 2017.

Back in September, the Federal Reserve announced the federal funds rate would remain targeted at 0% - .25% with FOMC projections indicating a zero rate environment would be in place through 2023.

Needless to say, the year 2020 has presented many challenges, and it would appear the next two or three years could be more of the same.

We will attempt to avail ourselves of the opportunities we are presented and be prudent in addressing the problems that are sure to arise.

We have continued to take pride in receiving a Five-Star Rating by Bauer Financial, the nation's leading independent bank rating firm, [www.bauerfinancial.com](http://www.bauerfinancial.com).

We appreciate your continued investment in Perpetual Federal and wish you good health and safety in the year to come.

Sincerely,



Michael R. Melvin  
President

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
SELECTED FINANCIAL INFORMATION

At or for the year ended September 30,

2020                      2019                      2018

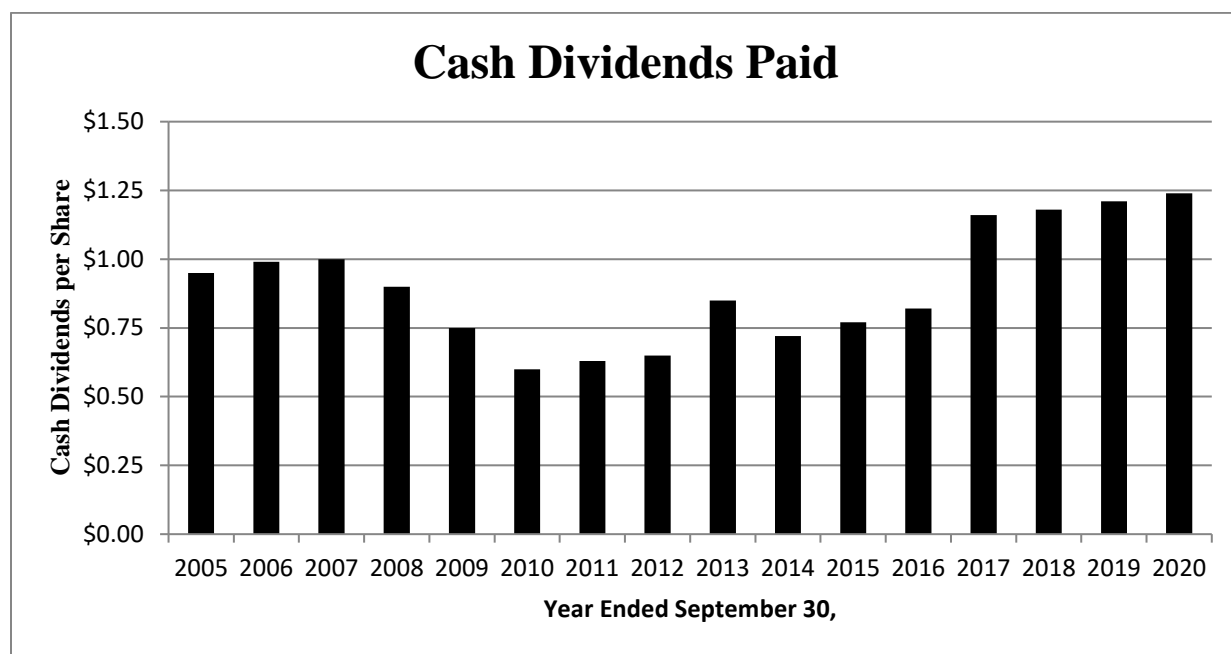
(In thousands, except per share data)

**Selected Financial Condition Data:**

Total assets	\$ 391,054	\$ 391,660	\$ 394,833
Loans receivable, net	329,573	338,905	343,857
Interest-bearing deposits in other financial institutions	21,749	14,498	26,742
Deposits	305,735	304,913	308,119
Borrowings	6,000	10,000	13,000
Shareholders' equity	78,088	75,722	72,589

**Selected Operations Data:**

Total interest income	\$ 16,663	\$ 17,635	\$ 17,560
Total interest expense	<u>6,194</u>	<u>6,008</u>	<u>5,217</u>
Net interest income	10,469	11,627	12,342
Provision for loan losses	<u>(160)</u>	<u>(126)</u>	<u>(191)</u>
Net interest income after provision for loan losses	10,629	11,753	12,533
Noninterest income	8	17	12
Noninterest expense	<u>4,151</u>	<u>4,026</u>	<u>3,966</u>
Income before income tax	6,486	7,744	8,579
Income tax expense	<u>1,350</u>	<u>1,622</u>	<u>2,543</u>
Net income	<u>\$ 5,136</u>	<u>\$ 6,122</u>	<u>\$ 6,036</u>
Earnings per common share:			
Basic	<u>\$ 2.08</u>	<u>\$ 2.48</u>	<u>\$ 2.44</u>
Diluted	<u>\$ 2.08</u>	<u>\$ 2.48</u>	<u>\$ 2.44</u>
Dividends per share	<u>\$ 1.24</u>	<u>\$ 1.21</u>	<u>\$ 1.18</u>



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

	<u>At or for the year ended September 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Other Data:</b>			
Interest rate spread information			
Average during year	2.31%	2.65%	2.88%
End of year	2.14	2.41	2.64
Net interest margin (ratio of net interest income to average interest-earning assets)	2.69	3.00	3.17
Average interest-earning assets to average interest-bearing liabilities	123.62	122.56	121.13
Nonperforming assets to total assets at end of period	0.33	0.29	0.32
Return on assets (ratio of net income to average total assets)	1.30	1.56	1.53
Return on shareholders' equity (ratio of net income to average equity)	6.69	8.29	8.54
Dividend payout ratio	59.64	48.82	48.29
Shareholders' equity to total assets at end of period	19.97	19.33	18.38
Average shareholders' equity to average total assets	19.49	18.86	17.94
Efficiency ratio (ratio of noninterest expense to net interest income and other income)	39.62	34.58	32.10
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, 2020 and 2019, and the related statements of income, comprehensive 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, 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.



Crowe LLP

Columbus, Ohio  
December 9, 2020

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
BALANCE SHEETS  
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 26,849,769	\$ 2,323,787
Interest-bearing deposits	-	28,932,518
Federal funds sold	<u>262,000</u>	<u>114,000</u>
Total cash and cash equivalents	27,111,769	31,370,305
Interest-bearing time deposits	21,749,000	14,498,000
Debt securities available for sale	6,088,453	-
Debt securities held to maturity (fair value 2020 - \$1,096,479 fair value 2019 - \$1,072,235)	1,016,518	1,016,535
Federal Home Loan Bank stock - at cost	2,794,200	2,794,200
Loans (net of allowance for loan losses: 2020 - \$5,083,099 2019 - \$5,083,099)	329,573,210	338,904,799
Premises and equipment, net	700,609	696,535
Accrued interest receivable	1,381,226	1,479,785
Other assets	<u>639,389</u>	<u>899,927</u>
 Total assets	 <u>\$ 391,054,374</u>	 <u>\$ 391,660,086</u>
 <b>LIABILITIES</b>		
Deposits	\$ 305,734,601	\$ 304,913,321
Borrowings	6,000,000	10,000,000
Advance payments by borrowers for taxes and insurance	484,869	484,016
Other liabilities	<u>746,569</u>	<u>540,808</u>
Total liabilities	312,966,039	315,938,145
 <b>SHAREHOLDERS' EQUITY</b>		
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	66,573,103	64,500,240
Accumulated other comprehensive income (loss)	<u>293,531</u>	<u>-</u>
Total shareholders' equity	<u>78,088,335</u>	<u>75,721,941</u>
 Total liabilities and shareholders' equity	 <u>\$ 391,054,374</u>	 <u>\$ 391,660,086</u>

See accompanying notes to financial statements

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
 STATEMENTS OF INCOME  
 Years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Interest and dividend income</b>		
Loans, including fees	\$ 15,885,018	\$ 16,563,083
Interest-bearing deposits	595,622	886,838
Taxable securities	35,070	-
Tax-exempt securities	70,350	31,668
Other	<u>77,042</u>	<u>153,758</u>
	16,663,102	17,635,347
<b>Interest expense</b>		
Deposits	5,968,336	5,764,198
Borrowings	<u>225,427</u>	<u>243,904</u>
	6,193,763	6,008,102
<b>Net interest income</b>	10,469,339	11,627,245
Provision (Recovery) for loan losses	<u>(159,670)</u>	<u>(125,849)</u>
<b>Net interest income after provision for loan losses</b>	10,629,009	11,753,094
Noninterest income		
Service charges and other fees	3,794	5,668
Other income	<u>4,209</u>	<u>11,081</u>
Total noninterest income	8,003	16,749
Noninterest expense		
Salaries and employee benefits	2,103,833	2,008,275
Occupancy and equipment expense	126,921	148,129
Data processing services	280,826	267,680
State taxes	479,182	582,032
FDIC insurance premium	28,947	78,468
Other expenses	<u>1,131,589</u>	<u>941,711</u>
Total noninterest expense	4,151,298	4,026,295
<b>Income before income tax</b>	6,485,714	7,743,548
Income tax expense	<u>1,350,011</u>	<u>1,621,764</u>
<b>Net income</b>	<u>\$ 5,135,703</u>	<u>\$ 6,121,784</u>
Earnings per common share:		
Basic	<u>\$ 2.08</u>	<u>\$ 2.48</u>
Diluted	<u>\$ 2.08</u>	<u>\$ 2.48</u>

See accompanying notes to financial statements



PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
STATEMENTS OF COMPREHENSIVE INCOME  
Years ended September 30, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
Net income	\$ 5,135,703	\$ 6,121,784
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gain/(loss) arising during the period	<u>371,557</u>	<u>-</u>
Tax effect	<u>(78,026)</u>	<u>-</u>
Net of tax	293,531	-
Comprehensive income	<u>\$ 5,429,234</u>	<u>\$ 6,121,784</u>

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See accompanying notes to financial statements

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Years ended September 30, 2020 and 2019

	Common <u>Stock</u>	Additional Paid-in <u>Capital</u>	Retained <u>Earnings</u>	Accumulated Other Comprehensive <u>Income</u>	Total Shareholders' <u>Equity</u>
Balance at October 1, 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
Other comprehensive income	-	-	-	-	-
Balance at September 30, 2019	24,700	11,197,001	64,500,240	-	75,721,941
Cash dividends - \$1.24 per share	-	-	(3,062,840)	-	(3,062,840)
Net income	-	-	5,135,703	-	5,135,703
Other comprehensive income	-	-	-	293,531	293,531
Balance at September 30, 2020	<u>\$ 24,700</u>	<u>\$ 11,197,001</u>	<u>\$ 66,573,103</u>	<u>\$ 293,531</u>	<u>\$ 78,088,335</u>

See accompanying notes to financial statements

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 5,135,703	\$ 6,121,784
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	86,369	67,820
Provision (Recovery) for loan losses	(159,670)	(125,849)
Net amortization (accretion) of securities	11,219	(19)
Deferred taxes	(71,000)	34,000
Loss(Gain) on sale of fixed assets	-	(4,287)
Net change in accrued interest receivable	98,559	75,161
Net change in other assets and liabilities	246,110	(256,265)
Net cash from operating activities	5,347,290	5,912,345
<b>Cash flows from investing activities</b>		
Net change in interest-bearing time deposits	(7,251,000)	12,244,000
Available-for-sale securities:		
Maturities, prepayments and calls	185,251	-
Purchases	(5,913,348)	-
Purchase of loans	(8,078,505)	-
Net change in loans	17,569,764	5,078,513
Property and equipment purchases	(90,443)	(151,652)
Net cash from (used in) investing activities	(3,578,281)	17,170,861
<b>Cash flows from financing activities</b>		
Net change in deposit accounts	821,280	(3,205,687)
Net change in official items outstanding	213,162	(59,086)
Proceeds from long-term debt	-	6,000,000
Principal payments on long-term debt	(4,000,000)	(9,000,000)
Net change in advance payments		
from borrowers for taxes and insurance	853	24,751
Cash dividends paid	(3,062,840)	(2,988,739)
Net cash from (used in) financing activities	(6,027,545)	(9,228,761)
Net change in cash and cash equivalents	(4,258,536)	13,854,445
Cash and cash equivalents at beginning of year	31,370,305	17,515,860
Cash and cash equivalents at end of year	\$ 27,111,769	\$ 31,370,305

See accompanying notes to financial statements.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**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 9, 2020, 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. See COVID-19 disclosures in Note 1 for additional information.

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, 2020 and 2019

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**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, 2020 and 2019

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**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, 2020 and at September 30, 2019 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.

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PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**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 2020, loans to borrowers in Franklin and Delaware Counties comprise 59.9% of gross loans. Almost all of these loans are obtained through an outside loan originator. Also, at September 30, 2020 and 2019 the Savings Bank had \$21,528,787 and \$14,701,205 in deposits at the Federal Home Loan Bank of Cincinnati (“FHLB”) in addition to FHLB stock totaling \$2,794,200 at September 30, 2020 and 2019.

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 \$6,197,000 and \$5,959,000 and income taxes of \$1,246,000 and \$1,721,000 in 2020 and 2019.

There were no noncash transfers from loans to other real estate owned in 2020 or 2019.

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, 2020 the weighted average remaining maturity of the Savings Bank’s interest-bearing deposits in other financial institutions was 293 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, 2020 and 2019

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

Reclassifications: Certain amounts appearing in the 2019 financial statements and related notes have been reclassified to conform to the 2020 presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of Revenue Recognition Standards: On October 1, 2019, the Savings Bank adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Savings Bank to recognize most leases on the balance sheet. We adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carry over of historical lease determination and lease classification conclusions
- Carry over of historical initial direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Savings Bank is a lessee as a single lease component

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of \$11,755, and operating lease liabilities of \$11,755 as of October 1, 2019. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Savings Bank's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Savings Bank's Income Statements. Prior periods were not restated and continue to be presented under legacy GAAP.

COVID-19: The outbreak of COVID-19 has adversely impacted a broad range of industries in which the Savings Bank's customers operate and could impair their ability to fulfill their financial obligations to the Savings Bank. The spread of the outbreak has caused significant disruptions in the U.S. economy and has disrupted banking and other financial activity in the areas in which the Savings Bank operates.

The Savings Bank has been working with customers directly affected by COVID-19 since it was declared a pandemic, to provide short-term assistance in accordance with regulatory guidelines. Under the guidelines, such assistance or COVID-19 related modifications are not required to be categorized as troubled debt restructurings. As of September 30, 2020, one COVID-19 related modification for the Savings Bank remained active with a balance of \$172,932 or 0.05% of total loans outstanding. All other COVID-19 modifications have returned to normal payments. Loan modifications were made on a case-by-case basis and ranged from an extension of interest only payments to payment deferrals. Should economic conditions continue to worsen, the Savings Bank could experience further increases in its required allowance for loan loss and record additional provision for loan loss expense. It is possible that the Savings Bank's asset quality measures could worsen at future measurement periods due to the continuing effects that COVID-19 may have on borrowers.

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief and Economic Security Act, or CARES Act, which among other things established a loan program administered through the Small Business Administration (SBA), referred to as the Paycheck Protection Program, or PPP. Under the PPP, small businesses, sole proprietorships, independent contractors, and self-employed individuals may apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. The Savings Bank participated as a lender in the PPP program. As of September 30, 2020, the Savings Bank has received approval and completed funding of \$2.1 million under the Paycheck Protection Program.

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PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**NOTE 2 -- SECURITIES**

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at September 30, 2020 and 2019 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
<u>2020</u>				
Available-for-sale				
State and political subdivisions	\$ 3,879,829	\$ 295,607	\$ -	\$ 4,175,436
Mortgage-backed securities: FNMA	<u>1,837,067</u>	<u>75,950</u>	<u>-</u>	<u>1,913,017</u>
Total available-for-sale	<u>\$ 5,716,896</u>	<u>\$ 371,557</u>	<u>\$ -</u>	<u>\$ 6,088,453</u>
	Amortized <u>Cost</u>	Gross Unrecognized <u>Gains</u>	Gross Unrecognized <u>Losses</u>	Fair <u>Value</u>
Held-to-maturity				
State and political subdivisions	\$ 1,016,518	\$ 79,961	\$ -	\$ 1,096,479
Total held-to-maturity	<u>\$ 1,016,518</u>	<u>\$ 79,961</u>	<u>\$ -</u>	<u>\$ 1,096,479</u>
	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>

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. Securities not due at a single maturity date are shown separately.

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PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**NOTE 2 -- SECURITIES** (Continued)

	September 30, 2020		September 30, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-Sale				
Within one year	\$ -	\$ -	\$ -	\$ -
One to five years	-	-	-	-
Five to ten years	634,352	709,824	-	-
Beyond ten years	3,245,477	3,465,612	-	-
Mortgage-backed securities: FNMA	1,837,067	1,913,017	-	-
Total held-to-maturity	<u>\$ 5,716,896</u>	<u>\$ 6,088,453</u>	<u>\$ -</u>	<u>\$ -</u>
Held-to-maturity				
Within one year	\$ 20,005	\$ 20,069	\$ -	\$ -
One to five years	500,561	544,495	20,038	20,150
Five to ten years	-	-	500,689	524,345
Beyond ten years	495,952	531,915	495,808	527,740
Total held-to-maturity	<u>\$ 1,016,518</u>	<u>\$ 1,096,479</u>	<u>\$ 1,016,535</u>	<u>\$ 1,072,235</u>

No securities were pledged at year-end 2020 and 2019. At year-end 2020 and 2019, 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, 2020 or at September 30, 2019.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**NOTE 3 -- LOANS RECEIVABLE**

Loans receivable consisted of the following at year-end:

	<u>2020</u>	<u>2019</u>
Mortgage loans		
One-to-four family real estate loans	\$ 186,347,015	\$ 203,499,686
Multi-family real estate loans	67,474,106	73,036,051
Commercial real estate loans	57,951,882	55,426,074
Real estate construction loans	344,000	346,868
	<u>312,117,003</u>	<u>332,308,679</u>
Consumer and other loans		
Consumer loans	3,779,970	3,530,633
Commercial loans	19,315,636	8,468,248
	<u>23,095,606</u>	<u>11,998,881</u>
Gross loans	335,212,609	344,307,560
Less:		
Deferred loan origination fees and costs, net	(556,300)	(319,662)
Allowance for loan losses	(5,083,099)	(5,083,099)
	<u>(5,639,399)</u>	<u>(5,402,761)</u>
	<u>\$ 329,573,210</u>	<u>\$ 338,904,799</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2020 and 2019

**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, 2020 and 2019:

	One-to-four Real Estate & Real Estate Construction	Multi-family Real Estate	Commercial Real Estate	Consumer & Commercial	Unallocated	Total
For the year ended September 30, 2020						
Balance at beginning of period	\$ 2,930,215	\$ 1,118,701	\$ 711,524	\$ 322,659	\$ -	\$ 5,083,099
Provision (Recovery) for loan losses	(216,125)	(126,719)	156,318	26,856	-	(159,670)
Recoveries	115,175	-	-	53,017	-	168,192
Charge-offs	(58)	-	-	(8,464)	-	(8,522)
Balance at end of period	<u>\$ 2,829,207</u>	<u>\$ 991,982</u>	<u>\$ 867,842</u>	<u>\$ 394,068</u>	<u>\$ -</u>	<u>\$ 5,083,099</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 (Recovery) 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>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2020 and 2019

**NOTE 3 - LOANS RECEIVABLE** (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment<sup>1</sup> in loans by portfolio segment and based on impairment method as of September 30, 2020:

	One-to-four Real Estate & Construction	Multi-family Real Estate	Commercial Real Estate	Consumer & Commercial	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	2,829,207	991,982	867,842	394,068	-	5,083,099
Total ending allowance balance	<u>\$ 2,829,207</u>	<u>\$ 991,982</u>	<u>\$ 867,842</u>	<u>\$ 394,068</u>	<u>\$ -</u>	<u>\$ 5,083,099</u>
Loans:						
Loans individually evaluated for impairment	\$ 1,157,613	\$ 307,602	\$ 313,281	\$ 209,502		\$ 1,987,998
Loans collectively evaluated for impairment	186,058,263	67,191,781	57,778,685	22,927,596		333,956,325
Total ending loans balance	<u>\$ 187,215,876</u>	<u>\$ 67,499,383</u>	<u>\$ 58,091,966</u>	<u>\$ 23,137,098</u>		<u>\$ 335,944,323</u>

<sup>1</sup> 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, 2020 and 2019

**NOTE 3 - LOANS RECEIVABLE** (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment<sup>1</sup> in loans by portfolio segment and based on impairment method as of September 30, 2019:

Total	One-to-four Real Estate & Construction	Multi-family Real Estate	Commercial Real Estate	Consumer & Commercial	Unallocated	Total
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>

<sup>1</sup> 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, 2020 and 2019

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**NOTE 3 - LOANS RECEIVABLE** (Continued)

The following table presents impaired loans by class of loans for the year ended September 30, 2020:

	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	1,677,938	40,889	40,889
Secured by Junior Liens	-	-	-
Multi-family real estate	590,823	24,631	24,631
Commercial real estate (Except Land)	387,126	24,865	24,865
Land	-	-	-
Commercial Loans:			
Secured	-	-	-
Unsecured	320,363	17,178	17,178
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	-	-	-
Other	-	-	-
Total	<u>\$ 2,976,250</u>	<u>\$ 107,563</u>	<u>\$ 107,563</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**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, 2020 and 2019

**NOTE 3 - LOANS RECEIVABLE** (Continued)

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2020:

	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	1,438,803	1,157,613	-
Secured by Junior Liens	-	-	-
Multi-family real estate	370,055	307,602	-
Commercial real estate (Except Land)	541,201	313,281	-
Land	-	-	-
Commercial Loans:			
Secured	-	-	-
Unsecured	677,416	209,502	-
Consumer Loans:			
Loans on Deposits	-	-	-
Auto Loans	4,057	-	-
Mobile Home Loans	-	-	-
Other	4,570	-	-
	<u>3,036,102</u>	<u>1,987,998</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	-	-	-
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	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,036,102</u>	<u>\$ 1,987,998</u>	<u>\$ -</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

**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, 2020 and 2019

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**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, 2020:

	<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	800,999	-
Secured by Junior Liens	-	-
Multi-family real estate	307,602	-
Commercial real estate (Except Land)	161,080	-
Land	-	-
Commercial Loans:		
Secured	-	-
Unsecured	-	-
Consumer Loans:		
Loans on Deposits	-	-
Auto Loans	-	-
Other	-	-
	<hr/>	<hr/>
Total	<u>\$ 1,269,681</u>	<u>\$ -</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**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/>	<hr/>
Total	<u>\$ 1,130,081</u>	<u>\$ -</u>	<u>-</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2020 and 2019

**NOTE 3 - LOANS RECEIVABLE (Continued)**

The following table presents the aging of the recorded investment in past due loans as of September 30, 2020 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Construction Loans on:						
One-to-four family real estate	\$ -	\$ -	\$ -	\$ -	\$ 344,583	\$ 344,583
Multi-family real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
One-to-four family real estate:						
Secured by First Liens	175,908	12,983	329,019	517,910	186,353,383	186,871,293
Secured by Junior Liens	-	-	-	-	-	-
Multi-family real estate	-	-	307,602	307,602	67,191,781	67,499,383
Commercial real estate (Except Land)	-	-	-	-	57,952,149	57,952,149
Land	-	-	-	-	139,817	139,817
Commercial Loans:						
Secured	-	-	-	-	220,016	220,016
Unsecured	64,389	-	-	64,389	19,044,679	19,109,068
Consumer Loans:						
Loans on Deposits	-	-	-	-	304,877	304,877
Auto Loans	-	-	-	-	87,757	87,757
Other	210,947	-	-	210,947	3,204,433	3,415,380
Total	\$ 451,244	\$ 12,983	\$ 636,621	\$ 1,100,848	\$ 334,843,475	\$ 335,944,323

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2020 and 2019

**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	60 - 89	Greater than	Total	Loans Not	Total
	Days	Days	90 Days		Past Due	
	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due
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	\$ 1,619,491	\$ 420,416	\$ 213,126	\$ 2,253,033	\$ 343,142,508	\$ 345,395,541

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**NOTE 3 - LOANS RECEIVABLE** (Continued)

Troubled Debt Restructurings:

The Savings Bank has a recorded investment in troubled debt restructurings of \$513,000 and \$767,000 at September 30, 2020 and 2019, respectively. The Savings Bank has allocated \$125 in specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2019. No specific reserves were allocated as of September 30, 2020. The Savings Bank has not committed to lend additional amounts as of September 30, 2020 and 2019 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, 2020:

	<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	282,171	282,171
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	-	-	-
<b>Total</b>	<u>1</u>	<u>\$ 282,171</u>	<u>\$ 282,171</u>

During the fiscal year ending September 30, 2020, the modification of the terms of the troubled debt restructuring was the extension of maturity date 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, 2020.

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PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**NOTE 3 - LOANS RECEIVABLE** (Continued)

There were no troubled debt restructurings for which there was a payment default within twelve months following the modifications during the year ending September 30, 2020 and the year ending September 30, 2019.

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.



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**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, 2020, and based on the analysis performed as of September 30, 2020, the risk category of loans by class of loans is as follows:

	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loss
Construction Loans on:						
One-to-four family real estate	\$ 344,583	\$ -	\$ -	\$ -	\$ -	\$ -
Multi-family real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
One-to-four family real estate Secured by First Liens	127,225,196	54,694,411	4,150,687	632,388	168,611	-
Secured by Junior Liens	-	-	-	-	-	-
Multi-family real estate	24,675,269	41,788,372	728,140	307,602	-	-
Commercial real estate (Except Land)	24,140,344	32,586,810	931,413	293,582	-	-
Land	139,817	-	-	-	-	-
Commercial Loans:						
Secured	220,016	-	-	-	-	-
Unsecured	11,468,287	7,057,377	373,901	209,503	-	-
Consumer Loans:						
Loans on Deposits	304,877	-	-	-	-	-
Auto Loans	87,757	-	-	-	-	-
Other	2,951,598	463,782	-	-	-	-
<b>Total</b>	<b>\$ 191,557,744</b>	<b>\$ 136,590,752</b>	<b>\$ 6,184,141</b>	<b>\$ 1,443,075</b>	<b>\$ 168,611</b>	<b>\$ -</b>

The Savings Bank neither originates nor purchases subprime loans.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**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:

	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loss
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 Land)	14,366,703 155,126	40,121,299 -	616,060 -	328,440 -	-	-
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	-	-	-	-
<b>Total</b>	<b>\$ 180,126,283</b>	<b>\$ 156,401,475</b>	<b>\$ 6,262,047</b>	<b>\$ 2,518,641</b>	<b>\$ 87,095</b>	<b>\$ -</b>

The Savings Bank neither originates nor purchases subprime loans.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**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, 2020 and September 30, 2019:

	September 30, 2020:		September 30, 2019:	
	<u>Performing</u>	<u>Nonperforming</u>	<u>Performing</u>	<u>Nonperforming</u>
Construction Loans on:				
One-to-four family real estate	\$ 344,583	\$ -	\$ 347,637	\$ -
Multi-family real estate	-	-	-	-
Commercial real estate	-	-	-	-
One-to-four family real estate Secured by First Liens	186,070,294	800,999	203,359,162	912,900
Secured by Junior Liens	-	-	-	-
Multi-family real estate	67,191,781	307,602	73,087,235	28,727
Commercial real estate (Except Land)	57,791,069	161,080	55,244,048	188,454
Land	139,817	-	155,126	-
Commercial Loans:				
Secured	220,016	-	359,570	-
Unsecured	19,109,068	-	8,134,242	-
Consumer Loans:				
Loans on Deposits	304,877	-	194,637	-
Auto Loans	87,757	-	136,507	-
Other	3,415,380	-	3,247,296	-
Total	<u>\$ 334,674,642</u>	<u>\$ 1,269,681</u>	<u>\$ 344,265,460</u>	<u>\$ 1,130,081</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**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 2020:

Balance at beginning of year	\$ 6,885,813
New loans	275,000
Repayments	<u>(1,628,142)</u>
Balance at end of year	<u>\$ 5,532,671</u>

Borrowing agreements with the Federal Home Loan Bank of Cincinnati are collateralized in part by a blanket pledge of \$183.2 million of qualifying mortgage loans at year-end 2020. 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>2020</u>	<u>2019</u>
Beginning balance	\$ -	\$ -
Loans transferred to real estate owned	-	-
Capitalized expenditures	-	-
Direct write-downs	-	-
Sales of real estate owned	<u>-</u>	<u>-</u>
End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

At September 30, 2020, there was one consumer mortgage loans secured by residential real estate property with a total recorded investment of \$168,613 for which formal foreclosure proceedings are in process. 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.

Expenses related to foreclosed assets include:

	<u>2020</u>	<u>2019</u>
Net loss (gain) on sales	\$ -	\$ -
Provision for unrealized losses	-	-
Operating expenses, net of rental income	<u>-</u>	<u>-</u>
End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**NOTE 5 -- PREMISES AND EQUIPMENT**

Premises and equipment consisted of the following at year end:

	<u>2020</u>	<u>2019</u>	
Land and improvements	\$ 433,582	\$ 433,582	
Buildings and improvements	1,060,176	1,060,176	
Furniture and equipment	<u>824,811</u>	<u>734,625</u>	
Total cost	2,318,569	2,228,383	
Accumulated depreciation	<u>(1,617,960)</u>	<u>(1,531,848)</u>	
	<u>\$ 700,609</u>	<u>\$ 696,535</u>	

**NOTE 6 -- DEPOSITS**

Deposits are summarized as follows at year-end:

	<u>2020</u>	<u>2019</u>	
NOW accounts	\$ 18,111,871	\$ 14,935,206	
Passbook accounts	6,871,705	5,806,325	
Money fund accounts	33,187,904	31,402,355	
Certificates of deposit	<u>247,563,121</u>	<u>252,769,435</u>	
	<u>\$ 305,734,601</u>	<u>\$ 304,913,321</u>	

The Savings Bank had approximately \$49.0 million and \$54.7 million of time deposits in denominations in excess of \$250,000 at year-end 2020 and 2019.

The Savings Bank accepts deposits from its employees, directors, executive officers and their related business interests. At September 30, 2020, such deposits totaled \$8.6 million, or 2.8% of total deposits. At September 30, 2019, such deposits totaled \$7.7 million, or 2.5% of total deposits. The Savings Bank did not have any brokered deposits at September 30, 2020 and September 30, 2019.

At year-end 2020, scheduled maturities of certificates of deposit were as follows:

Year ending September 30,					
2021	\$	95,457,084			
2022		76,419,251			
2023		36,786,583			
2024		24,139,125			
2025		10,526,847			
Thereafter		<u>4,234,231</u>			
		<u>\$ 247,563,121</u>			

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PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**NOTE 7 -- BORROWINGS**

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

	Year-end 2020 Interest Rate	<u>2020</u>	<u>2019</u>
Regular fixed rate advances, 5 year original maturity	1.64 - 2.77%	<u>6,000,000</u>	<u>10,000,000</u>
		<u>\$ 6,000,000</u>	<u>\$ 10,000,000</u>

The Savings Bank's available cash management line of credit totaled \$25,000,000 at year-end 2020. There was no outstanding balance on this line at fiscal year-end 2020 and 2019.

The maximum month-end balance of advances outstanding was \$10,000,000 in 2020 and \$14,500,000 in 2019. The average balance of borrowings outstanding was \$9,825,000 in 2020 and \$11,917,000 in 2019. 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 2020 and 2019, the Savings Bank had letters of credit from the FHLB totaling \$27,125,000 and \$27,205,000, respectively. The letters of credit are pledged by the Savings Bank to secure public deposits.

At year-end 2020, contractually required annual principal payments were as follows:

Year ending September 30,	
2021	\$ -
2022	-
2023	-
2024	6,000,000
2025	-
Thereafter	-
	<u>\$ 6,000,000</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.

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PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**NOTE 8 -- INCOME TAXES**

An analysis of income tax expense is as follows:

	<u>2020</u>	<u>2019</u>
Current	\$ 1,421,011	\$ 1,587,764
Deferred	(71,000)	34,000
	<u>\$ 1,350,011</u>	<u>\$ 1,621,764</u>

Income taxes for financial reporting purposes differ from the amount computed by applying the average statutory federal income tax rate of 21% for reasons noted in the table below:

	<u>2020</u>	<u>2019</u>
Income tax computed at the statutory rate	\$ 1,362,000	\$ 1,626,145
Tax effect of:		
Tax exempt interest	(13,126)	(5,955)
Other items	1,137	1,574
	<u>\$ 1,350,011</u>	<u>\$ 1,621,764</u>

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

	<u>2020</u>	<u>2019</u>
Deferred tax assets		
Allowance for loan losses	\$ 902,000	\$ 936,000
Interest income on nonaccrual loans	91,000	84,000
Deferred loan fees/costs	65,000	-
Other	10,000	-
Deferred tax liabilities		
FHLB stock dividends	(435,000)	(435,000)
Prepaid expenses	(28,000)	(33,000)
Deferred loan fees/costs	-	(11,000)
Net unrealized gain on securities available for sale	(78,000)	-
Other	-	(7,000)
Net deferred tax asset	<u>\$ 527,000</u>	<u>\$ 534,000</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  
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**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 would total \$584,000. 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, 2020, 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, 2020 and 2019 and no amounts have been accrued for interest or penalties at September 30, 2020 and 2019.

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 2017.

**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 \$191,000 and \$237,000 for 2020 and 2019.

**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, 2020, 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  
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**NOTE 10 -- COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES (Continued)**

The Savings Bank had commitments to make fixed-rate loans at market rates totaling \$10.2 million and \$3.7 million at year-end 2020 and 2019. The interest rates on fixed-rate commitments ranged from 2.90% to 4.25% at year-end 2020 and 3.50% to 6.00% at year-end 2019. Loan commitments are generally for 30 days. The Savings Bank was committed on unfunded portions of approved variable-rate lines of credit of \$3.3 million and \$1.3 million year-end 2020 and 2019.

**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 net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes that as of September 30, 2020, 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, 2020 and 2019, 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 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Total shareholders' equity	\$ 78,088	\$ 75,722
AOCI related adjustments	\$ (294)	\$ -
Nonallowable assets	-	-
Tier 1 (core) and tangible capital	<u>77,794</u>	<u>75,722</u>
Additional capital items:		
General valuation allowance (limited)	2,937	2,894
Other assets required to be deducted	<u>-</u>	<u>-</u>
Total risk-based capital	<u>\$ 80,731</u>	<u>\$ 78,616</u>

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**NOTE 11 -- REGULATORY MATTERS (Continued)**

At year-end 2020 and 2019, 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>2020</u>						
Total Capital to risk weighted assets	\$ 80,731	34.7%	\$ 18,627	8.0%	\$ 23,284	10.0%
Tier 1 (Core) Capital to risk weighted assets	77,794	33.4	13,970	6.0	18,627	8.0
Common Tier 1 (CET1)	77,794	33.4	10,478	4.5	15,135	6.5
Tier 1 (Core) Capital to average assets	77,794	19.8	15,742	4.0	19,678	5.0
<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

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, 2020.

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**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 used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair value for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

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

	<u>Carrying Amount</u>	Fair Value Measurements at September 30, 2020 Using:			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets					
Debt securities available for sale					
States and political subdivisions	\$ 4,175,436	\$ -	\$ 4,175,436	\$ -	\$ 4,175,436
Mortgage-backed securities: FNMA	1,913,017	-	1,913,017	-	1,913,017
Total debt securities available-for-sale	<u>\$ 6,088,453</u>	<u>\$ -</u>	<u>\$ 6,088,453</u>	<u>\$ -</u>	<u>\$ 6,088,453</u>

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

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PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
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**NOTE 12 -- FAIR VALUES OF FINANCIAL INSTRUMENTS** (Continued)

At September 30, 2020 and 2019, assets and liabilities measured on a non-recurring basis are not material.

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>	Fair Value Measurements at September 30, 2020 Using:			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
(Dollars in thousands)					
Financial assets					
Cash and cash equivalents	\$ 27,111,769	\$ 27,112,000			\$ 27,112,000
Interest-bearing time deposits in other financial institutions	21,749,000		21,857,000		21,857,000
Debt securities held to maturity	1,016,518		1,096,000		1,096,000
Federal Home Loan Bank stock	2,794,200				N/A
Loans, net	329,573,210			344,452,000	344,452,000
Accrued interest receivable	1,381,226			1,381,000	1,381,000
Financial liabilities					
Demand and savings deposits	(58,171,480)	(58,171,000)			(58,171,000)
Certificates of deposit	(247,563,121)		(252,972,000)		(252,972,000)
FHLB advances	(6,000,000)		(6,395,000)		(6,395,000)
Accrued interest payable	(91,079)		(91,000)		(91,000)
	<u>Carrying Amount</u>	Fair Value Measurements at September 30, 2019 Using:			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</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)

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
STOCKHOLDER INFORMATION

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**TRANSFER AGENT**

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

Continental Stock Transfer & Trust  
1 State Street  
30<sup>th</sup> 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  
P.O. Box 71  
Urbana, Ohio 43078-0071  
(937) 653-1703  
mary.heaston@pfsb-urbana.com

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
CORPORATE INFORMATION

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**COMPANY ADDRESS**

120 North Main Street  
P.O. Box 71  
Urbana, Ohio 43078-0071

Telephone (937) 653-1700  
Fax (937) 653-7100  
E-mail [perfed@pfsb-urbana.com](mailto:perfed@pfsb-urbana.com)  
Website [www.pfsb-urbana.com](http://www.pfsb-urbana.com)

**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

Christine Anne Phelps  
Exec. Vice President-Corp. Secretary  
Perpetual Federal Savings Bank of Urbana

**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

Eric T. Warrick  
Assistant Treasurer

PERPETUAL FEDERAL SAVINGS BANK OF URBANA  
CORPORATE INFORMATION

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**STAFF**

Tanya Comer, Customer Service  
Aimee Franczkowski, Customer Service  
Shelbe Rice, Customer Service  
Patti Spangler, Customer Service  
Beth Tullis, Customer Service  
Nancy Valentine, Customer Service

April Engstrom, Customer Service  
Michael Nitchman, Loan Consultant  
Liza Souders, Loan Processing  
Tamara Stamper, Loan Processing  
Gregory Tullis, Service Maintenance  
Lisa Wells, Customer Service

**INDEPENDENT AUDITORS**

Crowe LLP  
155 West Nationwide Blvd, Suite 500  
Columbus, Ohio 43215

**INTERNAL AUDITORS**

Dixon, Davis, Bagent and Company  
1205 Weaver Drive  
Granville, OH 43023

**CORPORATE COUNSEL**

Vorys, Sater, Seymour and Pease LLP  
Jeffrey E. Smith  
52 East Gay Street  
Columbus, OH 43215

**MEMBERSHIPS**

- Federal Deposit Insurance Corporation
- Federal Home Loan Bank of Cincinnati
- The Ohio Bankers League

