



**MOUND CITY BANK
FINANCIAL SERVICES, INC.
AND SUBSIDIARY**

**2020 ANNUAL
REPORT**

**YEARS ENDED:
DECEMBER 31, 2020, 2019 AND 2018**



MESSAGE FROM THE PRESIDENT

Dear Shareholder:

On behalf of your Board of Directors, I am elated to report record earnings exceeding budget for Mound City Financial Services, Inc. for 2020! Net income for the holding company totaled \$4.89 million, a 23.58% increase over 2019. These earnings resulted in earnings per share of \$19.12 compared to \$15.47 per share in 2019. The net earnings represent a Return on Average Equity of 12.52%.

Capital ratios are healthy with Tier I Capital recorded at 11.41% for the holding company. The Tier I ratio as well as the Risk Based Capital ratios are all significantly above the regulators' definition of "well capitalized". Book value increased to \$161.53 compared to \$143.96 per share at year end 2019.

Overall asset growth was 9.49%, with our year-end total bank assets of \$420 million. Liquidity and asset quality remain strong. Good news for our farmers as they finally saw relief after many years of low commodity prices. Non-performing assets have decreased from 1.23% during 2019 to .81% at the end of 2020. We did expense \$987,000 to the Allowance for Loan Loss during 2020 as we conservatively protect against unforeseen future losses due to businesses impacted by the pandemic.

MOUND CITY BANK TAKES PRIDE IN BEING YOUR LOCALLY OWNED, INDEPENDENT COMMUNITY BANK

In a year like no other that I have experienced in my 43 year career at Mound City Bank, I am very proud of our experienced team of qualified bankers who provided uninterrupted banking services so that our customers were assured of personal & prompt service during the COVID-19 pandemic. On balance sheet loan growth demand grew 2.75% and our secondary market loans increased 15.81% in 2020 compared to 3.55% during 2019. Loan growth generates loan service fee income from farm real estate, consumer mortgages & business real estate loans. The bank experienced a record earnings year of lending related fees of \$6.4 million due to low interest rates and consumer demand for refinancing & buying/selling homes.

We partnered with our businesses & non-profits to obtain 207 Small Business Administration (SBA) Paycheck Protection Program (PPP) loans in the amount of \$8 million. Through our partnership with the Federal Home Loan Bank, we generously presented \$55,000 in grants to minority & women owned businesses along with nonprofit organizations who were impacted by the pandemic.

Strategic priorities for 2021 include an emphasis on technology, strong asset quality oversight, second draw of SBA PPP loans, secondary market mortgage lending and cybersecurity as we continue to offer premier solutions for customers to assist them in reaching their financial goals.

We salute Board of Directors Richard Kopp and Keith Buchert in their retirement from the board. We want to thank Dick for his 33 years of service and Keith for his 27 years of service to the banking industry. Lastly, we thank you, our shareholder, for your support & loyalty- especially during this pandemic- so that Mound City Bank can continue our success story as your 105 year old, local decision making, independent community owned bank. #mcbstrong

I am proud to present to you this 2020 Annual Report for Mound City Financial Services, Inc.

Sincerely,



Donna J. Hoppenjan
President of Mound City Financial
Services, Inc.

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31,	2020	2019
Assets:		
Cash and due from banks	\$ 9,740,453	\$ 9,561,313
Federal funds sold	397,479	8,738,097
Interest-bearing deposits	25,247,229	19,270,824
Cash and cash equivalents	35,385,161	37,570,234
Other interest-bearing deposits	2,695,000	2,695,000
Securities available for sale	72,347,944	41,971,800
Securities held to maturity	2,830,000	3,230,000
Loans held for sale	249,400	1,386,550
Loans, net	290,669,290	282,540,490
Premises and equipment, net	3,600,340	3,408,713
Federal Home Loan Bank stock	461,500	628,331
Accrued interest receivable	1,931,671	2,068,209
Cash value of life insurance	7,161,374	6,998,399
Other assets	2,933,376	1,529,267
Total assets	\$ 420,265,056	\$ 384,026,993
Liabilities:		
Demand	\$ 68,012,065	\$ 48,730,614
Savings and NOW	183,041,479	157,177,324
Other time	106,962,469	115,198,316
Total deposits	358,016,013	321,106,254
Borrowed funds	12,000,000	18,407,355
Subordinated debentures	5,155,000	5,155,000
Accrued salary continuation	1,026,987	936,932
Other liabilities	1,200,532	965,106
Total liabilities	377,398,532	346,570,647
Stockholders' Equity:		
Common stock - No par value, \$1 stated value		
Authorized - 600,000 shares; issued - 261,885 shares;		
outstanding - 255,990 shares	261,885	261,885
Additional paid-in capital	7,387,619	7,387,619
Retained earnings	37,306,627	32,808,804
Accumulated other comprehensive income	1,516,187	603,832
Treasury stock, at cost - 5,895 shares	(3,605,794)	(3,605,794)
Total stockholders' equity	42,866,524	37,456,346
Total liabilities and stockholders' equity	\$ 420,265,056	\$ 384,026,993

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

<i>Years Ended December 31,</i>	2020	2019	2018
Interest and dividend income:			
Loans, including fees	\$ 13,283,841	\$ 13,951,686	\$ 13,362,088
Securities:			
Taxable	783,666	744,361	538,730
Tax-exempt	403,914	332,489	370,596
Interest-bearing deposits	182,304	288,262	235,549
Federal funds sold	24,272	80,981	50,233
FHLB stock dividends	34,232	38,087	27,648
Other	11,520	10,054	8,940
Total interest and dividend income	14,723,749	15,445,920	14,593,784
Interest expense:			
Deposits	2,741,227	3,572,490	2,782,345
Federal funds purchased	-	2,470	3,046
Borrowed funds	392,766	503,927	425,862
Subordinated debentures	115,214	204,510	189,857
Total interest expense	3,249,207	4,283,397	3,401,110
Net interest income	11,474,542	11,162,523	11,192,674
Provision for loan losses	986,872	1,127,138	1,698,902
Net interest income after provision for loan losses	10,487,670	10,035,385	9,493,772
Noninterest income:			
Service fees	1,959,471	1,494,528	1,428,595
Mortgage banking income	4,241,387	715,545	207,133
Net gain on sale of securities	-	58,763	-
Increase in cash value of life insurance	162,973	166,183	156,229
Commissions	915,036	917,610	924,430
Other	467,684	962,544	413,232
Total noninterest income	7,746,551	4,315,173	3,129,619
Noninterest expense:			
Salaries and employee benefits	6,986,647	5,948,643	5,292,710
Occupancy	770,977	688,564	692,256
Computer services	523,654	476,916	461,274
Other real estate owned, net	(14,253)	50,092	70
Other	3,382,734	1,876,300	1,774,515
Total noninterest expense	11,649,759	9,040,515	8,220,825
Net income before income taxes	6,584,462	5,310,043	4,402,566
Provision for income taxes	1,689,852	1,349,611	1,092,156
Net income	\$ 4,894,610	\$ 3,960,432	\$ 3,310,410
Earnings per share	\$ 19.12	\$ 15.47	\$ 12.93
Weighted average shares outstanding	255,990	255,990	255,990

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2018	\$ 261,885	\$ 7,387,619	\$ 26,293,131	\$ (54,836)	\$ (3,605,794)	\$ 30,282,005
Net income	-	-	3,310,410	-	-	3,310,410
Other comprehensive loss	-	-	-	(139,720)	-	(139,720)
Dividends to stockholders	-	-	(371,186)	-	-	(371,186)
Balance at December 31, 2018	261,885	7,387,619	29,232,355	(194,556)	(3,605,794)	33,081,509
Net income	-	-	3,960,432	-	-	3,960,432
Other comprehensive loss	-	-	-	798,388	-	798,388
Dividends to stockholders	-	-	(383,983)	-	-	(383,983)
Balance at December 31, 2019	261,885	7,387,619	32,808,804	603,832	(3,605,794)	37,456,346
Net income	-	-	4,894,610	-	-	4,894,610
Other comprehensive income	-	-	-	912,355	-	912,355
Dividends to stockholders	-	-	(396,787)	-	-	(396,787)
Balance at December 31, 2020	\$ 261,885	\$ 7,387,619	\$ 37,306,627	\$ 1,516,187	\$ (3,605,794)	\$ 42,866,524

BOARD OF DIRECTORS



Donna J. Hoppenjan



Robert J. Just, Jr.



Richard J. Kopp



Keith R. Buchert



Barry J. Brodbeck



Steven R. Brogley



Bruce B. Kroll



Dennis R. Cooley



Brian W. Durtschi

FINANCIAL HIGHLIGHTS

December 31,

	2020	2019	2018	2017	2016
Statement of Operations					
Interest Income	\$ 14,723,749	\$ 15,445,920	\$ 14,593,784	\$ 13,380,606	\$ 12,662,955
Interest Expense	3,249,207	4,283,397	3,401,110	2,422,686	1,999,092
Net Interest Income	11,474,542	11,162,523	14,593,784	10,957,920	10,663,863
Provision for Loan Losses	986,872	1,127,138	1,698,902	176,837	309,504
Net Interest Income After Provision for Loan Losses	10,487,670	10,035,385	9,493,772	10,781,083	10,354,359
Noninterest Income	7,746,551	4,315,173	3,162,190	2,937,783	3,035,082
Noninterest Expenses	11,649,759	9,040,515	8,253,396	8,051,222	8,107,404
Income Before Income Taxes	6,584,462	5,310,043	4,402,566	5,667,644	5,282,037
Provision for Income Taxes	1,689,852	1,349,611	1,092,156	2,333,798	1,893,593
Net Income	\$ 4,894,610	\$ 3,960,432	\$ 3,310,410	\$ 3,333,846	\$ 3,388,444

Statement of Condition

Total Assets	\$ 420,575,542	\$ 384,144,678	\$ 365,106,057	\$ 360,928,799	\$ 330,048,611
Federal Funds Sold	397,479	8,738,097	6,190,978	718,070	584,147
Investment Securities	75,177,944	45,201,000	37,558,950	37,043,915	37,282,810
Loans	290,918,690	284,027,040	287,366,782	280,326,821	263,295,218
Total Deposits	358,016,013	321,106,254	296,483,111	298,916,735	276,978,070
Other Borrowings	12,000,000	18,407,355	28,999,595	25,189,734	19,377,808
Subordinated Debentures	5,155,000	5,155,000	5,155,000	5,155,000	5,155,000
Equity (1)	41,350,337	36,852,514	33,276,065	30,336,841	27,365,160

Averages

Average Assets (2)	\$ 406,330,767	\$ 369,023,627	\$ 356,657,776	\$ 337,977,142	\$ 320,959,107
Average Loans	293,880,510	296,884,188	288,552,911	275,374,542	260,183,257
Average Deposits	339,277,986	300,990,353	289,854,493	276,638,418	266,600,639
Average Equity	39,101,426	35,064,291	31,806,453	28,851,000	25,850,130

Ratios

Asset Growth Rate	9.49%	5.39%	1.31%	9.34%	6.16%
Loan Growth Rate	2.75%	-1.29%	3.06%	6.45%	5.75%
Deposit Growth	11.49%	8.42%	-0.81%	8.00%	7.30%
Loan to Deposit Ratio	82.85%	86.78%	98.63%	94.94%	96.32%
Return on Average Assets	1.20%	1.07%	0.93%	0.99%	1.06%
Return on Average Equity	12.52%	11.30%	10.58%	11.56%	13.11%
Equity to Average Assets	9.85%	9.72%	9.33%	8.98%	8.53%
Earnings per Share (weighted average)	\$ 19.12	\$ 15.47	\$ 12.93	\$ 13.02	\$ 13.24
Dividend Paid per Share	\$ 1.55	\$ 1.50	\$ 1.45	\$ 1.45	\$ 1.40

(1) MCFS Equity, Net of Comprehensive Income

(2) MCB Average Annual Assets, Net of Comprehensive Income

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>Years Ended December 31,</i>	2020	2019	2018
Net income	\$ 4,894,610	\$ 3,960,432	\$ 3,310,410
Other comprehensive gain (loss):			
Unrealized gains (losses) on securities available for sale, net of tax of \$242,526, \$224,569, and \$(37,140), respectively	912,355	844,811	(139,720)
Reclassification adjustment for gains realized in income, net of tax of \$-, \$12,340, and \$-, respectively	-	(46,423)	-
Total other comprehensive income	912,355	798,388	(139,720)
Total comprehensive income	\$ 5,806,965	\$ 4,758,820	\$ 3,170,690



MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years Ended December 31,</i>	2020	2019	2018
Increase (decrease) in cash and cash equivalents:			
Cash flows from operating activities:			
Net income	\$ 4,894,610	\$ 3,960,432	\$ 3,310,410
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	344,439	327,421	320,434
Net amortization of bond premiums and discounts	351,374	126,777	210,790
Net (gain) loss on sales and writedowns of other real estate owned	(17,204)	40,105	(8,161)
Provision for loan losses	986,872	1,127,138	1,698,902
Deferred tax expense (benefit)	(36,956)	(152,483)	(85,766)
Net increase in cash value of life insurance	(162,975)	(166,183)	(156,193)
Loss on sales of fixed assets	(4,433)	5,235	-
Gain on sale of investment securities	-	(58,763)	-
Unrealized (gain) loss on equity security	21,175	(466,688)	-
Changes in operating assets and liabilities:			
Loans held for sale	1,137,150	(792,877)	(2,173)
Other assets	(41,402)	357,173	101,396
Other liabilities	325,481	515,196	1,517
Net cash provided by operating activities	7,798,131	4,822,483	5,391,156
Cash flows from investing activities:			
Net (increase) decrease in other interest-bearing deposits	-	980,000	(529,000)
Sales, maturities, prepayments, and calls of securities available for sale	9,987,033	11,998,376	10,528,505
Maturities, prepayments, and calls of securities held-to-maturity	400,000	70,000	-
Purchases of securities available for sale	(39,501,570)	(18,768,624)	(11,431,364)
Net (increase) decrease in loans	(10,709,429)	2,796,602	(9,002,551)
Net (purchase) redemption of FHLB stock	166,831	91,651	(71,444)
Proceeds from sales of other real estate owned	99,947	280,991	274,022
Capital expenditures	(560,733)	(174,828)	(231,812)
Proceeds from disposal on office properties and equip.	29,100	-	-
Net cash used in investing activities	(40,088,821)	(2,725,832)	(10,463,644)
Cash flows from financing activities:			
Net increase (decrease) in deposits	36,909,759	24,623,143	(2,433,624)
Repayments of borrowed funds	(10,407,355)	(15,592,240)	(4,190,139)
Proceeds from borrowed funds	4,000,000	5,000,000	8,000,000
Dividends paid	(396,787)	(383,983)	(371,186)
Net cash provided by financing activities	30,105,617	13,646,920	1,005,051
Net increase (decrease) in cash and cash equivalents	(2,185,073)	15,743,571	(4,067,437)
Cash and cash equivalents at beginning of year	37,570,234	21,826,663	25,894,100
Cash and cash equivalents at end of year	\$ 35,385,161	\$ 37,570,234	\$ 21,826,663
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$ 3,370,243	\$ 4,227,036	\$ 3,350,291
Income taxes	1,903,444	972,739	1,278,621
Supplemental schedule of noncash financing activities:			
Other real estate owned acquired in settlement of loans	82,743	308,879	265,861



FOCUSED ON THE NUMBERS

BUILDING LASTING RELATIONSHIPS WITH PREMIER FINANCIAL SOLUTIONS



PUTTING PEOPLE
IN HOMES

839

CLOSED MORTGAGES IN 2020

DONATIONS
\$93,794

GIVEN IN EDUCATION AND
COMMUNITY OUTREACH PROGRAMS
TO SURROUNDING COMMUNITIES

\$11,100

HIGH SCHOOL
SCHOLARSHIPS



ONLINE BANKING
CUSTOMERS

4,916

15,946

DEPOSIT
RELATIONSHIPS

207

TOTAL PPP LOANS GIVEN

\$8 Million

77

DEDICATED
EMPLOYEES



**OUR
CORE
VALUES**

WITH INTEGRITY
EXCELLENCE

COMPASSION
ACCOUNTABILITY
RESPECT
EXPERTISE

Proud to be here for you



MOUND CITY BANK