2021 ANNUAL REPORT

The past two years have brought about considerable change not only to our social and work environments but to financial markets and expectations. Throughout, the STAR team has remained flexible and nimble providing unparalleled service to our clients. I am pleased to share the team's accomplishments from 2021.

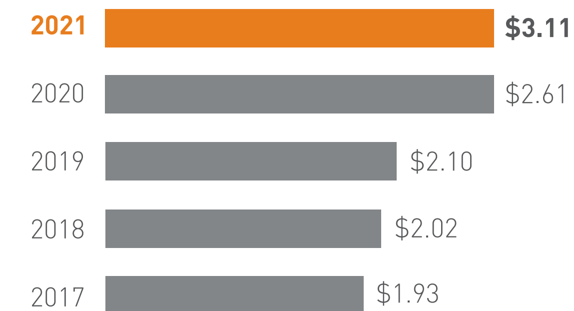
THOMAS M. MARCUCCILLI
Chairman, STAR Financial Group, Inc.

$3.11 BILLION IN ASSETS

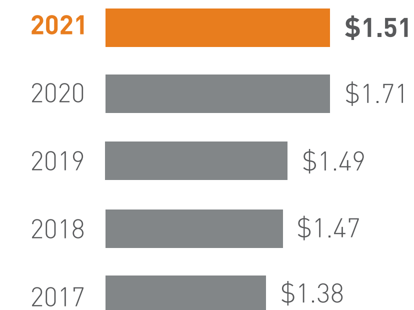
CONTENTS

CHAIRMAN'S MESSAGE 3
2021 HIGHLIGHTS 11
INDEPENDENT AUDITOR'S REPORT 12
BOARD OF DIRECTORS & EXECUTIVE TEAM 47

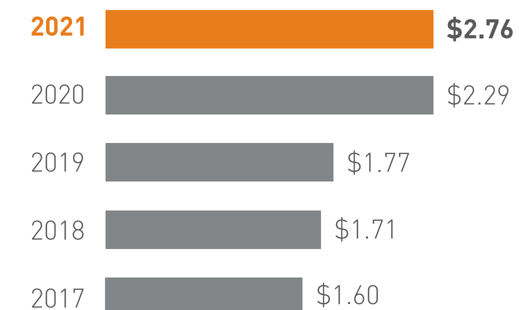
TOTAL ASSETS
(in billions)



TOTAL LOANS & LEASES
(in billions)



DEPOSITS
(in billions)



2021 ECONOMIC REVIEW

Following in 2020's footsteps of uncertainty, 2021 brought social and economic conditions that were unexpected to most. The COVID-19 pandemic stretched through the calendar year, albeit with considerably fewer lockdowns or restrictions to interrupt daily life and commerce. Supply chain issues, record-setting inflation, and employee shortages created difficult conditions for some business owners and consumers alike. Despite these difficulties, GDP grew by 5.7% in 2021.

The Federal Reserve kept interest rates at zero throughout 2021. The Payroll Protection Program issued a second round of funding to eligible businesses and additional stimulus money was distributed to qualifying individuals. These factors resulted in increased liquidity driving investments, savings and consumer spending.

In 2021, STAR Financial Bank's average assets grew by $500 million or 19%. STAR reported record-setting net earnings of $23.5 million, excluding the $9.7 million sale of STAR Insurance Agency.

- The Commercial Bank closed over $500 million in loans with a record-setting portfolio pass grade credit percentage of 96.6%.
- The Retail Bank opened 5,752 new checking accounts and grew households by nearly 1% year over year.
- Private Banking grew its average deposit portfolio by nearly $76 million, representing 69.3% in average growth year over year. Additionally, the team referred over $71 million in closed mortgage production.
- STAR Wealth Management closed the year with $388.2 million in assets under management.

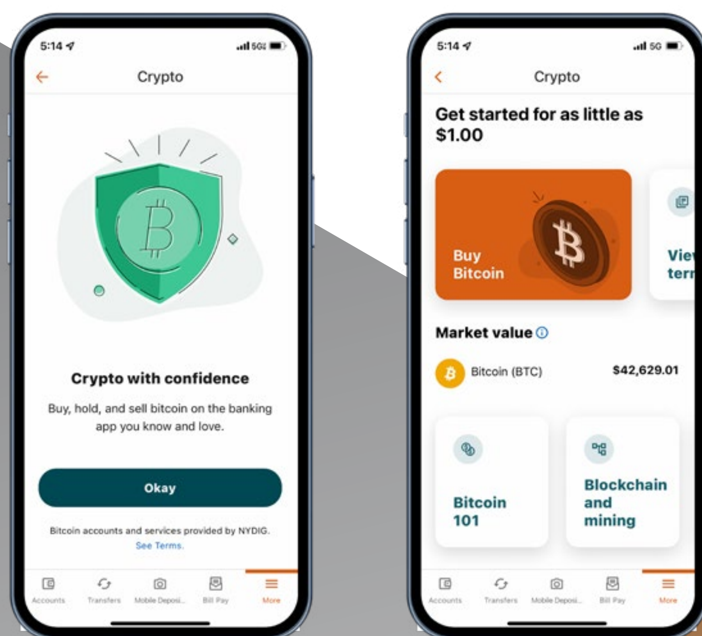
STAR UNVEILS PLANS FOR NEW HQ BUILDING

At STAR, we believe in Fort Wayne and in the future of the next generation. We were excited to announce the construction of our new STAR Bank Building in downtown Fort Wayne this year. Construction began at 215 W. Main Street and is expected to be complete in 2023. This investment is a sign of loyalty to the businesses who have chosen to trust us, and we are grateful to our customers who have allowed us to help with their financial needs. We look forward to serving Indiana for years to come.

We believe in Fort Wayne and in the future of the next generation.

THE FUTURE OF BANKING

In the fall, STAR announced a partnership with Alkami Technology Inc. and NYDIG to provide our clients access to trading systems that allow the purchase, sale and secure storage of bitcoin directly from their STAR mobile app. STAR is the first bank in the state of Indiana to offer access to bitcoin trading services to our customers. This new offering underscores our commitment to provide personalized banking solutions through the innovative use of technology to support people on their financial journey. We want our customers to feel confident and competent engaging with emerging investment opportunities. Now our customers will have an option to acquire, sell, hold and manage bitcoin alongside their traditional assets.



The STAR team was happy to support the American Red Cross Battle of the Badges campaign in 2021, as the blood shortage continues.

The United Way Day of Caring is an opportunity for employees across lines of business to come together to support our community.

The STAR team participated once again in the Amani Family Services Lip Sync fundraiser and took home a top spot and accolades from the judges in the annual competition.

IN 2021 STAR SUPPORTED MORE THAN 110 NON-PROFIT ORGANIZATIONS, INCLUDING:

- 500 Festival
- Allen County Library
- Amani Family Services
- American Heart Association
- American Red Cross
- Anderson Museum of Art
- Anderson University
- Big Brothers Big Sisters
- Boys & Girls Club
- Brightpoint
- Carriage House
- Center for Leadership Development
- City of Columbia City
- Community Harvest Food Bank
- Concordia Lutheran High School
- Dress For Success
- Easter Seals
- East Central Indiana Regional Partnership
- Erin's House for Grieving Children
- Fort Wayne Allen County Airport Authority
- Fort Wayne Children's Choir
- Fort Wayne Museum of Art
- Fort Wayne Trails
- FW Children's Zoo
- Girl Scouts
- Greater Fort Wayne Inc.
- Helping Hands Ministry
- Hoosier Shakes
- Indiana Bankers Association
- Indiana Conference for Women
- Indiana Golf Foundation
- Purdue University Fort Wayne
- IU Health Foundation
- IVY Tech Foundation
- Junior Achievement
- Kate's Kart
- Lutheran Schools Partnership
- Mad Anthony Children's Foundation
- Madison County Special Olympics
- Main Street Churubusco
- Make a Wish Foundation
- Marion University RISE Gala
- Mental Health America of NE Indiana
- Northeast Indiana Regional Partnership
- Pass the Torch Women Foundation
- Phoenix Theatre
- Redeemer Radio
- Regional Chamber of Northeast Indiana
- Ronald McDonald House
- Science Central
- Special Olympics Indiana
- University of Saint Francis
- Saint Mary's Early Childhood Center
- Steuben County Council on Aging, Inc.
- The Literacy Alliance
- Troy Center
- Turnstone
- United Way of Allen County
- United Way of Central Indiana
- Visiting Nurse
- Whitley County Community Foundation
- Whitley County Youth
- World Baseball Academy
- YWCA of Northeast Indiana
- Zionsville Community Schools Performing Arts Center

STAR team members enjoy utilizing Volunteer Time Off to give back at various food banks across the state.

The Face of Banking

STAR Bank was featured in Indianapolis Monthly magazine as The Face of Banking.

45 Years of Service

Congratulations are in order for STAR Bank President Tom Wright, as he celebrated 45 years of service!

STARS OF TOMORROW

Our student internship program continued this year. We welcomed seven students from universities across Indiana and beyond to departments ranging from IT to Commercial Lending. STARs of Tomorrow was developed three years ago to provide a learning environment that allows students to acquire hands-on experience and demonstrate the requested skills needed to succeed in their careers. Interns collaborate with their assigned mentor as well as their fellow interns throughout the summer. Workshops and training sessions are scattered throughout the summer between departmental project work providing the students a well-rounded experience. In 2021, STAR interns had the opportunity to get together and tour the Electric Works development in downtown Fort Wayne. We're excited to continue this program training future STARs.

2022 ECONOMIC OUTLOOK

Looking ahead to 2022, we anticipate inflation will reach its peak, likely impacting business owners' input costs. The Federal Reserve has indicated interest rate hikes are to come this year in order to slow or reverse inflation. The year began with historically low unemployment rates which should embolden consumer sentiment. We expect the economy to grow more slowly in 2022 with higher market volatility in addition to interest rate increases. The average American business enters 2022 with a good foundation to continue to grow. We anticipate the stock market will reflect the continued growth, perhaps with a record-breaking year. At STAR, we look forward to continued growth for the bank and for the communities we serve.

THOMAS M. MARCUCCILLI
Chairman, STAR Financial Group, Inc.

STAR Financial Group, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

December 31, 2021 and 2020

	2021	2020	2019
For the Year			
Net income	$ 33,245	$ 24,499	$ 24,770
Dividends declared	4,021	3,973	3,865
Weighted average shares	3,346,906	3,438,748	3,486,821
Per Basic Common Share			
Net income	$ 9.93	$ 7.12	$ 7.10
Dividends declared	1.20	1.16	1.11
Book value at December 31	81.81	76.86	68.80
At December 31			
Total assets	$ 3,107,138	$ 2,610,485	$ 2,104,773
Earning assets	2,917,649	2,425,881	1,933,006
Loans and leases	1,500,906	1,712,369	1,487,474
Deposits	2,754,738	2,288,545	1,773,999
Total stockholders' equity	247,281	264,247	236,699
Capital Ratios (Bank only)			
Risk-based capital ratios			
Tier I	13.61%	13.15%	12.39%
Total (Tier I plus Tier II)	14.63	14.40	13.45
Leverage ratio	8.30	9.09	10.53
Common Equity Tier I	13.61	13.15	12.39

Independent Auditor's Report

Audit Committee
STAR Financial Group, Inc.
Fort Wayne, Indiana

Opinion

We have audited the consolidated financial statements of STAR Financial Group, Inc. (Company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of STAR Financial Group, Inc. and subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, STAR Financial Group, Inc.'s internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 30, 2022, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of STAR Financial Group, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

BKD
CPAs & Advisors
200 E. Main Street, Suite 700 | Fort Wayne, IN 46802-1900
260.460.4000 | Fax 260.426.2235 | bkd.com

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about STAR Financial Group, Inc.'s ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about STAR Financial Group, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

BKD, LLP

Fort Wayne, Indiana
March 30, 2022

STAR Financial Group, Inc.
Consolidated Balance Sheet
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Assets		
Cash and cash equivalents		
Cash and due from banks	$ 55,241	$ 51,702
Interest-bearing demand deposits	381,971	193,488
Total cash and cash equivalents	437,212	245,190
Investment securities available-for-sale	1,050,525	539,460
Loans held for sale	3,261	3,674
Loans and leases	1,500,906	1,712,369
Less		
Allowance for loan and lease losses	(19,014)	(23,111)
Net loans and leases	1,481,892	1,689,258
Bank owned life insurance	46,566	47,709
Premises and equipment, net	48,231	37,780
Interest receivable	8,375	9,580
Goodwill	2,636	5,567
Other assets	28,440	32,267
Total assets	$ 3,107,138	$ 2,610,485
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand, noninterest bearing	$ 1,160,680	$ 965,930
Interest bearing		
Demand	1,477,555	1,191,273
Time deposits	116,503	131,342
Total deposits	2,754,738	2,288,545
Long-term borrowings	10,026	20,173
Junior subordinated debt	10,310	10,310
Subordinated debt	50,000	—
Other liabilities	33,849	27,210
Total liabilities	2,858,923	2,346,238
Stockholders' Equity		
Common Stock		
No par value, 5,000,000 shares authorized, 4,854,380 shares issued	7,359	7,359
Capital surplus	6,712	6,712
Retained earnings	329,721	300,497
Accumulated other comprehensive income (loss)	(2,213)	10,660
Treasury stock at cost, 1,831,772 and 1,417,470 shares as of December 31, 2021 and 2020, respectively	(94,298)	(60,981)
Total Stockholders' Equity	247,281	264,247
Noncontrolling Interest	934	—
Total Equity	248,215	264,247
Total liabilities and stockholders' equity	$ 3,107,138	$ 2,610,485

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.
Consolidated Statements of Income
Years Ended December 31, 2021 and 2020
(In Thousands Except Share Data)

	2021	2020
Interest Income		
Interest on loans	$ 66,760	$ 69,624
Interest on investment securities		
Taxable	7,515	5,234
Tax exempt	3,678	3,928
Total interest income	77,953	78,786
Interest Expense		
Interest on deposits	1,878	4,759
Interest on short-term borrowings	—	36
Interest on long-term borrowings	963	732
Total interest expense	2,841	5,527
Net Interest Income	75,112	73,259
Provision for Loan and Lease Losses	950	4,250
Net Interest Income After Provision for Loan and Lease Losses	74,162	69,009
Noninterest Income		
Service charges and fees	7,051	6,981
Bank card processing	9,401	8,024
Mortgage sales and servicing fees	4,128	5,217
Insurance commissions	919	5,278
Trust and brokerage fee income	4,209	3,550
Gain (loss) on sale of fixed assets	786	(3)
Other fees and commissions	846	745
ATM foreign surcharge income	351	372
Check order income	210	208
Dividend income	109	259
Gain on sale of insurance book of business	12,247	—
Gain on sales of securities	—	2,915
Other	2,050	1,741
Total noninterest income	42,307	35,287
Noninterest Expense		
Salaries and employee benefits	40,750	43,748
Occupancy expense	5,336	5,026
Equipment expense	10,560	9,979
Bank card processing fees	2,486	2,305
Loan and collection expense	2,352	2,131
Deposit insurance premiums	1,181	932
Advertising and promotional	1,467	1,528
Professional services	3,196	2,035
Other	7,514	6,989
Total noninterest expense	74,842	74,673
Income Before Income Taxes	41,627	29,623
Provision for Income Taxes	8,382	5,124
Net Income	$ 33,245	$ 24,499
Basic and Diluted Earnings Per Share	$ 9.93	$ 7.12
Weighted-Average Shares Outstanding	3,346,906	3,438,748

STAR Financial Group, Inc.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Net Income	$ 33,245	$ 24,499
Other Comprehensive Income (Loss)		
Change in fair value of cash flow hedges, net of taxes of $35 and $(9), for 2021 and 2020, respectively.	132	(34)
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of ($3,457) and $2,548, for 2021 and 2020, respectively.	(13,005)	9,586
Less reclassification adjustment for realized gains included in net income, net of taxes of $0 and $612, for 2021 and 2020, respectively.	—	2,303
	(12,873)	7,249
Comprehensive Income	$ 20,372	$ 31,748

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2021 and 2020
(In Thousands Except Share Data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total	Non Controlling Interest	Total After NCI
Balance, January 1, 2020	$ 7,359	$ 6,712	$ 279,971	$ 3,411	$ (60,754)	$ 236,699	—	$ 236,699
Net income	—	—	24,499	—	—	24,499	—	24,499
Other comprehensive income	—	—	—	7,249	—	7,249	—	7,249
Cash dividends ($1.16 per share)	—	—	(3,973)	—	—	(3,973)	—	(3,973)
Purchase of treasury stock (3,437 shares)	—	—	—	—	(227)	(227)	—	(227)
Balance, December 31, 2020	7,359	6,712	300,497	10,660	(60,981)	264,247	—	264,247
Net income	—	—	33,245	—	—	33,245	—	33,245
Other comprehensive loss	—	—	—	(12,873)	—	(12,873)	—	(12,873)
Cash dividends ($1.20 per share)	—	—	(4,021)	—	—	(4,021)	—	(4,021)
Purchase of treasury stock (414,302 shares)	—	—	—	—	(33,317)	(33,317)	—	(33,317)
Contributions from noncontrolling interests	—	—	—	—	—	—	934	934
Balance, December 31, 2021	$ 7,359	$ 6,712	$ 329,721	$(2,213)	$ (94,298)	$ 247,281	$ 934	$ 248,215

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Operating Activities		
Net income	$ 33,245	$ 24,449
Items not requiring (providing) cash		
Provision for loan losses	950	4,250
Net gain from sale of loans	(3,260)	(3,269)
Origination of loans for sale	(81,317)	(80,564)
Proceeds from sale of loans	84,990	82,433
Increase in value of bank-owned life insurance	(1,248)	(1,116)
Depreciation and amortization on premises and equipment	5,852	5,683
Net amortization of securities	6,515	3,233
Provision for deferred taxes	1,759	(1,702)
Gain on sale of Insurance book of business	(12,247)	—
Realized gain on sale of securities	—	(2,915)
Loss on sale of premises and equipment	652	3
Depreciation and amortization on leases	1,762	1,797
Change in interest receivable	1,205	(1,475)
Change in other assets	3,012	(2,655)
Change in other liabilities	6,497	(70)
Net cash provided by operating activities	48,367	28,132
Investing Activities		
Proceeds from sales of investment securities available-for-sale	—	29,171
Proceeds from maturities and calls of investment securities available-for-sale	95,532	51,399
Proceeds from disposal of premises and equipment	181	2
Proceeds from sale of insurance book of business	16,000	—
Proceeds from bank-owned life insurance policy	2,391	—
Purchases of premises and equipment	(17,136)	(4,196)
Purchases of investment securities available-for-sale	(629,371)	(275,280)
Net change in loans	206,416	(225,115)
Net cash used in investing activities	(325,987)	(424,019)
Financing Activities		
Net change in deposits	466,193	514,547
Net change in short-term borrowings	—	(41,289)
Repayment of long-term borrowings	(10,147)	(39)
Cash dividends	(4,021)	(3,973)
Purchase of treasury stock	(33,317)	(227)
Proceeds from issuance of subordinated notes	50,000	—
Contributions from noncontrolling interests	934	—
Net cash provided by financing activities	469,642	469,019
Net Change in Cash and Cash Equivalents	192,022	73,132
Cash and Cash Equivalents, Beginning of Year	245,190	172,058
Cash and Cash Equivalents, End of Year	$ 437,212	$ 245,190

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Supplemental Cash Flows Information		
Interest paid	$ 2,841	$ 5,627
Income taxes paid	8,382	5,124
Security purchases settled in subsequent period	—	1,804
Lease liabilities arising from obtaining right-of use assets	142	3,211

See Notes to Consolidated Financial Statements

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

STAR Financial Group, Inc. (STAR or the Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiaries, STAR Financial Bank (Bank), Finance and Insurance, Inc. (Insurance), and STAR Captive Insurance (Captive). In 2013, the Company formed STAR Captive Insurance as a wholly owned subsidiary to insure members of the consolidated group for potential losses in excess of existing insurance policies. The Bank has one wholly owned subsidiary, Titan, Inc. (Titan). In the first quarter of 2021, the Company completed an asset sale of STAR Insurance Agency (SIA) and changed the name of the business entity to Finance and Insurance, Inc. In 2020, the Company owned 100% of the newly formed entity, 215 W Main, LLC, which was established to acquire and hold real estate. 215 W Main is the majority owner in the new construction project, incorporated as Berry Maiden Main, LLC, that began in 2021 for STAR's new headquarters. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers throughout Central and Northeastern Indiana. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The Bank also provides trust and investment advisory services through a separate division titled STAR Wealth Management (Wealth). Titan is primarily engaged in managing the Bank's investment securities.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses, loan servicing rights, valuation of deferred tax assets and fair values of financial instruments.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash and cash equivalents are defined to include the Company's cash on hand and demand deposits with other institutions (including money market mutual funds).

At December 31, 2021, the Company's cash accounts exceeded federally insured limits by approximately $20,114,000.

Investment Securities

Available-for-sale securities, which include any debt security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income (loss). Changes in the fair value of equity securities is recorded in non-interest income. Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

Notes to Consolidated Financial Statements
STAR Financial Group, Inc.
December 31, 2021 and 2020
(Table Dollars in Thousands Except Share Data)

For all loan portfolio segments except residential and consumer loans, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges-off residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first mortgages, junior lien mortgages and other secured consumer loans at 90 days past due. Unsecured retail loans are wholly charged off when the loan is 90 days past due.

For all loan classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on impaired loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with the renegotiated terms for a period of at least six months.

Allowance for Loan and Lease Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical charge-off experience by segment. The historical loss experience is determined by portfolio segment and is based on the actual loss history on a weighted average basis experienced by the Company over the prior three years. Management believes the weighted average three-year historical loss experience methodology is appropriate in the current economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. 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. Impairment is measured on a loan-by-loan basis for non-homogenous type loans such as commercial, non-owner residential and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For impaired loans where the Company utilizes the discounted cash flows to determine the level of impairment, the Company includes the entire change in the present value of cash flows as provision for loan losses.

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal upon identification of impairment and annually thereafter for commercial, commercial real estate and multi-family loans. It is the Company's practice to obtain annual appraisals on impaired loans. The Company applies a discount rate to the appraisal based upon the collateral type. In the case of commercial real estate, the discount rate is 25%. After determining the collateral value as described, the fair value is calculated based on the determined collateral value less selling expenses. The potential for outdated appraisal values is considered in the Company's determination of the allowance for loan losses through the analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Company.

Segments of loans with similar risk characteristics are collectively evaluated for impairment based on the segment's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring (TDR) has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms

may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. If such efforts by the Company do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Company may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Company's policy to have any restructured loans which are on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Company reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

With regard to determination of the amount of the allowance for credit losses, troubled debt restructured loans are considered to be impaired. As a result, the determination of the amount of impaired loans for each portfolio segment within troubled debt restructurings is the same as detailed previously.

Bank Owned Life Insurance

Bank owned life insurance consists of investments in life insurance policies on certain key executives and other members of the Bank's management. The policies are carried at their net cash surrender value. Changes in the policy value are recorded as an adjustment to the carrying value with the corresponding amount recognized as non-interest income or expense. Earnings on these policies are based on the net earnings on the cash surrender value of the policies.

Premises and Equipment

Premises and equipment are recorded at cost less accumulated depreciation. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets generally ranging from three to 25 years. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on disposition are included in the consolidated statements of income.

FHLB Stock

Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment. Included in other assets on the consolidated balance sheets is FHLB stock totaling $6,880,000 and $6,880,000 at December 31, 2021 and 2020.

Goodwill

Goodwill is evaluated annually for impairment – or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recorded in the consolidated financial statements.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over periods ranging from five to seven years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Other Real Estate Owned

Other real estate owned represents properties acquired through foreclosures or deeds in lieu of foreclosure or former branches held for sale. The properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure. Any excess of the loan amount over the net realizable value of such property when acquired is charged to the allowance for loan and lease losses, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. In the case of former branches, any excess of net book value over the net realizable value of such property is charged to impairment of premises and equipment. Subsequent write-downs and gains or losses on sales are recorded in the income statement. Costs of maintaining the properties are recorded in the consolidated income statement as incurred. Included in other assets on the consolidated balance sheets is other real estate owned totaling $521,343 and $2,049,642 at December 31, 2021 and 2020, respectively.

Mortgage Servicing Rights

Mortgage servicing assets are recognized when rights are acquired through the sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value at each reporting date.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment

Notes to Consolidated Financial Statements
STAR Financial Group, Inc.
December 31, 2021 and 2020
(Table Dollars in Thousands Except Share Data)

after the initial measurement of impairment. Changes in valuation allowances are reported with mortgage sales and servicing fees on the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Lease Commitments

The Company leases certain banking center locations, office space, land and billboards. In determining whether a contract contains a lease, the Company examines the contract to ensure an asset was specifically identified and that the Company has control of use over the asset. To determine whether a lease is classified as operating or finance, the Company performs an economic life test on all building leases with greater than a twenty years term. Further, the Company performs a fair value test to identify any leases that have a present value of future lease payments over the lease term that is greater than 90% of the fair value of the building.

At lease inception, the Company determines the lease term by adding together the minimum lease term and all optional renewal periods that it is reasonably certain to renew. The Company determines this on each lease by considering all relevant contract based, asset-based, market-based, and entity-based economic factors. Generally, the exercise of lease renewal options is at the Company's sole discretion. The lease term is used to determine whether a lease is operating or finance and is used to calculate straight-line rent expense. Additionally, the depreciable life of leasehold improvements is limited by the expected lease term.

Operating lease rentals are expensed on a straight-line basis over the life of the lease beginning on the date the Company takes possession of the property. Rent expense and variable lease costs are included in occupancy expense on the Company's consolidated statements of income. Included in variable lease costs are leases with rent escalations based on recent financial indices, such as the Consumer Price Index, where the Company estimates future rent increases and records the actual difference to variable costs. Certain leases require the Company to pay common area maintenance, real estate taxes, insurance and other operating expenses associated with the leases premises. These expenses are classified in occupancy expense, consistent with similar costs for owned locations. There are no residual value guarantees, restrictions or covenants imposed by leases.

The Company accounts for lease and non-lease components together as a single lease component by class of underlying asset. Operating lease obligations with an initial term longer than 12 months are recorded with a right of use asset and a lease liability in the consolidated balance sheet.

The discount rate used in determining the lease liability and related right of use asset is based upon what would be obtained by the Company for similar loans as an incremental rate as of the date of origination or renewal.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenue. The Company determines deferred income taxes using the liability method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50% the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company files consolidated income tax returns with its subsidiaries. The Company recognizes interest and penalties, if any, as income tax expense.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Basic Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding. STAR had no potentially dilutive common shares outstanding during 2021 or 2020. Under the long-term incentive plan which was adopted by the Company in 2021, the basic earnings per share calculation may have dilutive common shares beginning in 2022 as shares vest.

Subsequent Events

Subsequent events have been evaluated through March 30, 2022, which is the date the consolidated financial statements were available to be issued.

Note 2: Future Change in Accounting Principle

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments."* The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the financial assets. In May 2019, the FASB issued final amendments (ASU No. 2019-05) to provide entities that have certain instruments measured at amortized cost within the scope Topic 326 with an option to irrevocably elect the fair value option in Topic 825 on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security.

ASU 2016-13 and 2019-05 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company's cross-functional team continues to work through its implementation plan including the assessment and documentation of processes, internal controls and data as well as model development. The Company implemented a third-party software solution to assist in the application of the new standard including portfolio segmentation according to shared risk characteristics and modeling methodologies. The Company is currently refining qualitative factors and forecast periods. The Company is also focused on running a parallel analysis to its current allowance for loan loss model prior to implementation. While a one-time cumulative-effect adjustment to retained earnings will be recorded as of the beginning of the first reporting period in which the guidance is effective, the impact of adopting ASU 2016-13 cannot be reasonably estimated at this point and could be significantly influenced by the composition, characteristics and quality of the loan and lease portfolio as well as the prevailing economic conditions and forecasts as of the adoption date.

Note 3: Restriction on Cash and Due From Banks

The Bank is required by the Federal Reserve to maintain a portion of its deposits in the form of cash and/or on deposit with the Federal Reserve Bank. The amount of the required reserve balance as of December 31, 2021, was $0.

Note 4: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
U.S. Treasury and agency securities	$ 65,317	$ 22	$ 252	$ 65,087
Obligations of states and political subdivisions	248,177	9,333	3,037	254,472
Mortgage-backed Government Sponsored Enterprise (GSE) residential	725,030	1,781	9,559	717,252
Pooled trust preferred securities	14,802	—	1,089	13,713
	$ 1,053,326	$ 11,136	$ 13,937	$ 1,050,525
December 31, 2020				
U.S. Treasury and agency securities	$ 8,336	$ 99	$ —	$ 8,435
Obligations of states and political subdivisions	232,686	12,280	117	244,849
Mortgage-backed Government Sponsored Enterprise (GSE) residential	268,442	3,686	542	271,586
Pooled trust preferred securities	16,362	—	1,772	14,590
	$ 525,826	$ 16,065	$ 2,431	$ 539,460

Securities with a carrying value of approximately $85,322,000 and $133,842,000 at December 31, 2021 and 2020, respectively, were pledged to secure public and trust deposits, securities sold under agreements to repurchase and for other purposes as required by law.

The amortized cost and fair value of securities at December 31, 2021, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Due within one year	$ 8,705	$ 8,751
Due after one year through five years	85,810	88,125
Due after five years through ten years	145,049	153,220
Due after ten years	88,732	83,176
Total investment securities with a contractual maturity	328,296	333,272
Mortgage-backed GSE residential	725,030	717,252
Total investment securities	$ 1,053,326	$ 1,050,525

Gross gains of $0 and $2,915,000 resulting from sales of available-for-sale securities were realized in 2021 and 2020, respectively. No gross losses from sales of AFS securities were realized in 2021 and 2020.

Certain investments in debt and equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2021 and 2020, was $758,785,000 and $120,081,000 respectively, which is approximately 72% and 23%, respectively, of the available-for-sale investment portfolio. These declines primarily resulted from changes in market interest rates since the securities were purchased and current depressed market conditions.

Based on evaluation of available evidence, including recent changes in market interest rates, discounted cash flow analysis, and credit rating information, management believes the declines in fair value for these securities are temporary, except as discussed below.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020.

December 31, 2021						
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency securities	$ 47,530	$ 252	$ —	$ —	$ 47,530	$ 252
Obligations of state and political subdivisions	68,898	1,856	24,063	1,181	92,961	3,037
Mortgage-backed GSE residential	546,192	7,844	58,389	1,715	604,581	9,559
Pooled trust preferred securities	—	—	13,713	1,089	13,713	1,089
Total temporarily impaired securities	$ 662,620	$ 9,952	$ 96,165	$ 3,985	$ 758,785	$ 13,937

December 31, 2020						
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of state and political subdivisions	$ 15,113	$ 117	$ 85	$ —	$ 15,198	$ 117
Mortgage-backed GSE residential	85,806	527	4,487	15	90,293	542
Pooled trust preferred securities	—	—	14,590	1,772	14,590	1,772
Total temporarily impaired securities	$ 100,919	$ 644	$ 19,162	$ 1,787	$ 120,081	$ 2,431

U.S. Treasury and Agency Securities

The unrealized losses on the Company's investments in securities of U.S. Treasury and Agency Securities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

Obligations of State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

Mortgage-backed GSE Residential

The unrealized losses on the Company's investment in mortgage-backed GSE residential securities were caused by interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes

in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

Pooled Trust Preferred Securities

Pooled trust preferred securities within the available-for-sale portfolio include six securities which are collateralized by trust preferred securities principally issued by banks. As of December 31, 2021, there were six pools and one pool was determined to be fully impaired and was written off against earnings in a prior period. As of December 31, 2021, the remaining five pools were rated below investment grade. The remaining five securities rated below investment grade were evaluated for impairment as discussed below and not deemed to be other-than-temporarily impaired. The Company's unrealized losses on pooled trust preferred securities were primarily caused by deterioration in the financial status of the institutions within the respective pools and sector downgrades by analysts and rating agencies.

Other-Than-Temporary Impairment

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model.

The Company conducts quarterly reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Economic models are used to determine whether an other-than-temporary impairment has occurred on these securities. While all securities are considered, the securities primarily impacted by other-than-temporary impairment testing are pooled trust preferred securities. For each trust preferred security in the investment portfolio, an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred. As part of its impairment analysis, management reviewed the underlying institutions' most recently available financial performance to assist management in applying the appropriate constant default rate to its cash flow projections for each security. To determine the range and likelihood of potential principal and interest losses on these tranches, management evaluated cash flow projections encompassing multiple market assumptions, including default rates, recoveries and severity. Based upon these cash flow projections and all other information available, management projected that all future contractual principal and interest payments will be received and no additional other-than-temporary impairment existed as of December 31, 2021. If economic conditions worsen, it is possible that the securities that are currently performing satisfactorily could suffer impairment and could potentially require write-downs in future periods.

Note 5: Loans and Allowance for Loan and Lease Losses

STAR's business activity is primarily with customers located in north central and northeast Indiana. The loan portfolio is diversified by type and industry. Collateral requirements for each loan are based upon the credit evaluation of each transaction.

Classes of loans at December 31, include:

	2021	2020
Commercial and industrial *	$ 582,409	$ 769,566
Commercial real estate	547,223	569,310
Consumer:		
Consumer, home equity lines of credit	65,799	68,549
Consumer, auto	12,869	15,891
Consumer, other	13,272	15,559
Residential	267,522	252,853
Finance leases	11,812	20,641
Gross loans	1,500,906	1,712,369
Allowance for loan losses	(19,014)	(23,111)
Net loans	$ 1,481,892	$ 1,689,258

*In 2021 and 2020, STAR originated $88,775,000 and $268,086,000 in Paycheck Protection Program (PPP) loans, respectively. There were $43,436,000 and $234,579,000 outstanding at December 31, 2021 and 2020, respectively.

The components of the Company's direct financing leases as of December 31 are summarized below:

	2021	2020
Future minimum lease payments	$ 11,661	$ 20,832
Residual interests	1,118	1,359
Initial direct costs	16	30
Unearned income	(983)	(1,580)
	$ 11,812	$ 20,641

Future minimum lease payments are as follows:

2022	$ 4,369
2023	2,699
2024	1,702
2025	829
2026	627
Thereafter	1,435
	$ 11,661

The risk characteristics of each loan portfolio segment are as follows:

Commercial and Industrial and Commercial Real Estate

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

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

Real Estate, Consumer, Leases and Other

Real estate, consumer, leases and other loans consist of four segments - residential mortgage loans, personal loans, direct financing leases and other loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Consumer personal, leases and other loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2021 and 2020:

2021	Commercial and Industrial	Commercial Real Estate	Consumer	Residential	Finance Leases	Total
Allowance for loan losses						
Balance, beginning of year	$ 11,711	$ 7,928	$ 981	$ 2,255	$ 236	$ 23,111
Provision charged (credited) to expense	367	349	58	169	7	950
Losses charged off	(4,484)	(461)	(76)	(223)	(10)	(5,254)
Recoveries	80	76	12	37	2	208
Balance, end of year	$ 7,674	$ 7,892	$ 975	$ 2,238	$ 235	$ 19,014
Ending balance, individually evaluated for impairment	$ 1,220	$ —	$ —	$ —	$ —	$ 1,220
Ending balance, collectively evaluated for impairment	$ 6,454	$ 7,892	$ 975	$ 2,238	$ 235	$ 17,794
Loans						
Ending balance	$ 582,409	$ 547,223	$ 91,940	$ 267,522	$ 11,812	$ 1,500,906
Ending balance, individually evaluated for impairment	$ 7,351	$ 1,275	$ —	$ —	$ —	$ 8,626
Ending balance, collectively evaluated for impairment	$ 575,058	$ 545,948	$ 91,940	$ 267,522	$ 11,812	$ 1,492,280

2020	Commercial and Industrial	Commercial Real Estate	Consumer	Residential	Finance Leases	Total
Allowance for loan losses						
Balance, beginning of year	$ 9,963	$ 6,634	$ 721	$ 1,582	$ 181	$ 19,081
Provision charged (credited) to expense	1,848	1,367	272	706	57	4,250
Losses charged off	(1,133)	(837)	(145)	(377)	(30)	(2,522)
Recoveries	1,033	764	133	344	28	2,302
Balance, end of year	$ 11,711	$ 7,928	$ 981	$ 2,255	$ 236	$ 23,111
Ending balance, individually evaluated for impairment	$ 6,036	$ —	$ —	$ —	$ —	$ 6,036
Ending balance, collectively evaluated for impairment	$ 5,675	$ 7,928	$ 981	$ 2,255	$ 236	$ 17,075
Loans						
Ending balance	$ 769,566	$ 569,310	$ 99,999	$ 252,853	$ 20,641	$ 1,712,369
Ending balance, individually evaluated for impairment	$ 12,182	$ 8,655	$ —	$ —	$ —	$ 20,837
Ending balance, collectively evaluated for impairment	$ 757,384	$ 560,655	$ 99,999	$ 252,853	$ 20,641	$ 1,691,532

Internal Risk Categories

Loan grades are numbered 1 through 10. Grades 1 through 6 are considered satisfactory grades. The grade of 7, or Watch, represents loans of lower quality and is considered criticized. The grades of 8, or Substandard, and 9, or Special Mention, and 10, or Loss, refer to assets that are classified. The use and application of these grades by the Bank conform to the Bank's policy.

Notes to Consolidated Financial Statements
STAR Financial Group, Inc.
December 31, 2021 and 2020
(Table Dollars in Thousands Except Share Data)

Prime (1) loans have exceptional credit fundamentals, including stable and predictable income and balance sheet performance; highly regarded with excellent management and management depth.

Good (2) loans have very good credit fundamentals but less predictable income and balance sheet performance than a prime graded credit. Loans have regional exposure in stable industry with seasoned management.

Satisfactory (3) loans are medium size or a local company in a good industry with predictable income and balance sheet performance over time.

Pass (4) all loans with acceptable credit risk but of a moderate to small size for local markets. Credit compares equally or favorably to peers and competitors with a solid balance sheet and profitability with some volatility.

Pass Minus (5) loans are credits where overall risk associated with creditworthiness criteria is considered higher than normal and warrant attention. Startup or less seasoned company within cyclical industry with moderate levels of volatility and deterioration of credit fundamentals.

Risk rated with caution (6) loans are credits where overall risk associated with creditworthiness criteria are less desirable but with potential. High or increasing risk dependence upon collateral or guarantor for protection with weaker or deteriorating financial trends.

Watch (7) all credits where overall credit fundamentals need continued review. Considered higher risk with unfavorable characteristics present. Risk, however, remains reasonable. Borrowings would usually be on a fully secured basis.

Substandard (8) credits have well-defined weaknesses where payment default is possible but not yet probable. Deficiencies are not corrected quickly and financing alternatives are limited. Reliance on collateral and guarantors is increased.

Doubtful (9) loans are credits where the possibility of loss is high, repayment is erratic or nonexistent, and loan is collateral dependent or firm in bankruptcy.

Loss (10) loans are no longer considered bankable assets.

Nonperforming mortgage, home equity and consumer loans on non-accrual or greater than 90 days past due and are internally monitored monthly by management.

Performing all other mortgage, home equity and consumer loans.

The following table presents the credit risk profile of the Company's commercial, commercial real estate, and finance leases loan portfolios based on internal rating category as of December 31, 2021 and 2020:

	Commercial and Industrial		Commercial Real Estate		Finance Leases	
	2021	2020	2021	2020	2021	2020
Grade						
Pass (1-6)	$ 557,273	$ 711,101	$ 521,110	$ 514,153	$ 11,432	$ 20,505
Watch (7)	4,916	24,963	22,139	31,276	26	136
Substandard (8)	18,950	27,563	3,965	23,585	354	—
Doubtful (9)	1,270	5,939	9	296	—	—
Loss (10)	—	—	—	—	—	—
Total	$ 582,409	$ 769,566	$ 547,223	$ 569,310	$ 11,812	$ 20,641

The following table presents the credit risk profile of the Company's residential real estate, home equity lines of credit, and consumer loan portfolios based on internal rating category as of December 31, 2021 and 2020:

	Consumer - Home Equity Lines of Credit		Consumer - Auto		Consumer - Other		Residential	
	2021	2020	2021	2020	2021	2020	2021	2020
Performing	$ 65,732	$ 68,501	$ 12,869	$ 15,891	$ 13,267	$ 15,547	$ 267,302	$ 252,580
Nonperforming	67	48	—	—	5	12	220	273
Total	$ 65,799	$ 68,549	$ 12,869	$ 15,891	$ 13,272	$ 15,559	$ 267,522	$ 252,853

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2021 and 2020:

2021

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Total Loans > 90 Days and Accruing
Commercial and industrial	$ 438	$ 325	$ 505	$ 1,268	$ 581,141	$ 582,409	$ 31
Commercial real estate	—	—	9	9	547,214	547,223	—
Consumer							
Consumer, home equity lines of credit	20	44	—	64	65,735	65,799	—
Consumer, auto	24	—	—	24	12,845	12,869	—
Consumer, other	—	—	—	—	13,272	13,272	—
Residential	33	354	10	397	267,125	267,522	10
Finance leases	—	—	—	—	11,812	11,812	—
Total	$ 515	$ 723	$ 524	$ 1,762	$ 1,499,144	$ 1,500,906	$ 41

2020

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Total Loans > 90 Days and Accruing
Commercial and industrial	$ 881	$ —	$ 6,806	$ 7,687	$ 761,879	$ 769,566	$ 1,165
Commercial real estate	61	—	311	372	568,938	569,310	148
Consumer							
Consumer, home equity lines of credit	99	13	15	127	68,422	68,549	—
Consumer, auto	14	—	—	14	15,877	15,891	—
Consumer, other	25	—	—	25	15,534	15,559	—
Residential	445	38	21	504	252,349	252,853	19
Finance leases	—	—	—	—	20,641	20,641	—
Total	$ 1,525	$ 51	$ 7,153	$ 8,729	$ 1,703,640	$ 1,712,369	$ 1,332

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings.

The following tables present impaired loans as of and for the years ended December 31, 2021 and 2020:

2021

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized on Cash Basis
Loans without a specific valuation allowance:						
Commercial and industrial	$ 5,546	$ 5,548	$ —	$ 5,683	$ 241	$ 239
Commercial real estate	1,275	1,343	—	4,965	65	—
Loans with a specific valuation allowance:						
Commercial and industrial	1,805	1,855	1,220	4,084	76	38
Total impaired loans	$ 8,626	$ 8,746	$ 1,220	$ 14,732	$ 382	$ 277

Notes to Consolidated Financial Statements
STAR Financial Group, Inc.
December 31, 2021 and 2020
(Table Dollars in Thousands Except Share Data)

2020

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized on Cash Basis
Loans without a specific valuation allowance:						
Commercial and industrial	$ 5,820	$ 5,820	$ —	$ 763	$ 588	$ 589
Commercial real estate	8,655	8,720	—	2,093	321	292
Loans with a specific valuation allowance:						
Commercial and industrial	6,362	14,050	6,036	1,272	62	37
Total impaired loans	$ 20,837	$ 28,590	$ 6,036	$ 4,128	$ 971	$ 918

The following table presents the Company's nonaccrual loans at December 31, 2021 and 2020. This table excludes purchased impaired loans and performing troubled debt restructurings.

	2021	2020
Commercial and industrial	$ 1,867	$ 5,852
Commercial real estate	9	163
Consumer		
Consumer, home equity lines of credit	67	48
Consumer, auto	—	—
Consumer, other	5	12
Residential	210	253
Finance leases	—	—
Total	$ 2,158	$ 6,328

The Company identified as troubled debt restructurings certain receivables for which the allowance for loan losses had previously been measured under a general allowance for loan losses methodology. Upon identifying those receivables as troubled debt restructurings, the Company identified them as impaired under the guidance in Accounting Standards Codification (ASC) 310-10-35. The ASU requires prospective application of the impairment measurement guidance in ASC 310-10-35 for those receivables newly identified as impaired.

At December 31, 2021 and 2020, the Company had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following tables present information regarding troubled debt restructurings by class for the year ended December 31, 2021 and 2020.

Newly restructured loans:

	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
December 31, 2021			
Commercial and industrial	13	$ 3,581	$ 3,556
Commercial real estate	3	681	681
Consumer			
Consumer, Residential	—	—	—
	16	$ 4,262	$ 4,237

	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
December 31, 2020			
Commercial and industrial	8	$ 2,219	$ 2,219
Commercial real estate	1	133	133
Consumer			
Consumer, Residential	1	38	38
	10	$ 2,390	$ 2,390

The troubled debt restructurings described above did not materially increase the allowance for loan losses for the years ended December 31, 2021 and 2020. The troubled debt restructurings described above did not result in any charge offs during the years ended December 31, 2021 and 2020.

Newly restructured loans by type of modification:

2021	Interest Only	Term	Combination	Total Modification
Commercial and industrial	$ —	$ 3,556	$ —	$ 3,556
Commercial real estate	—	681	—	681
Consumer				
Consumer, Residential	—		—	
	$ —	$ 4,237	$ —	$ 4,237

2020	Interest Only	Term	Combination	Total Modification
Commercial and industrial	$ —	$ 451	$ 1,768	$ 2,219
Commercial real estate	—	—	133	133
Consumer				
Consumer, Residential	—	—	38	38
	$ —	$ 451	$ 1,939	$ 2,390

There were no troubled debt restructurings modified in the past 12 months that subsequently defaulted.

As of December 31, 2021, there were $0 of loans designated as TDRs that met the criteria for placement back on accrual status. This criteria is a minimum of six months of payment performance under existing modified terms.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides entities with optional temporary relief from certain accounting and financial reporting requirements under U.S. GAAP. Section 4013 of the CARES Act allows financial institutions to suspend application of certain TDR accounting guidance for loan and lease modifications related to the COVID-19 pandemic made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 national emergency, provided certain criteria are met. Section 4013 of the CARES Act was amended on December 27, 2020 to extend this relief until January 1, 2022. The relief can be applied to loan and lease modifications for borrowers that were not more than 30 days past due as of December 31, 2019 and to loan and lease modifications that defer or delay the payment of principal or interest, or change the interest rate on the loan. The Company chose to apply this relief to eligible loan and lease modifications. At December 31, 2021 and 2020, loan and lease modification balances related to the COVID-19 pandemic were $621,000 and $4,000,000, respectively.

The Company had no foreclosed residential real estate property obtained by physical possession as of December 31, 2021 and 2020. The Company had no consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions as of December 31, 2021 and 2020.

Note 6: Premises and Equipment

Premises and equipment as of December 31 are summarized as follows:

	2021	2020
Land	$ 18,682	$ 15,522
Buildings and improvements	35,377	35,880
Furniture and equipment	34,219	34,187
Construction in progress	10,686	—
	98,964	85,589
Less accumulated depreciation	(50,733)	(47,809)
Net premises and equipment	$ 48,231	$ 37,780

Note 7: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were approximately $315,114,000 and $324,936,000 at December 31, 2021 and 2020, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in other liabilities, were approximately $2,361,000 and $2,233,000 at December 31, 2021 and 2020, respectively.

Mortgage servicing rights are included in other assets in the accompanying consolidated balance sheets. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value.

Activity in the balance of servicing assets was as follows:

	2021	2020
Carrying amount, beginning of year	$ 1,402	$ 1,782
Servicing obligations that result from transfers of financial assets	722	604
Amortization	(664)	(939)
Change in valuation allowance	74	(45)
Carrying amount, end of year	$ 1,534	$ 1,402
Valuation allowance, beginning of year	$ (104)	$ (59)
Additions	84	216
Reductions	(10)	(261)
Valuation allowance, end of year	$ (30)	$ (104)
Fair value, beginning of year	$ 1,661	$ 2,923
Fair value, end of year	$ 2,573	$ 1,661

Note 8: Time Deposits

At December 31, the scheduled maturities of time deposits are as follows:

2022	$ 91,773
2023	16,101
2024	4,782
2025	1,445
2026	1,390
Thereafter	1,012
	$ 116,503

Time deposits with balances of $250,000 or greater were approximately $14,279,000 and $14,965,000 at December 31, 2021 and 2020, respectively.

Included in time deposits at December 31 2021 and 2020 were $14,935,000 and $11,882,000 respectively, of deposits which were obtained through the IntraFi Network. This service allows deposit customers to maintain fully insured balances in excess of the $250,000 FDIC insurance limit without the inconvenience of having multi-banking relationships. Under the reciprocal program that the Company is currently participating in, customers agree to allow the Company to place their deposits with other participating banks in the IntraFi Network program in insurable amounts under $250,000. In exchange, other banks in the program agree to place their deposits with the Company also in insurable amounts under $250,000.

Note 9: Long-Term Borrowings

As of December 31, 2021 and 2020, STAR had Federal Home Loan Bank of Indianapolis advances (advances) outstanding totaling $10,026,000 and $20,173,000, respectively. The advances bear interest at rates ranging from 0.86% to 5.12% and mature at various dates through December 30, 2029.

One of the advances, in the amount of $10,000,000, contained put options at the end of 2021, whereby FHLB might require the Company to pay the advance.

Interest is paid monthly and the weighted average interest rate on the advances was 0.87% and 1.65% as of December 31, 2021 and 2020, respectively. The advances at December 31, 2021, are secured by first-mortgage loans totaling $259,392,000 and are subject to restrictions or penalties in the event of prepayment.

Maturities of long-term debt are as follows: 2022 - $13,000; 2023 - $13,000; 2024 - $0; 2025 - $0; 2026 - $0 and $10,000,000 thereafter.

The Company has established borrowing capacity of $355,000,000 and $355,000,000 as of December 31, 2021 and 2020, respectively, with the Federal Home Loan Bank and other financial institutions, of which $10,026,000 and $20,173,000 was outstanding at December 31, 2021 and 2020, respectively. In addition to the other borrowings, the Company also had $1,000,000 and $1,000,000 letters of credit available as of December 31, 2021 and 2020, respectively.

Note 10: Junior Subordinated Debt and Subordinated Debt

In 2021, the Company privately placed $50 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2031 to certain qualified institutional buyers. The Notes will initially bear interest at 3.25% per year, payable semi-annually in arrears. Beginning October 1, 2026

through the maturity date or earlier redemption, the interest rate will reset quarterly based on the then current Three-Month Term SOFR plus 257 basis points, payable quarterly in arrears. Also beginning on October 1, 2026 through maturity, the Notes may be redeemed in whole or in part, at the Company's option. The Notes will mature on October 1, 2031.

In March 2006, the Company formed STAR Capital Trust I (Trust I) and STAR Capital Trust II (Trust II) which are both statutory business trusts. Trust I issued $5,155,000 of trust preferred capital securities as a participant in a pooled trust preferred securities offering. The Company issued subordinated debentures aggregating $5,155,000 to Trust I. The subordinated debentures are the sole assets of Trust I. The subordinated debentures and the trust preferred securities pay interest and dividends, respectively, on a quarterly basis. The subordinated debentures and trust preferred capital securities bear interest at a rate of three-month LIBOR plus (0.21%) plus 1.40% (1.61%) and mature on June 30, 2036, and are non-callable for five years after issuance. The securities may be called at any quarterly interest date at par.

Trust II issued $5,155,000 of trust preferred capital securities as a participant in a pooled trust preferred securities offering. The Company issued subordinated debentures aggregating $5,155,000 to Trust II. The subordinated debentures are the sole assets of Trust II. The subordinated debentures and the trust preferred securities pay interest and dividends, respectively, on a quarterly basis. The subordinated debentures and trust preferred capital securities bear interest at a rate of three-month LIBOR (0.21%) plus 1.40% (1.61%) and mature on June 30, 2036. The securities may be called at any quarterly interest date at par.

The trust preferred capital securities, subject to certain limitations, are included in Tier I Capital for regulatory purposes. Trust I and Trust II are not consolidated into the Company and as a result, the Company accounts for the investment in Trust I and Trust II as assets, the subordinated debentures as debt, and the interest paid/received thereon as interest expense/income.

Note 11: Stock Based Compensation

The Company has 5,000,000 special shares which may be issued and would have such voting, dividend, liquidation and other rights and preferences as specified by the Board of Directors.

STAR declared $4,021,000 ($1.20 per common share) of cash dividends during the year ended December 31, 2021 and $3,973,000 ($1.16 per common share) during the year ended December 31, 2020.

The Company's long-term incentive model was approved in 2020 and agreements with employees were entered into in January 2021. Issuance of stock vests over a period of three years. Restricted stock units (RSU) are either time vested or based on performance metrics achieved by the Company. The total compensation expense recognized for the long-term incentive plan was $220,000 and the total unrecognized compensation was $345,000 for the year ended December 31, 2021. No shares were issued in 2021 related to the long-term incentive plan. In 2021, approximately 7,850 were the maximum amount of shares granted if all performance metrics are met. In the first quarter of 2022, 1,451 shares were issued to plan participants.

Note 12: Income Tax Expense

The Company files income tax returns in the U.S. federal jurisdiction and various states and local jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or income tax examinations by tax authorities for years before 2018.

Income tax provision is summarized as follows:

	2021	2020
Current		
Federal	$ 5,671	$ 5,602
State	1,197	1,224
Deferred	1,514	(1,702)
Total tax expense	$ 8,382	$ 5,124

A net deferred tax asset is included in other assets and is comprised of the following temporary differences at December 31:

	2021	2020
Deferred tax assets		
Allowance for loan and lease losses	$ 4,899	$ 6,075
Other nondeductible accruals	1,399	1,330
Unrealized losses on available-for-sale securities	17	—
Other	505	2,066
	6,820	9,471
Deferred tax liabilities		
Mortgage servicing rights	(384)	(349)
Premises and equipment, including equipment leased to others	(2,371)	(3,219)
Unrealized gains on available-for-sale securities	—	(2,883)
Other	(706)	(1,047)
	(3,461)	(7,498)
Total net deferred taxes	$ 3,359	$ 1,973

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is as follows:

	2021	2020
Income taxes at statutory rate	$ 8,742	$ 6,221
State income taxes, net of federal benefit	1,344	753
Tax-exempt interest	(1,189)	(1,214)
Bank owned life insurance	(223)	(190)
Captive insurance income	(233)	(372)
Tax credits	(38)	(36)
Other, net	(21)	(38)
Net income tax expense	$ 8,382	$ 5,124

At December 31, 2021, the Company had no general income tax credit carryovers.

Note 13: Accumulated Other Comprehensive Income/(Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows:

	2021	2020
Net unrealized gain (loss) on available-for-sale securities	$ (2,801)	$ 13,634
Net unrealized (loss) on derivatives used for cash flow hedges	—	(167)
Tax effect	588	(2,807)
Net-of-tax amount	$ (2,213)	$ 10,660

Note 14: Employee Retirement and Savings Plans

During 2021 STAR terminated the Employee Stock Ownership Plan (ESOP), effective July 31, 2021. Employees were given the option to retain shares, liquidate their position or roll funds over to an investment account. As a result of the termination, 184,599 shares were purchased back into treasury stock. As of December 31, 2020, there were 280,062 shares in the ESOP, all of which have been allocated to participant's accounts. The fair value of the allocated shares was approximately $20,164,000 at December 31, 2020. Upon termination, retirement or disability an employee has the option to receive his/her shares or require the ESOP to purchase such shares at a predetermined value to the ESOP, as defined in the ESOP Agreement. The ESOP has the option to purchase the shares over a five-year period. The amount of payment is based upon the value at the time of payment. In the event that the ESOP does not have sufficient cash available, STAR is required to purchase such shares at the same value.

STAR also has a Section 401(k) savings plan for substantially all employees. The savings plan provides that STAR may contribute up to 50% of the amount of compensation deferred by the employee, up to 5%. STAR contributed $969,000 and $1,072,000 to the plans in 2021 and 2020, respectively.

Note 15: Derivative Financial Instruments

Cash Flow Hedges

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flow due to interest rate fluctuations, the Company entered into interest rate swap agreements for a portion of its floating rate debt. The agreements provide for the Company to receive interest from the counterparty at three month LIBOR (0.21%) and to pay interest to the counterparty at a fixed rate of 2.38% on a notional amount of $0 and $10,000,000 at December 31, 2021 and 2020. Settlement is made quarterly.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At December 31, 2021 and 2020, the Company's cash flow hedge was effective and is not expected to have a significant impact on the Company's consolidated net income over the next 12 months.

The Company offers interest rate derivative products (e.g. interest rate swaps) to certain of its high-quality commercial borrowers. This product allows customers to enter into an agreement with the Company to swap their variable rate loan to a fixed rate. These derivative products are designed to reduce, eliminate or modify the risk of changes in the borrower's interest rate or market price risk. The extension of credit incurred through the execution of these derivative products is subject to the same approvals and underwriting standards as the related traditional credit product. The Company limits its risk exposure to these products by entering into a mirror-image, offsetting swap agreement with a separate, well-capitalized and rated counterparty previously approved by the Company's Asset Liability Committee. By using these interest rate swap arrangements, the Company is also better insulated from the interest rate risk associated with underwriting fixed-rate loans. These derivative contracts are not designated against specific assets or liabilities under FASB ASC 815-10 and, therefore, do not qualify for hedge accounting. The derivatives are recorded on the balance sheet at fair value and changes in fair value of both the customer and the offsetting swap agreements are recorded (and essentially offset) in non-interest income. The fair value of the derivative instruments incorporates a consideration of credit risk (in accordance with FASB ASC 820-10), resulting in some insignificant volatility in earnings each period. The notional amounts of the interest rate

swaps were approximately $3,437,000 and $15,765,000 at December 31, 2021 and 2020, respectively. The derivative asset and liability related to the interest rate swaps were considered to be immaterial as of December 31, 2021 and 2020.

Note 16: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2021 and 2020, were:

	2021	2020
Balance as of January 1	$ 5,567	$ 5,567
Goodwill acquired during the year	—	—
Impairment losses	—	—
Disposition of SIA	(2,931)	—
Balance as of December 31	$ 2,636	$ 5,567

Note 17: Related Party Transactions

The Bank has loan, deposit and other transactions with its directors and officers, and with organizations and individuals with which they are associated. In management's opinion, such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. The aggregate dollar amount of loans to directors and executive officers who held office at the end of the year, and organizations and individuals with which they are associated, amounted to $16,123,000 and $17,946,000 at December 31, 2021 and 2020, respectively. The aggregate dollar amount of deposits of directors and executive officers who held office at the end of the year, and organizations and individuals with which they are associated, amounted to $12,936,000 and $2,556,000 at December 31, 2021 and 2020, respectively.

Note 18: Commitments and Contingencies

The Bank, in the normal course of business, is a party to various financial instruments with off-balance sheet risk to meet the financing needs of customers. These instruments involve elements of credit risk in excess of amounts recognized in the financial statements. The contract amounts of those instruments reflect the extent of involvement STAR has in financial instruments.

Financial instruments whose contract amounts represent credit risk at December 31:

	2021	2020
Commitments to extend credit	$ 717,694	$ 614,422
Standby letters of credit	7,149	6,765
Forward sale commitments	5,149	12,000

STAR's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. STAR follows the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to loan funds to customers providing there is compliance with terms of 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 drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, plant and equipment and real estate.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting those commitments when deemed necessary.

Forward sale commitments are commitments to sell groups of residential mortgage loans that the Bank originates or purchases as part of its mortgage banking activities. The Bank commits to sell the loans at specified prices in a future period, typically within 90 days. These commitments are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale since the Bank is exposed to interest rate risk during the period between issuing a loan commitment and the sale of the loan into the secondary market.

Management does not expect any material losses to result from these financial instruments.

The Company and Bank are also subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

The Company is obligated under operating leases for certain office premises and equipment. The following table shows operating lease right of use assets and operating lease liabilities as of December 31, 2021.

Notes to Consolidated Financial Statements
STAR Financial Group, Inc.
December 31, 2021 and 2020
(Table Dollars in Thousands Except Share Data)

	Consolidated Balance Sheet	2021	2020
Operating lease right of use assets	Other assets	$ 5,771	7,103
Operating lease liabilities	Other liabilities	6,187	7,449

The following table shows the components of operating leases expenses for the year ended December 31, 2021.

	Consolidated Statement of Income	2021	2020
Operating lease cost	Occupancy expense	$ 1,877	$ 1,927

The following table shows future minimum rental commitments for all non-cancellable operating leases with an initial term longer than 12 months for the next five years and thereafter.

2022	$ 1,865
2023	1,159
2024	1,081
2025	923
2026	466
Thereafter	1,400
Total lease payments	6,894
Less: imputed interest	(707)
Present value of operating lease liabilities	$ 6,187

The following table shows the weighted average remaining operating lease term, the weighted average discount rate and supplemental consolidated statement of cash flows information for operating leases at December 31, 2021 and 2020.

	2021	2020
Weighted average remaining lease term (years)	8.52	7.99
Weighted average discount rate	2.54%	2.54%
Cash paid for amounts included in the measurement of lease liability:		
Operating cash flows from operating leases	$1,533	$1,567

In early 2021, STAR announced plans to begin construction on their new headquarters which will be located in downtown Fort Wayne. Construction began in 2021 and is scheduled to be complete in the second quarter of 2023. The Company has entered into construction-related contracts in the amount of $36 million. As of December 31, 2021 $18,022,000 is outstanding on the contract.

Note 19: Regulatory Matters

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities and certain off-balance sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The capital adequacy requirements were heightened by the Basel III Rules, which went into effect on January 1, 2015 with a phase-in period for certain aspects of the rule through 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.000% for 2015 to 2.50% by 2019. The below minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer for 2019 was 2.5%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. The quantitative measures established by regulation to ensure capital adequacy that were in effect on December 31, 2021 and 2020, require the Company and the Bank to maintain minimum capital amounts and ratios (set forth in the following table) of Total, Tier I and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulation), and of Tier I capital (as defined in the regulation) to average assets (as defined). Management believes, as of the years ended December 31, 2021 and 2020, that the Company and the Bank met all capital adequacy requirements to which they are subject.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined).

As of December 31, 2021, the most recent notification received from federal banking agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

STAR Bank's capital amounts and ratios are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Total capital (to risk weighted assets)						
STAR Financial Bank	$ 274,678	14.63%	$150,226	8.00%	$ 187,783	10.00%
Tier I capital (to risk weighted assets)						
STAR Financial Bank	255,664	13.61	112,670	6.00	150,226	8.00
Tier I capital (to average assets)						
STAR Financial Bank	255,664	8.30	123,262	4.00	154,078	5.00
Common equity Tier I capital						
STAR Financial Bank	255,664	13.61	84,502	4.50	122,059	6.50
As of December 31, 2020						
Total capital (to risk weighted assets)						
STAR Financial Bank	$ 261,938	14.40%	$145,484	8.00%	$ 181,855	10.00%
Tier I capital (to risk weighted assets)						
STAR Financial Bank	239,139	13.15	109,113	6.00	145,484	8.00
Tier I capital (to average assets)						
STAR Financial Bank	239,139	9.09	105,232	4.00	131,540	5.00
Common equity Tier I capital						
STAR Financial Bank	239,201	13.15	81,835	4.50	118,206	6.50

Banking regulations limit the amount that the Bank may pay the Company without prior approval of bank regulatory authorities. At December 31, 2021, retained earnings available for dividends to the Company without such approval totaled approximately $40,755,000.

Note 20: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 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 for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020:

		2021 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents				
Money market mutual funds	$ 20,501	$ 20,501	$ —	$ —
Available-for-Sale Securities				
U.S. Treasury and agency securities	65,087	—	65,087	—
Obligations of states and political subdivisions	254,472	—	254,472	—
Mortgage-backed GSE residential	717,252	—	717,252	—
Pooled trust preferred securities	13,713	—	13,713	—
Interest Rate Swap Assets	187	—	187	—
Interest Rate Swap Liability	(187)	—	(187)	—

		2020 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents				
Money market mutual funds	$ 4,063	$ 4,063	$ —	$ —
Available-for-Sale Securities				
U.S. Treasury and agency securities	8,435	—	8,435	—
Obligations of states and political subdivisions	244,849	—	244,849	—
Mortgage-backed GSE residential	271,586	—	271,586	—
Pooled trust preferred securities	14,590	—	—	14,590
Interest Rate Swap Assets	492	—	492	—
Interest Rate Swap Liability	(658)	—	(658)	—

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2020. For assets and liabilities classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Cash Equivalents

Where quoted market prices are available in an active market, cash equivalents are classified within Level 1 of the valuation hierarchy and include only money market mutual funds. The Company had no cash equivalents classified as Level 2 or Level 3.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted market prices of securities with similar characteristics or discounted cash flows. The inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. These level 2 securities include U.S. Treasury and agency securities, obligations of state and political subdivisions, and mortgage-backed GSE residential securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include pooled trust preferred securities. Based on the lack of observable market data, the Company estimated fair values based on the observable data available and reasonable unobservable market data. The estimated fair value is based on a discounted cash flow model which used appropriately adjusted discount rates reflecting credit and liquidity risks and is further described in the other-than-temporary impairment section of Note 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Finance department. The Finance department contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. The Finance department challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Interest Rate Swap Agreements

Derivative instruments consist of interest rate swaps and interest rate caps. The Company obtained fair values from financial institutions that use internal models with observable market inputs to estimate the values of these instruments (Level 2).

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Pooled Trust Preferred Securities
Balance, January 1, 2020	$ 15,533
Total realized and unrealized gains and (losses)	
Included in net income	$
Included in other comprehensive income	(943)
Balance, December 31, 2020	$ 14,590
Total realized and unrealized gains and (losses)	
Included in net income	$
Included in other comprehensive income	(877)
Transfer out of level 3 (A)	(13,713)
Balance, December 31, 2021	$ —
Total gains or (losses) for 2021 included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ —
Total gains or (losses) for 2020 included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ —

(A) The Bank was able to obtain Level 2 pricing starting in 2021.

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020.

		2021 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	$ 585	—	—	$ 585
Mortgage servicing rights	1,534	—	—	1,534

		2020 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	$ 326	—	—	$ 326
Mortgage servicing rights	1,402	—	—	1,402

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. The Company has no liabilities measured at fair value on a nonrecurring basis.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. An allowable method for determining the amount of impairment includes estimating fair value using the fair value of the collateral for collateral dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Managed Assets department and Asset Quality Committee. Appraisals are reviewed for accuracy and consistency by the Loan Review department. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Loan Review department by comparison to historical results.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Mortgage servicing rights are tested for impairment on a quarterly basis. The Company measures mortgage servicing rights through the completion of a proprietary model. The model is tested quarterly using baseline data to check its accuracy.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements as of December 31, 2021 and 2020.

	Fair Value at December 31, 2021	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans (collateral dependent)	$ 585	Market comparable properties	Marketability discount	42.26% - 100% (67.58%)
Mortgage servicing rights	1,534	Discounted cash flows	Constant prepayment rate	6.94% - 32.19% (12.58%)

	Fair Value at December 31, 2020	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans (collateral dependent)	$ 326	Market comparable properties	Marketability discount	65.65% – 100% (94.87%)
Pooled trust preferred securities	14,590	Discounted cash flows	Market yield adjustments	0.55% – 0.63% (0.60%)
Mortgage servicing rights	1,402	Discounted cash flows	Constant prepayment rate	10.99% – 43.42% (21.23%)

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationship between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Pooled Trust Preferred Securities

The significant unobservable inputs used in the fair value measurement of the Company's pooled trust preferred securities are premiums and discounts for underlying institutions. Significant increases (decreases) in either of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2021 and 2020.

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2021					
Financial assets					
Cash and cash equivalents	$ 437,370	$ 437,370	$ 437,370	$ —	$ —
Loans held for sale	3,261	3,308	—	3,308	—
Loans and leases, net	1,481,892	1,478,062	—	—	1,478,062
Interest receivable	8,375	8,375	—	8,375	—
Federal Home Loan Bank stock	6,880	6,880	—	6,880	—
Financial liabilities					
Demand deposits	$ 2,638,235	$ 2,638,235	$ 2,638,235	$ —	$ —
Time deposits	116,503	98,819	—	98,819	—
Long-term borrowings	10,026	9,660		9,660	—
Subordinated debt	60,310	55,242	—	55,242	—
Interest payable	489	489	—	489	—
December 31, 2020					
Financial assets					
Cash and cash equivalents	$ 245,190	$ 245,190	$ 245,190	$ —	$ —
Loans held for sale	3,674	3,863	—	3,863	—
Loans and leases, net	1,689,258	1,694,153	—	—	1,694,513
Interest receivable	9,580	9,580	—	9,580	—
Federal Home Loan Bank stock	6,880	6,880	—	6,880	—
Financial liabilities					
Demand deposits	$ 2,157,203	$ 2,157,203	$ 2,157,203	$ —	$ —
Time deposits	131,342	115,503	—	115,503	—
Short-term borrowings	—	—	—	—	—
Long-term borrowings	20,173	20,266	—	20,266	—
					—
Subordinated debt	10,310	8,793	—	8,793	
Interest payable	72	72	—	72	—

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Federal Home Loan Bank Stock and Interest Receivable

The carrying amounts approximate fair value.

Loans Held for Sale

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

Loans and Leases, net

Fair value is estimated by discounting the future cash flows using market rates for similar loans to similar borrowers. The market rates reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

Deposit Liabilities

The fair values disclosed for demand deposits (*e.g.*, interest and noninterest checking, savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (*i.e.*, their carrying amounts). The carrying amounts for variable-rate, fixed-term time deposits approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings and Interest Payable

Fair values for short-term borrowing and interest payable are estimated using a discounted cash flow calculation that applies interest rates currently being offered for similar maturities.

Long-Term Borrowings

Fair values for Federal Home Loan Bank and other borrowings are estimated using a discounted cash flow calculation that applies interest rates currently being offered for similar maturities.

Notes to Consolidated Financial Statements
STAR Financial Group, Inc.
December 31, 2021 and 2020
(Table Dollars in Thousands Except Share Data)

Subordinated Debt

The fair value for subordinated debt is estimated using a discounted cash flow calculation that applies interest rates currently being offered for similar maturities.

Commitments to Originate Loans, Forward Sale Commitments, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair value of these items is not material.

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STAR Financial Group

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STAR Financial Bank

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STAR294