Boyle Bancorp, Inc.

Independent Auditor's Report

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

Boyle Bancorp, Inc.
Danville, Kentucky

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

CONTENTS

Cherry Bekaert LLP
Your Guide Forward

Independent Auditor's Report

To the Board of Directors and Audit Committee
Boyle Bancorp, Inc.
Danville, Kentucky

Opinion

We have audited the accompanying consolidated financial statements of Boyle Bancorp, Inc. and its subsidiaries (collectively, the "Company"), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Prior Period Consolidated Financial Statements

The consolidated financial statements of Boyle Bancorp, Inc. for the year ended December 31, 2022, were audited by another auditor, who expressed an unmodified opinion on those statements on April 20, 2023.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Accounting Standards Codification Topic 326, *Financial Instruments - Credit Losses*.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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 the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- 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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

Cherry Bekaert LLP

Louisville, Kentucky
April 24, 2024

Boyle Bancorp, Inc.
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(dollars in thousands)

	2023	2022
ASSETS		
Cash and due from banks	$ 91,733	$ 141,825
Federal funds sold	2,424	-
Cash and cash equivalents	94,157	141,825
Debt securities available for sale	189,985	206,145
Loans, net of $ 8,765 and $7,653 in allowance for credit losses in 2023 and 2022, respectively	636,511	559,230
Federal Reserve and Federal Home Loan Bank stock	1,186	2,230
Premises and equipment, net	14,722	15,556
Right-of-use assets	1,326	1,551
Accrued interest receivable	3,722	3,283
Goodwill	2,619	2,619
Deferred tax asset	6,333	6,263
Other assets	8,278	7,277
Total assets	$ 958,839	$ 945,979
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand	$ 176,729	$ 180,268
Savings, NOW and money market	634,742	652,813
Time	65,877	41,006
Total deposits	877,348	874,087
Operating lease liability	1,327	1,547
Other liabilities	7,700	7,026
Total liabilities	886,375	882,660
Stockholders' equity		
Common stock, $0.40 par value; 2,500,000 shares authorized, 865,603 (2023) and 868,059 (2022) shares issued and outstanding	346	347
Additional paid in capital	4,466	4,477
Retained Earnings	81,853	74,022
Accumulated other comprehensive loss	(14,201)	(15,527)
Total stockholders' equity	72,464	63,319
Total liabilities and stockholders' equity	$ 958,839	$ 945,979

See accompanying notes to consolidated financial statements.

Boyle Bancorp, Inc.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2023 and 2022
(dollars in thousands except per share amounts)

	2023	2022
Interest income		
Loans, including fees	$ 34,199	$ 24,244
Debt securities		
Taxable	3,562	2,543
Tax-exempt	2,831	2,500
Dividends on Federal Home Loan Bank and Federal Reserve Bank stock	107	106
Federal funds sold and deposits with financial institutions	2,446	2,291
Total interest income	43,145	31,684
Interest expense		
Deposits	11,801	2,858
Federal Home Loan Bank advances	-	80
Total interest expense	11,801	2,938
Net interest income	31,344	28,746
Provision for credit losses	1,312	1,622
Net interest income after provision for credit losses	30,032	27,124
Noninterest income		
Fiduciary activities	5,679	5,340
Customer service fees	5,135	4,948
Brokerage and insurance services	2,361	2,238
Net gain on mortgage loan sales	11	23
Other	240	279
	13,426	12,828
Noninterest expenses		
Salaries and benefits	18,271	17,349
Occupancy	2,982	4,010
Data processing fees	2,686	1,820
Professional fees	790	1,030
Federal Deposit Insurance Corporation assessment	489	374
Net realized losses on available for sale securities	595	-
Other	3,607	3,017
	29,420	27,600
Income before income taxes	14,038	12,352
Provision for Income taxes	2,989	2,487
Net income	$ 11,049	$ 9,865
Earnings per share		
Basic	$ 12.74	$ 11.36

See accompanying notes to consolidated financial statements.

Boyle Bancorp, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2023 and 2022
(dollars in thousands)

	2023	2022
Net income	$ 11,049	$ 9,865
Other comprehensive income (loss):		
Unrealized holding gains/(losses) arising during the period on available for sale debt securities, net of taxes of ($565) and $6,154 for 2023 and 2022, respectively	1,796	(18,512)
Reclassification adjustment for realized losses included in net income, net of taxes of ($125) for 2023	(470)	-
Total other comprehensive income (loss)	1,326	(18,512)
Comprehensive income (loss)	$ 11,904	$ (8,647)

See accompanying notes to consolidated financial statements.

Boyle Bancorp, Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2023 and 2022
(dollars in thousands)

	Common Stock Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2022	868,059	$ 347	$ 4,477	$ 66,622	$ 2,985	$ 74,431
Net income	-	-	-	9,865	-	9,865
Other comprehensive loss	-	-	-	-	(18,512)	(18,512)
Dividends on common stock, $2.84 per share	-	-	-	(2,465)	-	(2,465)
Balances, December 31, 2022	868,059	347	4,477	74,022	(15,527)	63,319
Impact of adoption of ASC 326	-	-	-	(511)	-	(511)
Net income	-	-	-	11,049	-	11,049
Other comprehensive income	-	-	-	-	1,326	1,326
Dividends on common stock, $2.91 per share	-	-	-	(2,523)	-	(2,523)
Repurchase of common stock	(2,456)	(1)	(11)	(184)	-	(196)
Balances, December 31, 2023	865,603	$ 346	$ 4,466	$ 81,853	$ (14,201)	$ 72,464

See accompanying notes to consolidated financial statements.

Boyle Bancorp, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022
(dollars in thousands)

	2023	2022
Cash flows from operating activities		
Net income	$ 11,049	$ 9,865
Items not requiring (providing) cash		
Depreciation and amortization	963	1,054
Provision for credit losses	1,312	1,622
Amortization of premiums and discounts on debt securities	55	457
Amortization of intangibles	100	100
Net realized gain on premises and equipment	(69)	-
Deferred income taxes	(331)	(58)
Payment of operating lease liability	(234)	(223)
Net realized loss on available-for-sale debt securities	595	-
Changes in		
Interest receivable	(439)	(836)
Right-of-use assets	225	215
Other assets	(1,100)	(728)
Other liabilities and interest payable	183	723
Net cash provided by operating activities	12,309	12,191
Cash flows from investing activities		
Purchases of debt securities available for sale	(15,850)	(51,078)
Proceeds from maturities, calls and paydowns of debt securities available for sale	21,092	14,323
Proceeds from the sales of debt securities available for sale	12,034	-
Redemption of Federal Reserve and other stock	1,044	430
Net change in loans	(78,793)	(84,335)
Purchase of premises and equipment	(183)	(910)
Proceeds from sale of premises and equipment	137	-
Net cash used in investing activities	(60,519)	(121,570)
Cash flows from financing activities		
Net increase in deposits	3,261	59,254
Repayment of FHLB advances	-	(10,000)
Repurchase of common stock	(196)	
Dividends paid	(2,523)	(2,465)
Net cash provided by financing activities	542	46,789
Decrease in cash and due from banks	$ (47,668)	$ (62,590)
Cash and due from banks at beginning of year	$ 141,825	$ 204,415
Cash and due from banks at end of year	$ 94,157	$ 141,825
Supplemental cash flow information		
Interest paid	$ 11,718	$ 2,875
Income taxes paid	2,950	2,080
Operating right-of-use asset obtained in exchange for lease liability	-	250
Impact of adoption of ASC 326	(511)	-

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Boyle Bancorp, Inc. (Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, Farmers National Bank, Danville (Bank) and wholly owned subsidiary BYLB Investments. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in central Kentucky. BYLB Investments is an investment subsidiary of the Bank, primarily engaged in management of investment securities. The Bank is subject to competition from other financial institutions. The Company and Bank are subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of 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 revenues 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 credit losses, valuation of deferred tax assets, goodwill valuation and fair values of financial instruments.

Cash and Cash Equivalents: The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2023 and 2022, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Debt Securities: Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. All debt securities were classified as available for sale at December 31, 2023 and 2022.

For available-for-sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met.

At December 31, 2023, there was no allowance for credit loss related to the available-for-sale portfolio. Accrued interest receivable on available-for-sale debt securities totaled $1,181 at December 31, 2023 and was excluded from the estimate of credit losses.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for credit 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.

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 individually evaluated 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 and junior lien mortgages to the net realizable value less costs to sell when the loan is 180 days past due, charge-off of unsecured open-end loans when the loan is 90 days past due and charge down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For all classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off are 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 and, 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. 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.

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. 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.

Allowance for Credit Losses- Loans

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using a weighted average remaining life methodology:

Commercial, Industrial and Agricultural – Commercial, Industrial, and Agricultural 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.

Real estate – Real estate loans primarily consist of two segments: residential mortgage loans and commercial real estate loans, which includes construction and farmland loans. For residential mortgage loans and Home Equity Lines of Credit (HELOC) that are secured by 1 – 4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio. Junior lien loans are typically secured by a subordinate interest in 1 – 4 family residences. 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Commercial real estate owner occupied, commercial real estate non owner occupied, multi-family residential and construction and real estate development loans are commercial real estate loans 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 properties securing the Company's commercial real estate portfolio are within geographic locations 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.

Construction loans are primarily for individual homes. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate.

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

Commercial agriculture real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial agriculture real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful farming operations on the property securing the loan. Commercial agriculture real estate loans may be more adversely affected by conditions in the real estate markets, commodity markets or in the general economy. The properties securing the Company's commercial agriculture real estate portfolio are within geographic locations almost entirely in the Company's market area. Management monitors and evaluates commercial agriculture real estate loans based on collateral, geography and risk grade criteria.

Consumer personal 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

<u>Allowance for Credit Losses- Unfunded Commitments</u>

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's consolidated balance sheets.

<u>Federal Reserve Bank and Federal Home Loan Bank Stock</u>: Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) stock are required investments for institutions that are members of the Federal Reserve and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

<u>Premises and Equipment</u>: Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. 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. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35 – 40 years
Leasehold improvements	3 – 10 years
Equipment	3 – 5 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Lived Asset Impairment: The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2023 and 2022.

Other Real Estate Owned: Assets 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, 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. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Goodwill: Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. 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 recognized in the financial statements.

Core Deposit and Other Intangible Assets: Core deposit intangible assets include premiums paid for acquisition of core deposits and is being amortized on the straight-line basis over 7-10 years. Other intangible assets with finite lives are being amortized on the straight-line basis over periods ranging from 5 to 10 years. Such assets included in other assets on the balance sheet are periodically evaluated as to the recoverability of their carrying values.

Bank Owned Life Insurance: The cash surrender value of Bank owned life insurance policies represents the value of life insurance policies on certain officers of the Company for which the Company is beneficiary. The Company accounts for these assets using the cash surrender value method in determining the carrying value of insurance policies.

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.

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 revenues. The Company determines deferred income taxes using the liability (or balance sheet) 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2019. The Company recognizes interest and penalties on income taxes as a component of income tax expense. The Company files consolidated income tax returns with its subsidiary.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to extend credit and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings Per Share: Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. There were no potentially dilutive common shares at December 31, 2023 and 2022.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains and losses on debt securities available for sale.

Revenue Recognition:

The Company accounts for certain revenue under the Financial Accounting Standards Board Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The majority of the Company's revenues come from interest income and other sources, including loans and securities that are outside of Topic 606. The Company's services that fall within the scope of Topic 606 are presented within noninterest income in the accompanying statements of income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of Topic 606 include service charges on deposits, interchange income and the sale of foreclosed assets.

The following is a description of the Company's noninterest income within the scope of Topic 606 by revenue stream for the years ended December 31, 2023 and 2022:

Fiduciary activities: Trust and wealth management income represents monthly or quarterly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management and trust services include custody of assets, investment management, escrow services, fees for trust services, administration of retirement plans including 401K and ESOP plans and similar

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

fiduciary activities. Revenue is recognized when our performance obligation is completed each month or quarter, which is generally the time that payment is received.

Customer Service Fees: The Company generates revenues through fees charged to depositors related to deposit account maintenance fees, overdrafts, nonsufficient funds, ATM fees, wire transfers and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time. Interchange fees are earned primarily from debit cardholder transactions conducted through the Mastercard payment network and other networks. Interchange fees from cardholders transactions represent a percentage of the underlying transaction value and are received and recognized daily, concurrent with the transaction processing services provided to the cardholder.
Brokerage and Insurance Services: Brokerage revenue is transaction based and collected upon the settlement of the transaction. Other sales, such as life insurance, generate commissions from other third parties. These fees are generally collected monthly.

Other noninterest income primarily includes items such as letter of credit fees, gains on sale of loans held for sale, gains on sale of investments, and servicing fees related to mortgage and commercial loans, none of which are subject to the requirements of ASC 606.

Reclassifications: Certain reclassifications have been made to the 2022 consolidated financial statements to conform to the 2023 consolidated financial statement presentation. These reclassifications had no effect on net earnings.

Accounting Standards adopted in 2023

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included in the allowance for credit losses on loans of $557,000, which is presented as a reduction to net loans outstanding, and in the allowance for credit losses on unfunded loan commitments of $134,000, which is recorded within Other Liabilities. The Company recorded a net decrease to retained earnings of $511,000 as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available for sale securities was not deemed material.

(dollars in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table illustrates the impact on the allowance for credit losses from the adoption of ASC 326:

	January 1, 2023 As Reported Under ASC 326	December 31, 2022 Pre-ASC 326 Adoption December	Impact of ASC 326 Adoption
Assets:			
Allowance for credit losses on loans			
Home equity lines of credit	$ 104	$ 221	$ (117)
1-4 family residential	2,130	2,751	(621)
Multi-family residential	264	297	(33)
Farmland	264	567	(303)
Commercial real estate NR OO	330	495	(165)
Agricultural	61	437	(376)
Commercial and Industrial	2,930	1,097	1,833
Personal	425	365	60
Construction and R/E Development	334	122	212
Commercial real estate NR NOO	1,348	1,281	67
Other loans	6	6	-
Allowance for credit losses on loans	$ 8,196	$ 7,639	$ 557
Liabilities:			
Allowance for credit losses for unfunded commitments	$ 314	$ 180	$ 134

For available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income. Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At March 31, 2023, there was no allowance for credit loss related to the available for sale portfolio.

NOTE 2 – RESTRICTION ON CASH AND DUE FROM BANKS

The Company has historically been required by the Federal Reserve Bank (FRB) to maintain average reserve balances. Effective March 15, 2020, the FRB reduced the Bank's reserve requirement to zero percent, therefore, cash and due from banks on the consolidated balance sheet included no required reserve balances as of December 31, 2023 and 2022.

(dollars in thousands)

NOTE 3 – DEBT SECURITIES

The following table summarizes the amortized cost and fair value of debt securities available for sale at December 31, 2023 and 2022 and the corresponding gross unrealized gains and losses recognized in accumulated other comprehensive income:

Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
Mortgage-back securities				
Government Sponsored Entities (GSE) residential	$ 91,942	$ 2	$ (12,428)	$ 79,516
State and political subdivision	98,473	355	(6,243)	92,585
U.S. treasury note	9,891	-	(193)	9,698
SBA pools	8,601	105	(520)	8,186
Total securities	$ 208,907	$ 462	$ (19,384)	$ 189,985
2022				
Mortgage-back securities				
Government Sponsored Entities (GSE) residential	$ 94,699	$ 6	$ (11,959)	$ 82,746
State and political subdivision	103,933	186	(8,271)	95,848
U.S. treasury note	18,536	-	(327)	18,209
SBA pools	9,665	145	(468)	9,342
Total securities	$ 226,833	$ 337	$ (21,025)	$ 206,145

The amortized cost and fair value of the available for sale debt securities are shown below by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage backed securities are shown separately.

	December 31, 2023	
	Amortized Cost	Fair Value
Available-for-sale		
Due within one year	$ 7,686	$ 7,619
Due from one to five years	11,594	11,317
Due from five to ten years	29,934	28,437
Due after ten years	67,751	63,096
Mortgage-backed securities GSE residential	91,942	79,516
	$ 208,907	$ 189,985

At year end 2023 and 2022, investment securities with a carrying value of approximately $131,906 and $132,005 were pledged to secure public deposits and for other purposes.

(dollars in thousands)

NOTE 3 – DEBT SECURITIES (continued)

Gross losses of $595 resulting from the sales or calls of available for sale debt securities were realized for 2023. There were no sales in 2022.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2023 and 2022, was $153,401 and $185,201, respectively, which was approximately 81% and 90%, respectively, of the Company's available for sale investment portfolio. These declines primarily resulted from recent increases in market interest rates.

Management believes the decline in fair value for these securities are temporary.

The following table shows the Company's gross unrealized losses and fair value of the Company's available for sale securities for which an allowance for credit losses has not been recorded aggregated by investment class and length of in a continuous unrealized loss position at December 31, 2023 and 2022:

	Less than 12 Months		12 Months or More		Total	
Description of Debt Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2023						
Available-for-sale:						
Mortgage-backed securities	$ 153	$ (1)	$ 79,036	$ (12,427)	$ 79,189	$ (12,428)
State and political subdivisions	1,682	(5)	58,133	(6,238)	59,815	(6,243)
U.S. treasury notes	988	(1)	8,710	(192)	9,698	(193)
SBA Pools	-	-	4,699	(520)	4,699	(520)
Total	$ 2,823	$ (7)	$ 150,578	$ (19,377)	$ 153,401	$ (19,384)
2022						
Available-for-sale:						
Mortgage-backed securities	$ 32,173	$ (3,050)	$ 50,020	$ (8,909)	$ 82,193	$ (11,959)
State and political subdivisions	75,698	(7,133)	4,103	(1,138)	79,801	(8,271)
U.S. treasury notes	14,440	(65)	3,769	(262)	18,209	(327)
SBA Pools	3,263	(207)	1,735	(261)	4,998	(468)
Total	$ 125,574	$ (10,455)	$ 59,627	$ (10,570)	$ 185,201	$ (21,025)

Mortgage-Backed Securities

The unrealized losses on the Company's investments in mortgage-backed securities have not been recognized into income because the decline in fair value is largely due to changes in interest rate and other market conditions. 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. 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 bases. The issuers continue to make timely principal and interest payments on the investments. The fair value is expected to recover as the investments approach maturity.

(dollars in thousands)

NOTE 3 – DEBT SECURITIES (continued)

State and Political Subdivisions

The unrealized losses on the Company's investments in state and political subdivision securities have not been recognized into income because the decline in fair value is largely due to changes in interest rate and other market conditions. 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. 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 bases. The issuers continue to make timely principal and interest payments on the investments. The fair value is expected to recover as the investments approach maturity.

NOTE 4 – LOANS

Categories of loans at December 31, 2023 and 2022, include:

	2023	2022
Home equity lines of credit	$ 18,014	$ 18,077
Residential 1-4 family	254,495	223,049
Multi-family residential	28,320	29,199
Farmland	28,149	26,693
Commercial real estate nonresidential owner occupied	45,446	38,260
Agricultural	36,883	32,814
Commercial and industrial	62,355	67,027
Personal	15,114	14,806
Construction and real estate development	16,797	11,072
Commercial real estate nonresidential nonowner occupied	137,733	104,287
Other	1,968	1,581
Total loans	645,274	566,865
Adjustments:		
Net deferred loan fees, premiums and discounts	2	18
Allowance for loan losses	(8,765)	(7,653)
Loans, net	$ 636,511	$ 559,230

(dollars in thousands)

NOTE 4 – LOANS (continued)

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023 under the CECL methodology:

	2023											
	Home Equity Lines of Credit	1 – 4 Family Residential	Multi-Family Residential	Farmland	Commercial Real Estate NR OO	Agriculture	Commercial and Industrial	Personal	Construction and R/E Development	Commercial Real Estate NR NOO	Other Loans	Total
Allowance for Loan Losses												
Balance, beginning of year	$ 221	$ 2,765	$ 297	$ 567	$ 495	$ 437	$ 1,097	$ 365	$ 122	$ 1,281	$ 6	$ 7,653
Adjustment to allowance for adoption of ASU 2013-13	(117)	(621)	(33)	(303)	(165)	(376)	1,833	60	212	67	-	557
Provision charged to expense	49	432	(83)	159	393	204	(1,306)	560	53	444	50	955
Losses charged off	-	-	-	-	-	-	-	(765)	-	(29)	-	(794)
Recoveries	-	4	-	-	1	-	134	252	3	-	-	394
Balance, end of year	$ 153	$ 2,580	$ 181	$ 423	$ 724	$ 265	$ 1,758	$ 472	$ 390	$ 1,763	$ 56	$ 8,765

(dollars in thousands)

NOTE 4 – LOANS (continued)

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following tables are related to the allowance for loan losses in prior periods.

	2022											
	Home Equity Lines of Credit	1 – 4 Family Residential	Multi-Family Residential	Farmland	Commercial Real Estate NR OO	Agriculture	Commercial and Industrial	Personal	Construction and R/E Development	Commercial Real Estate NR NOO	Other Loans	Total
Allowance for Loan Losses												
Balance, beginning of year	$ 172	$ 1,931	$ 185	$ 681	$ 707	$ 523	$ 854	$ 240	$ 67	$ 943	$ 7	$ 6,310
Provision charged to expense	49	798	112	(114)	(224)	(126)	367	403	20	338	(1)	1,622
Losses charged off	-	-	-	-	-	-	(134)	(545)	-	-	-	(679)
Recoveries	-	36	-	-	12	40	10	267	35	-	-	400
Balance, end of year	$ 221	$ 2,765	$ 297	$ 567	$ 495	$ 437	$ 1,097	$ 365	$ 122	$ 1,281	$ 6	$ 7,653
Ending balance: individually evaluated for impairment	$ -	$ 14	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14
Ending balance: collectively evaluated for impairment	$ 221	$ 2,751	$ 297	$ 567	$ 495	$ 437	$ 1,097	$ 365	$ 122	$ 1,281	$ 6	$ 7,639
Loans												
Ending balance	$ 18,077	$ 223,049	$ 29,199	$ 26,693	$ 38,260	$ 32,814	$ 67,027	$ 14,806	$ 11,072	$ 104,287	$ 1,581	$ 566,865
Ending balance: individually evaluated for impairment	$ -	$ 713	$ -	$ 318	$ 1,003	$ -	$ 384	$ -	$ -	$ -	$ -	$ 2,418
Ending balance: collectively evaluated for impairment	$ 18,077	$ 222,336	$ 29,199	$ 26,375	$ 37,257	$ 32,814	$ 66,643	$ 14,806	$ 11,072	$ 104,287	$ 1,581	$ 564,447

NOTE 4 – LOANS (continued)

Internal Risk Categories:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

Loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grade of 5, or Special Mention, represents loans of lower quality and is considered criticized. The grades of 6, or Substandard, and 7, or Doubtful, refer to assets that are classified. The use and application of these grades by the bank will be uniform and shall conform to the bank's policy.

Prime (1)- Loans are of superior quality with excellent credit strength and repayment ability providing a nominal credit risk and secured by cash deposits or United States Government securities.

Good (2)- Loans are of above average credit strength and repayment ability providing only a minimal credit risk.

Satisfactory (3)- Loans of reasonable credit strength and repayment ability providing an average credit risk due to one or more underlying weaknesses.

Acceptable (4)- Loans of the lowest acceptable credit strength and weakened repayment ability providing a cautionary credit risk due to one or more underlying weaknesses. New borrowers are typically not underwritten within this classification.

Special Mention (5)- Loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification (substandard, doubtful or loss). Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (6)- Loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful (7)- Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions, and values, highly questionable and improbable.

Loss (8)- Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

(dollars in thousands)

NOTE 4 – LOANS (continued)

The following table presents the Company's recorded investment in loans by risk category indicators by year of origination as of December 31, 2023:

	Term Loans by Origination Year					
	2023	**2022**	**2021**	**Prior**	**Revolving**	**Total**
Home equity lines of credit						
Pass	$ -	-	-	-	17,948	17,948
Special Mention	-	-	-	-	-	-
Classified	-	-	-	13	53	66
Total home equity lines of credit	-	-	-	13	18,001	18,014
Current Period Gross Write Offs	-	-	-	-	-	-
Residential 1 – 4 family						
Pass	55,947	62,568	45,998	79,701	7,431	251,645
Special Mention	-	992	-	158	-	1,150
Classified	-	203	296	1,201	-	1,700
Total residential 1 – 4 family	55,947	63,763	46,294	81,060	7,431	254,495
Current Period Gross Write Offs	-	-	-	-	-	-
Multi-family residential						
Pass	1,976	8,324	6,462	5,928	492	23,182
Special Mention	-	-	-	-	-	-
Classified	-	-	5,138	-	-	5,138
Total multi-family residential	1,976	8,324	11,600	5,928	492	28,320
Current Period Gross Write Offs	-	-	-	-	-	-
Farmland						
Pass	7,057	3,974	964	10,687	2,423	25,105
Special Mention	-	-	-	1,399	-	1,399
Classified	-	-	-	1,379	266	1,645
Total farmland	7,057	3,974	964	13,465	2,689	28,149
Current Period Gross Write Offs	-	-	-	-	-	-
Commercial RE NR, OO						
Pass	4,244	5,769	3,385	21,190	261	34,849
Special Mention	-	2,552	149	1,809	296	4,806
Classified	-	2,308	436	3,047	-	5,791
Commercial RE NR, OO	4,244	10,629	3,970	26,046	557	45,446
Current period gross charge offs	-	-	-	29	-	29

(dollars in thousands)

NOTE 4 – LOANS (continued)

	Term Loans by Origination Year					
	2023	2022	2021	Prior	Revolving	Total
Agricultural						
Pass	1,439	1,902	6,676	1,275	24,653	35,945
Special Mention	-	-	-	339	569	908
Classified	-	-	-	30	-	30
Total farmland	1,439	1,902	6,676	1,644	25,222	36,883
Current period gross charge offs	-	-	-	-	-	-
Commercial and industrial						
Pass	8,872	10,722	3,126	10,538	19,129	52,387
Special Mention	-	91	160	258	600	1,109
Classified	897	5,207	775	1,882	98	8,859
Total farmland	9,769	16,020	4,061	12,678	19,827	62,355
Current period gross charge offs	-	-	-	-	-	-
Personal						
Pass	4,780	4,255	1,070	654	4,287	15,046
Special Mention	-	-	8	-	-	8
Classified	-	46	2	12	-	60
Total farmland	4,780	4,301	1,080	666	4,287	15,114
Current period gross charge offs	425	216	120	4	-	765
Construction and R/E development						
Pass	9,239	3,550	516	91	3,009	16,405
Special Mention	-	-	-	392	-	392
Classified	-	-	-	-	-	-
Total farmland	9,239	3,550	516	483	3,009	16,797
Current period gross charge offs	-	-	-	-	-	-
Commercial R/E NOO						
Pass	30,522	45,918	26,085	30,584	3,506	136,615
Special Mention	-	271	683	-	-	954
Classified	-	-	-	164	-	164
Total farmland	30,522	46,189	26,768	30,748	3,506	137,733
Current period gross charge offs	-	-	-	-	-	-
Other loans						
Pass	1,334	178	170	154	124	1,960
Special Mention	-	-	-	-	-	-
Classified	-	-	-	8	-	8
Total farmland	1,334	178	170	162	124	1,968
Current period gross charge offs	-	-	-	-	-	

(dollars in thousands)

NOTE 4 – LOANS (continued)

The following table presents the credit risk profile of the Company's loan portfolio based on internal rating category and payment activity as of December 31, 2022 :

	2022					
	Pass (1-4)	Special Mention (5)	Substandard (6)	Doubtful (7)	Loss (8)	Total Loans
Home equity lines of credit	$ 17,995	$ -	$ 82	$ -	$ -	$ 18,077
Residential 1–4 family	219,623	1,037	2,389	-	-	223,049
Multi-family residential	29,199	-	-	-	-	29,199
Farmland	23,317	1,716	1,660	-	-	26,693
Commercial real estate nonresidential owner occupied	31,274	3,425	3,561	-	-	38,260
Agricultural	32,215	552	47	-	-	32,814
Commercial and industrial	59,648	5,387	1,992	-	-	67,027
Personal	14,773	15	17	-	1	14,806
Construction and real estate development	11,072	-	-	-	-	11,072
Commercial real estate nonresidential nonowner occupied	101,563	2,724	-	-	-	104,287
Other loans	605	22	954	-	-	1,581
Total	$ 541,284	$ 14,878	$ 10,702	$ -	$ 1	$ 566,865

(dollars in thousands)

NOTE 4 – LOANS (continued)

The Company considers loans to be nonperforming when they are greater than 90 days past due and/or set to nonaccrual. The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2023 and 2022:

	2023						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
Home equity lines of credit	$ 93	$ -	$ -	$ 93	$ 17,921	$ 18,014	$ -
Residential 1 – 4 family	1,214	421	186	1,821	252,674	254,495	-
Multi-family residential	-	-	-	-	28,320	28,320	-
Farmland	-	-	-	-	28,149	28,149	-
Commercial real estate nonresidential owner occupied	-	-	31	31	45,415	45,446	-
Agricultural	-	-	-	-	36,883	36,883	-
Commercial and industrial	54	-	53	107	62,248	62,355	-
Personal	130	8	54	192	14,922	15,114	-
Construction and real estate development	-	-	-	-	16,797	16,797	-
Commercial real estate nonresidential nonowner occupied	48	-	-	48	137,685	137,733	-
Other loans	-	-	-	-	1,968	1,968	-
Total	$ 1,539	$ 429	$ 324	$ 2,292	$ 642,982	$ 645,274	$ -

	2022						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
Home equity lines of credit	$ 10	$ -	$ 36	$ 46	$ 18,031	$ 18,077	$ -
Residential 1 – 4 family	2,732	306	363	3,401	219,648	223,049	-
Multi-family residential	-	-	-	-	29,199	29,199	-
Farmland	45	-	90	135	26,558	26,693	-
Commercial real estate nonresidential owner occupied	73	-	-	73	38,187	38,260	-
Agricultural	204	-	28	232	32,582	32,814	-
Commercial and industrial	57	-	42	99	66,928	67,027	-
Personal	131	9	30	170	14,636	14,806	12
Construction and real estate development	-	-	-	-	11,072	11,072	-
Commercial real estate nonresidential nonowner occupied	-	-	-	-	104,287	104,287	-
Other loans	-	-	-	-	1,581	1,581	-
Total	$ 3,252	$ 315	$ 589	$ 4,156	$ 562,709	$ 566,865	$ 12

(dollars in thousands)

NOTE 4 – LOANS (continued)

The following table is a summary of the Company's nonaccrual loans by category for the periods indicated.

	CECL December 31, 2023			Incurred Loss December 31, 2022
	Nonaccrual Loans with No Allowance	Non Accrual Loans with an Allowance	Total Non Accrual Loans	Nonaccrual Loans
Home equity lines of credit	$ 66	$ -	$ 66	$ 64
Residential 1 – 4 family	1,381	-	$ 1,381	1,485
Multi-family residential			$ -	-
Farmland	189	-	$ 189	213
Commercial real estate nonresidential owner occupied	933	-	$ 933	1,094
Agricultural	13	-	$ 13	28
Commercial and industrial	446	-	$ 446	42
Personal	60	-	$ 60	27
Construction and real estate development	-	-	$ -	-
Commercial real estate nonresidential nonowner occupied	164	-	$ 164	-
Other loans	8	-	$ 8	22
Total	$ 3,260	$ -	$ 3,260	$ 2,975

Collateral Dependent Loans

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

- Commercial real estate loans can be secured by either owner-occupied commercial real estate or nonowner occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Commercial and industrial loans are secured by a variety of collateral including business equipment, accounts receivable and in some cases real estate.
- Farmland loans are typically secured by first mortgages and in some cases could be secured by a second mortgage on land used for agricultural purposes.

The following table details the amortized cost of collateral dependent loans:

	December 31, 2023
Residential 1 – 4 family	$ 618
Farmland	129
Commercial and industrial	365
Commercial real estate nonresidential owner occupied	901
Commercial real estate nonresidential nonowner occupied	164
Total	$ 2,177

(dollars in thousands)

NOTE 4 – LOANS (continued)

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The Company individually assessed for impairment all nonaccrual loans greater than $100,000 and all troubled debt restructurings (including all troubled debt restructurings, whether or not currently classified as such). The tables below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

The following tables present impaired loans for the years ended December 31, 2022:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With a specific valuation allowance:					
Residential 1-4 family	$ 111	$ 111	$ 14	$ 112	$ 6
Subtotal	111	111	14	112	6
Without a specific valuation allowance:					
Residential 1-4 family	$ 699	$ 601	$ -	$ 613	$ 7
Farmland	318	318	-	326	9
Commercial and industrial	578	384	-	479	-
Commercial R/E NOO	1,003	1,003	-	997	-
Subtotal	2,598	2,306	-	2,415	16
Total Impaired Loans:					
Residential 1-4 family	$ 810	$ 713	$ 14	$ 725	$ 13
Farmland	318	318	-	326	9
Commercial and industrial	578	384	-	479	-
Commercial R/E NOO	1,003	1,003	-	997	-
Total	$ 2,709	$ 2,418	$ 14	$ 2,527	$ 22

A loan was considered impaired when based on current information and events, it was probable the Company would be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan.

(dollars in thousands)

NOTE 4 – LOANS (continued)

Loan Modifications to Borrowers Experiencing Financial Difficulty

Effective January 1, 2023, the Company adopted ASU 2022-02, which in part eliminated the accounting for TDR and enhanced disclosure requirements for loan modifications to borrowers experiencing financial difficulty. As part of the Company's loss mitigation efforts, the Company may agree to modify the contractual terms of a loan to assist borrowers experiencing financial difficulty. The Company negotiates loan modifications on a case-by-case basis to achieve mutually agreeable terms that maximize loan collectability and meet the borrower's financial needs. The Company considers various factors to identify borrowers experiencing financial difficulty. The primary factor for consumer borrowers is delinquency status. For commercial loan borrowers, these factors include credit risk ratings, the probability of loan risk rating downgrades, and overall risk profile changes. The modification may include, but is not limited to, payment delays, interest rate reductions, term extensions, principal forgiveness, or a combination of such modifications. Commercial loan borrowers that require immaterial modifications such as insignificant interest rate changes, short-term extensions (90 days or less) from the original maturity date, or temporary waivers or extensions of financial covenants which would not constitute material credit actions, are generally not considered to be experiencing financial difficulty and are not included in the disclosure. Insignificant payment deferrals (three months or less in the last 12 months) are also not included in the disclosure.

The following table presents the amortized loans that were modified during the year ended December 31, 2023:

	Term Extension		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Commercial and industrial	$ 404	0.65%	added a weighted-average of 5 years to the life of the loans, which reduced monthly payments amounts for the borrowers

Troubled Debt Restructurings Prior to the Adoption of ASU 2022-02

There were no reclassified or new troubled debt restructured loans for the year ending December 31, 2022.

Unfunded Commitments

The Company maintains a separate reserve for credit losses on off-balance sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's' other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments.

On January 1, 2023, the Company recorded an adjustment for unfunded commitments of $134 for the adoption of ASC Topic 326. For the year ended December 31, 2023, the Company recorded a provision for credit loss expense for unfunded commitments of $357. At December 31, 2023, the liability for credit losses on off-balance sheet credit exposures included in other liabilities was $671.

(dollars in thousands)

NOTE 5 – PREMISES AND EQUIPMENT

Major classifications of premises and equipment, stated at cost, are as follows:

	2023	2022
Land	$ 4,801	$ 4,841
Buildings and improvements	17,067	17,291
Equipment	11,579	12,734
	33,447	34,866
Less: Accumulated depreciation	(18,725)	(19,310)
	$ 14,722	$ 15,556

Depreciation expense was $949 and $1,051 for 2023 and 2022, respectively.

NOTE 6 – CORE DEPOSIT AND OTHER INTANGIBLE ASSETS

The carrying basis and accumulated amortization of recognized intangible assets at December 31,2023 and 2022 were:

	2023		2022	
	Carrying Amount	Gross Accumulated Amortization	Carrying Amount	Gross Accumulated Amortization
Customer List- Trust	$ 450	$ 450	$ 450	$ 442
Core Deposit Intangible	550	215	550	160
Total	$ 1,000	$ 665	$ 1,000	$ 602

These intangible assets are reported with other assets in the consolidated financial statements. Amortization expense for both years ended December 31, 2023 and 2022 was $62 and $100, respectively. Estimated amortization expense for each of the following five years is:

2024	$ 55
2025	55
2026	55
2027	55
2028	55
Thereafter	60
	$ 335

(dollars in thousands)

NOTE 7 – DEPOSITS

The components of deposits were as follows at December 31, 2023 and 2022:

	2023	2022
Demand deposits (noninterest bearing)	$ 176,729	$ 180,268
NOW and money market	547,070	555,659
Savings	87,672	97,154
Time Deposits	65,877	41,006
	$ 877,348	$ 874,087

Interest-bearing time deposits in denominations of $250 or more were $ 7,398 and $ 3,554 on December 31, 2023 and 2022, respectively.

At December 31, 2023, the scheduled maturities of time deposits were as follows:

2024	$ 56,035
2025	5,534
2026	1,805
2027	1,641
2028	842
Thereafter	20
	$ 65,877

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES

There were no Federal Home Loan Bank advances at December 31, 2023 and 2022.

FHLB letters of credit were obtained in lieu of pledging securities to secure certain public fund deposits that are over the FDIC insurance limit. At December 31, 2023 and 2022, FHLB letters of credit in the amount of $25,950 and $48,520, respectively, were collateral for these deposits.

(dollars in thousands)

NOTE 9 – INCOME TAXES

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions.

The provision for income taxes includes these components:

	2023	2022
Taxes currently payable	$ 3,320	$ 2,545
Deferred income taxes	(331)	(58)
Income tax expense	$ 2,989	$ 2,487

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

	2023	2022
Computed at the statutory rate (21%)	$ 2,948	$ 2,594
Increase (decrease) resulting from		
Tax exempt interest	(585)	(525)
State income tax	532	457
Other	94	(39)
Actual tax expense	$ 2,989	$ 2,487

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	2023	2022
Deferred tax assets:		
Allowance for loan losses	$ 2,187	$ 1,909
Interest income on nonaccrual loans	88	104
Net unrealized loss on available for sale debt securities	4,721	5,162
Deferred revenue	220	295
Amortization of intangibles	-	14
Other	436	286
Total deferred tax assets	7,652	7,770
Deferred tax liabilities:		
Depreciation	(808)	(923)
Federal Home Loan Bank stock dividends	(67)	(154)
Net deferred loan cost and fees	(298)	(350)
Amortization of intangibles	(78)	-
Other	(68)	(80)
Total deferred tax liabilities	(1,319)	(1,507)
Net deferred tax asset	$ 6,333	$ 6,263

NOTE 10 – REGULATORY MATTERS

The Bank is 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. generally accepted auditing principles, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I 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 I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent notification from the Office of the Comptroller of the Currency (OCC) 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 table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(dollars in thousands)

NOTE 10 – REGULATORY MATTERS (continued)

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bank:						
Total risk-based capital (to risk-weighted assets)	$91,430	13.58%	$ 53,864	8.0%	$ 67,330	10.0%
Tier I Capital (to risk-weighted assets)	83,010	12.33	40,398	6.0	53,864	8.0
Common equity Tier 1 capital (to risk-weighted assets)	83,010	12.33	30,298	4.5	43,764	6.5
Tier I Capital (to average assets)	83,010	8.91	37,285	4.0	46,607	5.0

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bank:						
Total risk-based capital (to risk-weighted assets)	$ 82,750	13.70%	$ 48,312	8.0%	$ 60,390	10.0%
Tier I Capital (to risk-weighted assets)	75,198	12.45	36,234	6.0	48,312	8.0
Common equity Tier 1 capital (to risk-weighted assets)	75,198	12.45	27,176	4.5	39,254	6.5
Tier I Capital (to average assets)	75,198	7.99	37,643	4.0	47,053	5.0

The above 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 was 2.5 percent at December 31, 2023. The net unrealized gain or loss on available-for-sale debt securities is not included in computing regulatory capital.

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2023, approximately $20,652 of retained earnings was available for dividend declaration without prior regulatory approval.

NOTE 11 – RELATED PARTY TRANSACTIONS

At December 31, 2023 and 2022, the Bank had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $4,490 and $2,852, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms

NOTE 11 – RELATED PARTY TRANSACTIONS (continued)

(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.

Deposits from related parties held by the Bank at December 31, 2023 and 2022, totaled $1,082 and $892, respectively.

NOTE 12– EMPLOYEE BENEFITS

The Bank has a defined contribution retirement savings 401(k) plan covering substantially all employees. The Bank matches 116.67% of the employee's contribution on the first 6% of the employee's compensation. For employees that meet certain age and service requirements, the Bank contributes an additional 1% to 5% of employee compensation. Employer contributions charged to expense for 2023 and 2022 were $806 and $795, respectively.

NOTE 13 – OPERATING LEASES

The Company accounts for leases under Topic 842 which establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability for all leases with terms longer than 12 months. Right-of-use assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Company determines the lease classification as operating or finance at the lease commencement date. The Company leases two branch office locations that expire in various years through 2030. These leases generally contain one to three year renewal options and require the Company to pay all executory costs (property taxes, maintenance and insurance.) The Company combines lease and nonlease components, such as common area and other maintenance costs, in calculating the right-of-use assets and lease liabilities for its office buildings. Termination of the leases are generally prohibited unless there is a violation under the lease agreement. The lease term may include options to extend or terminate the lease that the Company is reasonably certain to be exercised. Right-of-use assets and lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents our incremental borrowing rate on a collateralized basis, over a similar term at the lease commencement date.

NOTE 13 – OPERATING LEASES (continued)

As of December 31, 2023 and 2022, the weighted-average remaining lease term for operating leases was 6.44 and 7.37 years, respectively, and the weighted-average discount rate used in the measurement of operating lease liabilities was 2.63% and 2.66%, respectively.

	Years Ended December 31, 2023	Years Ended December 31, 2022
Operating lease cost:		
Operating lease cost	$ 220	$ 218
Other Information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 234	$ 223
Right-of-use assets obtained in exchange for lease obligations during the year:		
Operating lease	$ -	$ 250

Future minimum operating lease liability payments as of December 31, 2022 are as follows:

2024	$ 241
2025	249
2026	256
2027	185
2028	187
Thereafter	380
Total lease payments	1,498
Less interest	(171)
Total	$ 1,327

NOTE 14 – EARNINGS PER SHARE

Basic earnings per share were computed as follows *(dollars in thousands except per share amounts)*:

	2023	2022
Basic		
Net income available to common stockholders	$ 11,049	$ 9,865
Weighted average common shares outstanding	867,189	868,059
Basic earnings per share	$ 12.74	$ 11.36

(dollars in thousands)

NOTE 15 – FAIR VALUE

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 and is based on an exit price notion. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Recurring Measurements: The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall in December 31, 2023 and 2022:

		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)
2023				
Debt Securities Available for Sale				
Mortgage-backed securities	$ 79,516	$ -	$ 79,516	$ -
State and political subdivision	92,585	-	92,585	-
U.S. treasury notes	9,698	-	9,698	-
SBA Pools	8,186	-	8,186	-
2022				
Debt Securities Available for Sale				
Mortgage-backed securities	$ 82,746	$ -	$ 82,746	$ -
State and political subdivision	95,848	-	95,848	-
U.S. treasury notes	18,209	-	18,209	-
SBA Pools	9,342	-	9,342	-

NOTE 15 – FAIR VALUE (continued)

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2023 and 2022.

Available for sale debt 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 using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

There were no assets measured on a nonrecurring basis as of December 31, 2023 and 2022.

(dollars in thousands)

NOTE 15 – FAIR VALUE (continued)

The following table presents estimated fair values of the Company's financial instruments at December 31, 2023 and 2022:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Financial Assets				
Cash and cash equivalents	$ 94,157	$ 94,157	$ -	$ -
Available-for-sale securities	$ 189,985	$ -	$ 189,985	$ -
Loans, net of allowance for losses	$ 636,511	$ -	$ -	$ 632,416
Federal Reserve and Federal Home Loan Bank stock	$ 1,186	$ -	$ 1,186	$ -
Accrued interest receivable	$ 3,722	$ -	$ 3,722	$ -
Financial Liabilities				
Deposits	$ 877,348	$ 180,268	$ 627,510	$ -
Accrued interest payable	$ 106	$ -	$ 106	$ -
Commitments to originate loans	$ -	$ -	$ -	$ -
Letters of credit	$ -	$ -	$ -	$ -
Lines of credit	$ -	$ -	$ -	$ -
December 31, 2022				
Financial Assets				
Cash and cash equivalents	$ 141,825	$ 141,825	$ -	$ -
Available-for-sale securities	$ 206,145	$ -	$ 206,145	$ -
Loans, net of allowance for losses	$ 559,230	$ -	$ -	$ 532,830
Federal Reserve and Federal Home Loan Bank stock	$ 2,230	$ -	$ 2,230	$ -
Accrued interest receivable	$ 3,283	$ -	$ 3,283	$ -
Financial Liabilities				
Deposits	$ 874,087	$ 180,268	$ 572,802	$ -
Accrued interest payable	$ 23	$ -	$ 23	$ -
Commitments to originate loans	$ -	$ -	$ -	$ -
Letters of credit	$ -	$ -	$ -	$ -
Lines of credit	$ -	$ -	$ -	$ -

NOTE 16 – LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business. It is in the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material effect on the Company's consolidated financial statements.

NOTE 17 – COMMITMENTS AND CREDIT RISK

The Company grants agribusiness, commercial and residential loans to customers throughout the state of Kentucky; however, lending is concentrated in central Kentucky.

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Mortgage loans in the process of origination represent amounts that the Bank plans to fund within a normal period of 60 to 90 days, and which are intended for sale to investors in the secondary market. There were no mortgage loans in the process of origination at December 31, 2023.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Bank be obligated to perform under the standby letters of credit, the Bank may seek recourse from the customer for reimbursement of amounts paid.

The Bank had total outstanding standby letters of credit amounting to $752 and $815, at December 31, 2023 and 2022, respectively, with terms up to one year.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

(dollars in thousands)

NOTE 17 – COMMITMENTS AND CREDIT RISK (continued)

At December 31, 2023 and 2022, the Bank had granted unused lines of credit to borrowers aggregating approximately $101,537 and $81,425 for commercial lines and open-end consumer lines, respectively. At December 31, 2023 and 2022, unused lines of credit to borrowers for commercial lines and open-ended consumer lines totaled $27,166 and $27,770, respectively.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 24, 2024, which is the date the financial statements were available to be issued.

NOTE 19 – CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company.

Condensed Balance Sheets

	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from banks	$ 260	$ 60
Investment in common stock of subsidiary	71,379	62,686
Other assets	825	573
Total assets	$ 72,464	$ 63,319
LIABILITIES AND STOCKHOLDERS' EQUITY		
Stockholders' Equity	72,464	63,319
Total liabilities and stockholders' equity	$ 72,464	$ 63,319

(dollars in thousands)

NOTE 19 – CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (continued)

Condensed Statements of Income and Comprehensive Income (Loss)

	Years Ended December 31, 2023	2022
Income		
Dividends from subsidiaries	$ 3,155	$ 2,730
Other	44	45
Expenses		
Other expense	30	44
Income Before Equity Distributions in Excess of Income of Subsidiary and Equity in Undistributed Income of Subsidiary	3,169	2,731
Income Tax Benefit	(2)	(3)
Income Before Equity Distributions in Excess of Income of Subsidiary and Equity in Undistributed Net Income of Subsidiary	3,171	2,734
Equity in Undistributed Income of Subsidiary	7,878	7,131
Net income	$ 11,049	$ 9,865
Comprehensive Income (Loss)	$ 11,904	$ (8,647)

Condensed Statement of Cash Flows

	Years Ended December 31, 2023	2022
Cash flows from operating activities		
Net income	$ 11,049	$ 9,865
Items not requiring (providing) cash		
Equity in undistributed income of subsidiary	(7,878)	(7,131)
Other assets	(252)	(220)
Net cash provided by operating activities	2,919	2,514
Cash flows from financing activities		
Repurchase of common stock	(196)	-
Dividends paid	(2,523)	(2,465)
Net cash used in financing activities	(2,719)	(2,465)
Increase in cash and due from banks	200	49
Cash and due from banks at beginning of year	60	11
Cash and due from banks at end of year	$ 260	$ 60