CRYSTAL VALLEY FINANCIAL CORPORATION
Middlebury, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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CONTENTS

FINANCIAL HIGHLIGHTS 1

CONSOLIDATED FINANCIAL STATEMENTS

- INDEPENDENT AUDITOR'S REPORT 2
- CONSOLIDATED BALANCE SHEETS 4
- CONSOLIDATED STATEMENTS OF INCOME 5
- CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) 6
- CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY 7
- CONSOLIDATED STATEMENTS OF CASH FLOWS 8
- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 9

DIRECTORS AND OFFICERS 48

FINANCIAL HIGHLIGHTS

For the Year	2023	2022	2021	2020	2019
Interest income	$ 37,057,197	$ 29,626,510	$ 27,324,077	$ 28,783,037	$ 27,791,362
Interest expense	9,310,607	2,787,980	2,452,678	3,376,689	4,186,893
Provision for loan losses	665,812	210,000	220,000	1,270,000	-
Noninterest income	3,763,580	4,993,963	8,100,350	6,784,217	4,473,461
Noninterest expenses	18,696,693	18,784,129	19,119,289	17,667,905	17,443,174
Net income	10,141,182	11,009,552	11,649,048	11,167,303	9,231,698
At Year End					
Assets	$778,206,735	$734,220,097	$759,561,655	$682,560,822	$595,194,337
Deposits	602,129,149	623,904,048	613,811,263	528,554,585	475,449,480
Total loans	585,694,488	523,183,540	468,372,314	467,967,400	452,823,544
Total securities	153,974,799	166,528,455	224,091,857	124,572,424	104,403,045
Shareholders' equity	74,438,467	66,769,705	90,087,602	83,622,418	76,601,769
Per Share Data					
Basic earnings per share	$ 7.57	$ 7.88	$ 8.07	$ 7.54	$ 5.97
Diluted earnings per share	7.57	7.88	8.07	7.54	5.97
Cash dividends declared	1.71	1.65	1.49	1.55	1.25
Book value per share	56.93	48.91	62.98	57.46	49.63

Federal Deposit Insurance Corporation Disclosure Statement

First State Bank, an FDIC insured state-chartered financial institution with assets and liabilities consisting of more than 99% of the Corporation's assets and liabilities, has elected to use the Corporation's annual report as its 2023 FDIC disclosure statement. This disclosure statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders'
Crystal Valley Financial Corporation
Middlebury, Indiana

Opinion

We have audited the consolidated financial statements of Crystal Valley Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated income statements, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Crystal Valley Financial Corporation as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 and 4 to the financial statements, the Corporation has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Corporation adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Crystal Valley Financial Corporation'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Crystal Valley Financial Corporation'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.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the Financial Highlights and the disclosure of the Corporation's Directors and Officers included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Crowe LLP

Crowe LLP

South Bend, Indiana
March 27, 2024

CRYSTAL VALLEY FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and due from banks	$ 9,441,085	$ 12,909,920
Interest bearing deposits from other financial institutions	830,697	2,178,188
Cash and cash equivalents	10,271,782	15,088,108
Securities available for sale	153,974,799	166,528,455
Total loans	585,694,488	523,183,540
Net deferred loan fees	(44,688)	(66,325)
Allowance for credit losses	(7,539,332)	(6,712,232)
Net loans	578,110,468	516,404,983
Premises and equipment, net	5,378,468	5,283,075
Accrued interest receivable	3,013,638	2,807,986
FHLB stock	3,530,500	2,702,900
Bank owned life insurance	12,473,245	12,541,295
Other assets	11,453,835	12,863,295
Total assets	$ 778,206,735	$ 734,220,097
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest-bearing demand	$ 134,471,489	$ 170,907,541
Interest-bearing demand	219,387,582	199,176,785
Savings	129,372,681	163,917,161
Time	118,897,397	89,902,561
Total deposits	602,129,149	623,904,048
Advances from Federal Home Loan Bank (FHLB)	60,564,354	25,881,717
Securities sold under repurchase agreements	4,150,032	6,114,355
Federal Funds Purchased	9,888,000	1,994,000
Other Borrowings	18,000,000	-
Allowance for credit losses on off-balance sheet credit exposures	146,709	-
Accrued interest payable	725,724	272,563
Other liabilities	8,164,300	9,283,709
Total liabilities	703,768,268	667,450,392
Stockholders' equity		
Common stock, $1 stated value		
8,500,000 shares authorized – 2023 and 2022		
2,048,000 shared issued – 2023 and 2022		
Shares outstanding - 1,307,651 in 2023 and 1,365,023 in 2022	2,048,000	2,048,000
Surplus	2,179,382	2,179,382
Retained earnings	113,214,035	105,744,434
Accumulated other comprehensive income (loss), net		
of tax of $5,374,247 in 2023 and $6,366,265 in 2022	(20,217,406)	(23,858,200)
Treasury stock, at cost 740,349 shares in 2023 and 682,977 in 2022	(22,785,544)	(19,343,911)
Total shareholders' equity	74,438,467	66,769,705
Total liabilities and shareholders' equity	$ 778,206,735	$ 734,220,097

See accompanying notes to consolidated financial statements.

CRYSTAL VALLEY FINANCIAL CORPORATION
CONSOLIDATED INCOME STATEMENTS
Years ended December 31, 2023 and 2022

	2023	2022
Interest income		
Loans, including fees	$ 32,936,601	$ 24,782,691
Taxable securities	1,273,341	1,385,132
Tax-exempt securities	2,466,228	3,242,993
Other interest income	381,027	215,694
Total Interest Income	37,057,197	29,626,510
Interest expense		
Deposits	6,187,810	2,100,882
Federal funds purchased and securities sold under repurchase agreements	371,776	62,718
Other borrowings	2,751,021	624,380
Total interest expense	9,310,607	2,787,980
Net interest income	27,746,590	26,838,530
Provision for credit losses	665,812	210,000
Net interest income after provision for credit losses	27,080,778	26,628,530
Noninterest income		
Service charges on deposit accounts	486,435	449,395
Other service charges, commissions, fees	1,724,235	1,814,554
Trust income	1,160,411	1,237,013
Net gains on securities	32,015	217,112
Mortgage banking income (loss)	(70,576)	911,344
Net gains (losses) on other real estate owned	41	-
Other income	431,019	364,545
Total noninterest income	3,763,580	4,993,963
Noninterest expenses		
Salaries and employee benefits	10,211,696	10,464,837
Occupancy	1,148,531	1,181,950
Equipment and processing	2,632,394	2,350,288
Postage and supplies	310,087	294,875
Legal and accounting expense	313,356	309,242
Advertising and public relations	842,911	807,847
FDIC insurance	318,938	208,850
Other expenses	2,918,780	3,166,240
Total noninterest expenses	18,696,693	18,784,129
Income before income taxes	12,147,665	12,838,364
Income tax expense	2,006,483	1,828,812
Net income	$ 10,141,182	$ 11,009,552
Earnings per share		
Basic	$ 7.57	$ 7.88
Diluted	7.57	7.88

See accompanying notes to consolidated financial statements.

CRYSTAL VALLEY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2023 and 2022

	2023	2022
Net income	$ 10,141,182	$ 11,009,552
Change in unrealized appreciation (depreciation) on securities available for sale	4,664,827	(35,151,534)
Reclassification adjustments for gains included in net income	(32,015)	(217,112)
Net change in unrealized appreciation (depreciation) on securities available for sale	4,632,812	(35,368,646)
Income (loss) tax effect	(992,018)	7,446,543
Other comprehensive income (loss)	3,640,794	(27,922,103)
Total comprehensive income (loss)	$ 13,781,976	$ (16,912,551)

See accompanying notes to consolidated financial statements.

CRYSTAL VALLEY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2023 and 2022

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity Shareholders' Equity
Balance at January 1, 2022	$2,048,000	$2,179,382	$97,044,868	$4,063,903	($15,248,551)	$90,087,602
Net Income	-	-	11,009,552	-	-	11,009,552
Other comprehensive income (loss)	-	-	-	(27,922,103)	-	(27,922,103)
Treasury stock purchased, 65,286 shares	-	-	-	-	(4,095,360)	(4,095,360)
Cash dividends declared ($1.65 per share)	-	-	(2,309,986)	-	-	(2,309,986)
Balance at December 31, 2022	2,048,000	2,179,382	$105,744,434	$(23,858,200)	($19,343,911)	$66,769,705
Cumulative change in accounting principle ASC 326 (Note 4)	-	-	(375,450)	-	-	(375,450)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	2,048,000	2,179,382	105,368,984	(23,858,200)	(19,343,911)	66,394,255
Net Income	-	-	10,141,182	-	-	10,141,182
Other comprehensive income (loss)	-	-	-	3,640,794	-	3,640,794
Treasury stock purchased, 57,372 shares	-	-	-	-	(3,441,633)	(3,441,633)
Cash dividends declared ($1.71 per share)	-	-	(2,296,131)	-	-	(2,296,131)
Balance at December 31, 2023	$2,048,000	$2,179,382	$113,214,035	($20,217,406)	($22,785,544)	$74,438,467

See accompanying notes to consolidated financial statements.

CRYSTAL VALLEY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	$10,141,182	$11,009,552
Adjustments to reconcile net income to net cash from operating activities		
Net gains on securities	(32,015)	(217,112)
Mortgage banking income (loss)	70,576	(911,344)
Net (gains) losses on sales and write-downs of OREO	-	-
Net accretion of discounts on securities available for sale	1,097,927	64,537
Earnings, net of fees on life insurance	(348,774)	(339,750)
Provision for credit losses	665,812	210,000
Depreciation	444,965	440,374
Proceeds from sales of loans	2,939,605	20,925,181
Originations of loans held for sale	(2,863,175)	(20,213,823)
Change in assets and liabilities		
Net deferred loan fees	(21,637)	(38,134)
Accrued interest receivable	(205,652)	(260,693)
Other assets	270,436	104,744
Accrued interest payable	453,161	106,562
Other liabilities	(972,700)	32,734
Net cash from operating activities	11,639,711	10,912,828
Cash flows from investing activities		
Proceeds from sales, maturities and calls of securities available for sale	16,120,556	35,490,903
Proceeds from sale of other real estate owned	-	-
Purchases of securities available for sale	-	(13,143,572)
Proceeds from sale FHLB stock	-	42,800
Purchase of FHLB stock	(827,600)	-
Loans to customers and principal collections, net	(62,725,110)	(54,785,652)
Premises and equipment expenditures, net	(540,358)	13,384
Proceeds from life insurance	416,824	-
Net cash from investing activities	(47,555,688)	(32,382,137)
Cash flows from financing activities		
Net change in deposits	(21,774,899)	10,092,785
Proceeds from advances from FHLB	576,500,000	50,000,000
Payments on advances from FHLB	(541,817,363)	(64,808,881)
Net change in Federal Funds Purchased	7,894,000	1,994,000
Net change in securities sold under repurchase agreement	(1,964,323)	559,139
Net change in other borrowings	18,000,000	-
Repurchase of treasury shares	(3,441,633)	(4,095,360)
Dividends paid	(2,296,131)	(2,309,986)
Net cash from financing activities	(31,099,651	(8,568,303)
Net change in cash and cash equivalents	(4,816,326)	(30,037,612)
Cash and cash equivalents at beginning of year	15,088,108	45,125,720
Cash and cash equivalents at end of year	$10,271,782	$15,088,108
Supplemental disclosures of cash flow information		
Interest paid	8,857,446	2,681,418
Income taxes paid	2,435,000	1,530,000
Operating Lease ROU asset	(310,881)	(102,512)

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Crystal Valley Financial Corporation (the Corporation) and its wholly-owned subsidiary, First State Bank (the Bank), as well as the accounts of First State Insurance Agency, Inc. whose stock is wholly-owned by the Bank. The consolidated financial statements also include the accounts of First State Holdings, Inc., CVFC Investments, Inc. and Valley Line Investments LLC which are subsidiaries of the Bank that manage a portion of the Bank’s investment portfolio and FSB Real Estate, Inc. which manages a portion of the Bank’s real estate secured loan portfolio. Additionally, the consolidated financials include Crystal Valley Insurance, LLC, a pooled captive insurance company, which is a wholly-owned subsidiary of the Corporation and is incorporated in Nevada. All significant intercompany balances and transactions have been eliminated in consolidation. The Corporation did liquidated Crystal Valley Insurance, LLC on November 1, 2023.

Nature of Operations: The Corporation, a one-bank holding company, provides a broad range of financial services. Its principal subsidiary, the Bank, operates predominantly in Elkhart County in Northern Indiana as a commercial bank. The Bank’s primary services include accepting deposits and making loans. A major portion of loans are secured by various forms of collateral including real estate, business assets, consumer property, and other items. Borrower cash flow is a primary source of repayment. The Bank maintains offices in Middlebury, Goshen, South Bend, Elkhart and an LPO office in Shipshewana.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through March 27, 2024, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and actual results could differ.

Cash Flow Reporting: Cash and cash equivalents are defined to include cash on hand, deposits in other financial institutions with maturities under 90 days and federal funds sold. Net cash flows are reported for customer loan transactions, deposit transactions, and federal funds purchased and repurchase agreements.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Available-For-Sale Securities: For available-for-sale debt securities in an unrealized loss position, the Corporation first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

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

Accrued interest receivable on available-for-sale debt securities totaled $1,100,756 at December 31, 2023 and is excluded from the estimate of credit losses.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Held for Sale: Real estate mortgages originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recognized as a valuation allowance by charges to income. Gains and losses on sales of mortgages are recognized on the settlement date.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the cost allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and the allowance for credit losses. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt. Interest income is discontinued at the time the loan is 90 days delinquent, unless the loan is well-secured and in process of collection. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Commercial loans are typically charged off no later than 180 days past due, consumer loans are typically charged off no later than 121 days past due, and mortgage loans are evaluated on an individual basis by management and charged-off accordingly. Past due status is based on the contractual terms of the loan.

Concentration of Credit Risk: Most of the Corporation's business activity is with customers located within Elkhart County. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economy in the Elkhart County area.

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.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, interest rates, or economic and business conditions.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Corporation has identified the following loan classes and measures the allowance for credit losses using the following method: loan classes are Commercial (which includes Commercial Installments and Commercial Notes – Business Asset Secured pools), Commercial Real Estate (which includes Commercial Real Estate Installments – Owner Occupied, Commercial Real Estate Installments – Non-Owner Occupied, and Commercial Notes – Other pools), Residential Real Estate (which includes Mortgages and Home Equities/HE Loans pools), and Consumer (which includes Consumers pool) and the method used is Risk Migration. This method was chosen as it was scalable to the size of our bank with a simplistic approach to CECL since it could be used for all eight loan pools, regardless of the loan term or structure. This method segments the pool by risk composition to determine future expected losses. It is useful for pools whose credits have been risk rated periodically over their lifetime. Management believes that risk rating movements are indicative of loan performance and management also believes that their current risk ratings offer enough dispersion and movement across their risk rating spectrum for relevant output. Furthermore, management has not made any material changes to the risk rating definitions over the lookback period. In addition, management reviews the qualitative factors for each pool on a quarterly basis to make sure they are current and document and support their consideration in the CECL report and quarterly memo.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Corporation.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Corporation estimates expected credit losses over the contractual period in which the Corporation is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Corporation. The allowance for credit losses on off-balance sheet credit exposures is adjusted through 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. The estimate is impacted by historical losses as well as environmental factors such as changes in unemployment rates, property values, interest rates, or economic and business conditions.

The following categories of off-balance sheet credit exposures have been identified: Home Equity Lines of Credit and 1-4 Family Construction Lines of Credit. For Home Equity Lines of Credit, the likelihood that funding will occur is determined by the utilization rate. The utilization rate is the average home equity line of credit usage over the last two years. For the 1-4 Family Construction Lines of Credit, the full unfunded amount is used in the calculation since management expects that 100% of each line will be used.

Servicing Rights: When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. Mortgage servicing rights totaled $2,524,527 and $2,671,533 in 2023 and 2022, respectively and are included in Other Assets on the balance sheet.

Under the fair value measurement method, the Corporation measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, which are included with other income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement as other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. Servicing fees totaled $486,062 and $523,253 for the years ended December 31, 2023 and 2022. Late fees and ancillary fees related to loan servicing are not material.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, 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 the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost net of accumulated depreciation. Depreciation expense is calculated on straight-line and accelerated methods over asset useful lives.

Other Real Estate: Real estate acquired through or instead of loan foreclosure are initially reported at estimated fair value at acquisition less costs to sell, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Expenses, gains and losses on disposition, and changes in the valuation allowance are reported in operations.

Loan Commitments and Related Financial Instruments: 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 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.

Retirement Plans: Employee 401(k) and profit-sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Restrictions on Cash: At December 31, 2023 and 2022, the Bank did not have a minimum cash on hand or on deposit requirement with the Federal Reserve Bank to meet regulatory reserve and clearing requirements.

Repurchase Agreements: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, increases deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

Investments in Real Estate Limited Partnerships: Investments in real estate limited partnerships represent the Corporation's investments in affordable housing projects for the primary purpose of available tax benefits. The Corporation is a limited partner in these investments and as such, the Corporation is not involved in the management or operation of such investments. These investments are accounted for using the equity method of accounting. Under the equity method of accounting, the Corporation records its share of the partnership's earnings or losses in its income statement and adjusts the carrying amount of the investments on the balance sheet. These investments are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future discounted cash flows. If impaired, the investments are reported at fair value.

Stock-Based Compensation: Compensation cost is recognized for stock options issued to certain officers, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Earnings Per Share: Basic earnings per share is based on net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share shows the dilutive effect of additional potential common shares issuable under stock options.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Dividend Restrictions: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Holding Company.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of tax, which is also recognized as a separate component of shareholders' equity.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives and directors. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases: Leases are classified as operating or finance leases at the lease commencement date. The Corporation leases certain locations. The Corporation records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Corporation could obtain for similar loans as of the date of commencement or renewal. The Corporation does not record short term leases with an initial lease term of one year or less on the consolidated balance sheets.

At lease inception, the Corporation determines the lease term by considering the noncancelable lease term and all optional renewal periods that the Corporation is reasonably certain to renew. The lease term is also used to calculate straight-line lease expense. Leasehold improvements are amortized over the shorter of the useful life and the estimated lease term. The Corporation's leases do not contain residual value guarantees or material variable lease payments that will impact the Corporation's ability to pay dividends or cause the Corporation to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease expense, and any impairment of the right-of-use asset. Lease expense is included in occupancy expense on the Corporation's consolidated statements of income. The Corporation's variable lease expense include rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease. The Corporation has elected to treat property leases that include both lease and non-lease components as a single component and account for it as a lease.

Adoption of New Accounting Standards: On January 1, 2023, the Corporation adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. Once such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Corporation adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after December 31, 2022 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Corporation recorded a decrease, net of tax, to retained earnings of $375,450 as of January 1, 2023 for the cumulative effect of adopting ASC 326.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table illustrates the impact of ASC 326.

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Commercial	$ 1,525,121	$ 1,086,384	$ 438,737
Commercial real estate	3,921,899	4,268,759	(346,860)
Residential real estate	1,510,117	595,218	914,899
Consumer	73,526	226,905	(153,379)
Unallocated	-	534,966	(534,966)
Total	$ 7,030,663	$ 6,712,232	$ 318,431
Liabilities:			
Allowance for credit losses on OBS credit exposures	156,822	-	156,822

On March 31, 2022, the FASB issued ASU 2022-02, "*Financial Instruments – Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures*." The guidance amends ASC 326 to eliminate the accounting guidance for TDR's by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of an existing loan. These amendments are intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. The Corporation adopted the provisions of the ASU related to modifications made to borrowers experiencing financial difficulty, with retrospective application. Adoption of this standard did not have a material impact on the consolidated financial statements.

NOTE 2 - EARNINGS PER SHARE

The factors used in the earnings per share computation follow.

	2023	2022
Basic		
Net income	$ 10,141,182	$ 11,009,052
Weighted average common shares outstanding	1,340,238	1,396,538
Basic earnings per share	$ 7.57	$ 7.88
Diluted		
Net income	$ 10,141,182	$ 11,009,552
Weighted average common shares outstanding for basic earnings per common share	1,340,238	1,396,538
Add: Dilutive effects of assumed exercises of stock options	-	-
Average shares and dilutive potential common shares	1,340,238	1,396,538
Diluted earnings per share	$ 7.57	$ 7.88

There were no common stock equivalents outstanding in 2023 or 2022.

(Continued)

NOTE 3 - SECURITIES

The following tables summarize the amortized cost and fair value of the available-for-sale securities investment securities portfolio at December 31, 2023 and 2022 and the corresponding amounts of gross unrealized gains and losses were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
Available-for-sale:				
U.S. Treasury and federal agency	$ 2,000,000	$ -	$ (220,080)	$ 1,779,920
State and political subdivisions	113,091,338	17,350	(14,535,708)	98,572,980
Mortgage-backed securities: residential (MBS)	60,543,510	-	(10,148,234)	50,395,276
Collateralized mortgage obligations (CMO)	3,931,603	-	(704,980)	3,226,623
Total available-for-sale	$ 179,566,451	$ 17,350	$(25,609,002)	$153,974,799

The Corporation has not recorded any Allowance for Credit Losses on the securities available-for-sale as the decline in value is due to changes in interest rates and other market conditions and are not credit related.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2022				
Available-for-sale:				
U.S. Treasury and federal agency	$ 3,176,598	$ -	$ (295,232)	$ 2,881,366
State and political subdivisions	123,876,478	36,979	(18,549,042)	105,364,415
Mortgage-backed securities: residential (MBS)	65,291,064	-	(10,690,226)	54,600,838
Collateralized mortgage obligations (CMO)	4,408,779	-	(726,943)	3,681,836
Total available-for-sale	$ 196,752,919	$ 36,979	$(30,261,443)	$166,528,455

Contractual maturities of debt securities at December 31, 2023 are shown below. Expected maturities may differ from contractual maturities because borrowers may 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 (MBS) and collateralized mortgage obligations (CMO's), are shown separately.

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	2,290,000	2,039,424
Due after five years through ten years	11,599,469	10,861,014
Due after ten years	101,201,869	87,452,462
MBS and CMO's	64,475,113	53,621,899
	$ 179,566,451	$ 153,974,799

Proceeds from sales of securities available for sale during 2023 and 2022 were $9,802,055 and $27,904,694, respectively, with gross gains of $50,886 and $269,916 and gross losses of $(18,871) and $(52,804).

(Continued)

NOTE 3 - SECURITIES (Continued)

Securities with a carrying value of $25,705,859 and $5,986,857 at year end 2023 and 2022 were pledged to secure treasury tax and loan deposits and securities sold under repurchase agreements.

At December 31, 2023 and 2022, there were no concentrations of funds with single issuers in excess of 10% of shareholders' equity, with the exception of government sponsored entities such as GNMA, FNMA, and FHLMC.

Securities with unrealized losses at year-end 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss positions, are as follows:

2023

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. Treasury and federal agency	$ -	$ -	$ 1,779,920	$ (220,080)	$ 1,779,920	$ (220,080)
State and political subdivisions	2,359,103	(42,643)	88,325,241	(14,493,065)	90,684,344	(14,535,708)
MBS	-	-	50,395,243	(10,148,234)	50,395,243	(10,148,234)
CMO's	-	-	3,226,623	(704,980)	3,226,623	(704,980)
Total available-for-sale	$ 2,359,103	$ (42,643)	$143,727,027	$(25,566,359)	$ 146,086,130	$ (25,609,002)

2022

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. Treasury and federal agency	$ -	$ -	$ 2,881,366	$ (295,232)	$ 2,881,366	$ (295,232)
State and political subdivisions	79,863,446	(13,858,402)	16,494,017	(4,690,640)	96,357,463	(18,549,042)
MBS	18,056,757	(2,912,564)	36,544,081	(7,777,662)	54,600,838	(10,690,226)
CMO's	1,969,558	(302,450)	1,712,278	(424,493)	3,681,836	(726,943)
Total available-for-sale	$ 99,889,761	$ (17,073,416)	$ 57,631,742	$(13,188,027)	$ 157,521,503	$ (30,261,443)

The unrealized losses on the debt securities have not been recognized into income because there are no significant concerns with the issuer's credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the securities, and the decline in fair value is largely due to increases in market interest rates rather than credit risk. The fair value is expected to recover as the bonds approach their maturity dates.

As of December 31, 2023, the Corporation's security portfolio consisted of 265 securities, 258 of which were in an unrealized loss position, compared with the Corporation's security portfolio consisting of 285 securities, 276 of which were in an unrealized loss position as of December 31, 2022.

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Year-end loan balances are as follows:

	2023
Commercial	$ 86,542,015
Commercial real estate	337,617,716
Residential real estate	154,255,019
Consumer	7,279,738
	$ 585,694,488

	2022
Commercial loans	$ 380,759,315
Consumer	32,795,747
Residential real estate	109,628,478
	$ 523,183,540

Loans to certain officers and directors of the Corporation and its subsidiaries or to enterprises of which they own more than 10% totaled approximately $3,116,732 and $3,907,529 at year end 2023 and 2022.

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ending December 31, 2023:

December 31, 2023	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:						
Beginning balance, prior to adoption of ASC 326	$ 1,086,384	$4,268,759	$ 595,218	$ 226,905	$ 534,966	$ 6,712,232
Impact of adopting ASC 326	438,737	(346,860)	914,899	(153,379)	(534,966)	318,431
Provision for credit losses	715,893	(97,426)	67,377	(9,919)	-	675,925
Loans charged-off	(297,012)	(11,839)	-	(13,127)	-	(321,978)
Recoveries	27,418	106,705	3,100	17,499	-	154,722
Total ending allowance balance	$ 1,971,420	$ 3,919,339	$1,580,594	$ 67,979	$ -	$ 7,539,332

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ending December 31, 2021:

December 31, 2022	Commercial	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 5,068,402	$ 141,440	$ 506,752	$ 760,064	$ 6,476,658
Provision for loan losses	241,038	101,722	92,338	(225,098)	210,000
Loans charged-off	(49,937)	(27,294)	(11,222)	-	(88,453)
Recoveries	95,640	11,037	7,350	-	114,027
Total ending allowance balance	$ 5,355,143	$ 226,905	$ 595,218	$ 534,966	$ 6,712,232

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022:

December 31, 2022	Commercial	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 149,221	$ 56,111	$ 79,600	$ -	$ 284,932
Collectively evaluated for impairment	5,205,922	170,794	515,618	534,966	6,427,300
Total ending allowance balance	$ 5,355,143	$ 226,905	$ 595,218	$ 534,966	$ 6,712,232
Loans:					
Loans individually evaluated for impairment	$ 3,067,114	$ 222,767	$ 2,189,673	$ -	$ 5,479,554
Loans collectively evaluated for impairment	379,002,616	32,669,661	107,624,994	-	519,297,271
Total ending loans balance	$ 382,069,730	$ 32,892,428	$109,814,667	$ -	$ 524,776,825

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables present information related to impaired loans by class of loans as of and for the year ended December 31, 2022:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2022						
With no related allowance recorded:						
Commercial:						
Installment	$ 514,035	$ 514,035	$ -	$ 464,877	$ 31,104	$ 31,357
Real estate installment	1,797,632	1,808,478	-	2,553,685	98,002	94,892
Note	224,538	224,538	-	449,075	2,702	2,610
Consumer:						
Installment	165,642	165,763	-	265,792	5,632	5,602
Note	-	-	-	-	-	-
Residential real estate:						
ARM	1,856,555	1,858,055	-	1,413,368	55,332	53,494
Fixed rate	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Subtotal	4,558,402	4,570,869	-	5,146,797	192,772	187,955
With an allowance recorded:						
Commercial:						
Installment	92,514	95,524	61,523	82,239	3,929	3,917
Real estate installment	349,114	351,376	30,864	319,252	15,879	15,897
Note	72,561	73,163	56,834	61,113	4,897	5,094
Consumer:						
Installment	56,792	57,004	56,111	52,486	2,637	2,574
Note	-	-	-	-	-	-
Residential real estate:						
ARM	329,950	331,618	79,600	293,436	-	-
Fixed rate	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Subtotal	900,931	908,685	284,932	808,526	27,342	27,482
Total	$ 5,459,333	$ 5,479,554	$ 284,932	$ 5,955,323	$ 220,114	$ 215,437

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

For balances reported as of December 31, 2022, the recorded investment in loans includes accrued interest receivable. The recorded investment in loans excludes loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is reduced for net charge-offs.

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing as of December 31, 2023:

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial loans:			
Installment	$ 23,813	$ 23,813	$ 162,094
Notes – Business Asset Secured	-	-	-
Commercial real estate:			
Installment-Owner Occupied	519,255	519,255	-
Installment-Non-Owner Occupied	1,486	1,486	43,992
Notes – Other	117,531	117,531	-
Residential real estate:			
Mortgages	370,597	467,562	-
Home Equities/HE Loans	68,044	76,566	-
Consumer:			
Consumer	-	-	8,752
Total	$ 1,100,726	$ 1,206,213	$ 214,838

The Corporation recognized $35,746 of interest income on nonaccrual loans during the year ended December 31, 2023.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2022:

	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial loans:		
Installment	$ 24,528	$ 9,055
Real estate installment	228,793	288,326
Note	184,045	-
Consumer		
Installment	89,037	43,836
Note	-	-
Residential real estate		
ARM	795,674	-
Fixed rate	92,875	-
Construction	-	-
Total	$ 1,414,952	$ 341,217

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Real Estate
Commercial loans:	
Installment	$ 617,575
Notes – Business Asset Secured	5,559,342
Commercial real estate:	
Installment-Owner Occupied	3,032,855
Installment-Non-Owner Occupied	-
Notes – Other	117,531
Residential real estate:	
Mortgages	1,533,325
Home Equities/HE Loans	82,586
Consumer:	
Consumer	-
Total	$10,943,214

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the aging of the amortized cost in past due loans as of December 31, 2023 and the aging of the recorded investment in past due loans as of December 31, 2022 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2023						
Commercial loans:						
Installment	$ 85,256	$ -	$ 162,094	$ 247,350	$ 43,643,622	$ 43,890,972
Notes-Business asset secured	69,582	221,548	-	291,130	42,359,913	42,651,043
Commercial real estate:						
Installment-Owner occupied	-	-	-	-	157,678,188	157,678,188
Installment-Non-Owner occupied	-	-	43,992	43,992	142,217,579	142,261,571
Notes-Other	680,664	-	-	680,664	36,997,293	37,677,957
Residential real estate:						
Mortgages	1,116,438	-	-	1,116,438	122,629,418	123,745,856
Home Equities	492,172	42,957	-	535,129	29,974,034	30,509,163
Consumer:						
Consumer	19,632	-	8,752	28,384	7,251,354	7,279,738
Total	$ 2,463,744	$ 264,505	$ 214,838	$ 2,943,087	$582,751,401	$585,694,488

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2022						
Commercial loans:						
Installment	$ 2,584	$ 33,324	$ 9,055	$ 44,963	$ 41,645,329	$ 41,690,292
Real estate installment	302,492	13,194	288,326	604,012	253,636,100	254,240,112
Note	161,107	-	-	161,107	85,978,219	86,139,326
Consumer:						
Installment	42,092	50,716	75,723	168,531	31,912,739	32,081,270
Notes	-	-	-	-	811,158	811,158
Residential real estate:						
ARM	774,727	283,664	185,460	1,243,851	61,831,321	63,075,172
Fixed rate	-	-	92,875	92,875	43,773,414	43,866,289
Construction	-	-	-	-	2,873,206	2,873,206
Total	$ 1,283,002	$ 380,898	$ 651,439	$ 2,315,339	$522,461,486	$524,776,825

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Occasionally, the Corporation modifies loans to borrowers in financial distress by providing term extension, an other-than-insignificant payment delay, or interest rate reduction. In some cases, the Corporation provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continue to experience financial difficulty, another concession, such as interest rate reduction, may be granted. For the loans included in the “combination” column below, multiple types of modifications have been made on the same loan within the current reporting period. The combination includes a term extension and an interest rate reduction.

The following table presents the amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

	Payment Delay	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Commercial	$ -	$ -	-
Commercial real estate	1,212,388	203,125	0.42%
Residential real estate	-	-	-
Consumer	-	-	-
Total	$ 1,212,388	$ 203,125	0.24%

The Corporation has committed to lend additional amounts totaling $0 to the borrowers included in the previous table.

The Corporation closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. As of December 31, 2023, none of the loans included in the above table were past due.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023:

	Payment Delay	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension
Commercial	-	-	-
Commercial real estate	12 months	2.72%	175 months
Residential real estate	-	-	-
Consumer	-	-	-
Total	12 months	$ 2.72%	175 months

None of the loans that were modified in the prior twelve months had a payment default.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. The Corporation uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Loans that are not rated are included in homogeneous loans which are analyzed for credit quality indicators using delinquency status.

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Based on the most recent analysis performed, the risk category of loans by class of loans for the year ended December 31, 2023 is as follows:

	2023	2022	2021	Prior	Total
As of December 31, 2023					
Commercial:					
Risk rating					
Pass	$ 18,087,577	$15,806,730	$11,590,948	$ 33,601,055	$ 79,086,310
Special mention	63,652	51,658	8,851	607,663	731,824
Substandard	46,592	514,250	269,620	5,893,419	6,723,881
Doubtful	-	-	-	-	-
Total commercial loans	$ 18,197,821	$16,372,638	$11,869,419	$ 40,102,137	$ 86,542,015
Commercial loans:					
Current period gross write offs	$ -	$ -	$ -	$ 297,012	$ 297,012
Commercial real estate:					
Risk rating					
Pass	$ 94,712,517	$58,011,267	$44,132,177	$129,767,166	$ 326,623,127
Special mention	-	2,259,184	296,146	3,019,196	5,574,526
Substandard	1,081,211	-	411,650	3,927,202	5,420,063
Doubtful	-	-	-	-	-
Total commercial real estate loans	$ 95,793,728	$60,270,451	$ 44,839,973	$136,713,564	$ 337,617,716
Commercial real estate loans:					
Current period gross write offs	$ -	$ -	$ -	$ 11,839	$ 11,839
Residential real estate:					
Risk rating					
Pass	$ 31,612,843	$44,599,362	$29,241,267	$ 46,324,248	$ 151,777,720
Special mention	-	-	411,159	-	411,159
Substandard	547,605	17,898	552,079	948,558	2,066,140
Doubtful	-	-	-	-	-
Total residential real estate loans	$ 32,160,448	$44,617,260	$ 30,204,505	$ 47,272,806	$ 154,255,019
Residential real estate loans:					
Current period gross write offs	$ -	$ -	$ -	$ -	$ -
Consumer:					
Risk rating					
Pass	$ 3,759,725	$ 2,730,142	$ 461,704	$ 315,516	$ 7,267,087
Special mention	-	-	572	-	572
Substandard	-	12,079	-	-	12,079
Doubtful	-	-	-	-	-
Total consumer loans	$ 3,759,725	$ 2,742,221	$ 462,276	$ 315,516	$ 7,279,738
Consumer loans:					
Current period gross write offs	$ -	$ 11,169	$ 1,958	$ -	$ 13,127

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Based on the most recent analysis performed, the risk category of loans by class of loans for the year ended December 31, 2022 is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
December 31, 2022						
Commercial loans:						
Installment	$ 40,974,270	$ -	$ 716,022	$ -	$ -	$ 41,690,292
Real estate installment	251,206,755	319,914	2,713,443	-	-	254,240,112
Note	85,143,124	23,740	972,462	-	-	86,139,326
Consumer:						
Installment	31,646,434	200,972	233,864	-	-	32,081,270
Note	811,158	-	-	-	-	811,158
Residential real estate:						
ARM	61,302,915	-	1,772,257	-	-	63,075,172
Fixed rate	43,773,414	-	92,875	-	-	43,866,289
Construction	2,873,206	-	-	-	-	2,873,206
Total	$517,731,276	$ 544,626	$ 6,500,923	$ -	$ -	$ 524,776,825

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment, at cost, and accumulated depreciation are summarized at year end as follows:

	2023	2022
Land	$ 1,123,964	$ 1,123,964
Buildings	6,089,923	6,069,473
Furniture and equipment	8,467,519	7,545,826
Operating Lease ROU Asset	2,031,357	2,342,237
Total cost	17,712,763	17,081,500
Less accumulated depreciation	(12,334,295)	(11,798,425)
	$ 5,378,468	$ 5,283,075

(Continued)

NOTE 6 - LEASES

Lessee Arrangements

The Corporation enters into leases in the normal course of business primarily for financial centers and business development offices. The Corporation's leases have remaining terms ranging from two to thirteen years, some of which include renewal or termination options to extend the lease for up to five years. The Corporation's leases do not include residual value guarantees or covenants.

The Corporation includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Corporation will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Corporation has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Corporation's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the same lease commencement date based on the estimated present value of lease payments over the lease term.

The Corporation uses its incremental borrowing rate at lease commencement or upon renewal to calculate the present value of lease payments when the rate implicit in a lease is not known. The Corporation's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications, are as follows:

	Balance Sheet Classification	2023	2022
Right-of-use assets:			
Operating leases	Premises and equipment, net	$ 1,555,405	$ 1,957,190
Lease liabilities:			
Operating leases	Accrued interest payable and other liabilities	$ 1,555,405	$ 1,957,190

(Continued)

NOTE 6 – LEASES (Continued)

Lease Obligations

Future undiscounted lease payments for finance and operating leases with initial terms of one year or more at year end are as follows:

	2023
2024	$ 256,175
2025	206,175
2026	166,775
2027	166,775
2028	166,775
Thereafter	1,250,812
Total undiscounted lease payment	2,213,487
Less: imputed interest	(658,082)
Net lease liabilities	$ 1,555,405

	2023	2022
Supplemental Lease Information		
Operating lease weighted average remaining lease term	5.3 Years	7.9 Years
Operating lease weighted average discount rate	6.9%	5.0%

NOTE 7 - DEPOSITS

At year-end 2023, stated maturities of time deposits were:

2024	$ 91,476,560
2025	14,012,300
2026	8,319,109
2027	3,342,868
2028	1,741,500
Thereafter	5,060
	$ 118,897,397

Included in time deposits are $744,000 and $992,000 of brokered deposits at year end 2023 and 2022.

Time deposit accounts individually greater than or equal to $250,000 totaled $51,920,510 and $38,549,140 at year end 2023 and 2022.

Deposits from certain officers and directors of the Corporation and its subsidiaries or to enterprises of which they own more than 10% totaled approximately $1,794,791 and $5,251,937 at year end 2023 and 2022.

(Continued)

NOTE 8 - BORROWINGS

At December 31, 2023, the Corporation had fixed and variable rate advances from the Federal Home Loan Bank (FHLB) of Indianapolis with interest rates ranging from 3.37% to 5.58% and a weighted average rate of 5.20%. At December 31, 2022, the Corporation had fixed and variable rate advances from the Federal Home Loan Bank (FHLB) of Indianapolis with interest rates ranging from 1.44% to 5.15% and a weighted average rate of 3.85%. Certain of these advances contain prepayment penalties. These advances have principal payments due as follows for the years ending December 31:

2024	$ 50,047,873
2025	51,497
2026	55,396
2027	409,588
2028	10,000,000
Thereafter	-
	$ 60,564,354

At December 31, 2023, in addition to FHLB stock of $3,530,500, the Corporation pledged real estate secured loans of $160,936,584 to the FHLB to secure advances outstanding. At December 31, 2022, in addition to FHLB stock of $2,702,900, the Corporation pledged real estate secured loans of $159,193,000 to the FHLB to secure advances outstanding.

Securities sold under repurchase agreements are financing arrangements. Physical control is maintained for all securities sold under repurchase agreements. Information concerning securities sold under repurchase agreements is summarized as follows:

	2023	2022
Amount outstanding at year end	$ 4,150,032	$ 6,114,355
Average balance during the year	5,277,368	5,594,456
Average interest rate during the year	1.25%	.16%
Maximum month-end balance during the year	$ 5,859,791	$ 6,114,355

The fair value of securities underlying these agreements at year end 2023 and 2022 was $6,455,000 and $5,970,000, respectively.

The table below shows the remaining contractual maturity of repurchase agreements by collateral pledged:

December 31, 2023	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
MBS and CMOs	$ 4,150,032	$ -	$ -	$ -	$ 4,150,032

December 31, 2022	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
MBS and CMOs	$ 6,114,355	$ -	$ -	$ -	$ 6,114,355

At December 31, 2023, the Corporation had a fixed rate advance from the Federal Reserve's Bank Term Funding Program of $18,000,000 with an interest rate of 4.89% and a maturity date of December 13, 2024, and is included in Other Borrowings on the balance sheet. Per the terms of the program, this advance has no prepayment penalty.

(Continued)

NOTE 9 - EMPLOYEE BENEFITS

The Corporation sponsors a contributory 401(k) and profit sharing plan covering substantially all employees who meet certain age and service requirements. The Plan provides for a match by the Corporation of up to 4 1/2% of employee compensation as well as an annual profit sharing contribution. The Corporation's contribution and expense for the profit-sharing plan is an amount determined annually by the Board of Directors and was $1,101,000 and $1,195,000 in 2023 and 2022, respectively. The plan provides for 100% vested interest after completion of three years of service. In general, distributions from the plan are made only at retirement, death, disability, termination of employment, or termination of the plan.

The Corporation maintains a bonus plan for certain officers. The bonus expense under the plan is computed by a fixed formula and was $430,000 and $431,000 in 2023 and 2022. The bonus is paid to participants over a four year period with the unpaid portion earning interest. $820,000 and $875,000 was accrued for future payments at December 31, 2023 and 2022, respectively.

Directors and executive officers have deferred some of their fees and salaries in consideration of future payment, including interest. Amounts deferred are expensed, and the related accrued liability was $814,000 and $757,000 at December 31, 2023 and 2022, respectively. Expense of $74,000 was recognized in 2023 and $41,000 during 2022.

The Corporation provides a Supplemental Executive Retirement Plan (the Plan) for certain executive officers. The Corporation is recording an expense equal to the projected present value of the payments due after retirement based on the projected remaining years of service. The accrued liability for the Plan as of December 31, 2023 and 2022 was $1,624,000 and $1,619,000, and the expense related to the Plan was $115,000 and $155,000 for 2023 and 2022, respectively.

The Bank has purchased bank owned life insurance which provides benefits for certain executive officers on a split-dollar basis. The Bank is the owner of the policies. The officers' beneficiaries are entitled to a portion of the death benefit proceeds which varies by participant, and the Bank is entitled to the remainder of the death benefit proceeds which in no event shall be less than the cash surrender value of the life insurance. The cash surrender value of the life insurance policies and other life insurance policies without split-dollar provisions total $12,473,000 and $12,541,000 at December 31, 2023 and 2022.

The Corporation provides a Deferred Performance Appreciation Plan for certain executive officers and directors. As of December 31, 2023 and 2022, $1,412,000 and $1,642,000 had been accrued for this Plan. During the years ending December 31, 2023 and 2022, $356,000 and $789,000 was expensed for this Plan.

(Continued)

NOTE 10 - INCOME TAXES

For each year, income taxes consist of the following:

	2023	2022
Federal		
Current	$ 1,984,937	$ 1,795,902
Deferred	(213,454)	(27,090)
	1,771,483	1,768,812
State		
Current	235,000	60,000
Deferred	(37,752)	118,958
	197,248	178,958
Change in valuation allowance related to realization of net state deferred tax assets	37,752	(118,958)
	$ 2,006,483	$ 1,828,812

The components of the net deferred tax asset recorded in the balance sheet at year end are as follows:

	2023	2022
Total deferred tax assets	$ 9,184,622	$ 10,081,894
Total deferred tax liabilities	(1,408,363)	(1,664,626)
Valuation allowance	(352,169)	(314,417)
Net deferred tax asset	$ 7,424,090	$ 8,102,851

A valuation allowance of $352,169 and $314,417 was provided on the net state deferred tax assets as of December 31, 2023 and 2022.

Deferred income taxes are primarily due to temporary differences related to the allowance for loan losses, pension expense, unrealized appreciation (depreciation) on securities available for sale, accumulated depreciation, mortgage servicing rights, accretion income, stock dividends, prepaid expenses, state net operating loss, investment in partnerships, lease liabilities, lease right of use assets, nonaccrual loan interest income, and deferred compensation.

Included in the net deferred tax assets and liabilities mentioned above, the deferred income tax asset (liability) allocated to the unrealized net gain/loss on securities available for sale included in equity was $5,374,247 for 2023 and $6,366,265 for 2022.

(Continued)

NOTE 10 - INCOME TAXES (Continued)

The differences between the financial statement provision for income taxes and amounts computed by applying the federal income tax rate to income before income taxes are as follows:

	2023	2022
Income taxes computed at the statutory federal tax rate of 21% in 2023 and 2022	$ 2,551,009	$ 2,696,056
Add (subtract) tax effect of:		
Tax-exempt income	(589,166)	(707,929)
State Taxes	185,650	49,205
Bank owned life insurance	(73,243)	(71,348)
Captive insurance income	(161,715)	(180,993)
Other	93,948	43,821
	$ 2,006,483	$ 1,828,812

The total amount of interest and penalties recorded in the consolidated statements of income for the years ended December 31, 2023 and 2022 were $0, and the amount accrued for interest and penalties at December 31, 2023 and 2022 were $0.

The Corporation does not have any unrecognized tax benefits as of December 31, 2023 and does not expect this to increase significantly in the next 12 months.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the State of Indiana. The Corporation is no longer subject to examination by taxing authorities for years before 2020.

(Continued)

NOTE 11 - COMMITMENTS, OFF-BALANCE-SHEET RISK AND CONTINGENCIES

Some financial instruments are used in the normal course of business to meet the financing needs of customers. These financial instruments include commitments to extend credit and standby letters of credit. These involve, to varying degrees, credit risk in excess of the amount reported in the financial statements. Exposure to credit loss if the other party does not perform is represented by the contractual amount for commitments to extend credit and standby letters of credit. The same credit policies are used for commitments and conditional obligations as are used for loans.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being used, the total commitments do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments to guarantee a customer's performance to a third party.

A summary of the notional or contractual amounts of financial instruments with off-balance-sheet risk at year end follows:

	2023	2022
Commitments to make loans	$ 239,000	$ 1,078,000
Unused lines of credit	128,561,000	171,336,000
Standby letters of credit	1,592,000	1,173,000
	$ 130,392,000	$ 173,587,000

NOTE 12 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

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

(Continued)

NOTE 12 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The Corporation used the following methods and significant assumptions to estimate fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities or pricing models utilizing significant observable inputs such as matrix pricing (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Individually Evaluated Loans: The fair value of individually evaluated loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Individually evaluated loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Appraisals for both collateral-dependent loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation Once received, a member of the Loan Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. After the review of the appraisal, the Corporation typically applies a discount for liquidation and other considerations.

Loan Servicing Rights: Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income, resulting in a level 2 classification. The valuation model assumptions for 2023 and 2022 utilized a discount rate of 11.00% and 10.00% and prepayment speed of 6.26 and 6.80, respectively.

(Continued)

NOTE 12 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Corporation has elected the fair value option, are summarized below:

		Fair Value Measurements at December 31, 2023 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Investment securities available-for-sale:				
U.S. Treasury and federal agency	$ 1,779,920	$ -	$ 1,779,920	$ -
State and political subdivisions	98,572,980	-	94,684,980	3,888,000
Mortgage-backed securities, residential	50,395,276	-	50,395,276	-
Collateralized mortgage obligations	3,226,623	-	3,226,623	-
Total investment securities available-for-sale	$153,974,799	$ -	$150,086,799	$ 3,888,000
Loan servicing rights	$ 2,524,527	$ -	$ 2,524,527	$ -

		Fair Value Measurements at December 31, 2022 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Investment securities available-for-sale:				
U.S. Treasury and federal agency	$ 2,881,366	$ -	$ 2,881,366	$ -
State and political subdivisions	105,364,415	-	101,107,415	4,257,000
Mortgage-backed securities, residential	54,600,838	-	54,600,838	-
Collateralized mortgage obligations	3,681,836	-	3,681,836	-
Total investment securities available-for-sale	$166,528,455	$ -	$162,271,455	$ 4,257,000
Loan servicing rights	$ 2,671,533	$ -	$ 2,671,533	$ -

(Continued)

NOTE 12 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

	State and Political Subdivisions
Balance of recurring Level 3 assets at January 1, 2023	$ 4,257,000
Total gains or losses (realized/unrealized):	
Accretion of discount in earnings	-
Included in other comprehensive income	-
Gain/(loss) on sale	-
Maturity	(369,000)
Transfers in and/or out of Level 3	-
Balance of recurring Level 3 assets at December 31, 2023	$ 3,888,000

(Continued)

NOTE 12 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements at December 31, 2023 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Individually evaluated:				
Commercial loans	$ 4,974,719	$ -	$ -	$ 4,974,719
Real estate secured loans	253,850	-	-	253,850
Installment loans	-	-	-	-
Real Estate Owned - Commercial	$ -	$ -	$ -	$ -

		Fair Value Measurements at December 31, 2022 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial loans	$ 46,718	$ -	$ -	$ 46,718
Real estate secured loans	568,600	-	-	568,600
Installment loans	681	-	-	681
Real Estate Owned - Commercial	$ -	$ -	$ -	$ -

(Continued)

NOTE 12 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2023 and 2022 are as follows:

		Fair Value Measurements at December 31, 2023 Using:		
	Carrying Value	Estimated Fair Value (Level 1)	Estimated Fair Value (Level 2)	Estimated Fair Value (Level 3)
Financial Assets				
Cash and cash equivalents	$ 10,271,782	$ 10,272,000	$ -	$ -
FHLB Stock	3,530,500	N/A	N/A	N/A
Loans held for sale	-	-	-	-
Loans, net of allowance for loan losses	578,110,468	-	-	553,861,000
Accrued interest receivable	3,013,638	-	-	3,014,000
Financial Liabilities				
Demand and savings deposits	$(483,231,752)	$(483,232,000)	$ -	$ -
Time deposits	(118,897,397)	-	(117,447,000)	-
Advances from FHLB	(60,564,354)	-	(60,296,000)	-
Securities sold under repurchase agreements	(4,150,032)	-	(4,150,000)	-
Other borrowings	(18,000,000)	-	(17,920,000)	-
Accrued interest payable	(725,724)	(726,000)	-	-

		Fair Value Measurements at December 31, 2022 Using:		
	Carrying Value	Estimated Fair Value (Level 1)	Estimated Fair Value (Level 2)	Estimated Fair Value (Level 3)
Financial Assets				
Cash and cash equivalents	$ 15,088,108	$ 15,088,000	$ -	$ -
FHLB Stock	2,702,900	N/A	N/A	N/A
Loans held for sale	-	-	-	-
Loans, net of allowance for loan losses	516,404,983	-	-	504,428,000
Accrued interest receivable	2,807,986	-	-	2,808,000
Financial Liabilities				
Demand and savings deposits	$(534,001,487)	$(534,001,000)	$ -	$ -
Time deposits	(89,902,561)	-	(87,265,000)	-
Advances from FHLB	(25,881,717)	-	(25,796,000)	-
Securities sold under repurchase agreements	(6,114,355)	-	(6,114,000)	-
Accrued interest payable	(272,563)	(273,000)	-	-

(Continued)

NOTE 13 - REGULATORY MATTERS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements. Management believes as of December 31, 2023, the Bank meets all capital adequacy requirements to which it is subject.

The Bank's prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. At year-end 2023 and 2022, the most recent regulatory notifications categorized the bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

At year end the Bank's actual capital levels (in millions) and minimum required levels were:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio (1)	Amount	Ratio
2023						
Total capital (to risk weighted assets)	$100.6	16.4%	$ 49.1	8.0%	$ 61.4	10.0%
Tier 1 capital (to risk weighted assets)	92.9	15.1	36.8	6.0	49.1	8.0
Common Equity Tier 1 (to risk weighted assets)	92.9	15.1	27.6	4.5	39.9	6.5
Tier 1 capital (to average assets)	92.9	11.6	32.0	4.0	40.0	5.0

(1) Does not include the capital conservation buffer

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized	
2022						
Total capital (to risk weighted assets)	$95.2	16.6%	$ 45.9	8.0%	$ 57.4	10.0%
Tier 1 capital (to risk weighted assets)	88.5	15.4	34.4	6.0	45.9	8.0
Common Equity Tier 1 (to risk weighted assets)	88.5	15.4	25.8	4.5	37.3	6.5
Tier 1 capital (to average assets)	88.5	11.4	31.0	4.0	38.8	5.0

(1) Does not include the capital conservation buffer

(Continued)

NOTE 13 - REGULATORY MATTERS (Continued)

Under the final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules), the Corporation must hold a capital conservation buffer of 2.50% above the adequately capitalized risk-based capital ratios. The most recent regulatory notifications categorized the Bank as well capitalized at year end 2023 and 2022. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Corporation's ability to pay dividends is dependent upon the Bank's ability to pay dividends to the Corporation. Under Indiana law, the Bank may pay dividends of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income" means net income as calculated for call report purposes, less dividends declared for the applicable period. Moreover, the FDIC and the Federal Reserve Board may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. The aggregate amount of dividends which may be declared by the Bank in 2024, without prior regulatory approval, approximates $9,280,000 plus retained net income for 2024.

NOTE 14 - REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Corporation's sources of Non-Interest Income for the years ended December 31, 2023 and December 31, 2022. Items outside the scope of ASC 606 are noted as such.

	2023	2022
Non-interest income		
Service charges on deposits		
Overdraft Fees	$ 415,354	$ 405,791
Other	71,081	43,604
Interchange income	1,209,669	1,317,593
Wealth management fees (Trust Income)	1,160,411	1,237,013
Net gains on sales of loans[(a)]	(70,576)	911,344
Net gains (losses) on securities[(a)]	32,015	217,112
Other[(b)]		
In scope for ASC 606	514,566	457,412
Out of scope for ASC 606[(a)]	431,060	404,094
Total non-interest income	$ 3,763,580	$ 4,993,963

(a) Not within the scope of ASC 606

(b) The Other category includes teller fees, ATM income, and other items, which are within the scope of ASC 606, and insurance income, increase in CSV, and other items, which are outside the scope of ASC 606.

(Continued)

NOTE 14 - REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

A description of the Corporation's revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts: The Corporation earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income: The Corporation earns interchange fees from debit cardholder transactions conducted through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Wealth Management Fees: The Corporation earns wealth management fees from its contracts with trust customers to manage assets for investment, and/or transact on their accounts. These fees are primarily earned over time as the Corporation provides contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e., the trade date. Other related services provided include the fees the Corporation earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

Gains/Losses on Sales of OREO: The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

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Carl D. Eash	Retired Business Owner & Real Estate Investor
John W. Gardner	Trustee – Bethel University
Cynthia S. Gillard	Partner - Warrick & Boyn, LLP
Joe A. Smucker	Retired President - Parkland Plastics, Inc.
Kip B. Ellis	Executive Vice President & COO, Patrick Industries, Inc.
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FIRST STATE BANK

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Rebecca L. Yoder	Banking Officer

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