FIRST FARMERS FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

FIRST FARMERS FINANCIAL CORPORATION
Converse, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

CONTENTS

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Independent Auditor's Report

Board of Directors and Stockholders
First Farmers Corporation
Converse, Indiana

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of First Farmers 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.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, First Farmers Financial Corporations' internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 19, 2024, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of First Farmers 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 to the consolidated financial statements, in 2023, the entity changed its method of accounting for credit losses on financial instruments due to the adoption of Accounting Standards Codification Topic 326: *Financial Instruments – Credit Losses*. 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 financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

FORVIS, LLP

Fort Wayne, Indiana
March 19, 2024

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Independent Auditor's Report

Board of Directors and Stockholders
First Farmers Corporation
Converse, Indiana

Opinion on Internal Control Over Financial Reporting

We have audited First Farmers Financial Corporation's (Company) internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on COSO.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the consolidated financial statements of the Company and our report dated March 19, 2024, expressed an unmodified opinion thereon.

Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the "Audit of Internal Control over Financial Reporting" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report.

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America.

An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

FORVIS, LLP

Fort Wayne, Indiana
March 19, 2024

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(Dollar amounts in thousands except share and per share data)

	2023	2022
ASSETS		
Cash and due from financial institutions	$ 51,727	$ 72,815
Money market funds	6,582	26,287
Cash and cash equivalents	58,309	99,102
Interest-bearing deposits in other financial institutions	1,325	1,815
Securities available for sale, at fair value net of allowance for credit losses of $0 in 2023	569,412	459,713
Securities held to maturity, net of allowance for credit losses of $0 in 2023 (fair value $140 in 2023 and $157 in 2022)	130	145
Equity securities	4,898	2,386
Restricted stock, at cost	11,732	10,493
Loans held-for-sale	3,606	2,436
Loans, net of allowance of $34,893 in 2023 and $22,302 in 2022	2,219,380	2,046,907
Premises and equipment, net	23,836	21,998
Goodwill	8,729	8,729
Core deposit and other intangibles	-	114
Bank-owned life insurance	26,614	21,241
Investments in affordable housing partnerships	11,015	12,587
Accrued interest receivable and other assets	67,156	60,863
	$ 3,006,142	$ 2,748,529
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-bearing deposits	$ 483,923	$ 551,866
Interest-bearing deposits	2,116,930	1,787,854
Total deposits	2,600,853	2,339,720
Federal Reserve borrowings	25,000	-
Other borrowings	8,373	-
Federal Home Loan Bank (FHLB) advances	55,000	116,500
Notes payable	6,989	7,984
Subordinated debentures	18,558	18,558
Accrued interest payable and other liabilities	31,766	32,682
Total liabilities	2,746,539	2,515,444
Stockholders' equity		
Common stock, $1 stated value, 30,000,000 shares authorized, 7,197,469 issued and 7,024,977 outstanding in 2023; 30,000,000 authorized, 7,197,469 issued and 7,018,037 outstanding in 2022	7,197	7,197
Additional paid-in capital	4,813	4,978
Retained earnings	281,366	260,640
Treasury stock (172,492 shares in 2023 and 179,432 shares in 2022)	(8,219)	(8,215)
Accumulated other comprehensive loss	(25,554)	(31,515)
Total stockholders' equity	259,603	233,085
	$ 3,006,142	$ 2,748,529

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2023 and 2022
(Dollar amounts in thousands except share and per share data)

	2023	2022
Interest and dividend income		
Loans, including fees	$ 141,315	$ 93,661
Securities		
Taxable	11,666	4,892
Non-taxable	6,136	5,667
Other	2,222	930
	161,339	105,150
Interest expense		
Deposits	51,259	11,172
Short-term borrowings	1,306	123
Notes payable and FHLB advances	5,177	1,331
Subordinated debentures	847	758
	58,589	13,384
Net interest income	102,750	91,766
Provision for credit losses	5,050	5,900
Net interest income after provision for credit losses	97,700	85,866
Other income		
Investment product fees	851	867
Service charges on deposit accounts	4,502	3,824
Interchange income	5,303	5,220
Net loss on sale and redemption of securities	(684)	(1,924)
Unrealized losses recognized on equity securities	(7)	(295)
Loan sales and servicing income	3,504	5,234
Back to back swap fee income	-	562
Other income	2,681	2,592
	16,150	16,080
Other expenses		
Salaries and employee benefits	33,251	31,200
Occupancy and equipment expense	9,305	7,856
Data processing	2,676	2,207
Marketing and business development	2,198	2,045
Consulting and professional services	1,751	1,653
Amortization of intangible assets	114	172
Other operating expenses	7,644	5,582
	56,939	50,715
Income before income taxes	56,911	51,231
Provision for income taxes	10,728	9,954
Net income	$ 46,183	$ 41,277
Basic and diluted earnings per common share	$ 6.57	$ 5.88
Basic and diluted average common shares outstanding	7,029,326	7,021,339

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2023 and 2022
(Dollar amounts in thousands except share and per share data)

	2023	2022
Net income	$ 46,183	$ 41,277
Other comprehensive income (loss):		
Change in securities available for sale:		
Unrealized holding gains/(losses) on securities available for sale	10,746	(61,756)
Credit loss expense	-	-
Reclassification adjustment for losses later recognized in income	684	1,924
Net unrealized gains/(losses)	11,430	(59,832)
Tax effect	(2,414)	12,607
Net of tax amount	9,016	(47,225)
Cash flow hedges:		
Change in fair value of derivatives used for cash flow hedges	(4,044)	10,271
Reclassification adjustment for (gains)/losses/amortization realized in income	(179)	5
Net unrealized gains/(losses)	(4,223)	10,276
Tax effect	1,168	(1,921)
Net of tax amount	(3,055)	8,355
Other comprehensive income (loss), net of tax	5,961	(38,870)
Comprehensive income	$ 52,144	$ 2,407

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2023 and 2022
(Dollar amounts in thousands except share and per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at January 1, 2022	$ 7,200	$ 5,001	$ 231,582	$ (8,494)	$ 7,355	$ 242,644
Net income			41,277			41,277
Other comprehensive loss					(38,870)	(38,870)
Purchase of treasury stock, 11,761 shares				(692)		(692)
Sale of treasury stock, 4,600 shares		30		195		225
Retirement of treasury stock, 2,215 shares	(3)	(21)	(73)	97		-
Long-term incentive compensation, 4,633 shares from treasury		27		198		225
Restricted stock awards, 13,150 shares from treasury		(554)		554		-
Stock-based compensation, net of 1,700 shares forfeited		495		(73)		422
Dividends declared ($1.73 per share)			(12,146)			(12,146)
Balance at December 31, 2022	7,197	4,978	260,640	(8,215)	(31,515)	233,085
Adoption of ASU 2016-13	-	-	(12,244)	-	-	(12,244)
Balance at December 31, 2022, as adjusted	7,197	4,978	248,396	(8,215)	(31,515)	220,841
Net income			46,183			46,183
Other comprehensive income					5,961	5,961
Purchase of treasury stock, 16,435 shares				(1,021)		(1,021)
Sale of treasury stock, 3,200 shares		16		149		165
Long-term incentive compensation, 4,800 shares from treasury		54		194		248
Restricted stock awards, 15,375 shares from treasury		(674)		674		-
Stock-based compensation, net of 0 shares forfeited		439				439
Dividends declared ($1.88 per share)			(13,213)			(13,213)
Balance at December 31, 2023	$ 7,197	$ 4,813	$ 281,366	$ (8,219)	$ (25,554)	$ 259,603

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022
(Dollar amounts in thousands except share and per share data)

	2023	2022
Cash flows from operating activities		
Net income	$ 46,183	$ 41,277
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	2,467	2,205
Amortization of intangible assets	114	172
Amortization of debt issuance costs	6	6
Net securities amortization	826	1,149
Unrealized loss of fair value equity securities	7	295
Deferred income tax expense/(benefit)	22	(644)
Servicing rights amortization and impairment	1,189	1,014
Stock-based compensation	439	422
Provision for credit losses	5,050	5,900
Net gain on sale of loans	(1,370)	(1,745)
Loans originated for resale	(44,453)	(70,433)
Proceeds from sale of loans	44,653	77,882
Net loss on sale and redemption of securities available for sale	684	1,924
Net loss on sale and write-down of premises and equipment	36	26
Net loss on sale and write-down of other real estate	-	15
Net gain on sale of repossessed assets	-	(2)
Earnings on bank-owned life insurance	(641)	(522)
Changes in assets and liabilities		
Interest receivable and other assets	(6,842)	(14,308)
Interest payable and other liabilities	(803)	9,430
Net cash from operating activities	47,567	54,063
Cash flows from investing activities		
Net change in interest bearing deposits in other financial institutions	490	725
Securities available for sale		
Proceeds from sales	37,749	33,805
Purchases	(180,587)	(215,275)
Proceeds from principal payments, calls and maturities	42,365	77,436
Securities held-to-maturity		
Proceeds from principal payments, calls and maturities	15	15
Equity securities		
Purchases	(2,518)	(1,032)
Loans made to customers, net of payments received	(191,870)	(363,415)
Purchase of bank-owned life insurance	(4,732)	-
Premises and equipment expenditures	(4,341)	(3,459)
Proceeds from the disposal of fixed assets	-	2
Investments in affordable housing partnerships	(1,800)	(1,029)
Proceeds from the sale of other real estate owned	10	1,846
Proceeds from the sale of repossessed assets	17	18
Redemptions of excess restricted stock	1,756	575
Purchase of restricted stock	(2,995)	-
Net cash from investing activities	(306,441)	(469,788)
Cash flows from financing activities		
Net change in deposit accounts	261,133	244,880
Proceeds from financing derivatives	-	1,159
Net change in short-term borrowings	33,373	-
Payments on notes payable	(1,000)	(1,000)
Payments on short term FHLB advances	(2,070,500)	(143,000)
Proceeds from short term FHLB advances	2,009,000	221,500
Payments on long term FHLB advances	(35,000)	(70,000)
Proceeds from long term FHLB advances	35,000	55,000
Sale of treasury stock	165	225
Purchase of treasury stock	(1,021)	(692)
Dividends paid	(13,069)	(11,442)
Net cash from financing activities	218,081	296,630
Net change in cash and cash equivalents	(40,793)	(119,095)
Cash and cash equivalents at beginning of year	99,102	218,197
Cash and cash equivalents at end of year	$ 58,309	$ 99,102

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022
(Dollar amounts in thousands except share and per share data)

	2023	2022
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 56,810	$ 11,768
Income taxes	8,825	9,088
Indiana CRED credits	-	178
Supplemental non-cash disclosures		
Real estate acquired in satisfaction of debts previously contracted	41	319
Right of use asset obtained in exchange for lease liabilities	907	69
Dividends declared but unpaid	3,372	3,228
Commitments to fund securities settlements	-	879

See accompanying notes.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations: The consolidated financial statements of First Farmers Financial Corporation ("Corporation") include its wholly-owned subsidiaries, First Farmers Bank & Trust ("Bank"), First Farmers Risk Management, Inc. and 46992 Holdings, LLC and the Bank's wholly-owned subsidiaries, Mark Tully Investments II, Inc. ("MTII"), Mark Tully Holdings II, Inc. ("MTHI"), Mark Tully II, LLC ("MTL"), and Mark Tully Properties, Inc. ("MTP"). First Farmers Risk Management, Inc. is a captive reinsurance subsidiary. MTII owns 100% of MTHI, and MTII and MTHI own 1% and 99% of MTL, which manages investment securities, and 100% of MTP which manages loans secured by real estate. On December 18, 2023, First Farmers Risk Management, Inc. was dissolved. All significant intercompany transactions and balances have been eliminated in consolidation.

The Corporation and Bank operate primarily in the banking industry. The Bank makes commercial, installment and mortgage loans to and receives deposits from customers through its offices located in the Indiana counties of Carroll, Cass, Clay, Grant, Hamilton, Howard, Huntington, Madison, Marshall, Miami, Starke, Sullivan, Tippecanoe, Tipton, Vigo and Wabash; and Illinois counties of Coles, Edgar and Vermilion. Although the overall loan portfolio is diversified, a substantial portion of its debtors' ability to honor their contracts is dependent upon the commercial and agricultural industries. The majority of the Corporation's loans are secured by specific items of collateral including business assets, consumer assets and real property.

Use of Estimates: To prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. Management has identified the allowance for credit losses, determining fair value and possible impairment of investment securities available for sale, determining fair value and possible impairment of mortgage and agricultural servicing rights, determining fair value of derivatives, and the possible impairment of goodwill to be material estimates. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and actual results could differ.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions are carried at cost.

Cash Flows: Cash and cash equivalents are defined as cash and deposits with other financial institutions with maturities of less than 90 days, money market funds, certificates of deposit and federal funds sold. Accounts at other financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2023 and 2022, the Corporation had $13 and $4,995 in excess of the FDIC insured limit. Net cash flows are reported for customer loan and deposit transactions and federal funds purchased.

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. Debt securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. Equity securities are carried at fair value, with changes in fair value reported in net income.

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. Certain purchased callable debt securities held at a premium are amortized to the earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Held to maturity securities:
Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. As of December 31, 2023, the balance of held-to-maturity securities and the accrued interest associated with the securities is immaterial to the consolidated financial statements.

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 been recorded through an allowance for credit losses is recognized in other comprehensive income.

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.

Loans Held for Sale: The Corporation sells certain mortgage and guaranteed loans on the secondary market. Loans held for sale are carried at the lower of cost or estimated fair value, in aggregate. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

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

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs and an allowance for loan losses. Interest income on loans is accrued over the term of the loans based on the principal outstanding. Loan fees, net of certain direct loan origination costs, are deferred and recognized as an element of interest income over the term of the loan using the level yield method.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For all classes of loans, interest income is discontinued when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days. Past due status is based on the contractual terms of the loan. Loans are placed on non-accrual or charged off at an earlier date if collection of principal and interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Corporation's policy, typically after 90 days of non-payment.

For all classes of loans, all interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are expected to be brought current and future payments are reasonably assured.

Allowance for Credit Losses (ACL) – 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, GDP, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Corporation has identified the following portfolio segments and measures the allowance for credit losses using the discounted cash flow method for all segments. The segments for purposes of determining the ACL, include commercial, agriculture, mortgage and other loans. These segments are further disaggregated into pools for purposes of monitoring and assessing credit quality based on certain risk characteristics. Pools within the commercial loan segment include (i) commercial and industrial, (ii) commercial construction, (iii) commercial real estate – owner occupied, and (iv) commercial real estate – non-owner occupied. Pools within the agriculture loan segment include (i) agriculture real estate, (ii) grain, and (iii) other. The mortgage segment includes (i) 1-4 family -1st lien and mortgage construction. The other loan segment includes (i) 1-4 family -2nd lien and consumer loans, and (ii) leases.

As permitted by ASU 2019-04, Management elected to adjust the effective interest rate used to discount expected cash flows to incorporate expected prepayments. Management elected not to project changes in an independent factor, ie. index or rate for purposes of estimating expected future cash flows. Management also elected the practical expedient for amortized cost basis, which excludes accrued interest from the amortized cost calculation, since the accrued interest receivable balance is written off in a timely manner.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each of these portfolio segments has different risk characteristics and the allowance for credit loss methodology addresses these risks as follows:

Commercial loans include those secured by pledged assets of the customer's business (such as inventories, property and equipment, or accounts receivable), those secured by mortgages or other liens on real property, and those that are unsecured. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from the cash flow from the business operations of the customer. In underwriting these types of loans, the customer's ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the business operations of the borrowers, which is impacted by various factors including the industry in which the customer operates and the general economy.

Agriculture loans are secured by farm real estate, farm equipment or other farm business assets such as crops or livestock. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from farm operations of the customer. In underwriting these types of loans, the customer's ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the farm operations of the borrowers, which can be impacted by various factors including the price of agricultural commodities, machinery, real estate, and the general economy.

Residential Mortgage loans are those that are secured by senior or junior liens on residential property. This portfolio segment includes fixed-and adjustable-rate mortgage loans that provide for the full amortization of principal. Repayment of real estate loans is primarily dependent upon the personal income of the borrowers, which can be impacted by the economic conditions in their market area. The Corporation seeks to mitigate the risk of the uncertainty of economic conditions with its current underwriting standards, which include a required loan-to-value ratio of at least 80% of each loan originated. The losses experienced within this segment will be impacted by changes in real estate values for the collateral securing these loans.

The Other portfolio segment includes consumer installment loans, home equity lines of credit and leases. Repayment of the consumer loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates. Home equity lines are made at variable rates. The repayment of the loans in this segment is dependent upon the willingness and ability of the customers to repay any outstanding balance. Leases are generally secured by commercial or agriculture-related equipment and repayment is expected to come primarily from the business or farm operations, and secondarily from the residual value of the equipment. Management tracks the risk in this segment based on the level of past due loans and the actual net charge-offs experienced.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of collateral expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for estimated selling costs. For loans evaluated on an individual bases that are not determined to be collateral dependent, a discounted cash flow analysis is performed to determine expected credit losses.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Direct Financing Leases: Direct financing leases are recorded at the aggregate future minimum lease payments plus estimated residual value of leased assets less unearned income. Income on direct financing leases is recognized by a method that approximates a level rate of return. Leases are included in Loans, net of the allowance on the consolidated balance sheets.

Servicing Assets: Servicing assets are recognized separately when they are acquired through sales of loans. For sales of mortgage and agricultural loans, servicing assets are initially recorded at fair value with the income statement effect recorded in loan sales and servicing income. Fair value is based on market prices for comparable mortgage and agricultural servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. All servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the assets as compared to carrying amount. Impairment is determined by stratifying assets into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported in loan sales and servicing income on the consolidated income statements. The fair values of servicing assets 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 consolidated income statements as loan sales and servicing income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization and impairment of servicing assets is netted against loan servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. The Corporation did not hold any foreclosed assets at December 31, 2023 and 2022. Foreclosed assets are included in accrued interest receivable and other assets in the consolidated balance sheets.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

At December 31, 2023 and 2022, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is $189 and $194, respectively.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Premises and equipment are depreciated primarily on the straight-line method over the estimated useful lives of the assets ranging from three to forty years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

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 restricted stock on the consolidated balance sheets, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends, if any, are reported as income.

Federal Reserve Bank (FRB) Stock: The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as restricted stock on the consolidated balance sheets, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends, if any, are reported as income.

Bank-Owned Life Insurance: The Corporation acquired life insurance policies on certain key executives through acquisitions in 2009 and 2012. The Corporation purchased additional life insurance policies on certain key employees during 2022 and 2023. 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.

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually. The Corporation has selected June 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the consolidated balance sheets.

Core deposit intangible and other intangible assets arise from bank branch and other business acquisitions. They are initially measured at fair value and then are amortized on a straight line or accelerated method over their estimated useful lives, which range from 8 to 10 years for core deposit intangibles. Intangible assets with definite useful lives are tested for impairment at least annually.

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.

(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 are now such matters that will have a material effect on the consolidated financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to stockholders. As of December 31, 2023, the amount available without prior regulatory approval for 2023 dividends from the bank to the holding company was $54,987. Additionally, the Corporation may not declare dividends if it has deferred interest payments or is in default on its subordinated debentures.

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

Investment in Limited Partnership/Investments in Affordable Housing Partnerships
The investments in limited partnerships are recorded using the proportional amortization method of accounting. Under the proportional amortization method, the Corporation amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the consolidated income statement as a component of income tax expense (benefit).

Derivatives: As part of the asset/liability management program, the Corporation may utilize interest rate floors, caps or swaps to reduce its sensitivity to interest rate fluctuations. These derivative instruments are recorded as assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair values of derivatives are reported in the consolidated statements of income or accumulated other comprehensive income (loss) depending on the use of the derivative and whether the instrument qualifies for hedge accounting.

At the inception of a derivative contract, the Corporation designates the derivative as one of three types based on the Corporation's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the consolidated balance sheets or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

As part of the derivatives program the Corporation also offers qualifying commercial banking customers a derivative product that allows them to swap a variable rate loan to a fixed rate instrument. The product is designed to reduce or eliminate the risk of changes in the customers interest rate risk. The extension of credit to the qualifying commercial banking customers is subject to the same approvals and underwriting standards as would be applied for traditional credit products. The Corporation limits its risk exposure to these products with the simultaneous execution of a similar offsetting swap agreement with a separate, well capitalized and rated counterparty previously approved by the Corporation's Asset Liability Committee. By using these interest rate swap agreements, the Corporation can meet the needs of the customer while still limiting its interest rate risk exposure associated with the fixed rate loans.

These derivative contracts are not designated against specific assets or liabilities and do not qualify for hedge accounting treatment. The derivatives are recorded on the balance sheet at fair value and changes in the fair value of both the customers and the offsetting swap agreements are recorded in non-interest income for both the commercial banking customer swaps and the related offsetting swaps. The fair value of the derivative instruments incorporates a consideration of credit risk (in accordance with ASC 820), resulting in some potential volatility in earnings each period.

Mortgage Banking Derivatives: Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for future delivery of these mortgage loans are accounted for as free-standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. The Corporation enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into to hedge the change in interest rates resulting from its commitments to fund the loans. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in fair values of these derivatives are included in loan sales and servicing income.

Stock Based Compensation: Compensation cost is recognized for restricted stock awards issued to employees, based on the market price of the Corporation's common stock at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Earnings Per Common Share: Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the year. All outstanding unvested share-based payment awards contain rights to nonforfeitable dividends and are considered participating securities for this calculation so there is no difference between dilutive and basic earnings per share. All share and per share data are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements.

Authorized Shares: On May 10, 2022, the Corporation's shareholders approved an amendment to the Articles of Incorporation to increase authorized shares from 10,000,000 to 30,000,000.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges, which are also recognized as separate components of equity.

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.

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.

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(Dollar amounts in thousands except share and per share data)

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. One 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 credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Corporation recorded a net decrease to retained earnings of $12,244 as of January 1, 2023 for the cumulative effect of adopting ASC 326. Of the cumulative decrease in retained earnings, $9,518 was attributable to the increase in the allowance for credit losses, net of deferred tax, and $2,726 was related to the establishment of the liability for the off-balance sheet credit exposure, net of deferred tax. As of January 1, 2023 the Corporation's held to maturity debt securities portfolio was immaterial to the financial statements as a whole, and therefore no credit losses for this portfolio were identified.

The following table illustrates the impact of ASC 326.

		January 1, 2023		
Assets:		As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Loans				
	Commercial	$ 26,844	$ 17,871	$ 8,973
	Agriculture	5,118	3,090	2,028
	Residential Mortgage	1,480	427	1,053
	Other	1,439	689	750
	Unallocated	-	225	(225)
Allowance for credit losses on loans		34,881	22,302	12,579
Liabilities:				
Allowance for credit losses on OBS credit exposures		3,603	-	3,603

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On March 31, 2022, FASB issued ASU 2022-02, *"Financial Instruments – Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures."* which eliminates the recognition and measurement guidance for troubled debt restructurings (TDRs) by creditors in ASC 310-40. This Update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan.

Additionally, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures.

The amendments in this Update are effective the same date as the effective dates for Update 2016-13, which for the Corporation is January 1, 2023. This Update requires prospective transition for the disclosures related to loan restructurings for borrowers experiencing financial difficulty and the presentation of gross write-offs in the vintage disclosures. The guidance related to the recognition and measurement of TDRs may be adopted on a prospective or modified retrospective transition method.

The Corporation adopted the provisions of this ASU on January 1, 2023, which did not have a material impact on the consolidated financial statements.

On March 28, 2022, FASB issued ASU 2022-01, *Derivatives and Hedging (Topic 815) – Fair Value Hedging – Portfolio Layer Method,* which provides the following amendments:

- Expand the current last-of-layer method that permits only one hedged layer to allow multiple hedged layers of a single closed portfolio. To reflect that expansion, the last-of-layer method is renamed the portfolio layer method.
- Expand the scope of the portfolio layer method to include non-prepayable financial assets.
- Specify that eligible hedging instruments in a single-layer hedge may include spot-starting or forward-starting constant-notional swaps, or spot-or forward-starting amortizing-notional swaps and that the number of hedged layers (that is, single or multiple) corresponds with the number of hedges designated.
- Provide additional guidance on the accounting for and disclosure of hedge basis adjustments that are applicable to the portfolio layer method whether a single hedged layer or multiple hedged layers are designated.
- Specify how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio.

The amendments are effective for fiscal years beginning after December 15, 2022.

The Corporation adopted ASU 2022-01 on January 1, 2023, which did not have a material impact on the consolidated financial statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On March 12, 2020, FASB issued ASU 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* to ease the potential burden in accounting for reference rate reform. The amendments in Update 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform.

The new guidance provides the following optional expedients that reduce costs and complexity of accounting for reference rate reform:

- Simplify accounting analyses for contract modifications.
- Allow hedging relationships to continue without de-designation if there are qualifying changes in the critical terms of an existing hedging relationship due to reference rate reform.
- Allow a change in the systematic and rational method used to recognize in earnings the components excluded from the assessment of hedge effectiveness.
- Allow a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.
- Allow the shortcut method for a fair value hedging relationship to continue for the remainder of the hedging relationship. Simplify the assessments of hedge effectiveness and provide temporary optional expedients for cash flow hedging relationships affected by reference rate reform.
- Allow a one-time election to sell or transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and are classified as held to maturity before January 1, 2020.

In January 2021, the FASB issued ASU 2021-01 which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition.

In December 2022, the FASB issued ASU 2022-06 which defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848.

The amendments are effective for all entities from the beginning of an interim period that includes the issuance date of the ASU. An entity may elect to apply the amendments prospectively through December 31, 2024.

As of September 14, 2023, the Corporation has transitioned all LIBOR indexed instruments with LIBOR determination dates prior to June 30, 2023, primarily to term SOFR or other indices. The adoption of this standard did not have a material effect on the Corporation’s consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Issued But Not Yet Effective Accounting Standards

On March 29, 2023, FASB issued ASU 2023-02, *"Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method"* to expand use of the proportional amortization method of accounting to equity investments in tax credit programs beyond those in low-income housing credit (LIHTC) programs.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.

The amendments in this update must be applied on either a modified retrospective or a retrospective basis (except for LIHTC investments not accounted for using the proportional amortization method.)

The adoption of this standard is not expected to have a material effect on the Corporations consolidated financial statements.

On June 30, 2022, FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820) – Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions,* which clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments also require the following disclosure for equity securities subject to contractual sale restrictions:

- The fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet.
- The nature and remaining duration of the restriction(s).
- The circumstances that could cause a lapse in the restriction(s).

The amendments in this Update are effective for fiscal years beginning after December 15, 2023. Early adoption is permitted.

The amendments in this Update should be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption.

The adoption of this standard is not expected to have a material effect on the Corporation's consolidated financial statements.

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(Dollar amounts in thousands except share and per share data)

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NOTE 2 – SECURITIES

The fair value of securities available for sale and the related unrealized gains and losses recognized in accumulated other comprehensive income (loss), net of tax, were as follows:

	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. treasury and government agency securities	$ 77,765	$ -	$ (3,792)	$ -	$ 73,973
Obligations of states and political subdivisions	229,694	1,049	(21,039)	-	209,704
Mortgage-backed securities, residential	299,779	2,082	(16,126)	-	285,735
	$ 607,238	$ 3,131	$ (40,957)	$ -	$ 569,412

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agency securities	$ 82,997	$ -	$ (5,459)	$ 77,538
Obligations of states and political subdivisions	256,170	790	(28,720)	228,240
Mortgage-backed securities, residential	169,802	316	(16,183)	153,935
	$ 508,969	$ 1,106	$ (50,362)	$ 459,713

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

	2023				
	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses
Obligations of states and political subdivisions	$ 130	$ 10	$ -	$ 140	$ -

	2022			
	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Obligations of states and political subdivisions	$ 145	$ 12	$ -	$ 157

The fair value of equity securities were $4,898 and $2,386 as of December 31, 2023 and 2022, respectively.

Securities with a carrying value of $241,292 and $125,815 were pledged to secure other borrowings at December 31, 2023 and 2022, respectively.

At December 31, 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in any amount greater than 10% of stockholders' equity.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 2 - SECURITIES (Continued)

Proceeds from sales of securities available for sale during 2023 and 2022 were $37,749 and $33,805, respectively. There were no held to maturity securities sold in 2023 and 2022. Gross gains of $110 and $0 and gross losses of $(792) and $(1,923) were recognized on the sales of securities available for sale during 2023 and 2022, respectively. Gross gains of $0 in 2023 and 2022 and gross losses of $(2) and $(1), resulted from net redemption premiums on called securities.

Total unrealized losses that were recognized in income from equity securities during 2023 and 2022 were $(7) and $(295), respectively.

The amortized cost and fair value of investment securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date or with no maturity date, primarily mortgage-backed securities are shown separately.

	2023			
	Held to Maturity		Available for Sale	
	Carrying Value	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 20	$ 22	$ 36,322	$ 35,955
Due after one year through five years	85	91	61,462	57,905
Due after five years through ten years	25	27	27,224	26,309
Due after ten years	-	-	182,451	163,508
Mortgage-backed securities	-	-	299,779	285,735
	$ 130	$ 140	$ 607,238	$ 569,412

Securities with unrealized losses at December 31, 2023 and 2022 are as follows, presented by length of the time the securities have been in an unrealized loss position.

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2023						
U.S. treasury and government agency	$ 2,998	$ (10)	$ 70,975	$ (3,782)	$ 73,973	$ (3,792)
Obligations of states and political subdivisions	18,600	(323)	145,492	(20,716)	$ 164,092	$ (21,039)
Mortgage-backed securities, residential	72,303	(967)	108,951	(15,159)	181,254	(16,126)
Total temporarily impaired	$ 93,901	$ (1,300)	$ 325,418	$ (39,657)	$ 419,319	$ (40,957)

(Continued)

(Dollar amounts in thousands except share and per share data)

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NOTE 2 - SECURITIES (Continued)

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2022						
U.S. treasury and government agency	$ 42,134	$ (1,083)	$ 35,404	$ (4,376)	$ 77,538	$ (5,459)
Obligations of states and political subdivisions	181,628	(22,622)	22,385	(6,098)	204,013	(28,720)
Mortgage-backed securities, residential	85,596	(6,563)	44,314	(9,620)	129,910	(16,183)
Total temporarily impaired	$ 309,358	$ (30,268)	$ 102,103	$ (20,094)	$ 411,461	$ (50,362)

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2023 and 2022, was $419,319 and $411,461, which is approximately 74% and 89%, respectively, of the Corporation's available for sale and held to maturity investment portfolio.

Unrealized losses on certain U.S. treasury and government agency, obligations of states and political subdivisions, and mortgage-backed securities have not been recognized into income because the issuers are insured or of high 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 prior to their anticipated recovery, and the decline in fair value is largely due to market interest rates and other economic factors. The fair value is expected to recover as the investments approach their maturity date and/or market rates change.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans and leases are comprised of the following:

	2023	2022
Commercial		
Commercial real estate	$ 649,026	$ 531,751
Commercial & industrial	552,663	554,696
Construction & development	166,687	159,483
Agriculture		
Farm real estate	350,156	332,628
Other	281,655	266,594
Residential Mortgage		
Residential real estate	141,333	123,221
Other		
Leases	36,099	33,108
Consumer & other	76,654	67,728
Subtotal	2,254,273	2,069,209
Less: Allowance for credit losses	(34,893)	(22,302)
Loans, net	$ 2,219,380	$ 2,046,907

Lease financing consists of the following:

	2023	2022
Total minimum lease payments receivable	$ 36,452	$ 31,934
Total residual	7,814	7,120
Unearned income	(8,167)	(5,946)
Total lease financing	$ 36,099	$ 33,108

Minimum lease payments receivable are as follows:

Year Ending December 31,	
2024	$ 9,311
2025	7,589
2026	5,932
2027	4,332
2028	2,736
Thereafter	6,552
	$ 36,452

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables present the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

	Commercial	Agriculture	Residential Mortgage	Other	Unallocated	Total
December 31,2023						
Allowance for loan losses						
Beginning balance, prior to adoption of ASU 2016-13	$ 17,871	$ 3,090	$ 427	$ 689	$ 225	$ 22,302
Impact of adopting ASU 2016-13	8,973	2,028	1,053	750	(225)	$ 12,579
Credit loss expense	5,754	394	352	276	-	6,776
Loans charged-off	(6,285)	(2,225)	(21)	(133)	-	(8,664)
Recoveries	1,642	195	38	25	-	1,900
Ending balance	$ 27,955	$ 3,482	$ 1,849	$ 1,607	$ -	$ 34,893

The following tables present the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2022:

	Commercial	Agriculture	Residential Mortgage	Other	Unallocated	Total
December 31,2022						
Allowance for loan losses						
Beginning balance	$ 15,034	$ 3,528	$ 424	$ 663	$ 23	$ 19,672
Provision (credit) for loan losses	5,894	(205)	15	(6)	202	5,900
Loans charged-off	(3,089)	(417)	(15)	(30)	-	(3,551)
Recoveries	32	184	3	62	-	281
Ending balance	$ 17,871	$ 3,090	$ 427	$ 689	$ 225	$ 22,302

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents 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:

	Commercial	Agriculture	Residential Mortgage	Other	Unallocated	Total
December 31,2022						
Allowance for loan losses						
Ending allowance balance attributable to loans						
Individually evaluated for impairment	$ 61	$ -	$ -	$ -	$ -	$ 61
Collectively evaluated for impairment	17,810	3,090	427	689	225	22,241
Total ending allowance balance	$ 17,871	$ 3,090	$ 427	$ 689	$ 225	$ 22,302
Loans						
Loans individually evaluated for impairment	$ 15,393	$ 17,753	$ 689	$ -	N/A	$ 33,835
Loans collectively evaluated for impairment	1,230,537	581,469	122,532	100,836	N/A	2,035,374
Total ending loans balance	$1,245,930	$ 599,222	$ 123,221	$ 100,836	N/A	$2,069,209

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents information related to impaired loans by class of loans as of and for the years 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						
Commercial real estate	$ 12,788	$ 11,003	$ -	$ 11,696	$ 214	$ 205
Commercial & industrial	6,417	3,756	-	7,082	57	189
Agricultural						
Farm real estate	21,598	16,948	-	18,017	710	770
Other	1,228	805	-	824	19	47
Residential Mortgage	692	689	-	741	32	32
Subtotal	42,723	33,201	-	38,360	1,032	1,243
With an allowance recorded:						
Commercial						
Commercial real estate	$ 633	$ 634	$ 61	$ 668	$ 30	$ 31
Subtotal	633	634	61	668	30	31
Total	$ 43,356	$ 33,835	$ 61	$ 39,028	$ 1,062	$ 1,274

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Non-accrual loans and loans past due over 89 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans include commercial loans that are individual evaluated for impairment and deemed impaired. The sum of non-accrual loans and loans past due over 89 days still on accrual will differ from the total impaired loan amount.

The following tables present the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2023:

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial			
Commercial real estate	$ 821	$ -	$ 25
Commercial & industrial	9,861	-	-
Agriculture			
Farm real estate	2,728	-	335
Other	115	-	-
Residential Mortgage			
Residential real estate	340	-	155
Other			
Leases	-	-	12
Consumer & other	280	-	41
Total	$ 14,145	$ -	$ 568

As of December 31, 2023, nonaccrual loans of $144 are partially guaranteed by the U.S. Government.

Interest income recognized on nonaccrual loans was immaterial during the year ended December 31, 2023.

(Dollar amounts in thousands except share and per share data)

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NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables present the recorded investment in non-accrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2022:

	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial		
Commercial real estate	$ 164	$ -
Commercial & industrial	9,413	425
Agriculture		
Farm real estate	14,803	-
Other	594	-
Residential Mortgage		
Residential real estate	245	227
Other		
Consumer & other	71	23
Total	$ 25,290	$ 675

As of December 31, 2022, nonaccrual loans of $682 are partially guaranteed by the U.S. Government.

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

	Real Estate	General Business Assets	Other
Commercial			
Commercial real estate	$ 821	$ -	$ -
Commercial & industrial	-	4,414	-
Agriculture			
Farm real estate	10,217	-	-
Other	-	115	-
Residential Mortgage			
Residential real estate	343	-	-
Other			
Consumer & other	269	-	11
Total	$ 11,650	$ 4,529	$ 11

(Dollar amounts in thousands except share and per share data)

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NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2023 and 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						
Commercial real estate	$ 406	$ -	$ 846	$ 1,252	$ 647,774	$ 649,026
Commercial & industrial	8,159	30	2,262	10,451	542,212	552,663
Construction & development	-	-	-	-	166,687	166,687
Agriculture						
Farm real estate	592	5,612	3,062	9,266	340,890	350,156
Other	952	-	-	952	280,703	281,655
Residential Mortgage						
Residential real estate	3,975	633	496	5,104	136,229	141,333
Other						
Leases	80	-	12	92	36,007	36,099
Consumer & other	494	166	275	935	75,719	76,654
Total	$ 14,658	$ 6,441	$ 6,953	$ 28,052	$ 2,226,221	$ 2,254,273
December 31, 2022						
Commercial						
Commercial real estate	$ 851	$ 79	$ -	$ 930	$ 530,821	$ 531,751
Commercial & industrial	1,162	-	3,719	4,881	549,815	554,696
Construction & development	-	-	-	-	159,483	159,483
Agriculture						
Farm real estate	273	-	2,054	2,327	330,301	332,628
Other	391	-	35	426	266,168	266,594
Residential Mortgage						
Residential real estate	3,247	657	342	4,246	118,975	123,221
Other						
Leases	23	-	-	23	33,085	33,108
Consumer & other	797	21	77	895	66,833	67,728
Total	$ 6,744	$ 757	$ 6,227	$ 13,728	$ 2,055,481	$ 2,069,209

(Continued)

(Dollar amounts in thousands except share and per share data)

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NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Loan Modification Disclosures Pursuant to ASU 2022-02

Occasionally, the Corporation modifies loans to borrowers in financial distress by providing term extensions, interest rate reduction, payment delay or a combination of these modifications.

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.

	Term Extension	Interest Rate Reduction	Payment Delay	Combination Term Extension Interest Rate Reduction	Total Class of Financing Receivable
December 31, 2023					
Commercial					
Commercial & industrial	$ 2,610	$ -	$ -	$ -	0.5 %
Agriculture					
Farm real estate	884	927	-	7,510	2.7
Other	-	-	485	-	0.2
Total	$ 3,494	$ 927	$ 485	$ 7,510	3.4 %

The Corporation has a commitment to lend $289 to the borrowers included in the previous table as of December 31, 2023.

The Corporation closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The loans modified during 2023 were not in a past due status as of December 31, 2023. The loan modifications described above did not increase the allowance for credit losses in 2023 but did result in charge offs of $1,601 during the year ending December 31, 2023.

The following table shows the financial effect of loan modifications presented above to borrowers experiencing financial difficulty as of December 31, 2023.

	Weighted Average Term Extension (in months)	Weighted Average Payment Delay (in months)	Weighted Average Payment Delay (in months)
December 31, 2023			
Commercial			
Commercial & industrial	8	-	- %
Agriculture			
Farm real estate	161	-	1
Other	-	3	-
Total	169	3	1 %

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Troubled Debt Restructuring (TDR) Disclosures Prior to the Adoption of ASU 2022-02

As of December 31, 2022, the Corporation has a recorded investment in troubled debt restructurings of $30,844. The Corporation has allocated $61 of specific reserves for those loans as of December 31, 2022, and has no commitments under the terms for the restructured loans to lend to these borrowers.

The following table summarizes the post-modification recorded investment of troubled debt restructures by modification type that occurred during the year ended December 31, 2022:

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 1 month to 15 years. Modifications involving an extension of the maturity date were for periods ranging from 1 month to 15 years.

	Term Modification	Rate Modification	Combination	Total Modification
December 31, 2022				
Commercial				
Commercial & industrial	$ 337	$ -	$ -	$ 337
Agriculture				
Farm real estate	-	-	4,921	4,921
Other	50	-	-	50
Total	$ 387	$ -	$ 4,921	$ 5,308

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2022:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2022			
Troubled Debt Restructurings:			
Commercial			
Commercial & industrial	2	$ 337	$ 337
Agriculture			
Farm real estate	1	4,287	4,921
Other	1	137	50
Total	4	$ 4,761	$ 5,308

The troubled debt restructurings described above increased the allowance for loan losses by $0 and resulted in charge offs of $41 during the year ended December 31, 2022.

There were no loans modified as troubled debut restructurings for which there was a payment default within twelve months following modification during the year ended December 31, 2022.

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NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Corporation's internal underwriting opolicy.

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. All loans are graded at origination. On a quarterly basis, a sample of the Corporation's portfolio is reviewed using a selection methodology based on a variety of factors including risk grading, credit size, and business industry. Credits graded special mention, substandard, or doubtful are reviewed for potential grade changes on a quarterly basis.
Other loans outside of this scope are re-graded only as additional financial information is received or delinquency status changes. The Corporation uses the following definitions for risk ratings:

Special Mention: Loans which exhibit significant potential weaknesses or unsatisfactory characteristics that jeopardize future collection of the debt if not corrected. Typically, these loans exhibit more severe and sustained negative trends, or possess a larger potential loss upon default due to loan structure or exceptions of any type. Some conditions that typically warrant a "special mention" rating include:

- Adverse economic or market conditions which in the future may affect the borrower's ability to repay.
- An adverse trend in the borrower's financial condition that has not yet reached the point where the original payment terms are jeopardized, but where essentially no margin exists to handle uncertainties relating to future performance.
- Loans with collateral values such that there is little margin between liquidation value and the amount of the loan commitment.
- A business that is vulnerable to economic adversity due to technical obsolescence or from competitive pressures.
- Loans with loan policy, credit, or documentation exceptions that are material in nature and that may increase loss potential given a default scenario.

In essence this grade represents a "transitional" rating for a period (generally one business cycle or less) where the credit is expected to improve due to risk mitigation efforts or the relationship will be subject to further criticism and downgraded based on the risk characteristics of the situation at that time.

Substandard: Loans that are inadequately protected by the current sound net worth, paying capacity of the borrower, or pledged collateral. Substandard loans exhibit one or more well-defined credit weaknesses that jeopardize repayment of the debt.

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Doubtful: Loans with all the weakness inherent in the substandard rating and where the repayment stream under the original contractual terms is in serious doubt. The possibility of loss is extremely high, but because of pending factors that may work to strengthen the credit, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral, or refinancing plans. Borrowers in this category usually exhibit multiple operating losses, minimal to no liquidity, negative cash flow and high leverage. The value of collateral and support of a guarantor may not be adequate to reasonably insure repayment in full of the borrower's loan. Deterioration has led to the possibility of a present or future loss.

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

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

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

	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	Prior	Term Total	Non-revolving	Revolving	Total
Commercial								
Commercial real estate								
Risk rating								
Pass	$ 72,798	$ 120,607	$ 162,337	$ 204,329	$ 560,071	$ 60,052	$ 19,167	$ 639,290
Special Mention	-	-	-	4,625	4,625	1,163	-	5,788
Substandard	-	-	-	3,948	3,948	-	-	3,948
Total commercial real estate loans	$ 72,798	$ 120,607	$ 162,337	$ 212,902	$ 568,644	$ 61,215	$ 19,167	$ 649,026
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial & industrial								
Risk rating								
Pass	$ 70,422	$ 87,906	$ 57,299	$ 82,181	$ 297,808	$ 78,104	$ 140,146	$ 516,058
Special Mention	4,533	4,066	3,295	29	11,923	172	14,531	26,626
Substandard	-	-	19	6,951	6,970	-	3,009	9,979
Total commercial & industrial loans	$ 74,955	$ 91,972	$ 60,613	$ 89,161	$ 316,701	$ 78,276	$ 157,686	$ 552,663
Current period gross write offs	$ -	$ -	$ 1,068	$ 3,310	$ 4,378	$ 191	$ 1,716	$ 6,285
Construction & development								
Risk rating								
Pass	$ 2,182	$ 2,342	$ 9,930	$ 16,269	$ 30,723	$ 133,286	$ 2,678	$ 166,687
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total construction & development lo	$ 2,182	$ 2,342	$ 9,930	$ 16,269	$ 30,723	$ 133,286	$ 2,678	$ 166,687
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	Prior	Term Total	Non-revolving	Revolving	Total
Agriculture								
Farm real estate								
Risk rating								
Pass	$ 43,018	$ 53,963	$ 49,697	$ 108,966	$ 255,644	$ 17,727	$ 43,150	$ 316,521
Special Mention	-	305	672	1,565	2,542	-	395	2,937
Substandard	7,749	7,197	12,016	1,280	28,242	2,456	-	30,698
Total farm real estate loans	$ 50,767	$ 61,465	$ 62,385	$ 111,811	$ 286,428	$ 20,183	$ 43,545	$ 350,156
Current period gross write offs	$ -	$ 2,225	$ -	$ -	$ 2,225	$ -	$ -	$ 2,225
Other								
Risk rating								
Pass	$ 25,914	$ 21,359	$ 10,454	$ 13,840	$ 71,567	$ 5,431	$ 199,909	$ 276,907
Special Mention	1,323	300	11	606	2,240	-	1,353	3,593
Substandard	485	-	547	123	1,155	-	-	1,155
Total other Ag loans	$ 27,722	$ 21,659	$ 11,012	$ 14,569	$ 74,962	$ 5,431	$ 201,262	$ 281,655
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential Mortgage				-				
Residential Real Estate								
Risk rating								
Pass	$ 29,185	$ 30,829	$ 15,778	$ 39,243	$ 115,035	$ 22,640	$ 1,824	$ 139,499
Special Mention	-	-	-	107	107	-	999	1,106
Substandard	-	176	385	167	728	-	-	728
Total residential real estate loans	$ 29,185	$ 31,005	$ 16,163	$ 39,517	$ 115,870	$ 22,640	$ 2,823	$ 141,333
Current period gross write offs	$ -	$ -	$ -	$ 21	$ 21	$ -	$ -	$ 21

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	Prior	Term Total	Non-revolving	Revolving	Total
Other								
Leases								
Risk rating								
Pass	$ 14,450	$ 8,396	$ 6,421	$ 6,548	$ 35,815	$ -	$ -	$ 35,815
Special Mention	-	-	-	284	284	-	-	284
Substandard	-	-	-	-	-	-	-	-
Total leases	$ 14,450	$ 8,396	$ 6,421	$ 6,832	$ 36,099	$ -	$ -	$ 36,099
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer & Other								
Risk rating								
Pass	$ 8,190	$ 7,013	$ 3,593	$ 3,095	$ 21,891	$ 954	$ 53,528	$ 76,373
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	133	41	107	281	-	-	281
Total consumer & other loans	$ 8,190	$ 7,146	$ 3,634	$ 3,202	$ 22,172	$ 954	$ 53,528	$ 76,654
Current period gross write offs	$ 1	$ 48	$ 62	$ 22	$ 133	$ -	$ -	$ 133
Total loans	$ 280,249	$ 344,592	$ 332,495	$ 494,263	$ 1,451,599	$ 321,985	$ 480,689	$ 2,254,273
Total current period gross write offs	$ 1	$ 2,273	$ 1,130	$ 3,353	$ 6,757	$ 191	$ 1,716	$ 8,664

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

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

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2022					
Commercial					
Commercial real estate	$ 528,331	$ -	$ 3,420	$ -	$ 531,751
Commercial & industrial	538,269	1,781	14,646	-	554,696
Construction & development	159,483	-	-	-	159,483
Agriculture					
Farm real estate	300,994	4,291	27,343	-	332,628
Other	263,445	1,725	1,424	-	266,594
Residential Mortgage				-	
Residential Real Estate	122,534	-	687		123,221
Other					
Leases	32,807	-	301	-	33,108
Consumer & Other	67,656	-	72	-	67,728
Total	$2,013,519	$ 7,797	$ 47,893	$ -	$2,069,209

NOTE 4 - PREMISES AND EQUIPMENT

A summary of premises and equipment is detailed below as of December 31:

	2023	2022
Land	$ 4,631	$ 4,631
Building and improvements	22,697	21,463
Furniture and equipment	16,196	15,051
Total cost	43,524	41,145
Accumulated depreciation	(21,162)	(19,706)
	22,362	21,439
Buildings and equipment in process	1,474	559
	$ 23,836	$ 21,998

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill

The balance in goodwill was $8,729 at December 31, 2023 and 2022, respectively, and no impairment in either year was recognized.

Acquired Intangible Assets

	2023		2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	$ -	$ -	$ 2,507	$ 2,393

In 2023, the gross carrying amount of the core deposit intangible was reduced by $2,507 due to full amortization of prior acquisitions.

Aggregate amortization expense for 2023 and 2022 was $114 and $172.

NOTE 6 – INVESTMENTS IN AFFORDABLE HOUSING PARTNERSHIPS

The Corporation invests in qualified affordable housing projects. At December 31, 2023 and 2022, the balance of the investment for qualified affordable housing projects was $11,015 and $12,587, respectively. These balances are reflected in the investments in affordable housing partnerships line on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $4,685 and $6,485 at December 31, 2023 and 2022 and are included in accrued interest payable and other liabilities on the consolidated balance sheets. The Corporation expects to fulfill these commitments during the year ending 2035.

During the years ended December 31, 2023 and 2022, the Corporation recognized amortization expense of $1,561 and $1,512 , respectively, which was included within income tax expense on the consolidated statements of income.

During the years ended December 31, 2023 and 2022, the Corporation recognized tax credits and other benefits from its investment in affordable housing tax credits of $1,841 and $1,830, respectively. During the years ending December 31, 2023 and 2022, the Corporation did not incur impairment losses.

During 2023, the Corporation sold its interest in one of the qualified affordable housing projects, which resulted in a loss of $21 on the sale of the partnership. This loss is included in other operating expenses on the consolidated income statement.

(Continued)

(Dollar amounts in thousands except share and per share data)

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NOTE 7 - SERVICING ASSETS

Loans and leases serviced for others are not reported as assets of the Corporation and total $876,734 and $873,024 at December 31, 2023 and 2022.

Mortgage servicing rights are included in accrued interest receivable and other assets on the consolidated balance sheets. The following table summarizes the changes in capitalized mortgage servicing rights for the years ended December 31, 2023 and 2022.

	2023	2022
Servicing assets		
Beginning of year	$ 4,273	$ 7,093
Additions	338	777
Direct write-downs	-	(2,828)
Amortized to expense	(913)	(769)
End of year	$ 3,698	$ 4,273

	2023	2022
Valuation allowance		
Beginning of the year	$ 14	$ 2,946
Direct write-downs	-	(2,828)
Net impairment allowance recovered	(14)	(104)
End of year	$ -	$ 14
Net mortgage servicing assets	$ 3,698	$ 4,259
Fair value disclosures:		
Fair value of mortgage servicing assets, beginning of period	$ 4,361	$ 4,178
Fair value of mortgage servicing assets, end of period	$ 4,660	$ 4,361

The Corporation reduced the mortgage servicing asset and the mortgage valuation allowance by $(2,828) in 2022 which had a net effect of $0 on the net mortgage servicing assets balance.

Fair value at December 31, 2023 and 2022 was primarily determined based on a valuation model that calculates the present value of estimated net servicing income. Fair value at year-end 2023 was determined using a weighted average discount rate of 9.72% and an average prepayment speed of 6.51%. Fair value at year-end 2022 was determined using a weighted average discount rate of 9.36% and an average prepayment speed of 8.17%.

(Dollar amounts in thousands except share and per share data)

NOTE 7 – SERVICING ASSETS (Continued)

Agricultural servicing rights are included in accrued interest receivable and other assets on the consolidated balance sheets. The following table summarizes the changes in capitalized agricultural servicing rights for the years ended December 31, 2023 and 2022.

	2023	2022
Servicing assets		
Beginning of year	$ 2,923	$ 2,591
Additions	268	772
Amortized to expense	(311)	(440)
End of year	$ 2,880	$ 2,923

	2023	2022
Valuation allowance		
Beginning of the year	$ 93	$ 185
Net impairment allowance recovered	(21)	(92)
End of year	$ 72	$ 93
Net agricultural servicing assets	$ 2,808	$ 2,830
Fair value disclosures:		
Fair value of agricultural servicing assets	$ 2,853	$ 2,865

Fair value at December 31, 2023 and 2022 was primarily determined based on a valuation model that calculates the present value of estimated net servicing income. Fair value at year-end 2023 and 2022 was determined using a weighted average discount rate of 10% and conditional prepayment rate of 15%.

NOTE 8 - INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following as of December 31, 2023 and 2022.

	2023	2022
Interest-bearing demand deposits	$ 950,935	$ 940,990
Savings	348,471	407,328
Time deposits over $250,000	134,274	49,143
Other time deposits	683,250	390,393
	$ 2,116,930	$ 1,787,854

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 8 - INTEREST-BEARING DEPOSITS (Continued)

At December 31, 2023, stated maturities of time deposits were:

2024	$ 644,897
2025	136,581
2026	27,467
2027	4,810
2028	3,358
Thereafter	411
	$ 817,524

The Corporation used brokered deposits to fund part of its loan growth, reduce short-term borrowings, and to help maintain its desired interest rate risk position. The Corporation had $391,357 and $196,022 in brokered deposits as of December 31, 2023 and 2022, respectively.

NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES

At year-end, advances from the Federal Home Loan Bank were as follows:

	2023	2022
Maturity of May 2029, with a current fixed rate of 1.95%. The Federal Home Loan Bank controls the option to put this advance in May 2024.	$ 5,000	$ 5,000
Maturity of May 2028, with a fixed rate of 3.40%. The Federal Home Loan Bank controls the option to put this advance in May 2024 and quarterly thereafter.	10,000	-
Maturity of October 2026, with a current fixed rate of 1.18%. The Federal Home Loan Bank controlled the option to put this advance in October 2021 and did not exercise the option.	5,000	5,000
Maturity of January 2024, symmetrical advance with a fixed rate of 2.73% at December 31, 2023 and 2022.	5,000	5,000
Maturities of January 2024, with fixed rates from 5.53% to 5.37%, with a weighted average rate of 5.55% at December 31, 2023. Maturities of January 2023, with fixed rates from 4.24% to 4.26%, with a weighted average rate of 4.25% at December 31, 2022.	30,000	91,500
Maturity of March 2023, with a fixed rate of 4.64% at December 31, 2022. This advance was tied to an interest rate swap; see Note 15, Derivatives and Hedging Activities, for additional information on this transactions.	-	10,000
Total	$ 55,000	$116,500

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES (Continued)

Maturities and scheduled principal reductions are as follows:

2024	$ 35,000
2025	-
2026	5,000
2027	-
2028	10,000
Thereafter	5,000
	$ 55,000

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances and the floating advances except for those payments made on various contractual prepayment dates. The advances were collateralized by $365,998 and $329,622 under a blanket lien arrangement at December 31, 2023 and 2022. At December 31, 2023 outstanding advances are secured by specific securities totaling $96,497 and a blanket pledge of all qualifying one-to-four family real estate loans totaling $64,855, qualifying multifamily loans totaling $43,348 and qualifying commercial real estate loans totaling $162,401. Based on this collateral and the Corporation's holdings of FHLB stock, the Corporation is eligible to borrow up to an additional of $195,466 December 31, 2023.

NOTE 10 – NOTES PAYABLE AND OTHER BORROWINGS

On September 29, 2020, the Corporation entered into a term loan agreement for $10,000 with a variable interest rate, adjustable quarterly, at 3.25% over 3-month LIBOR with a floor of 0.50%. The payments for the $10,000 loan were based on a five-year amortization schedule with quarterly principal payments of $250 including a balloon payment of $5,250 to be paid in full by September 29, 2025. A portion of the proceeds from this loan of $7,000 were invested directly into the Bank. Legal and commitment fees of $30 were recognized as a direct reduction to the debt liability and will be amortized to interest expense over the term of the agreement. Effective April 1, 2023, the term note was amended to be adjustable quarterly, at 3.43% over 3-month CME Term SOFR with a floor of 0.50%. As of December 31, 2023 and 2022, the balance on the term loan totaled $6,989 and $7,984, respectively.

On January 25, 2021, the Corporation executed an amortizing interest rate cap designated as a cash flow hedge on the term loan. The interest rate cap is effective from January 25, 2021 through September 29, 2025. See Note 15, Derivatives and Hedging Activities, for additional information on this transaction.

As of December 31, 2023, the Corporation had borrowed $25,000 through the Federal Reserve's Bank Term Funding Program at a rate of 4.84%. This one-year borrowing is scheduled to mature December 26, 2024 and can be prepaid at any time without penalty.

NOTE 11 - SUBORDINATED DEBENTURES

In December 2004, a trust formed by the Corporation issued $5,155 of fixed to floating rate trust preferred securities as part of a pooled offering of such securities. The Corporation issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. The Corporation may redeem the subordinated debentures, in whole but not in part, any time after 2009 at face value. The subordinated debentures must be redeemed no later than 2034. On December 15, 2009 the fixed rate period expired and the floating rate commenced based on 3-month LIBOR plus 2.10%. Effective September 15, 2023, the floating rate converted to 3-month CME Term SOFR plus 2.10% plus a spread adjustment of 0.26%. As of December 31, 2023 and 2022, the variable rate of the debentures was 7.75% and 6.87%, respectively. Interest payments are payable quarterly in arrears, and the Corporation has the option to defer interest payments from time to time for a period not to exceed 20 consecutive quarters.

On January 7, 2019, the Corporation executed an interest rate cap designated as a cash flow hedge on the $5,000 subordinated debentures. The interest rate cap is effective from December 15, 2019 through December 15, 2024. See Note 15, Derivatives and Hedging Activities, for additional information on this transaction.

In May 2007, a second trust formed by the Corporation issued $13,403 of fixed to floating rate trust preferred securities as part of a pooled offering of such securities. The Corporation issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. The Corporation may redeem the subordinated debentures, in whole but not in part, any time after 2012 at face value. The subordinated debentures must be redeemed no later than 2037. On June 15, 2012, the fixed rate period expired and the floating rate period commenced based on 3-month LIBOR plus 1.48%. Effective September 15, 2023, the floating rate converted to 3-month CME Term SOFR plus 1.48% plus a spread adjustment of 0.26%. As of December 31, 2023 and 2022 the variable rate of the debentures was 7.13% and 6.25%. Interest payments are payable quarterly in arrears, and the Corporation has the option to defer interest payments from time to time for a period not to exceed 20 consecutive quarters.

On December 14, 2017, the Corporation entered into an interest rate swap designated as a cash flow hedge to convert the floating interest payments to a fixed rate on the $13,000 subordinated debentures with an effective date of December 16, 2019 until December 15, 2029. See Note 15, Derivatives and Hedging Activities, for additional information on this transaction.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The Corporation maintains a 401(k) profit sharing plan, covering employees who have completed six months of service. Employer contributions to the plan are at the discretion of the board of directors. In addition, the plan provides for the Corporation to match employee 401(k) contributions at a percentage determined annually by the board of directors. Employer contributions charged to operations were $1,358 and $1,266 for 2023 and 2022.

Under employment agreements with certain executives, certain events leading to separation from the Corporation could result in cash payments equal to 2 times the average of the employee's base pay plus any cash bonuses for the last 3 complete calendar years preceding the employee's termination of employment. The President will receive 2.99 times the average base pay plus any cash bonuses.

(Dollar amounts in thousands except share and per share data)

NOTE 12 - EMPLOYEE BENEFIT PLANS (Continued)

On April 1, 2018, the Corporation adopted Salary Continuation and Retention Plans for certain officers. Under the provisions of the Salary Continuation Plan each participant will receive at retirement an annual benefit for a ten-year period as stated in the agreement. Under the Retention Plan, each participant will receive distributions from the plan based on the provisions of the participant agreement. Total expense of $151 and $131 was recorded during 2023 and 2022, respectively, for both plans. As of December 31, 2023 and 2022, accrued benefits payable totaled $937 and $826, respectively.

As a result of the May 1, 2012 acquisition of First Citizens of Paris, Inc., the Corporation has assumed obligations under a Supplemental Executive Retirement Plan (SERP) for certain senior officers of Citizens National Bank of Paris. Under the provisions of the SERP, each participant will receive at retirement an annual benefit for a fifteen-year period as stated in the agreement. Participants who were not yet fully vested as of May 1, 2012 fully vested based on the terms of their SERP agreement. Total expense of $7 and $(3) was recorded during 2023 and 2022, respectively. As of December 31, 2023 and 2022, accrued benefits payable totaled $149 and $189, respectively.

As a result of the December 4, 2009 acquisition of C.B. Bankshares, Inc., the Corporation has assumed obligations under a Supplemental Executive Retirement Plan (SERP) for certain senior officers of Central Bank. Under the provisions of the SERP, each participant will receive at retirement an annual benefit for a ten-year period as stated in the agreement. Participants fully vested upon the acquisition date. Total expense of $15 and $(3) was recorded during 2023 and 2022, respectively. As of December 31, 2023 and 2022, accrued benefits payable totaled $339 and $444, respectively.

NOTE 13 - STOCK-BASED COMPENSATION

The Corporation has adopted a Restricted Stock Plan ("RSP") which provides for the issuance of shares to officers and employees. Compensation expense is recognized over the vesting period of the shares based on the fair value of the shares at issue date. The fair value of the stock was determined using an independent appraisal, which is performed at least annually. Annually, the Corporation may issue up to 15,000 shares, although shares not issued during the year are not available to be granted in future periods. The shares granted in 2023 and 2022 cliff vest over a six-year period. 15,375 and 13,150 shares were granted during 2023 and 2022 with a fair value per share of $51.50 and $48.75, respectively. The Board of Directors approved a policy exception for the shares granted in 2023. Compensation expense of $439 and $422 was recorded during 2023 and 2022 for shares granted.

A summary of changes in the Corporation's nonvested shares for the year follows:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2023	54,925	$ 41.27
Granted	15,375	51.50
Vested	(7,550)	31.13
Forfeited	-	-
Nonvested at December 31, 2023	62,750	$ 44.22

As of December 31, 2023 and 2022, there was $1,560 and $1,208, respectively of total unrecognized compensation cost related to non-vested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.4 years.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 14 - INCOME TAXES

The provision for income taxes consists of the following:

	2023	2022
Current payable	$ 10,706	$ 10,598
Deferred income tax (benefit)	22	(644)
	$ 10,728	$ 9,954

	2023	2022
Income tax provision computed at statutory federal rate of 21%	$ 11,951	$ 10,759
Tax effect of:		
Income from tax exempt securities and loans	(1,292)	(1,275)
State income tax (net of federal tax effect)	798	1,121
Tax credits and other benefits net of amortization	(280)	(318)
Other	(449)	(333)
	$ 10,728	$ 9,954

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

	2023	2022
Deferred tax asset		
Allowance for credit losses	$ 8,919	$ 5,420
Net unrealized loss on available for sale securities and derivatives	6,526	7,929
Deferred loan fees	916	971
Capital loss carryforward	435	292
SERP liabilities	349	358
Nonaccrual loan interest income	299	319
Stock based compensation	295	247
Other	38	33
Deferred tax liabilities		
Lease activity	(4,530)	(4,474)
Depreciation	(1,276)	(1,225)
Amortization of intangibles	(910)	(870)
Mortgage servicing rights	(905)	(1,045)
Prepaid expenses	(439)	(794)
Other	(192)	(149)
Net deferred tax asset	$ 9,525	$ 7,012

(Continued)

NOTE 14 - INCOME TAXES (Continued)

The Corporation had a state deferred tax asset of $1,001 and $141 which is included in accrued interest receivable and other assets on the consolidated balance sheets for the years ended December 31, 2023 and 2022, respectively. The Corporation had a federal deferred tax asset of $8,524 and $6,871 which is carried in accrued interest receivable and other assets on the consolidated balance sheets for the years ended December 31, 2023 and 2022, respectively.

The Corporation did not recognize interest and penalties during the years ended December 31, 2023 and 2022.

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

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES

The Corporation utilizes various derivative instruments as part of its asset liability management strategy to help manage exposure to risk arising from both its business operations and economic conditions. The Corporation uses derivative financial instruments to manage differences in the amount, timing, and duration of the Corporation's known or expected cash payments principally related to certain variable-rate liabilities. The Corporation utilizes derivatives as a means to offer qualified borrowers credit-based products that meet their needs and, therefore, are not used to manage interest rate risk in the Corporation's assets or liabilities. Additionally, the Corporation enters into forward commitments for the future delivery of mortgage loans to third party investors and enters into interest rate lock commitments (IRLC) with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. Furthermore, the Corporation utilizes derivatives as fair value hedges related to certain pools of securities. The Corporation does not use derivatives for speculative purposes.

The Corporation had various interest rate swap, interest rate floor, and interest rate cap agreements designated and qualifying as accounting hedges as of December 31, 2023 and 2022. Designating derivative instruments as a fair value hedge allows the Corporation to recognize gains and losses, less any ineffectiveness, in the consolidated statements of income within the same period that the hedged item affects earnings. The Corporation includes the gain or loss on the hedged items in the same line items the offsetting gain or loss on the related interest rate swap. For derivative instruments that are designated and qualify as cash flow hedges, any gains or losses related to changes in fair value are recorded in accumulated other comprehensive income, net of tax. The fair value of derivative instruments designated as accounting hedges, are reported in accrued interest receivable and other assets for instruments with a positive fair value, while instruments with a negative fair value are reported in accrued interest payable and other liabilities on the consolidated balance sheets.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The Corporation has various interest rate swaps that are not designated as accounting hedges; therefore, the changes in fair value are recognized directly in earnings. Certain interest rate swaps offset matched terms with prepayment penalties on an associated customer loan. Certain other interest rate swaps are used to provide an opportunity for qualifying commercial banking customers to manage their interest rate exposure by entering into an agreement with the Corporation swapping a variable rate loan to a fixed rate. The interest rate swaps are simultaneously hedged by the Corporation as they enter into a similar, offsetting swap agreement with an approved third party. The Corporation also manages market risk on IRLCs and mortgage loans held for sale by using corresponding forward sale commitments. The fair value of the interest rate swaps that offset matched terms with prepayment penalties with a positive fair value are reported in loans while the other non-designated hedge instruments with a positive fair value are reported in accrued interest receivable and other assets on the consolidated balance sheets. Non-designated hedge instruments with a negative fair value are reported in accrued interest payable and other liabilities on the consolidated balance sheets.

The interest rate swap agreement establishes the basis on which interest rate payments are exchanged with counterparties, referred to as the notional amount. The notional amount of the interest rate swaps and caps do not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the derivative instruments. Derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

All swaps are determined to be fully effective at inception and are expected to remain effective at December 31, 2023 and 2022.

Summary of Derivative Instruments

Fair Value Hedge Instruments

The following table presents amounts that were recorded on the consolidated balance sheets related to cumulative basis adjustments for interest rate swap derivatives designated as fair value accounting hedges as of December 31, 2023 and 2022.

	Carrying amount of the hedged asset		Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged assets	
Line item in the consolidated balance sheet in which the hedged item is included	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Securities available for sale (1)	$ 9,125	$ 9,806	$ (293)	$ (477)

(1) These amounts include the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedged item is the last layer expected to be remaining at the end of the hedging relationship. At December 31, 2023 and 2022, the amounts of the designated hedged items were $5,000.

(Dollar amounts in thousands except share and per share data)

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)

The following table presents a summary of interest rate swap derivatives designated as fair value accounting hedges of fixed-rate receivables used in the Corporation's asset liability management strategy as of December 31, 2023 and 2022, identified by the underlying interest rate-sensitive instruments.

December 31, 2023

Fair Value Hedges	Notional Value	Weighted-Average Remaining Maturity (years)	Fair Value	Weighted-Average Ratio	
				Receive	Pay
Securities available for sale	$ 5,000	1.46	$ 293	3-Month DWA SOFR + 26bps	0.48%
Total	$ 5,000		$ 293		

December 31, 2022

Fair Value Hedges	Notional Value	Weighted-Average Remaining Maturity (years)	Fair Value	Weighted-Average Ratio	
				Receive	Pay
Securities available for sale	$ 5,000	2.46	$ 477	3-Month Libor	0.48%
Total	$ 5,000		$ 477		

(Continued)

(Dollar amounts in thousands except share and per share data)

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NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)

Cash Flow Hedge Instruments

The following table presents amounts that were recorded on the consolidated balance sheets, consolidated statements of income, and consolidated statements of comprehensive income related to the derivative instruments designated as cash flow hedges at December 31, 2023 and 2022.

December 31, 2023

Cash Flow Hedges	Notional Value	Weighted-Average Remaining Maturity (years)	Fair Value	YTD OCI	Interest Expense		Weighted-Average Ratio		Reference Index	Strike Rate
							Receive	Pay		
Interest rate caps tied to municipal deposits	$ 25,000	1.46	$ 1,053	$ 718	$ (1,221)	(a)(d)	N/A	N/A	1-Month DWA SOFR	1.41%
Interest rate floor tied to municipal deposits	25,000	1.71	8	6	46	(a)	N/A	N/A	FFE	1.00%
Interest rate floor tied to back-to-back swaps	25,000	2.21	156	7	63	(e)	N/A	N/A	1-Month Term SOFR	3.00%
Interest rate cap tied to subordinated debt	5,000	0.96	91	45	(92)	(b)	N/A	N/A	3-Month Term SOFR	2.80%
Interest rate swap tied to subordinated debt	13,000	5.96	795	174	(356)	(b)	3-Month Term SOFR + 174bps	4.07%	N/A	N/A
Interest rate cap tied to holding company debt	7,000	1.75	403	101	(285)	(c)	N/A	N/A	3-Month Term SOFR	1.07%
Interest rate swaps tied to FHLB advances	-	0.00	-	110	(172)	(c)	3-Month LIBOR	N/A	N/A	N/A
Interest rate swaps tied to brokered deposits	145,000	2.76	3,067	1,894	(3,038)	(a)	3-Month DWA SOFR + 11bps	2.80%	N/A	N/A
Total	$ 245,000		$ 5,573	$ 3,055	$ (5,055)					

(a) - Expense included in deposit interest expense on the consolidated statements of income
(b) - Expense included in subordinated debentures interest expense on the consolidated statements of income
(c) - Expense included in notes payable and FHLB advances interest expense on the consolidated statements of income
(d) - Interest expense includes $349 in gains from early termination recognized in 2023
(e) - Expense included in loans, including fees on the consolidated statements of income

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)

December 31, 2022

Cash Flow Hedges	Notional Value	Weighted-Average Remaining Maturity (years)	Fair Value	YTD OCI	Interest Expense		Weighted-Average Ratio Receive	Weighted-Average Ratio Pay	Reference Index	Strike Rate
Interest rate caps tied to municipal deposits	$ 25,000	2.46	$ 1,689	$ (1,644)	$ (302)	(a)(d)	N/A	N/A	1-Month Libor	1.50%
Interest rate floor tied to municipal deposits	25,000	2.71	63	46	13	(a)	N/A	N/A	FFE	1.00%
Interest rate cap tied to subordinated debt	5,000	1.96	173	(133)	14	(b)	N/A	N/A	3-Month Libor	3.00%
Interest rate swap tied to subordinated debt	13,000	6.96	1,027	(1,569)	104	(b)	3-Month Libor + 148bps	4.02%	N/A	N/A
Interest rate cap tied to holding company debt	8,000	2.75	547	(346)	(63)	(c)	N/A	N/A	3-Month Libor	1.25%
Interest rate swaps tied to FHLB advances	10,000	0.58	147	(367)	154	(c)	3-Month Libor	2.27%	N/A	N/A
Interest rate swaps tied to brokered deposits	70,000	2.76	5,586	(4,342)	(133)	(a)	3-Month Libor	1.37%	N/A	N/A
Total	$ 156,000		$ 9,232	$ (8,355)	$ (213)					

(a) - Expense included in deposit interest expense on the consolidated statements of income

(b) - Expense included in subordinated debentures interest expense on the consolidated statements of income

(c) - Expense included in notes payable and FHLB advances interest expense on the consolidated statements of income

(d) - $25,000 in notional value was terminated in July 2022, with a net gain of $1,019 to be recognized over the original life of the cap; interest expense includes $175 in gains for 2022

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)

Non-Designated Hedge Instruments
The following table presents amounts that were recorded on the consolidated balance sheets and consolidated statements of income related to the derivative instruments not designated as accounting hedges at December 31, 2023 and 2022.

	December 31, 2023			December 31, 2022			
Non-Designated Hedge Instruments	Notional Value	Fair Value	YTD Gain/ (Loss)	Notional Value	Fair Value	YTD Gain/ (Loss)	
Asset Derivatives							
Interest rate swaps - prepayment penalty	$ 1,658	$ 131	$ -	$ 3,675	$ 208	$ -	
Interest rate swaps - back to back swaps	115,044	9,140	-	113,342	11,726	-	
Interest rate lock commitment (IRLC)	5,071	91	54	3,015	37	(254)	(a)
Forward contracts	-	-	-	2,173	12	(34)	(a)
Liability Derivatives							
Interest rate swaps - prepayment penalty	-	(131)	-	-	(208)	-	
Interest rate swaps - back to back swaps	115,044	(9,140)	-	113,342	(11,726)	-	
Forward contracts	512	(3)	(15)	-	-	-	
Total	$ 237,329	$ 88	$ 39	$235,547	$ 49	$ (288)	

(a) - Income included in loan sales and servicing income on the consolidated statements of income.

The Corporation's estimated exposure to credit loss, in the event of nonperformance by a borrower or counterparty, is limited to the fair value of the derivative instrument associated with that borrower or counterparty as provided in regulatory guidance as calculated by the Remaining Maturity Method. The Corporation monitors its derivative credit exposure to borrowers by monitoring the creditworthiness of the related loan customers through the normal credit review process the Corporation performs on all borrowers. The Corporation monitors the fair value credit risk of the institutional counterparties as they may be required to post credit support; the process includes a review of the financial statements which is part of the quarterly derivative review.

In connection with its use of derivative instruments, the Corporation is required from time to time to post collateral with its counterparties to offset its market position. The Corporation had pledged short-term certificates of deposit, cash, and securities with a carrying value of $100 and $713 at December 31, 2023 and 2022, respectively, in satisfaction of credit support agreements with derivative counterparties. Similarly, the Corporation's counterparties may be required to post collateral with the Corporation to offset the market position. The counterparties had pledged cash with a carrying value of $8,373 and $0 as of December 31, 2023 and 2022, respectively, in satisfaction of credit support agreements.

(Dollar amounts in thousands except share and per share data)

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NOTE 16 – COMMITMENTS

	2023	2022
Unused lines of credit	$ 512,955	$ 554,637
Commercial letters of credit	4,892	7,524
Commitment to sell loans	3,606	2,436

Some financial instruments, such as loan commitments, credit lines and letters of credit, are issued to meet customer financing needs. These are arrangements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make commitments as are used for loans, including obtaining collateral at exercise of the commitment.

As of December 31, 2023 and 2022, the Bank was not required to hold a reserve on deposit with the Federal Reserve. These reserves earned interest at a rate of 5.40% and 4.40% at December 31, 2023 and 2022, respectively.

NOTE 17 - REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet various capital requirements can initiate regulatory action. Management believes as of December 31, 2023, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

At December 31, 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 the notifications that management believes changed the institution's category.

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 17 - REGULATORY MATTERS (Continued)

Actual capital levels and minimum required levels were as follows:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2023						
Total capital to risk weighted assets						
Consolidated	$330,372	13.5	$256,826	10.5 %	N/A	N/A
Bank	323,054	13.3 %	255,576	10.5	$243,406	10.0 %
Tier 1 capital to risk weighted assets						
Consolidated	302,783	12.4	$207,907	8.5	N/A	N/A
Bank	295,465	12.1	206,895	8.5	194,725	8.0
Common Tier 1 (CET 1)						
Consolidated	284,783	11.6	171,218	7.0	N/A	N/A
Bank	295,465	12.1	170,384	7.0	158,214	6.5
Tier 1 capital to average assets						
Consolidated	302,783	10.0	120,822	4.0	N/A	N/A
Bank	295,465	9.8	120,364	4.0	150,455	5.0
2022						
Total capital to risk weighted assets						
Consolidated	$295,212	12.9 %	$239,533	10.5 %	N/A	N/A
Bank	292,055	12.8	239,134	10.5	$227,746	10.0 %
Tier 1 capital to risk weighted assets						
Consolidated	272,910	12.0	193,908	8.5	N/A	N/A
Bank	269,753	11.8	193,584	8.5	182,197	8.0
Common Tier 1 (CET 1)						
Consolidated	254,910	11.2	159,689	7.0	N/A	N/A
Bank	269,753	11.8	159,422	7.0	148,035	6.5
Tier 1 capital to average assets						
Consolidated	272,910	10.2	106,560	4.0	N/A	N/A
Bank	269,753	10.2	106,185	4.0	132,732	5.0

NOTE 18 - FAIR VALUES

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 18 - FAIR VALUES (Continued)

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of asset or liability carried at fair value:

The fair values for investment securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Designated derivative instruments consist of interest rate swaps, interest rate caps and interest rate floors. The Corporation obtains fair values from financial institutions that use internal models with observable market inputs to estimate the values of these instruments (Level 2 inputs)

Non-designated derivative instruments consist of interest rate swaps, interest rate lock commitments (IRLC) and forward contracts. The fair values of interest rate swap agreements are estimated using current market interest rates as of the balance sheet date and calculated using discounted cash flows that are observable or that can be corroborated by observable market data (Level 2 inputs). The fair values of IRLCs are determined using the projected sale price of individual loans based on changes in market interest rates, projected pull-through rates (the probability that an IRLC will ultimately result in an originated loan), the reduction in the value of the applicant's option due to the passage of time, and the remaining origination costs to be incurred based on management's estimate of market costs (Level 3 inputs). The fair values of forward contracts are determined by obtaining quoted prices from third party investors (Level 2 inputs).

The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Corporation is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

The fair value of agricultural servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. Inputs utilized include discount rates, prepayment speeds and delinquency rates (Level 3 inputs).

The fair value of impaired 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 typically significant and result in a Level 3 classification of the inputs for determining fair value.

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use 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 independent 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.

(Continued)

(Dollar amounts in thousands except share and per share data)

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NOTE 18 - FAIR VALUES (Continued)

Assets and Liabilities Measured on a Recurring Basis

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		
	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 government agency securities	$ -	$ 73,973	$ -
Obligations of states and political subdivisions	-	203,937	5,767
Mortgage-backed securities, residential	-	285,735	-
Total investment securities available for sale	-	563,645	5,767
Equity securities	4,898	-	-
Designated hedge derivatives		5,866	
Non-designated hedge derivatives:			
Interest rate swaps	-	9,271	-
Interest rate lock commitment (IRLC)	-	-	91
Total non-designated hedge derivatives	-	9,271	91
Total derivatives	-	15,137	91
Total financial assets	$ 4,898	$ 578,782	$ 5,858
Financial Liabilities			
Designated hedge derivatives	-	-	-
Non-designated hedge derivatives:			
Interest rate swaps	-	9,271	-
Forward contracts		3	
Total non-designated hedge derivatives	-	9,274	-
Total derivatives	-	9,274	-
Total financial liabilities	$ -	$ 9,274	$ -

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 18 - FAIR VALUES (Continued)

	Fair Value Measurements at December 31, 2022 Using		
	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 government agency securities	$ -	$ 77,538	$ -
Obligations of states and political subdivisions	-	221,475	6,765
Mortgage-backed securities, residential	-	153,935	-
Total investment securities available for sale	-	452,948	6,765
Equity securities	2,386	-	-
Designated hedge derivatives	-	9,709	-
Non-designated hedge derivatives:			
Interest rate swaps	-	11,934	-
Interest rate lock commitment (IRLC)	-	-	37
Forward contracts	-	12	-
Total non-designated hedge derivatives	-	11,946	37
Total derivatives	-	21,655	37
Total financial assets	$ 2,386	$ 474,603	$ 6,802
Financial Liabilities			
Designated hedge derivatives	-	-	-
Non-designated hedge derivatives:			
Interest rate swaps	-	11,934	-
Total non-designated hedge derivatives	-	11,934	-
Total derivatives	-	11,934	-
Total financial liabilities	$ -	$ 11,934	$ -

The tables below present a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2023 and 2022:

	Obligations of States and Political Subdivisions	
	2023	2022
Balance of recurring Level 3 assets at January 1	$ 6,765	$ 6,882
Included in earnings	(2)	(1)
Total losses included in other comprehensive income loss	(676)	(305)
Purchases	940	1,950
Maturities/calls	(1,260)	(1,761)
Transfers into Level 3	-	-
Balance of recurring Level 3 assets at December 31	$ 5,767	$ 6,765

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 18 - FAIR VALUES (Continued)

	Interest Rate Lock Commitments	
	2023	2022
Balance of recurring Level 3 assets at January 1	$ 37	$ 291
Total realized gains		
Included in net income	54	(254)
Balance of recurring Level 3 assets at December 31	$ 91	$ 37

There were no transfers into or out of Level 3 during 2023 or 2022.

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2023 and 2022.

	Fair Value	Valuation Technique	Unobservable Input	Range
December 31, 2023				
Obligations of states and political subdivisions	$ 5,767	Discounted Cash Flow	Discount Rate	2.78% - 3.72%
Interest rate lock commitments	$ 91	Discounted Cash Flow	Loan closing rates	72% - 100%
December 31, 2022				
Obligations of states and political subdivisions	$ 6,765	Discounted Cash Flow	Discount Rate	2.82% - 3.89%
Interest rate lock commitments	$ 37	Discounted Cash Flow	Loan closing rates	72% - 100%

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 18 - FAIR VALUES (Continued)

Assets and Liabilities Measured on a Non-Recurring Basis

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

	Fair Value Measurements at December 31, 2023 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Mortgage servicing rights	$ -	$ -	$ -
Agricultural servicing rights	-	-	1,850

	Fair Value Measurements at December 31, 2022 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Mortgage servicing rights	$ -	$ 2,351	$ -
Agricultural servicing rights	-	-	1,810
Impaired loans			
Commercial	-	-	241
Residential Mortgage	-	-	90

Appraisals or brokers-price-opinions for collateral-dependent impaired loans and other 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. For collateral dependent impaired loans this discount ranges from 0-20% for Agriculture and 10%-35% for Commercial and Residential Mortgage. For other real estate owned this discount ranges from 0-25%.

At December 31, 2023 and 2022, there was no other real estate owned measured at fair value less costs to sell. There were no write downs for the year ended December 31, 2023 and 2022.

(Dollar amounts in thousands except share and per share data)

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NOTE 18 - FAIR VALUES (Continued)

The following tables present fair values of the Corporation's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall as of December 31, 2023 and 2022.

	Fair Value Measurements at December 31, 2023			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents and interest bearing deposits in other financial institutions	$ 59,634	$ 59,634	$ -	$ -
Securities held to maturity	130	-	140	-
Restricted stock	11,732	-	11,732	-
Loans held-for-sale	3,606	-	-	3,699
Loans, net	2,219,380	-	-	2,158,459
Accrued interest receivable	23,419	-	23,419	-
Financial liabilities				
Noninterest-bearing deposits	(483,923)	(483,923)	-	-
Interest-bearing deposits	(2,116,930)	-	(2,097,163)	-
FHLB advances	(55,000)	-	(54,522)	-
Notes payable	(6,989)	-	(8,298)	
Subordinated debentures	(18,558)	-	-	(15,249)
Accrued interest payable	(3,617)	-	(3,617)	-

(Continued)

(Dollar amounts in thousands except share and per share data)

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NOTE 18 - FAIR VALUES (Continued)

	Fair Value Measurements at December 31, 2022			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents and interest bearing deposits in other financial institutions	$ 100,917	$ 100,917	$ -	$ -
Securities held to maturity	145	-	157	-
Restricted stock	10,493	-	10,493	-
Loans held-for-sale	2,436	-	-	2,526
Loans, net	2,046,907	-	-	2,035,702
Accrued interest receivable	16,169	-	16,169	-
Financial liabilities				
Noninterest-bearing deposits	(551,866)	(551,866)	-	-
Interest-bearing deposits	(1,787,854)	-	(1,660,721)	-
FHLB advances	(116,500)	-	(115,659)	-
Notes payable	(7,984)	-	(9,100)	-
Subordinated debentures	(18,558)	-	-	(14,814)
Accrued interest payable	(1,838)	-	(1,838)	-

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents and interest-bearing deposits in other financial institutions, accrued interest receivable and payable, demand deposits, short-term debt, and deposits that reprice frequently and fully. The methods for determining the fair values for securities held to maturity is consistent with the methods for securities available for sale and equity securities, which was described previously. For time deposits and deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life. Fair value of loans held for sale is based on market quotes. Fair value of loans is based on market interest rates, with a credit mark based on historical charge offs and recoveries. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted stock due to restrictions placed on its transferability. Fair value of derivatives are determined using quantitative models that utilize multiple market inputs. Fair values for off-balance-sheet, credit related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the counterparties' credit standing. The fair value of off-balance-sheet items is not significant. The fair values as of December 31, 2023 and 2022, utilize exit pricing, including factors for yield, credit, and liquidity.

(Continued)

(Dollar amounts in thousands except share and per share data)

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NOTE 19 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	$ 11,459	$ 7,078
Interest-bearing deposits with unaffiliated depository institutions	1,225	-
Investment in subsidiaries	269,390	251,454
Equity securities	4,751	2,292
Dividend receivable	2	2
Other assets	3,044	2,459
	$ 289,871	$ 263,285
Liabilities		
Notes payable	$ 6,989	$ 7,984
Other borrowings	953	-
Dividend payable and other liabilities	3,768	3,658
Subordinate debentures payable to:		
First Farmers Statutory Trust II	5,155	5,155
First Farmers Statutory Trust III	13,403	13,403
	30,268	30,200
Stockholders' equity	259,603	233,085
	$ 289,871	$ 263,285

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31, 2023 and 2022

	2023	2022
Dividends from subsidiaries	$ 18,600	$ 15,875
Other income	271	95
Unrealized losses recognized on equity securities	(59)	(284)
Interest expense	(1,245)	(1,134)
Other operating expenses	(780)	(729)
Income tax benefit	494	518
Equity in undistributed income of subsidiaries	28,902	26,936
Net Income	$ 46,183	$ 41,277
Comprehensive income	$ 52,144	$ 2,407

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 19 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	$ 46,183	$ 41,277
Adjustments to reconcile net income to net cash from operating activites		
Equity in undistributed income of subsidiaries	(28,902)	(26,936)
Amortization of debt issuance costs	6	6
Stock-based compensation	439	422
Deferred income tax benefit	(80)	(139)
Unrealized losses of fair value equity securities	59	284
Change in other assets and liabilities	(633)	375
Net cash from operating activities	17,072	15,289
Cash flows from investing activities		
Distributions from subsidiary	3,799	-
Purchase of equity securities	(2,518)	(1,032)
Net cash used in investing activities	1,281	(1,032)
Cash flows from financing activities		
Payments on notes payable	(1,000)	(1,000)
Net change in short term borrowings	953	-
Dividends paid	(13,069)	(11,442)
Sale of treasury stock	165	225
Purchase of treasury stock	(1,021)	(692)
Net cash used in financing activities	(13,972)	(12,909)
Net change in cash and cash equivalents	4,381	1,348
Beginning cash and cash equivalents	7,078	5,730
Ending cash and cash equivalents	$ 11,459	$ 7,078

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 20 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The tables below present changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ending December 31, 2023 and 2022:

	Gains and Losses on Derivatives	Unrealized Gains and Losses On Available for Sale Securities	Total
December 31, 2023			
Beginning Balance	$ 7,373	$ (38,888)	$ (31,515)
Other comprehensive income/(loss) before reclassification	(2,921)	8,502	5,581
Amounts reclassified from accumulated other comprehensive loss	(134)	514	380
Net current period other comprehensive income/(loss)	(3,055)	9,016	5,961
Ending balance	$ 4,318	$ (29,872)	$ (25,554)

	Gains and Losses on Derivatives	Unrealized Gains and Losses On Available for Sale Securities	Total
December 31, 2022			
Beginning Balance	$ (982)	$ 8,337	$ 7,355
Other comprehensive income/(loss) before reclassification	8,351	(48,670)	(40,319)
Amounts reclassified from accumulated other comprehensive loss	4	1,445	1,449
Net current period other comprehensive income/(loss)	8,355	(47,225)	(38,870)
Ending balance	$ 7,373	$ (38,888)	$ (31,515)

(Continued)

(Dollar amounts in thousands except share and per share data)

NOTE 20 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

The tables below present significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the years ending December 31, 2023 and 2022:

	December 31, 2023	
Details about Accumulated other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Gains on cash flow hedges		
Interest rate contracts	$ 179	Interest income
	179	Total before tax
	(45)	Tax expense
	134	
Realized losses on		Realized loss on sale and
available for sale securities	(684)	redemption of securities
	(684)	Total before tax
	170	Tax benefit
	(514)	
	$ (380)	Net of tax

	December 31, 2022	
Details about Accumulated other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Losses on cash flow hedges		
Interest rate contracts	$ (5)	Interest expense
	(5)	Total before tax
	1	Tax benefit
	(4)	
Realized losses on		Realized loss on sale and
available for sale securities	(1,924)	redemption of securities
	(1,924)	Total before tax
	479	Tax benefit
	(1,445)	
	$ (1,449)	Net of tax

(Dollar amounts in thousands except share and per share data)

NOTE 21 – LEASES

Lessee Arrangements

The Corporation leases certain office facilities under long-term operating lease agreements. The leases expire at various dates through 2028 and contain renewal options. Three of these leases requires the payment of property taxes and insurance premiums, and two require the payment of maintenance and other costs. In some cases, rentals are subject to escalation based upon changes in a consumer price index. The Corporation accounts for lease and non-lease components together as a single lease component and determines if an arrangement is a lease at inception.

Right-of-use ("ROU") lease assets represent the Corporation's right to use an underlying asset for the lease term and lease obligations represent the Corporation's obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. The ROU lease asset also includes any lease payments made and excludes lease incentives. The Corporation's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Corporation will exercise that option.

The Corporation uses its incremental borrowing rate at lease commencement 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.

During 2023 , the Corporation entered into a new lease agreement, which resulted in a net increase in the ROU lease asset of $907 and increase in the lease liability of $907. During 2022, the Corporation entered into a new lease agreement, which resulted in a net increase in the ROU lease asset of $69 and increase in the lease liability of $69.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Short-term leases are leases having a term of twelve months or less. The Corporation recognizes short-term leases on a straight-line basis and does not record a related lease asset or liability for such leases, as allowed as practical expedient of the standard.

The Corporation entered into a new lease agreement in 2023, with a commencement date in 2024. It is expected that the annual rent amount will be $126, with a 2 percent escalator each year.

Lease Classification

ROU assets and lease liabilities and the associated balance sheet classifications are as follows at December 31, 2023 and 2022:

	Balance Sheet Classification	2023	2022
ROU assets	Accrued interest receivable and other assets	$ 1,578	$ 799
Lease liabilities	Accrued interest payable and other liabilities	1,576	796

(Continued)

(Dollar amounts in thousands except share and per share data)

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NOTE 21 – LEASES (Continued)

Lease Expense

The components of total lease cost were as follows for the period ending December 31, 2023 and 2022:

	2023	2022
Operating lease cost	$ 135	$ 91
Total lease costs	$ 135	$ 91

Lease Obligations

The following is a maturity analysis of the operating leases with initial terms of one year or more as of December 31, 2023:

2024	$ 164
2025	158
2026	158
2027	160
2028	162
Thereafter	1,261
Total undiscounted lease payments	2,063
Less: imputed interest	(487)
Net lease liabilities	$ 1,576

Supplemental Lease Information

	2023	2022
Operating lease weighted-average remaining lease term (years)	12.88	10.28
Operating lease weighted average discount rate (percentage)	3.87	2.01
Operating cash flows from operating leases	$ 135	$ 91

See Note 3, Loans, for additional information on leases where the Corporation is the lessor.

(Dollar amounts in thousands except share and per share data)

NOTE 22 – 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 2022. Items outside the scope of ASC 606 are noted as such.

	2023	2022
Non-interest income		
Service charges on deposit accounts		
Overdraft fees	$ 2,961	$ 2,971
Maintenance fees	1,541	853
Investment product fees	851	867
Interchange income	5,303	5,220
Net loss on sale and redemption of securities (1)	(684)	(1,924)
Unrealized loss recognized on equity securities (1)	(7)	(295)
Loan sales and servicing income (1)	3,504	5,234
Back to back swap fee income	-	562
Other income (2)	2,681	2,592
Total non interest income	$ 16,150	$ 16,080

(1) Not within the scope of ASC 606
(2) The Other income category includes losses on the sale of equipment totaling $(36) in 2023 and losses on the sale of other real estate owned and equipment of $(38) in 2022, which is within the scope of ASC 606; the remaining balance of $2,717 in 2023 and $2,630 in 2022 is outside the scope of ASC 606.

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 related 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 deposit accounts are withdrawn from the customer's account balance.

Investment Brokerage Fees (Net): The Corporation earns fees from investment brokerage services provided to its customers by a third-party service provider. The Corporation receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The gross commission fees are recognized monthly. Because the Corporation (i) acts as an agent in arranging the relationship between the customer and the third-party service provider and (ii) does not control the services rendered to the customers, investment brokerage fees are presented net of related costs.

Interchange Income: The Corporation earns interchange fees from debit cardholder transactions conducted through the Mastercard and NYCE payment networks. 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.

(Continued)

(Dollar amounts in thousands except share and per share data)

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NOTE 22 – REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Gains/Losses on Sales of OREO and Premises and Equipment: The Corporation records a gain or loss from the sale of OREO or premises and equipment when control of the property transfers to the buyer, which generally occurs at the time of an executed deed or purchase agreement. When the Corporation finances the sale of OREO or premises and equipment 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 this criterion are met, the OREO or premises and equipment asset is derecognized and the gain or loss on the 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 unrelated gain (loss) on sale if a significant financing component is present.

NOTE 23 – RELATED-PARTY TRANSACTIONS

Loans to executive officers, directors, and their affiliates during 2023 and 2022 were as follows.

	2023	2022
Beginning balance	$ 7,748	$ 7,066
New loans	582	1,047
Effect of changes in composition of related parties	-	338
Repayments	(449)	(703)
Ending balance	$ 7,881	$ 7,748

Certain directors, executive officers and principal stockholders of the Corporation, including their immediate families and companies in which they are principal owners, were deposit customers of the Bank. At December 31, 2023 and 2022, deposits held for these individuals totaled approximately $14,892 and $13,635.

NOTE 24 – SUBSEQUENT EVENT

Subsequent events have been evaluated through February 29, 2024, which is the date the consolidated financial statements were issued. The Corporation paid $35,000 in January 2024 for the maturity of Federal Home Loan Bank advances. The Corporation authorized a new $35,000 Federal Home Loan Bank advance in February 2024. The Corporation has determined that there have been no other events that require disclosure.