CITIZENS BANCORP INVESTMENT, INC.
Lafayette, Tennessee

Consolidated Financial Statements

December 31, 2023 and 2022

(With Independent Auditor's Report Thereon)

MAGGART
& ASSOCIATES, P.C.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Citizens Bancorp Investment, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the financial statements of Citizens Bancorp Investment, Inc., which comprise the consolidated balance sheet as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive earnings, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Citizens Bancorp Investment, Inc. 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 Citizens Bancorp Investment, Inc.'s internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for the Consolidated Reports of Condition and Income (call report instruction), 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). In our opinion, Citizens Bancorp Investment, Inc. maintained, in all material respects, effective 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).

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for accounting for allowance for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, Financial Instruments - Credit Losses ("ASC 326"). The Company adopted the new credit loss standard using the modified retrospective method provided in Accounting Standards Update No. 2016-13 such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinions

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 Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of Citizens Bancorp Investment, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

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 effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control over Financial Reporting.

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 Citizens Bancorp Investment, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

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 about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness 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 to be 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.

<u>Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting, Continued</u>

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with Generally Accepted Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit 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.
- 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 Citizens Bancorp Investment, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

<u>Definition and Inherent Limitations of Internal Control over Financial Reporting</u>

An institution'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. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Citizens Bancorp Investment, Inc.'s internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and controls over the preparation of schedules equivalent to basic financial statements in accordance with Federal Financial Institution Examination Council instructions for the Consolidated Reports of Condition and Income (call report instructions). An institution'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

Definition and Inherent Limitations of Internal Control over Financial Reporting, Continued

dispositions of the assets of the institution; (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 institution 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 institution'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.

Maggart & Associates, P.C.

Nashville, Tennessee
March 26, 2024

Consolidated Balance Sheets

December 31, 2023 and 2022

(In Thousands, except share data)	**2023**	2022
ASSETS		
Loans, net of allowance for credit losses of $11,436 and allowance for loan loan losses of $11,970, respectively	**$ 1,031,450**	$ 963,592
Loans held for sale	**142**	220
Debt securities, available-for-sale, at market (amortized cost $412,619 and $448,734, respectively)	**376,939**	404,344
Marketable equity securities, at market (cost $39)	**65**	69
Restricted equity securities	**4,441**	4,271
Federal funds sold	**1,000**	1,000
Interest-bearing deposits in financial institutions (cash equivalent)	**16,918**	2,337
Total earning assets	**1,430,955**	1,375,833
Cash and due from banks	**25,681**	22,819
Premises and equipment, net	**19,926**	20,098
Accrued interest receivable	**7,352**	6,162
Cash surrender value of life insurance	**27,844**	20,264
Annuity investment	**3,572**	3,686
Refundable income taxes	**1,195**	963
Deferred income tax asset, net	**10,571**	12,674
Goodwill and intangible assets, net	**19,584**	19,877
Mortgage servicing rights	**2,501**	2,567
Other assets	**2,470**	2,005
Total assets	**$ 1,551,651**	$ 1,486,948
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand deposits	**$ 245,143**	$ 263,864
Interest-bearing demand deposits	**285,702**	351,800
Money market accounts	**72,747**	58,547
Savings accounts	**153,328**	191,233
Certificates of deposit	**495,363**	342,782
Individual retirement accounts	**81,607**	73,239
Total deposits	**1,333,890**	1,281,465
Notes payable	**9,262**	12,170
Advances from the Federal Home Loan Bank	**65,072**	70,196
Accrued interest payable	**3,004**	1,135
Other liabilities	**6,193**	5,025
Total liabilities	**1,417,421**	1,369,991
Stockholders' equity:		
Common stock, Class A, par value $0.05 per share, authorized 12,000,000 shares, 5,897,597 and 5,888,111 issued and outstanding, respectively	**295**	294
Additional paid-in capital	**8,317**	8,399
Retained earnings	**151,973**	141,053
Accumulated other comprehensive losses, net of taxes of $9,325 and $11,601, respectively	**(26,355)**	(32,789)
Total stockholders' equity	**134,230**	116,957
COMMITMENTS AND CONTINGENCIES		
Total liabilities and stockholders' equity	**$ 1,551,651**	$ 1,486,948

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Earnings
Years Ended December 31, 2023 and 2022

(In Thousands, except per share data)	2023	2022
Interest income:		
Loans, including fees	**$ 58,234**	$ 44,778
Securities:		
Taxable	**6,916**	5,958
Tax-exempt	**2,271**	2,239
Federal funds sold and other	**1,068**	683
Total interest income	**68,489**	53,658
Interest expense:		
Interest-bearing demand deposit accounts	**1,489**	801
Money market accounts and savings accounts	**1,722**	482
Certificates of deposit	**15,088**	2,734
Individual retirement accounts	**2,257**	619
Federal Home Loan Bank advances	**2,625**	651
Notes payable and other	**796**	717
Total interest expense	**23,977**	6,004
Net interest income before provision for credit losses	**44,512**	47,654
Provision for credit losses and off-balance sheet commitments	**972**	1,314
Net interest income after provision for credit losses	**43,540**	46,340
Non-interest income	**7,641**	8,924
Non-interest expense	**(33,320)**	(32,153)
Earnings before income taxes and unrealized holding loss on marketable equity securities	**17,861**	23,111
Unrealized holding loss on marketable equity securities	**(3)**	(23)
Income tax expense	**3,178**	4,447
Net earnings	**$ 14,680**	$ 18,641
Earnings per share:		
Basic	**$ 2.49**	$ 3.17
Diluted	**$ 2.45**	$ 3.11

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Earnings (Losses)
Years Ended December 31, 2023 and 2022

(In Thousands)	**2023**	2022
Net earnings	**$ 14,680**	$ 18,641
Other comprehensive earnings (losses):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) arising during the year	**8,710**	(47,008)
Tax effect	**(2,276)**	12,285
Other comprehensive earnings (losses) net of tax	**6,434**	(34,723)
Total comprehensive earnings (losses)	**$ 21,114**	$ (16,082)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2023 and 2022

(In Thousands, except per share data)	Class A Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Losses)	Stockholders' Equity
Balance, January 1, 2022	$ 294	$ 7,895	$ 126,176	$ 1,934	$ 136,299
Net earnings for year	-	-	18,641	-	18,641
Stock option compensation	-	119	-	-	119
Issuance of 7,111 of common stock	-	313	-	-	313
Exercise of 12,800 stock options net of repurchase of 4,000 shares	-	72	-	-	72
Net change in fair value of available-for-sale debt securities during the year, net of taxes of $12,285	-	-	-	(34,723)	(34,723)
Cash dividends declared on 5,877,800 shares at $0.16 per share	-	-	(941)	-	(941)
Cash dividends declared on 5,881,000 shares at $0.48 per share	-	-	(2,823)	-	(2,823)
Balance, December 31, 2022	$ 294	$ 8,399	$ 141,053	$ (32,789)	$ 116,957
Cumulative change in accounting principle	**-**	**-**	**247**	**-**	**247**
Net earnings for year	**-**	**-**	**14,680**	**-**	**14,680**
Stock option compensation	**-**	**59**	**-**	**-**	**59**
Exercise of 27,080 stock options net of repurchase of 17,594 shares	**1**	**(141)**	**-**	**-**	**(140)**
Net change in fair value of available-for-sale debt securities during the year, net of taxes of $2,276	**-**	**-**	**-**	**6,434**	**6,434**
Cash dividends declared on 5,888,111 shares at $0.17 per share	**-**	**-**	**(1,001)**	**-**	**(1,001)**
Cash dividends declared on 5,891,102 shares at $0.17 per share	**-**	**-**	**(1,001)**	**-**	**(1,001)**
Cash dividends declared on 5,897,597 shares at $0.34 per share	**-**	**-**	**(2,005)**	**-**	**(2,005)**
Balance, December 31, 2023	**$ 295**	**$ 8,317**	**$ 151,973**	**$ (26,355)**	**$ 134,230**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022
Increase (Decrease) in Cash and Cash Equivalents

(In Thousands)	**2023**	2022
Cash flows from operating activities:		
Interest received	**$ 67,192**	$ 52,544
Proceeds from sale of loans held for sale	**14,603**	25,901
Origination of loans held for sale	**(14,525)**	(24,181)
Fees and other income	**6,528**	7,598
Interest paid	**(22,097)**	(5,608)
Cash paid to suppliers and employees	**(31,703)**	(31,453)
Income taxes paid	**(3,555)**	(4,469)
Net cash provided by operating activities	**16,443**	20,332
Cash flows from investing activities:		
Loans made to customers, net of repayments	**(67,257)**	(169,115)
Proceeds from calls, paydowns and maturities of available-for-sale debt securities	**36,073**	53,259
Purchase of available-for-sale debt securities	**-**	(134,972)
Purchase of restricted equity securities	**(170)**	(147)
Proceeds from sale of premises and equipment and software	**4**	18
Purchase of premises and equipment and software	**(1,133)**	(810)
Purchase of life insurance	**(6,855)**	-
Proceeds from annuity investment	**103**	116
Proceeds from sale of other real estate	**-**	182
Net cash used in investing activities	**(39,235)**	(251,469)
Cash flows from financing activities:		
Net increase (decrease) in interest-bearing and non-interest-bearing deposits	**(108,524)**	(9,133)
Net increase (decrease) in time deposits	**160,938**	(10,212)
Principal payments on notes payable	**(2,908)**	(2,101)
Repayment of advances from Federal Home Loan Bank	**(53,124)**	(89,704)
Advances from Federal Home Loan Bank	**48,000**	137,000
Exercise of stock options net of repurchase	**(140)**	72
Proceeds from issuance of common stock	**-**	313
Cash dividends paid	**(4,007)**	(3,764)
Net cash provided by financing activities	**40,235**	22,471
Net increase (decrease) in cash and cash equivalents	**17,443**	(208,666)
Cash and cash equivalents at beginning of year	**26,156**	234,822
Cash and cash equivalents at end of year	**$ 43,599**	$ 26,156

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows, Continued
Years Ended December 31, 2023 and 2022
Increase (Decrease) in Cash and Cash Equivalents

(In Thousands)	**2023**	2022
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	**$ 14,680**	$ 18,641
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of premises and equipment and amortization of software	**1,301**	1,318
Provision for loan losses	**972**	1,314
Amortization and accretion of available-for-sale debt securities, net	**42**	668
Purchase accounting accretion and amortization, net	**154**	261
Stock option compensation expense	**59**	119
Provision for deferred income taxes	**(145)**	482
Unrealized holding loss on marketable equity securities	**3**	23
Decrease in loans held for sale, net	**78**	1,720
Decrease (increase) in accrued interest receivable	**(1,190)**	(1,341)
Life insurance policy income	**(725)**	(441)
Annuity investment loss, net	**11**	-
Increase in refundable income taxes	**(232)**	(504)
Decrease (increase) in mortgage servicing rights, net	**66**	(943)
Decrease (increase) in other assets	**(465)**	58
Increase (decrease) in accrued interest payable	**1,869**	(12)
Decrease in accrued expenses and other liabilities	**(35)**	(1,031)
Total adjustments	**1,763**	1,691
Net cash provided by operating activities	**$ 16,443**	$ 20,332

Supplemental Schedule of Non-Cash Activities:

Change in unrealized gains (losses) on available-for-sale debt securities, net of taxes of $2,276 and $(12,285), respectively	**$ 6,434**	$ (34,723)
Loans transferred to other real estate	**$ -**	$ 182
Other real estate transferred to loans	**$ -**	$ 40

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Citizens Bancorp Investment, Inc. and Subsidiaries ("the Company") are in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to general practices within the banking industry. The following is a brief summary of the more significant policies.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Citizens Bank and Town & Country Finance Company, Inc. The consolidated financial statements also include the accounts of Citizens Bank's 100% owned subsidiary, Citizens Insurance Services, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Nature of Operations

The Company's subsidiary bank operates under a state bank charter and provides full banking services. As a state bank, the subsidiary bank is subject to regulation of the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation. The areas served by the subsidiary bank include Bedford, Clay, Coffee, DeKalb, Franklin, Jackson, Macon, Overton, Putnam, Smith, Sumner, Wilson and surrounding counties in Middle Tennessee. Services are provided at twenty-two banking offices.

(c) Estimates

In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to determination of the allowance for credit losses, the valuation of deferred tax assets and liabilities, and the fair value of financial instruments.

(d) Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the principal amount outstanding. Purchase premiums and discounts, unearned discounts and the allowance for loan losses are shown as reductions of loans. Unearned discount represents the unamortized amount of finance charges, principally related to certain installment loans. Interest income on most loans is accrued based on the principal amount outstanding.

Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection, with the exception of residential real estate loans. Residential real estate loans are placed on nonaccrual status when principal or interest are past due 120 days or more if it is deemed the Company is not at risk for loss. Delays or shortfalls in loan payments are evaluated along with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to pay.

Generally, at the time a loan is placed on nonaccrual status, all interest accrued and uncollected on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectibility of outstanding principal is doubtful, such cash received is applied as a reduction of principal. A nonaccrual loan may be restored to an accruing status when principal and interest are no longer past due and unpaid, and future collection of principal and interest on a timely basis is not in doubt.

(e) Allowance for Credit Losses - Loans

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged 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.

The Company's management assesses the adequacy of the allowance on a quarterly basis.This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of historical default and loss experience, current and projected economic and environmental conditions such as changes in unemployment rates, property values, or other relevant factors, underwriting standards, portfolio mix, delinquency level, asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay a loan (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, industry and peer institution loan quality indications and other pertinent factors, including regulatory recommendations.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exists. The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

Commercial and Agricultural - These are generally loans to businesses and agricultural enterprises the proceeds of which are used for commercial, industrial, agricultural and professional purposes. Repayment of such loans is generally dependent on the successful operations of the business or agricultural enterprise.

Real Estate - Commercial, Farming, Residential and Multifamily - This category includes primarily loans secured by 1-4 family residential, commercial or agricultural property. Repayment is primarily dependent on the cash flow of the underlying individual or business, but could also be dependent upon the operation, refinance or sale of the underlying real estate.

Real Estate - Construction and Land Development - Loans in this category generally include land development, 1-4 family construction and commercial construction projects such as office and retail space, warehouses, apartments and land development loans. Repayment of these loans is dependent upon the successful operations or sale of the completed projects.

Consumer and Other - This category includes all loans issued to individuals not included in the real estate classification. These loans generally include vehicle, education and other consumer loans. Repayment is subject to the individual's underlying ability to service their loan payments.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. Individual evaluations are generally performed for large loans which have experienced significant credit deterioration. Such loans are evaluated for credit losses based on either discounted cash flows or the fair value of collateral. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral, less selling costs. For loans for which foreclosure is not probable, but for which repayment is expected to be provided substantially through the operation or sale of the collateral, the Corporation has elected the practical expedient under ASC 326 to estimate expected credit losses based on the fair value of collateral, with selling costs considered in the event sale of the collateral is expected. Loans for which terms have been modified are evaluated using these same individual evaluation methods.

The Company uses a model developed by a third party as the primary tool in estimating the allowance for credit losses. The Company's model applies the discounted cash flows method in estimating credit losses and relies on data and assumptions supplied by management. The Company's analysis relies on determining the expected cash flows over the life of loans and discounting at the loans' effective interest rate. The model relies on several assumptions supplied by management, including prepayment rates, probability of default, loss given default, recovery delay, discount rate, and other items deemed significant by management. Management then determines necessary adjustments to the analysis based on the facts and circumstances specific to the Company and adjustments management determines are reasonable and supportable.

The estimated credit losses for all loan segments are adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management but measured by objective measurements period over period. The data for each measurement may be obtained from internal or external sources. The current period measurements are evaluated and assigned a factor commensurate with the current level of risk relative to past measurements over time. The resulting qualitative adjustments are applied to the relevant collectively evaluated loan portfolios. These adjustments are based upon quarterly trend assessments in portfolio concentrations, policy exceptions, associate retention, loan review results, collateral considerations, risk ratings, and competition. The qualitative allowance allocation, as determined by the processes noted above, is increased or decreased for each loan segment based on the assessment of these various qualitative factors. Additional qualitative considerations are made for any identified risk which did not exist within the Company's portfolio historically and therefore may not be adequately addressed through evaluation of such risk factor based on historical portfolio trends as previously discussed.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company, or management has a reasonable expectation at the reporting date that a loan modification will be made to a borrower experiencing financial difficulty.

Accrued interest receivable totaled $5,829,000 at December 31, 2023 and is excluded from the estimate of credit losses. Additional information related to the factors considered in evaluating credit losses on loans in included in Note 2.

(f) Allowance for Loan Losses (prior to January 1, 2023)

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

(g) Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The following categories of off-balance sheet credit exposures have been identified: unfunded loan commitments, standby letters of credit, and financial guarantees (collectively, "unfunded lending commitments"). The allowance for credit losses on unfunded lending commitments is recorded in other liabilities and adjusted through the credit loss expense – off-balance sheet credit exposures. The estimate may include consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded, as well as reasonable practical expedients or industry practices to assist in the evaluation of estimated funding amounts.

As of December 31, 2023, the allowance for credit losses on unfunded commitments was $1,104,000 and is included in other liabilities.

(h) Loans Held-For-Sale

Mortgage loans held for sale are reported at the lower of cost or fair value, determined by outstanding commitments from investors at the balance sheet date. These loans are valued on an aggregate basis. Gains and losses on sales of mortgage loans is based on the difference between the selling price and the carrying value of the related loan sold.

(i) Debt and Equity Securities

The Company accounts for debt securities under the provisions of FASB ASC 320, *"Investments - Debt Securities"*. Under these provisions debt securities are classified in three categories and accounted for as follows:

- ***Securities Held-to-Maturity***

  Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Amortization of premiums and accretion of discounts are recognized by the interest method. No debt securities have been classified as held-to-maturity.

- ***Trading Securities***

  Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

- ***Securities Available-for-Sale***

  Debt securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity in accumulated other comprehensive income. Amortization of premiums and discounts are recognized by the straight line method. The Company has classified essentially all its debt securities as available-for-sale.

The Company accounts for equity securities under the provisions of FASB ASC 321, "Investments - Equity Securities". Under the provisions of the guidance, equity securities not using the equity method are carried at estimated fair value based on information provided by a third party pricing service with changes in fair value and realized gains or losses reported in earnings. If fair value is not readily determinable, the equity securities are carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. All equity securities are evaluated at least annually for impairment. The Company's equity securities have readily determinable fair values. Because changes in fair value are recorded as they occur, there is no expectation of a gain or loss on the sale of equity securities.

Realized gains or losses from securities are determined on the specific-identification method. Purchase premiums and discounts are recognized in interest income using the straight line method over the terms of the securities.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

(j) Allowance for Credit Losses – Securities Available-for-Sale

For debt securities available for sale in an unrealized loss position, the Company 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 Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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 a security available for sale is confirmed or when either of the criteria regarding intent or requirement to sell is met.

As of December 31, 2023, there is no allowance for credit losses recorded on securities available for sale.

(k) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits in financial institutions and federal funds sold. Generally, federal funds sold are purchased and sold for one-day periods. The subsidiary bank maintains deposits with other financial institutions in excess of the federal insurance amounts. Management makes deposits only with financial institutions it considers to be financially sound.

(l) Interest-Bearing Deposits in Financial Institutions

Interest-bearing deposits in financial institutions typically mature within one year and are carried at cost.

(m) Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the related assets. Gain or loss on items retired and otherwise disposed of is credited or charged to operations and cost and related accumulated depreciation are removed from the asset and accumulated depreciation accounts.

Expenditures for major renewals and improvements of premises and equipment are capitalized and those for maintenance and repairs are charged to earnings as incurred.

These assets are reviewed for impairment when events indicate their carrying value may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

(n) Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sale of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

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

Servicing fee income, which is reported within non-interest income on the consolidated statements of earnings as mortgage loan servicing fee income, is recorded for fees earned for servicing loans, including late fees and ancillary fees. 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. Late fees and ancillary fees related to loan servicing are not material.

(o) Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs relating to the development and improvement of the property are capitalized, while holding costs of the property are charged to expense in the period incurred.

(p) Goodwill and Intangible Assets

Goodwill arises from business combinations and is 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 business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected September 30 as the date to perform the annual impairment test. Intangible assets with finite 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.

Other intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions and are amortized on a straight-line basis over their estimated useful lives.

(q) Life Insurance Policies and Annuity Investments

The Company owns life insurance policies insuring the lives of certain officers and directors and annuity investments to fund the cost of certain employee benefits. Bank-owned life insurance policies and annuity investments are initially recorded at the amount of premiums paid and are periodically adjusted to current cash surrender values. Changes in cash surrender values are recorded in non-interest income and are based on premiums paid less expenses plus accrued interest income.

(r) Advertising Costs

Advertising costs are expensed as incurred and totaled $571,000 and $484,000 in 2023 and 2022, respectively.

(s) Income Taxes

The Company accounts for income taxes in accordance with Income Tax Accounting Guidance ("FASB ASC 740"). The Company has adopted the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

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

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

It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company and its subsidiaries file a consolidated Federal income tax return. Each member of the consolidated group provides for income taxes on a separate-return basis.

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(t) Equity-Based Incentives

Stock compensation accounting guidance (FASB ASC 718, *Compensation - Stock Compensation")* requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, cash-settled stock appreciation rights (SARs), and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee's 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. It is the Company's policy to recognize forfeitures as they occur. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock option and cash-settled SARs at the date of grant.

(u) Off-Balance-Sheet Financial Instruments

In the ordinary course of business the subsidiary bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

(v) Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 19 to the consolidated financial statements. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

(w) Subsequent Events

The Company has evaluated all subsequent events or transactions for recognition or disclosure through March 26, 2024, the date the consolidated financial statements were available to be issued.

On January 17, 2024, the Company declared a $0.18 per share dividend for shareholders of record on January 31, 2024 payable February 7, 2024.

(x) Revenue from Contracts with Customers

The Company has adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU Collectively, ("ASC 606"), which is (i) creates a single framework for recognizing revenue from contracts that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as repossessed assets. The majority of the Company's revenues are derived from interest income and other sources related to financial assets such as loans and securities, which are outside the scope of the ASC 606.

Services within the scope of ASC 606 include the following:

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

<u>Debit and ATM card income</u>: The Company earns interchange fees from debit and ATM cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

<u>Brokers fee income</u>: The Company earns fees from investment brokerage services provided to its customers by a third-party service provider. The Company receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The fees are recognized monthly when the Company satisfies the performance obligation. Because the Company (*1*) acts as an agent in arranging the relationship between the customer and third-party service provider and (*2*) does not control the services rendered to the customer, investment brokerage fees are presented net of related servicing and administration costs.

<u>Insurance commissions</u>: The Company earns commissions on various insurance products it sells to customers. The Company acts an intermediary between the Company's customer and the insurance carrier. The Company's performance obligation is generally satisfied upon the issuance of the insurance policy. Shortly after the policy is issued, the respective carrier remits the commission payment to the Company, and the Company recognizes the revenue, which is included in other fees and commissions.

The Company's services that fall within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer. See detail of non-interest income within Note 11 to the consolidated financial statements.

(y) Adoption of New Accounting Standards

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") No. 2016-13 "Financial Instruments – Credit Losses (Topic 326)" 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 for which management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company 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. In adopting the new standard the Company recorded a net increase to retained earnings of $247,000 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes a decrease to the allowance for credit losses – loans of $1,273,000, a decrease to deferred tax assets of $87,000, and an increase to the allowance for credit losses – off-balance sheet credit exposures of $939,000.

The following tables illustrates the impact of ASC 326 as of the date of adoption.

(In Thousands)	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Allowance for credit losses - loans	$ (10,697)	$ (11,970)	$ 1,273
Deferred tax asset, net	12,587	12,674	(87)
Liabilities:			
Allowance for credit losses - off-balance sheet credit exposures	954	15	939
Retained earnings	141,300	141,053	247

(2) LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans and allowance for credit losses at December 31, 2023 and loans and allowance for loan losses at December 31, 2022 are summarized as follows:

(In Thousands)	**2023**	2022
Commercial and agriculture	**$ 76,733**	$ 73,766
Real estate:		
Commercial	**293,733**	279,205
Farming	**61,259**	63,204
Residential	**388,965**	357,991
Construction and land development	**127,212**	105,189
Multifamily	**40,994**	42,236
Consumer and other	**54,036**	54,029
	1,042,932	975,620
Less unearned interest	**(46)**	(58)
Less allowance for credit losses	**(11,436)**	(11,970)
Total	**$ 1,031,450**	$ 963,592

Deferred loan fees totaling $943,000 and $753,000 are included in the above loan balances as of December 31, 2023 and 2022, respectively.

The Company's principal customers are primarily in the Middle Tennessee area with a concentration in Bedford, Clay, Coffee, DeKalb, Franklin, Jackson, Macon, Overton, Putnam, Smith, Sumner, Wilson and surrounding counties in Middle Tennessee. Credit is extended to businesses and individuals and is evidenced by promissory notes. The terms and conditions of the loans including collateral varies depending upon the purpose of the credit and the borrower's financial condition.

At December 31, 2023, variable rate and fixed rate loans totaled $424,115,000 and $618,817,000, respectively. At December 31, 2022, variable rate and fixed rate loans totaled $359,995,000and $615,625,000, respectively.

In the normal course of business, the Company's subsidiaries have made loans at prevailing interest rates and terms to directors and executive officers of the Company and their affiliates. At December 31, 2023 and at December 31, 2022, the aggregate amount of these loans was $19,370,000 and $638,000, respectively. None of these loans were restructured, charged-off or involved more than the normal risk of collectability or presented other unfavorable features.

An analysis of the activity with respect to such loans to related parties is as follows:

(In Thousands)	**2023**	2022
Balance, January 1	**$ 638**	$ 624
New loans, advances, and renewals during the year	**8,200**	6,557
Effect of changes in composition of related parties	**18,995**	-
Repayment (including loans paid by renewal) during the year	**(8,463)**	(6,543)
Total	**$ 19,370**	$ 638

The CARES Act provides for emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the Small Business Administration ("SBA") to administer new loan programs including, but not limited to, the guarantee of loans under a new loan program called the Paycheck Protection Program ("PPP"). The Company originated a total of $26,109,000 in PPP loans during 2021. At December 31, 2023 and 2022, the Company had 0 and 2 PPP loans outstanding with principal balances totaling $0 and $6,000, respectively, which are included in Commercial and Agricultural loans. PPP loans do not have a corresponding allowance as they are 100% guaranteed by the SBA and are expected to be fully forgiven by the

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SBA. Fees range from 1% to 5% and are amortized over the life of the loan. As PPP loans are forgiven, any deferred loan fee and cost is recognized related to each individual loan. The Company recognized $124,000 of net fee income on the PPP loan originations during 2022.

Transactions in the allowance for credit losses for the year ended December 31, 2023 and the activity in the allowance for loan losses and the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment methodology for the year ended December 31, 2022 are presented as follows:

(In Thousands)	Commercial and Agricultural	Commercial Real Estate	Farming Real Estate	Residential Real Estate	Construction and Land Development	Multifamily Real Estate	Consumer and Other	Total
December 31, 2023								
Beginning balance, prior to adoption of ASC 326	**$ 959**	**$ 3,377**	**$ 778**	**$ 4,100**	**$ 1,248**	**$ 429**	**$ 1,079**	**$ 11,970**
Impact of adopting ASC 326	**38**	**(175)**	**(378)**	**(1,012)**	**456**	**31**	**(233)**	**(1,273)**
Provision	**(21)**	**303**	**(80)**	**202**	**168**	**(23)**	**273**	**822**
Charge-offs	**(63)**	**-**	**-**	**(1)**	**-**	**-**	**(375)**	**(439)**
Recoveries	**51**	**3**	**-**	**27**	**-**	**-**	**275**	**356**
Total	**$ 964**	**$ 3,508**	**$ 320**	**$ 3,316**	**$ 1,872**	**$ 437**	**$ 1,019**	**$ 11,436**
December 31, 2022								
Beginning balance	$ 918	$ 2,589	$ 1,283	$ 2,896	$ 1,053	$ 361	$ 1,616	$ 10,716
Provision	54	709	(524)	1,184	199	68	(376)	1,314
Charge-offs	(66)	-	-	(1)	(4)	-	(415)	(486)
Recoveries	53	79	19	21	-	-	254	426
Total	$ 959	$ 3,377	$ 778	$ 4,100	$ 1,248	$ 429	$ 1,079	$ 11,970
Allowances:								
Impaired loans	$ -	$ -	$ 59	$ -	$ -	$ -	$ -	$ 59
Acquired with credit impairment	-	-	-	-	-	-	-	-
Pooled	959	3,377	719	4,100	1,248	429	1,079	11,911
Total	$ 959	$ 3,377	$ 778	$ 4,100	$ 1,248	$ 429	$ 1,079	$ 11,970
Loans:								
Loans individually evaluated for impairment	$ 448	$ 5,492	$ 6,228	$ 2,073	$ 715	$ -	$ -	$ 14,956
Acquired with credit impairment	-	8	-	38	-	-	-	46
Loans collectively evaluated for impairment	73,318	- 273,705	56,976	355,880	104,474	42,236	54,029	960,618
Total	$ 73,766	$ 279,205	$ 63,204	$ 357,991	$ 105,189	$ 42,236	$ 54,029	$ 975,620

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Impaired loans and related allowance for loan loss allocation amounts at December 31, 2022 were as follows:

	Impaired Loans With Allowance			Impaired Loans With No Allowance	
(In Thousands)	Principal Balance	Recorded Investment	Allocated Allowance for Loan Losses	Principal Balance	Recorded Investment
December 31, 2022					
Commercial and agriculture	$ -	$ -	$ -	$ 448	$ 454
Real estate:					
Commercial	-	-	-	5,492	5,663
Farming	959	985	59	5,269	5,359
Residential	-	-	-	2,073	2,088
Construction and land development	-	-	-	715	718
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total	$ 959	$ 985	$ 59	$ 13,997	$ 14,282

The average recorded investment in impaired loans for the year ended December 31, 2022 was $17,077,000. The related total amount of interest income recognized for the period that such loans were impaired was $852,000 for 2022.

Nonaccrual loans and loans past due greater than or equal to 90 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 individually evaluated for impairment and deemed impaired (i.e. individually classified impaired loans). The sum of nonaccrual loans and loans past due greater than or equal to 90 days still on accrual will differ from the total impaired loan amount.

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due greater than or equal to 90 days still accruing as of December 31, 2023:

(In Thousands)	Nonaccrual with no allowance for credit loss	Nonaccrual	Greater Than or Equal to 90 days Still Accruing
Commercial and agricultural	**$ -**	**$ 102**	**$ -**
Real estate:			
Commercial	**688**	**92**	**-**
Farming	**-**	**1,700**	**-**
Residential	**-**	**2,112**	**292**
Construction and land development	**-**	**277**	**-**
Multifamily	**-**	**-**	**-**
Consumer and other	**-**	**233**	**1,120**
Total	**$ 688**	**$ 4,516**	**$ 1,412**

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The following tables presents the recorded investment in loans on nonaccrual and loans past due greater than or equal to 90 days still accruing as of December 31, 2022:

(In Thousands)	Nonaccrual by Class	Recorded Investment Past Due > 90 Days and Still Accruing
Commercial and agricultural	$ 51	$ -
Real estate:		
Commercial	860	-
Farming	2,455	-
Residential	2,405	485
Construction and land development	117	-
Multifamily	-	-
Consumer and other	251	786
Total	$ 6,139	$ 1,271

Had interest income been recognized on nonaccrual loans in 2023 and 2022, income would have increased by approximately $408,000 and $388,000, respectively.

At December 31, 2023 the category of "Greater Than or Equal to 90 days Still Accruing" loans of $1,412,000 includes $1,113,000 of student loans purchased which are guaranteed at approximately 98%. At December 31, 2022, the category of "Greater than 90 Days or Nonaccrual" loans of $6,776,000 includes $602,000 of student loans purchased which are guaranteed at approximately 98%. The Company typically continues recognizing interest on such loans due to the guarantees. At December 31, 2022, there was $5,180,000 of nonaccrual loans with no allocation of the allowance for loan loss.

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

(In Thousands)	*Real Estate*	*Business Assets*	*Vehicles*	*Other*
December 31, 2023				
Commercial and agricultural	**$ -**	**$ 384**	**$ -**	**$ -**
Real estate:				
Commercial	**4,327**	**-**	**-**	**-**
Farming	**6,612**	**-**	**-**	**-**
Residential	**4,115**	**-**	**-**	**-**
Construction and land development	**295**	**-**	**-**	**-**
Multifamily	**-**	**-**	**-**	**-**
Consumer and other	**-**	**-**	**6**	**7**
Total	**$ 15,349**	**$ 384**	**$ 6**	**$ 7**

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The following tables provide an aging analysis of the Company's past due loans as of December 31, 2023 and 2022:

(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
December 31, 2023						
Commercial and agricultural	**$ 296**	**$ 149**	**$ 24**	**$ 469**	**$ 76,264**	**$ 76,733**
Real estate:						
Commercial	**190**	**-**	**-**	**190**	**293,543**	**293,733**
Farming	**283**	**137**	**9**	**429**	**60,830**	**61,259**
Residential	**4,452**	**1,310**	**803**	**6,565**	**382,400**	**388,965**
Construction and land development	**469**	**-**	**192**	**661**	**126,551**	**127,212**
Multifamily	**-**	**-**	**-**	**-**	**40,994**	**40,994**
Consumer and other	**601**	**361**	**1,123**	**2,085**	**51,951**	**54,036**
Total	**$ 6,291**	**$ 1,957**	**$ 2,151**	**$ 10,399**	**$ 1,032,533**	**$1,042,932**
December 31, 2022						
Commercial and agricultural	$ 184	$ -	$ 14	$ 198	$ 73,568	$ 73,766
Real estate:						
Commercial	420	74	19	513	278,692	279,205
Farming	225	41	31	297	62,907	63,204
Residential	3,115	641	679	4,435	353,556	357,991
Construction and land development	475	9	-	484	104,705	105,189
Multifamily	-	-	-	-	42,236	42,236
Consumer and other	928	104	638	1,670	52,359	54,029
Total	$ 5,347	$ 869	$ 1,381	$ 7,597	$ 968,023	$ 975,620

Occasionally, the Company modifies loans to borrowers in financial distress by providing term extensions, principal forgiveness, interest rate reductions, or other-than-insignificant payment delays. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period.

The following table presents the amortized cost basis of loan 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:

(Dollars In Thousands)	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Payment Extension	Combination Payment Extension and Interest Rate Reduction	Total Class of Financing Receivable
December 31, 2023							
Commercial and agricultural	$ -	$ -	$ -	$ -	$ -	$ -	-
Real estate:							
Commercial	-	-	-	-	-	-	-
Farming	-	-	-	-	-	-	-
Residential	-	**112**	-	-	**27**	-	**0.04** %
Construction and land development	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	**16**	**17**	**0.06** %
Total	$ -	$ **112**	$ -	$ -	$ **43**	$ **17**	**0.02** %

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The Company has not committed to lend any additional amounts to the borrowers included in the previous table.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months:

(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due
December 31, 2023				
Real estate:				
Residential	**$ 102**	**$ -**	**$ -**	**$ 102**
Consumer and other	**15**	**-**	**-**	**15**
Total	**$ 117**	**$ -**	**$ -**	**$ 117**

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

(Dollars In Thousands)	Principal Forgiveness	Weighted-Average Term Extension	Weighted-Average Interest Rate Reduction
December 31, 2023			
Commercial and agricultural	**$ -**	**-**	**-**
Real estate:			
Commercial	**-**	**-**	**-**
Farming	**-**	**-**	**-**
Residential	**-**	**1 month**	**-**
Construction and land development	**-**	**-**	**-**
Multifamily	**-**	**-**	**-**
Consumer and other	**-**	**-**	**1.48 %**

No loans had a payment default during the year ended December 31, 2023 that were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

Upon the Company's determination that a modified loan (or a portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Troubled Debt Restructurings

The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Notes to Consolidated Financial Statements
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The following table summarizes the carrying balances of TDRs at December 31, 2022:

(Dollars In Thousands)	2022
Performing TDRs	$ 644
Nonperforming TDRs	1,597
Total TDRs	$ 2,241

The following table outlines the amount of each troubled debt restructuring categorized by loan classification during the year ended 2022 (dollars in thousands):

	December 31, 2022		
	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance
Commercial and agricultural	2	$ 7	$ 7
Real estate:			
Commercial	-	-	-
Farming	-	-	-
Residential	8	398	398
Construction and land development	-	-	-
Multifamily	-	-	-
Consumer and other	8	93	93
Total	18	$ 498	$ 498

During the year ended 2022, there were no loans modified as a troubled debt restructuring that had default payments for the 12 months following the loan being modified.

The Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferrals or full principal and interest payment deferrals. The majority of those modifications were for a period of up to three months. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulations. At December 31, 2023, the Company had 130 loans with outstanding principal balances totaling $30,572,000 making payments according to modified payment terms as a result of the COVID-19 pandemic.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Loans greater than $250,000 classified as substandard are reviewed regularly by the Company to determine if appropriately classified and to determine if the loan is impaired. The Company's loan portfolio is reviewed for credit quality on a quarterly basis, with samples being selected based on loan size, credit grades, etc. to ensure that the Company's management is properly applying credit risk management processes.

Loans excluded from the scope of the annual review process are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the creditworthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to special mention, substandard or doubtful, or could even be considered for charge-off. The Company uses the following definitions for risk ratings at December 31, 2023 and 2022:

- ***Special Mention*** - The loan does not currently expose the Bank to a sufficient degree of risk to warrant an adverse classification. These loans are considered sound with no apparent loss anticipated. Further deterioration of the loan may expose the Company to increased risk of loss and applicable downgrade in classification.

  Examples of loans may include:

  a) Financial condition remains adequate but shows signs of being strained.
  b) Serious documentation deficiencies or any other deviation from prudent lending practices.
  c) Marginal net worth or cash flow problems.
  d) Collateral under-margined or has limited marketability.
  e) Loans with major loan policy inconsistencies.
  f) Loans classified special mention in the latest regulatory report of examination.

- ***Substandard*** - Some weakness is evident where more than normal risk is prevalent and requires immediate management attention. Includes loans to borrowers with erratic earnings and unstable financial condition, loans where the primary source of repayment has not been adhered to and alternate sources of repayment must be considered and loans where financial information is inadequate. Includes all loans which are on non-accrual status and all assets carried on Bank's books as other real estate or other assets. Includes loans classified Substandard at latest regulatory examination. Minor losses may occur on some of these loans.

- ***Doubtful*** - Loans inaccurately supported by current sound net worth and/or collateral. Workout situation exists, or may occur, requiring detailed servicing and the closest attention. Reliance on alternative source of repayment is likely and immediate steps should be taken to strengthen our positon. Includes loans classified doubtful at latest regulatory examination. The possibility of loss exists.

- ***Loss*** - Loans graded "Loss" may be considered uncollectible either for the short-term or at all and of such little value that their continuance as a bookable asset is no longer warranted. The amount of loss is to be clearly identifiable and will be charged to the Allowance for Loan and Lease Losses. Although collateral securing this loan may retain some liquidation value, the amount and timing of any recovery is highly uncertain. Loans so rated could include borrowers, endorsers, and guarantors that exhibit an unwillingness to liquidate the debt. Losses are to be taken in the period in which they surface as uncollectible.

Notes to Consolidated Financial Statements
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Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In Thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving	
As of December 31, 2023	2023	2022	2021	2020	2019	Prior	Loans	Total
Commercial and Agricultural:								
Risk Rating								
Pass	$ 26,258	$ 18,464	$ 6,943	$ 5,333	$ 3,405	$ 2,358	$ 8,504	$ 71,265
Special mention	592	-	-	28	-	-	3,990	4,610
Substandard	253	81	92	-	25	59	348	858
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 27,103	$ 18,545	$ 7,035	$ 5,361	$ 3,430	$ 2,417	$ 12,842	$ 76,733
Commercial and Agricultural loans:								
Current period gross write offs	$ -	$ 31	$ -	$ -	$ -	$ -	$ 32	$ 63
Commercial Real Estate:								
Risk Rating								
Pass	$ 41,295	$ 80,380	$ 54,366	$ 41,268	$ 13,980	$ 29,989	$ 23,462	$ 284,740
Special mention	160	1,141	250	-	846	1,887	185	4,469
Substandard	-	1,892	-	297	1,636	688	11	4,524
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 41,455	$ 83,413	$ 54,616	$ 41,565	$ 16,462	$ 32,564	$ 23,658	$ 293,733
Commercial Real Estate loans:								
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Farming Real Estate:								
Risk Rating								
Pass	$ 4,898	$ 10,796	$ 8,942	$ 4,701	$ 2,694	$ 7,403	$ 8,748	$ 48,182
Special mention	32	-	1,792	80	-	301	3,123	5,328
Substandard	1,633	1,545	540	466	847	399	2,319	7,749
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 6,563	$ 12,341	$ 11,274	$ 5,247	$ 3,541	$ 8,103	$ 14,190	$ 61,259
Farming Real Estate loans:								
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Notes to Consolidated Financial Statements
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(In Thousands)	Term Loans Amortized Cost Basis by Origination Year							
As of December 31, 2023, continued	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Residential Real Estate:								
Risk Rating								
Pass	$ 63,215	$ 99,134	$ 34,325	$ 23,291	$ 11,306	$ 42,015	$ 104,181	$ 377,467
Special mention	-	2,544	61	68	-	-	61	2,734
Substandard	604	2,952	394	452	326	2,838	1,198	8,764
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 63,819	$ 104,630	$ 34,780	$ 23,811	$ 11,632	$ 44,853	$ 105,440	$ 388,965
Residential Real Estate loans:								
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ 1	$ -	$ 1
Construction and Land Development:								
Risk Rating								
Pass	$ 62,243	$ 34,566	$ 18,097	$ 960	$ 262	$ 2,728	$ 2,611	$ 121,467
Special mention	2,416	2,326	247	-	-	-	-	4,989
Substandard	-	-	294	20	5	381	56	756
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 64,659	$ 36,892	$ 18,638	$ 980	$ 267	$ 3,109	$ 2,667	$ 127,212
Construction and Land Development loans:								
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Multifamily Real Estate:								
Risk Rating								
Pass	$ 4,157	$ 12,910	$ 9,350	$ 2,718	$ 1,926	$ 3,636	$ 4,353	$ 39,050
Special mention	-	-	1,944	-	-	-	-	1,944
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 4,157	$ 12,910	$ 11,294	$ 2,718	$ 1,926	$ 3,636	$ 4,353	$ 40,994
Multifamily Real Estate loans:								
Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Notes to Consolidated Financial Statements
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(In Thousands)	Term Loans Amortized Cost Basis by Origination Year							
As of December 31, 2023, continued	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Consumer and Other:								
Risk Rating								
Pass	$ 30,980	$ 9,394	$ 3,992	$ 4,397	$ 3,468	$ 306	$ 982	$ 53,519
Special mention	17	246	4	-	2	-	-	269
Substandard	84	83	21	13	38	9	-	248
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 31,081	$ 9,723	$ 4,017	$ 4,410	$ 3,508	$ 315	$ 982	$ 54,036
Consumer and Other loans:								
Current period gross write offs	$ 46	$ 84	$ 15	$ 5	$ -	$ -	$ 225	$ 375
All portfolio segments:								
Risk Rating								
Pass	$ 233,046	$ 265,644	$ 136,015	$ 82,668	$ 37,041	$ 88,435	$ 152,841	$ 995,690
Special mention	3,217	6,257	4,298	176	848	2,188	7,359	24,343
Substandard	2,574	6,553	1,341	1,248	2,877	4,374	3,932	22,899
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total all portfolio segments	$ 238,837	$ 278,454	$ 141,654	$ 84,092	$ 40,766	$ 94,997	$ 164,132	$ 1,042,932
All portfolio segments:								
Current period gross write offs	$ 46	$ 115	$ 15	$ 5	$ -	$ 1	$ 257	$ 439

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The following tables break down the Company's credit quality indicators by type of loan as of December 31, 2022:

(In Thousands)	Commercial and Agricultural	Commercial Real Estate	Farming Real Estate	Residential Real Estate	Construction and Land Development	Multifamily Real Estate	Consumer and Other	Total
December 31, 2022								
Grade								
Pass	$ 69,282	$ 261,798	$ 50,527	$ 349,005	$ 102,825	$ 42,236	$ 53,676	$ 929,349
Special Mention	3,534	11,513	5,329	1,018	1,338	-	121	22,853
Substandard	950	5,894	7,348	7,968	656	-	232	23,048
Doubtful	-	-	-	-	370	-	-	370
Loss	-	-	-	-	-	-	-	-
Total	$ 73,766	$ 279,205	$ 63,204	$ 357,991	$ 105,189	$ 42,236	$ 54,029	$ 975,620

Prior to the adoption of ASC 326, loans acquired with deteriorated credit quality, referred to prior to the adoption of ASC 326 as purchased credit impaired loans and subsequent to the adoption of ASC 326 as purchased credit deteriorated loans, were assigned a credit related purchase discount and non-credit related purchase discount at acquisition. Upon adoption of ASC 326 on January 1, 2023, any remaining credit related discount was re-classified to a component of the allowance for credit losses. The remaining non-credit discount will continue to be accreted into income over the remaining lives of the related loans. As of January 1, 2023, there was no credit related discount reclassified to the allowance for credit losses by the Company. The outstanding balances and carrying amounts of the loans were as follows at December 31, 2023 and 2022:

(In Thousands)	**2023**	2022
Real estate:		
Commercial real estate	**$ -**	$ 21
Residential real estate	**36**	45
Total outstanding balance	**36**	66
Less remaining purchase discount	**6**	20
	30	46
Allowance for credit losses	**-**	-
Carrying amount, net of allowance	**$ 30**	$ 46

Activity related to the accretable portion of the purchase discount on loans acquired with deteriorated credit quality were as follows for the years ended December 31, 2023 and 2022:

(In Thousands)	**2023**	2022
Balance as of January 1,	**$ 20**	$ 58
Accretion income	**(14)**	(45)
Reclassification from nonaccretable	**-**	7
Reclassification of discount to allowance for credit losses	**-**	-
Balance at December 31,	**$ 6**	$ 20

(3) SECURITIES

Debt securities have been classified in the balance sheet according to management's intent. The amortized cost and the estimated market values of debt securities which are classified as available for sale at December 31, 2023 and 2022 were as follows:

(In Thousands)	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Market Value*
December 31, 2023				
U.S. Treasury and other U.S. government agencies and corporations	**$ 112,202**	**$ 23**	**$ 7,340**	**$ 104,885**
Obligations of state and political subdivisions	**98,209**	**70**	**6,836**	**91,443**
Residential mortgage-backed securities	**194,067**	**9**	**21,454**	**172,622**
Commercial mortgage-backed securities	**7,952**	**-**	**137**	**7,815**
Collateralized mortgage obligations	**189**	**-**	**15**	**174**
	$ 412,619	**$ 102**	**$ 35,782**	**$ 376,939**
December 31, 2022				
U.S. Treasury and other U.S. government agencies and corporations	$ 114,150	$ 38	$ 9,852	$ 104,336
Obligations of state and political subdivisions	104,730	19	8,784	95,965
Residential mortgage-backed securities	219,716	3	25,516	194,203
Commercial mortgage-backed securities	9,906	-	274	9,632
Corporate and other securities	232	-	24	208
	$ 448,734	$ 60	$ 44,450	$ 404,344

The amortized cost and estimated market value of debt securities at December 31, 2023 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	Amortized Cost	Estimated Market Value
Due in one year or less	**$ 13,047**	**$ 12,852**
Due after one year through five years	**122,602**	**116,100**
Due after five years through ten years	**37,096**	**34,670**
Due after ten years	**37,666**	**32,706**
Residential and commercial mortgage-backed securities	**202,019**	**180,437**
Collateralized mortgage obligations	**189**	**174**
	$ 412,619	**$ 376,939**

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There were no sales of debt securities available for sale or marketable equity securities during 2023 or 2022.

Investment securities carried on the balance sheet at $124,691,000 and $152,721,000, respectively (amortized cost $135,686,000 and $167,752,000), as of December 31, 2023 and 2022, respectively, were pledged to secure public and trust deposits and for other purposes as required or permitted by law.

The following table shows the Company's investments with unrealized losses for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
December 31, 2023								
U.S. Treasury and other U.S. Government agencies and corporations	**$ 74**	**$ -**	**4**	**$ 103,021**	**$ 7,340**	**49**	**$ 103,095**	**$ 7,340**
Obligations of states and political subdivisions	**17,222**	**190**	**51**	**65,722**	**6,646**	**133**	**82,944**	**6,836**
Residential mortgage-backed securities	**34**	**-**	**1**	**171,470**	**21,454**	**202**	**171,504**	**21,454**
Commercial mortgage-backed securities	**-**	**-**	**-**	**7,815**	**137**	**4**	**7,815**	**137**
Collateralized mortgage obligations	**-**	**-**	**-**	**174**	**15**	**1**	**174**	**15**
Total available-for-sale securities	**$ 17,330**	**$ 190**	**56**	**$ 348,202**	**$ 35,592**	**389**	**$ 365,532**	**$ 35,782**

Unrealized losses on securities have not been recognized into income because the issuers are of high credit quality, management does not intend to sell and it is more likely than not that management would not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates and illiquidity instead of credit quality. The fair value is expected to recover as the securities approach their maturity dates and/or market rates change. As a result, the Company has determined that an allowance for credit losses for debt securities is not necessary as of December 31, 2023. In determining the allowance for credit losses for debt securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an allowance for credit losses is necessary involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022:

	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
December 31, 2022								
U.S. Treasury and other U.S. Government agencies and corporations	$ 47,251	$ 2,848	33	$ 54,603	$ 7,004	24	$ 101,854	$ 9,852
Obligations of states and political subdivisions	76,662	4,227	183	14,252	4,557	19	90,914	8,784
Residential mortgage-backed securities	84,921	6,215	190	108,958	19,301	32	193,879	25,516
Commercial mortgage-backed securities	1,199	87	1	8,433	187	3	9,632	274
Collateralized mortgage obligations	3	1	3	205	23	1	208	24
Total temporarily impaired securities	$ 210,036	$ 13,378	410	$ 186,451	$ 31,072	79	$ 396,487	$ 44,450

The securities with unrealized losses included in the above table are considered high quality investments in line with normal industry investing practices. The unrealized losses are primarily the result of changes in the interest rate and sector environments consistent with the classification as available-for-sale. The Company intends and has the ability to hold the above securities until the value is realized.

The Company may sell the above or other securities in the ordinary course of business in response to unexpected and significant changes in liquidity needs, unexpected and significant increases in interest rates and/or sector spreads that significantly extend the security's holding period, or conducting a small volume of security transactions.

(4) RESTRICTED EQUITY SECURITIES

Restricted equity securities consist of stock of the Federal Home Loan Bank and Westport Life Insurance. The FHLB stock totaled $4,436,000 and $4,266,000 at December 31, 2023 and 2022, respectively. Previously the Company purchased an initial investment of $5,000 of Westport Life Insurance stock. Both stocks can be sold back only at par or a value as determined by the issuing entity and only to the respective entity or to another member entity. These securities are recorded at cost.

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(5) PREMISES AND EQUIPMENT

The detail of premises and equipment at December 31, 2023 and 2022 is as follows:

	2023	2022
Land	**$ 3,404**	$ 3,404
Buildings and improvements	**24,078**	23,903
Furniture, fixtures and equipment	**14,517**	13,992
Vehicles	**364**	407
	42,363	41,706
Less accumulated depreciation	**(22,437)**	(21,608)
	$ 19,926	$ 20,098

Depreciation and amortization expense totaled $1,301,000 and $1,261,000 for the years ended December 31, 2023 and 2022, respectively.

(6) MORTGAGE SERVICING RIGHTS

Mortgage loans serviced for others are not reported as assets. The principal balance of these loans was $234,032,000 at December 31, 2023 and $243,349,000 at December 31, 2022.

The related mortgage servicing rights activity for the years ended December 31, 2023 and 2022 is as follows:

(In Thousands)	**2023**	2022
Beginning of year	**$ 2,567**	$ 1,624
Additions	**116**	263
Disposals	**(121)**	(138)
Change in fair value due to changes in valuation model inputs or assumptions	**(61)**	818
End of year	**$ 2,501**	$ 2,567

Fair value at December 31, 2023 was determined by using weighted average discount rates of 10% and prepayment speeds ranging from 3.53% to 36.73%, depending on the stratification of the specific right.

Fair value at December 31, 2022 was determined by using weighted average discount rates ranging from 9.75% to 19.68% and prepayment speeds ranging from 4.91% to 33.40%, depending on the stratification of the specific right.

(7) GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill during the years ended December 31, 2023 and 2022 were as follows:

Goodwill

(In Thousands)	**2023**	2022
Balance at January 1,	**$ 18,339**	$ 18,339
Measurement period adjustments	**-**	-
Balance at December 31,	**$ 18,339**	$ 18,339

Acquired Intangible Assets

Acquired intangible assets for the years ended December 31, 2023 and 2022 were as follows:

(In Thousands)	**2023**		2022	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	**$ 4,402**	**$ 3,157**	$ 4,402	$ 2,864
Amortization expense		**$ 293**		$ 294

The core deposits intangible assets are amortized on a straight-line basis over their estimated useful life. Estimated future amortization expense for the five years ending after December 31, 2023, and then thereafter is as follows:

(In Thousands)	
2024	**$ 279**
2025	**126**
2026	**126**
2027	**126**
2028	**126**
Thereafter	**462**
	$ 1,245

Notes to Consolidated Financial Statements
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(8) DEPOSITS

Principal maturities of certificates of deposit and individual retirement accounts at December 31, 2023 are as follows:

(In Thousands)	
2024	**$ 416,078**
2025	**145,319**
2026	**6,452**
2027	**4,055**
2028	**4,787**
Thereafter	**279**
	$ 576,970

At December 31, 2023 and 2022, certificates of deposit and individual retirement accounts in denominations of $250,000 or more amounted to $219,383,000 and $153,016,000, respectively.

The aggregate amount of overdrafts reclassified as loans receivable was $468,000 and $361,000 at December 31, 2023 and 2022, respectively.

Deposits from principal officers, directors, and their affiliates at December 31, 2023 and 2022 totaled $21,437,000 and $16,824,000, respectively.

The subsidiary bank may be required to maintain cash balances or balances with the Federal Reserve Bank or other correspondent banks based on certain percentages of deposit types. No amounts were required at December 31, 2023 or 2022.

(9) NOTES PAYABLE

To supplement capital needs, the Company has issued debt at the parent company level. Notes payable at December 31, 2023 and 2022 consist of the following:

(In Thousands)	**2023**	2022
4.10% note due in quarterly installments of principal and interest totaling $213 with a maturity date of March 5, 2025	**$ 588**	$ 1,395
4.00% note due in quarterly installments of $113 plus interest with a maturity date of December 1, 2025	**3,150**	3,600
Variable rate note (*The Wall Street Journal* prime rate plus 0.50%) with interest payable quarterly and principal due at maturity, January 30, 2024	**2,374**	3,575
Variable rate note (*The Wall Street Journal* prime rate plus 0.50%) due in quarterly installments of $113 plus interest and a maturity date of December 1, 2025	**3,150**	3,600
	$ 9,262	$ 12,170

Notes to Consolidated Financial Statements
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Estimated principal payments on the notes payable at December 31, 2023 are as follows:

(In Thousands)	
2024	**$ 3,862**
2025	**5,400**
	$ 9,262

All notes payable are secured by 21,930 shares of common stock of the Company's subsidiary bank. This constitutes 51% of the issued and outstanding common stock shares of Citizens Bank.

In January 2024, the Company renewed the variable rate note maturing on January 30, 2024 with no additional principal advances. The renewal is payable at *The Wall Street Journal* prime rate plus 0.25% with interest and principal due in quarterly amounts of $158,000. The note matures on December 15, 2027.

Under the terms of the loan agreement, the lender has right of set-off against funds deposited with the lender's institution. The loan agreement also contains various financial and non-financial covenants. Among other items outlined in the loan agreement, the covenants place limits on the subsidiary bank's borrowing, limits on pledging securities, and the maintenance of certain regulatory capital and other ratios. As of the date of this report, the Company was in compliance with all covenants.

(10) ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank maintains a line of credit with the Federal Home Loan Bank in the amount of $186,649,000. As of December 31, 2023 and 2022, advances under this line of credit consist of the following:

	2023		2022	
(In Thousands)	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Fixed rate advances	**$ 65,072**	**4.38%**	$ 70,196	3.98%
Variable rate advances	**$ -**	-%	$ -	-%

Required future principal payments on FHLB advances are as follows:

(In Thousands)	
2024	**$ 33,900**
2025	**9,539**
2026	**9,455**
2027	**8,807**
2028	**1,086**
Thereafter	**2,285**
	$ 65,072

First mortgage residential real estate loans, commercial real estate loans, multifamily loans and loans secured by farmland totaling $663,916,000 are pledged to the FHLB as collateral for these advances at December 31, 2023.

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(11) NON-INTEREST INCOME AND NON-INTEREST EXPENSE

The significant components of non-interest income and non-interest expense for the years ended December 31, 2023 and 2022 are presented below. Items outside the scope of ASC 606 are noted as such.

(In Thousands)		**2023**		2022
Non-interest income:				
Service charges and overdraft fees on deposits	**$**	**3,473**	$	3,580
Debit and ATM card income, net		**2,230**		2,326
Earnings on bank owned life insurance and annuity contracts, net[(1)]		**713**		441
Mortgage servicing fee income[(1)]		**628**		637
Gain on sale of loans held for sale[(1)]		**206**		509
Change in fair value of mortgage servicing rights[(1)]		**(66)**		943
Brokers fee income		**9**		42
Other fees and commissions[(2)]		**448**		446
	$	**7,641**	$	8,924
Non-interest expense:				
Employee salaries and benefits	**$**	**20,774**	$	20,453
Data processing		**2,142**		1,664
Occupancy expenses		**1,993**		1,997
Furniture and equipment expenses		**1,297**		1,337
Professional fees		**1,209**		1,134
FDIC insurance and state banking fees		**906**		593
Advertising		**571**		484
Telephone and communications		**532**		555
Director and committee fees		**472**		396
Supplies		**429**		423
Amortization of core deposit intangibles		**293**		294
Postage		**209**		320
Net loss on disposal of premises and equipment		**13**		-
Other operating expenses		**2,480**		2,503
	$	**33,320**	$	32,153

[(1)] Not within the scope of ASC 606.
[(2)] Other fees and commissions includes insurance commissions income totaling $99,000 and $69,000, respectively, which is within the scope of ASC 606; the remaining $349,000 and $377,000, respectively, represents various one time transaction fees and miscellaneous income, which are outside the scope of ASC 606

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(12) INCOME TAXES

The components of the net deferred tax asset (liability) at December 31, 2023 and 2022 are as follows:

(In Thousands)		2023		2022
Deferred tax asset:				
Federal	**$**	**9,960**	$	11,541
State		**3,207**		3,732
		13,167		15,273
Deferred tax liability:				
Federal		**(2,018)**		(2,020)
State		**(578)**		(579)
		(2,596)		(2,599)
Net deferred tax asset	**$**	**10,571**	$	12,674

The tax effects of each type of significant item that gave rise to deferred taxes at December 31, 2023 and 2022 are as follows:

(In Thousands)		2023		2022
Financial statement allowance for credit losses in excess of tax allowance	**$**	**3,208**	$	3,063
Financial statement deduction for deferred compensation in excess of deduction for tax purposes		**501**		434
Stock options compensation expense not recognized for tax purposes		**133**		133
Excess of depreciation deducted for tax purposes over amounts deducted in the financial statements		**(1,019)**		(1,060)
Income on FHLB stock dividends not recognized for tax purposes		**(68)**		(83)
Amortization of core deposit intangibles		**(162)**		(169)
Income on mortgage servicing rights not recognized for tax purposes		**(654)**		(671)
Acquisition fair value adjustments not recognized for tax purposes		**-**		42
Purchased goodwill amortized for tax purposes		**(685)**		(608)
Unrealized loss (gain) on debt securities available-for-sale		**9,325**		11,601
Unrealized gain on marketable equity securities		**(8)**		(8)
	$	**10,571**	$	12,674

Notes to Consolidated Financial Statements
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The components of income tax expense (benefit) for the years ended December 31, 2023 and 2022 are summarized as follows:

(In Thousands)	**2023**	2022
Current:		
Federal	**$ 3,213**	$ 3,686
State	**138**	279
	3,351	3,965
Deferred:		
Federal	**(130)**	362
State	**(43)**	120
	(173)	482
	$ 3,178	$ 4,447

A reconciliation of actual income taxes in the consolidated statements of earnings for the years ended December 31, 2023 and 2022 with the "expected" tax expense (computed by applying the statutory federal income tax of 21% to earnings before income taxes) is as follows:

(In Thousands)	**2023**	2022
Computed “expected” federal tax expense	**$ 3,750**	$ 4,848
State income taxes, net of benefit of state tax deduction for federal tax purposes	**75**	315
Benefit of tax exempt interest, net of interest expense exclusion	**(373)**	(487)
Tax benefit of earnings on cash surrender value of officers life insurance not taxable	**(145)**	(86)
Exercise of stock options	**(92)**	(62)
Other	**(37)**	(81)
	$ 3,178	$ 4,447

As of December 31, 2023 and 2022, the Company has not accrued or recognized interest or penalties related to uncertain tax positions. It is the Company’s policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company does not expect that unrecognized tax benefits will significantly increase or decrease within the next 12 months. Included in the balance at December 31, 2023 and 2022 were approximately $13,167,000 and $15,273,000, respectively, of tax positions (deferred tax assets) for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company and its subsidiaries file income tax returns in the United States (“U.S.”), as well as in the State of Tennessee. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2020 which would include audits of acquired entities. The Company’s Federal tax returns have not been audited for several years and there have been no changes in the returns in prior audits.

Notes to Consolidated Financial Statements
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(13) COMMITMENTS AND CONTINGENCIES

The Company is party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the consolidated financial position.

The values of the Company's assets as reported in the consolidated financial statements are subject to the volatility in the financial markets; and accordingly, the ultimate realization may be subject to the condition of the U.S. economy and banking system in general.

The Company's subsidiary bank has lines of credit with other financial institutions. The lines of credit with other financial institutions totaled $55,000,000 at December 31, 2023 and 2022. At December 31, 2023 and 2022, there were no amounts outstanding under these lines of credit.

The Company leases branch in Smith County, Tennessee, under operating leases with terms extending through 2028. Right-of-use ("ROU") assets and lease liabilities are recognized based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the remaining lease term to determine the present value of future lease payments when the rate implicit in the lease is not known.

At December 31, 2023 and 2022, lease expense totaled $24,000 and $40,000, respectively. At December 31, 2023, the weighted average remaining lease term was 4.08 years, and the weighted average discount rate was 3.86%. At December 31, 2022, the weighted average remaining lease term was .28 years, and the weighted average discount rate was 5.80%.

ROU assets and lease liabilities for operating leases recognized on the Company's consolidated balance sheets included in other assets and other liabilities, respectively, were as follows at December 31, 2023 and 2022:

(In Thousands)	**2023**	2022
ROU	**$ 34**	$ 2
Lease liabilities	**$ 34**	$ 3

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows:

(In Thousands)	
2024	**$ 9**
2025	**9**
2026	**9**
2027	**9**
2028	**1**
Total payments	**37**
Less imputed interest	**3**
Present value of lease liabilities	**$ 34**

(14) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

The following table presents the Company's outstanding unfunded contractual financial instruments that represent credit risk at December 31, 2023 and 2022:

(In Thousands)	**Contract or Notional Amount 2023**	Contract or Notional Amount 2022
Financial instruments whose contract amounts represent credit risk:		
Unused commitments to extend credit	**$ 254,269**	$ 247,807
Standby letters of credit	**3,882**	3,597
Total	**$ 258,151**	$ 251,404

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees extend from one to two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

(15) CONCENTRATION OF CREDIT RISK

Substantially all of the Company's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Company's market area. Most all such customers are depositors of the subsidiary bank. Investment in state and municipal securities also include governmental entities within the Company's market area. Additional information regarding concentrations in securities is included in Note 3 to the consolidated financial statements. The concentrations of credit by type of loan are set forth in Note 2 to the consolidated financial statements.

Notes to Consolidated Financial Statements
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At December 31, 2023 and 2022, the Company's cash and due from banks included commercial bank deposit accounts aggregating $28,651,000 and $12,119,000, respectively, in excess of the Federal Deposit Insurance Corporation limit of $250,000 per institution. Interest bearing deposits in financial institutions at December 31, 2023 and 2022 consist of the following:

(In Thousands)	**2023**	2022
Federal Reserve Bank	**$ 15,876**	$ 2,333
Federal Home Loan Bank	**1,042**	4
	$ 16,918	$ 2,337

Deposits held at the Federal Reserve Bank and Federal Home Loan Bank are not insured by the Federal Deposit Insurance Corporation. All holdings of certificates of deposit with other banks are insured by the Federal Deposit Insurance Corporation up to the limit of $250,000 per institution.

(16) REGULATORY MATTERS AND RESTRICTIONS ON DIVIDENDS

The Company and its bank subsidiary are subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require the Company and its bank subsidiaries to maintain minimum amounts and ratios of total common equity Tier 1 and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined).

Management believes, as of December 31, 2023 and 2022, that the Company and the Bank subsidiary meet all capital adequacy requirements to which they are subject. The actual ratios of the Company and the Bank subsidiaries with the minimum capital requirements including the conservation buffer are as follows:

(In Thousands)	**2023**	2022	Minimum Requirement
Citizens Bancorp Investment, Inc.:			
Common Equity Tier 1 ratio	**12.78%**	12.54%	7.00%
Tier 1 ratio	**12.78%**	12.54%	8.50%
Total capital ratio	**13.91%**	13.69%	10.50%
Leverage ratio	**9.01%**	8.65%	4.00%
Citizens Bank:			
Common Equity Tier 1 ratio	**13.60%**	13.69%	7.00%
Tier 1 ratio	**13.60%**	13.69%	8.50%
Total capital ratio	**14.73%**	14.83%	10.50%
Leverage ratio	**9.70%**	9.47%	4.00%

As of December 31, 2023, the most recent notification from the banking regulators categorized the Company and its bank subsidiary as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed such category for the Company or subsidiary bank.

The dividends paid by the Company are generally funded by dividends received by the Company from its bank subsidiary. The Company and its bank subsidiary are limited by law, regulation and prudence as to the amount of dividends it can pay. At December 31, 2023, the subsidiary bank is required to receive prior approval of the applicable regulatory agency prior to paying cash dividends in excess of $21,066,000. Actual dividends paid could be limited by restrictions by required debt service payments on notes payable as described in Note 9.

On October 1, 2022, the Company opened a targeted offering to issues shares as a price of $44. The offering resulted in the issuance of 7,111 shares for proceeds net of offering cost of $313,000. The offering was closed effective December 6, 2022.

(17) BANK OWNED LIFE INSURANCE AND DEFERRED COMPENSATION PLAN

The Company maintains bank-owned life insurance policies on the lives of several key employees for the purposes of financing the cost of employee benefits. The Company has committed a portion of the policy death benefits to be paid to the estate of each participant upon their death. The cash surrender value of these policies as of December 31, 2023 and 2022 was $27,844,000 and $20,264,000, respectively. The net non-cash income which is included in the above asset values was $725,000 and $441,000, respectively.

The Company has established various deferred compensation plans, which provide death and disability benefits for members of the Company's Board of Directors and select members of the Company's management team. Terms of the benefits vary based on the underlying agreements. The plans are not qualified under Section 401 of the Internal Revenue Code. At December 31, 2023 and 2022, deferred compensation liabilities related to these plans totaled $1,916,000 and $1,658,000, respectively, and are included in other liabilities on the consolidated balance sheets. Related expenses for the years ended December 31, 2023 and 2022 totaled $309,000 and $260,000, respectively. Total amount of benefits paid related to the plans totaled $51,000 and $1,555,000 for each of the years ended December 31, 2023 and 2022, respectively. The total amount of benefits paid related to the plans for the year ended December 31, 2022 included benefit payments of $1,513,000 related to a terminated plan. A similar plan was established during 2022 for certain officers paid out under the terminated plan.

The Company has purchased various deferred annuity investment contracts to fund the benefits under certain deferred compensation plan agreements. At December 31, 2023 and 2022, the outstanding investments in the annuity contracts totaled $3,572,000 and $3,686,000, respectively.

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(18) EQUITY INCENTIVE PLAN

In February, 2018, the Board of Directors of the Company approved the Citizens Bancorp Investment, Inc. 2018 Incentive Plan (the "Plan"). The Plan provided for the granting of stock options, and authorized the issuance of common stock upon the exercise of such options, for up to 500,000 shares of common stock to employees, officers, directors and consultants of the Company and its affiliates.

Under the Plan, the stock option awards may be granted in the form of nonstatutory stock options, stock appreciation rights, restricted stock units, deferred stock units, performance awards and other stock-based awards. The stock option awards are exercisable for up to ten years following the date such option awards are granted. Exercise prices of stock option awards must be equal to or greater than the fair market value of the common stock on the grant date. As of December 31, 2023, the Company had 168,000 shares remaining available for issuance under the Plan.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The fair value of options granted was determined using the following weighted-average assumptions as of the grant date.

	2023	2022
Risk-free interest rate	**4.41%**	2.47%
Expected term	**7 years**	7 years
Expected stock price volatility	**10.00%**	10.00%
Dividend yield	**2.00%**	2.00%

A summary of the stock option activity for the years ended December 31, 2023 and 2022 is as follows:

	2023		2022	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**323,200**	**$ 21.64**	348,400	$ 18.80
Granted	**18,000**	**33.55**	20,000	44.00
Exercised	**(27,080)**	**18.95**	(12,800)	19.81
Forfeited or expired	**(30,000)**	**23.00**	(32,400)	22.16
Outstanding at end of year	**284,120**	**$ 22.51**	323,200	$ 20.34
Options exercisable at year end	**207,280**	**$ 19.79**	181,480	$ 18.80

Notes to Consolidated Financial Statements
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The intrinsic value of options exercised and vested during the years ended December 31, 2023 and 2022 follows:

(In Thousands)	**2023**	2022
Intrinsic value of options exercised, net	**$ 173**	$ 217
Intinsic value of vested options	**$ 2,478**	$ 1,205

The following tables summarize information about stock options for the year ended December 31, 2023:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding at December 31, 2023	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Number Exercisable at December 31, 2023	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
\$18.75 - \$45.00	**284,120**	**$ 22.51**	**5.46**	**207,280**	**$ 19.79**	**3.82**
Aggregate intrinsic value (in thousands)			**$ 2,842**			**$ 2,478**

Stock based compensation expense for the years ended December 31, 2023 and 2022 totaled $59,000 and $119,000, respectively. As of December 31, 2023, there was $181,000 of total unrecognized cost related to non-vested share-based compensation agreements granted under the Company's stock option plans. The cost is expected to be recognized over a weighted-average period of 3.82 years.

(19) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

Valuation Hierarchy

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Assets

Securities available-for-sale and marketable equity securities - Where quoted prices are available for identical securities in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other financial products. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation and more complex pricing models or discounted cash flows are used, securities are classified within Level 3 of the valuation hierarchy.

Impaired loans - A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for credit losses or the expense is recognized as a charge-off. Impaired loans are classified within Level 3 of the hierarchy due to the unobservable inputs used in determining their fair value such as collateral values and the borrower's underlying financial condition.

Mortgage servicing rights – At each reporting date, mortgage servicing rights are reported at the fair value. Fair value is determined at a tranche level based on a market prices for comparable mortgage servicing contracts (Level 2), when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes interest rate, prepayment speeds, discount rate assumptions, cost to service, float earnings and ancillary income and late fees that market participants would use in estimating future net servicing income and can be validated against available market data.

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Other real estate owned - Other real estate owned "OREO" represents real estate foreclosed upon by the Company through loan defaults by customers or acquired in lieu of foreclosure. Substantially all of these amounts relate to lots, homes and development projects that are either completed or are in various stages of construction for which the Company believes it has adequate collateral. Upon foreclosure, the property is recorded at the lower of cost or fair value, based on appraised value, less selling costs estimated as of the date acquired with any loss recognized as a charge-off through the allowance for loan losses. Additional OREO losses for subsequent valuation downward adjustments are determined on a specific property basis and are included as a component of noninterest expense along with holding costs. Any gains or losses realized at the time of disposal are also reflected in noninterest expense, as applicable. OREO is included in Level 3 of the valuation hierarchy due to the lack of observable market inputs into the determination of fair value. Appraisal values are property-specific and sensitive to the changes in the overall economic environment.

The following tables present the financial instruments carried at fair value as of December 31, 2023 and 2022, by caption on the consolidated balance sheets and by FASB ASC 820 valuation hierarchy (as described above) (in thousands):

	Measured on a Recurring Basis			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Price in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2023				
Debt securities available-for-sale	**$ 376,939**	**$ -**	**$ 376,939**	**$ -**
Marketable equity securities	**65**	**65**	**-**	**-**
Mortgage servicing rights	**2,501**	**-**	**2,501**	**-**
Total	**$ 379,505**	**$ 65**	**$ 379,440**	**$ -**
December 31, 2022				
Debt securities available-for-sale	$ 404,344	$ -	$ 404,344	$ -
Marketable equity securities	69	69	-	-
Mortgage servicing rights	2,567	-	2,567	-
Total	$ 406,980	$ 69	$ 406,911	$ -

	Measured on a Non-Recurring Basis			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Price in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2023				
Impaired loans, net [(1)]	**$ 16,037**	**$ -**	**$ -**	**$ 16,037**
Total	**$ 16,037**	**$ -**	**$ -**	**$ 16,037**
December 31, 2022				
Impaired loans, net [(1)]	$ 15,208	$ -	$ -	$ 15,208
Total	$ 15,208	$ -	$ -	$ 15,208

[(1)] Amount is net of a valuation allowance for credit losses of $76,000 and $59,000 at December 31, 2023 and 2022, respectively.

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In the case of the bond portfolio, the Company monitors the valuation technique utilized by various pricing agencies to ascertain when transfers between levels have been affected. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the years ended December 31, 2023 and 2022, there were no transfers between Levels 1, 2 or 3.

The following table presents quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value at December 31, 2023 and 2022:

	Valuation Techniques (2)	Significant Unobservable Inputs	Range (Weighted Average)
Impaired loans	Appraisal	Estimated costs to sell	10%
Other real estate	Appraisal	Estimated costs to sell	10%

(2) Fair value is generally determined through independent appraisals of the underlying collateral, which may include Level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows and borrower creditworthiness. The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2023 and 2022. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Loans - The fair value of our loan portfolio includes a credit risk factor in the determination of the fair value of our loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. Our loan portfolio is initially fair valued using a segmented approach. We divide our loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk to determine the exit price.

Deposits and Federal Home Loan Bank Advances - The carrying amounts of demand deposits and savings deposits approximate their fair values. Fair values for certificates of deposit and Federal Home Loan Bank advances are estimated using discounted cash flow models, using current market interest rates offered on certificates and advances with similar remaining maturities.

Off-Balance Sheet Instruments - The fair values of the Company's off-balance-sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value to the Company until such commitments are funded.

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

The following tables present the carrying amounts, estimated fair value and placement in the fair value hierarchy of the Company's financial instruments at December 31, 2023 and 2022. This tables exclude financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as noninterest bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

(In Thousands)	Carrying or Notional Amount	Estimated Fair Value [(1)]	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2023					
Financial assets:					
Loans, net	**$ 1,031,450**	**$ 925,196**	**$ -**	**$ -**	**$ 925,196**
Loans held for sale	**142**	**142**	**-**	**-**	**142**
Financial liabilities:					
Deposits	**1,333,890**	**1,338,733**	**-**	**-**	**1,338,733**
Notes payable	**9,262**	**8,965**	**-**	**-**	**8,965**
Advances from Federal Home Loan Bank	**65,072**	**63,610**	**-**	**-**	**63,610**
Off-balance sheet instruments:					
Commitments to extend credit	**-**	**-**	**-**	**-**	**-**
Standby letters of credit	**-**	**-**	**-**	**-**	**-**
December 31, 2022					
Financial assets:					
Loans, net	963,592	850,559	-	-	850,559
Loans held for sale	220	220	-	-	220
Financial liabilities:					
Deposits	1,281,465	1,282,782	-	-	1,282,782
Notes payable	12,170	11,715	-	-	11,715
Advances from Federal Home Loan Bank	70,196	68,109	-	-	68,109
Off-balance sheet instruments:					
Commitments to extend credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-

(1) Estimated fair values are consistent with an exit-price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would realize in a hypothetical orderly transaction.

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(20) EARNINGS PER SHARE

Basic earnings per share is computed based upon the weighted average common shares outstanding during the year. Diluted earnings per share is computed using the weighted average common shares and all potential dilutive common shares outstanding during the year. Dilutive common shares consist entirely of stock options granted to employees, officers, and directors of the Company as further discussed in Note 18.

The factors used in the earnings per share computation are as follow:

(In Thousands, except share data)	**2023**	2022
Basic:		
Net earnings available to common shareholders	**$ 14,680**	$ 18,641
Weighted average common shares outstanding	**5,894,292**	5,880,459
Basic earnings per common share	**$ 2.49**	$ 3.17
Diluted:		
Net earnings available to common shareholders	**$ 14,680**	$ 18,641
Weighted average common shares outstanding	**5,894,292**	5,880,459
Dilutive effects of assumed exercises of stock options	**109,431**	122,437
Weighted average shares and dilutive potential common shares	**6,003,723**	6,002,896
Diluted earnings per common share	**$ 2.45**	$ 3.11

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

(21) PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Citizens Bancorp Investment, Inc. follows:

CONDENSED BALANCE SHEETS
DECEMBER 31,

(In Thousands)	**2023**	2022
ASSETS		
Cash and due from banks	**$ 53**	$ 56
Investment in banking subsidiaries	**140,913**	126,477
Investment in other subsidiary	**41**	101
Goodwill	**2,366**	2,366
Deferred income taxes	**133**	133
Total assets	**$ 143,506**	$ 129,133
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable	**$ 9,262**	$ 12,170
Payable to subsidiary	**-**	-
Other liabilities	**14**	6
Total liabilities	**9,276**	12,176
Stockholders' equity	**134,230**	116,957
Total liabilities and stockholders' equity	**$ 143,506**	$ 129,133

CONDENSED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31,

(In Thousands)	**2023**	2022
Income		
Dividends from subsidiaries	**$ 7,605**	$ 6,050
Total income	**7,605**	6,050
Expenses		
Interest expense	**774**	658
Merger expense	**-**	-
Other expense	**221**	358
Total expenses	**995**	1,016
Earnings before income taxes and equity in undistributed earnings of subsidiaries	**6,610**	5,034
Income tax benefit	**374**	343
Equity in undistributed earnings of subsidiaries	**7,696**	13,264
Net earnings	**$ 14,680**	$ 18,641
Comprehensive earnings	**$ 21,114**	$ (16,082)

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,

(In Thousands)	**2023**	2022
Cash flows from operating activities:		
Fees and other income	**$ 7,605**	$ 6,050
Interest paid	**(772)**	(657)
Cash paid to suppliers and employees	**(155)**	(243)
Income taxes received (paid)	**374**	319
Net cash provided by operating activities	**7,052**	5,469
Cash flows from financing activities:		
Principal payments on notes payable	**(2,908)**	(2,101)
Issuance of 7,111 shares of common stock	**-**	313
Exercise of 27,080 stock options net of repurchase of 17,594 shares and exercise of 12,800 stock options net of repurchase of 4,000 shares for the years ended December 31, 2023 and 2022, respectively	**(140)**	72
Cash dividends paid	**(4,007)**	(3,764)
Net cash used in financing activities	**(7,055)**	(5,480)
Net decrease in cash and cash equivalents	**(3)**	(11)
Cash and cash equivalents at beginning of year	**56**	67
Cash and cash equivalents at end of year	**$ 53**	$ 56
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	**$ 14,680**	$ 18,641
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	**(7,696)**	(13,264)
Stock option compensation expense	**59**	119
Provision for deferred income taxes	**-**	(24)
Increase (decrease) in payable to subsidiary	**-**	(8)
Increase in accrued expenses and other liabilities	**9**	5
Total adjustments	**(7,628)**	(13,172)
Net cash provided by operating activities	**$ 7,052**	$ 5,469