FIRST FARMERS

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES

2023 FINANCIAL REPORTS

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

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Independent Auditor's Report

To the Board of Directors
First Farmers and Merchants Corporation

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company 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 have also audited, in accordance with auditing standards generally accepted in the United States of America, the Company's 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), relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) (the "COSO criteria"), and our report dated February 27, 2024 expressed an unmodified opinion.

Basis for Opinion

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

Emphasis of Matter

As described in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for the allowance for credit losses effective January 1, 2023 due to adoption of Accounting Standards Codification 326, *Financial Instruments - Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

To the Board of Directors
First Farmers and Merchants Corporation

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

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

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the summary consolidated balance sheet and statement of income but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Plante & Moran, PLLC

February 27, 2024

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, expect per share data)

		December 31, 2023	December 31, 2022
ASSETS	Cash and due from banks	$ 22,654	$ 27,193
	Interest-bearing deposits	2,689	1,754
	Federal funds sold	117	57
	Total cash and cash equivalents	25,460	29,004
	Securities available-for-sale	692,763	810,591
	Securities held-to-maturity, net (fair market value $14,394 and $14,162)	15,038	15,087
	Equity securities	2,123	2,505
	Loans held-for-sale	470	-
	Loans, net of deferred fees	1,018,866	966,167
	Allowance for credit losses	(7,666)	(9,382)
	Net loans	1,011,200	956,785
	Bank premises and equipment, net	30,208	32,140
	Bank-owned life insurance	34,602	35,829
	Goodwill	9,018	9,018
	Net deferred tax asset	24,862	30,956
	Other assets	25,859	20,374
	TOTAL ASSETS	$ 1,871,603	$ 1,942,289
LIABILITIES	Deposits:		
	Non-interest-bearing	$ 463,858	$ 534,474
	Interest-bearing	1,154,706	1,264,154
	Total deposits	1,618,564	1,798,628
	Accounts payable and other liabilities	24,798	21,996
	Federal Reserve Bank BTFP borrowings	104,000	-
	FHLB borrowings	-	25,000
	TOTAL LIABILITIES	1,747,362	1,845,624
	Commitments and contingencies (Note 10)		
SHAREHOLDERS' EQUITY	Common stock - $10 par value per share, 8,000,000 shares authorized; 4,174,142 and 4,275,328 shares issued and outstanding as of the periods presented	41,741	42,753
	Retained earnings	143,249	132,905
	Accumulated other comprehensive loss	(60,844)	(79,088)
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	124,146	96,570
	Non-controlling interest – preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	124,241	96,665
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,871,603	$ 1,942,289

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

		Years ended December 31,		
		2023	**2022**	**2021**
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	$ 49,180	$ 38,962	$ 38,491
	Income on investment securities			
	Taxable interest	9,329	10,004	6,789
	Exempt from federal income tax	1,786	2,025	2,169
	Interest from federal funds sold and other	457	232	88
	Total interest income	60,752	51,223	47,537
INTEREST EXPENSE	Interest on deposits	14,362	2,829	2,380
	Interest on other borrowings	2,035	410	1
	Total interest expense	16,397	3,239	2,381
	Net interest income	44,355	47,984	45,156
	(Provision credit) provision for credit losses	(490)	(320)	(150)
	Net interest income after provision	44,845	48,304	45,306
NON-INTEREST INCOME	Mortgage banking activities	127	614	1,442
	Trust service fees	4,331	4,160	4,045
	Service fees on deposit accounts	7,170	7,655	7,093
	Investment services fee income	366	406	341
	Earnings on bank-owned life insurance	558	475	554
	Gain on redemption of bank-owned life insurance	331	-	-
	(Loss) gain on sales of securities	(317)	(5)	621
	(Loss) gain on equity securities	(383)	25	239
	Gain on sale of Visa class B stock	-	-	1,811
	Other non-interest income	1,017	817	637
	Total non-interest income	13,200	14,147	16,783
NON-INTEREST EXPENSE	Salaries and employee benefits	21,581	23,115	26,499
	Net occupancy expense	2,571	2,663	2,699
	Depreciation expense	1,670	1,786	2,033
	Core provider expense	2,066	2,528	3,034
	Software support and other computer expense	4,275	3,821	2,875
	Legal and professional fees	874	1,007	794
	Audits and exams expense	706	730	637
	Advertising and promotions	1,001	1,074	1,004
	FDIC insurance premium expense	920	677	636
	Other non-interest expense	2,914	2,767	2,755
	Total non-interest expenses	38,578	40,168	42,966
	Income before provision for income taxes	19,467	22,283	19,123
	Provision for income taxes	3,402	4,217	3,488
	Net income	16,065	18,066	15,635
	Non-controlling interest – dividends on preferred stock of subsidiary	16	16	16
	Net income available to common shareholders	$ 16,049	$ 18,050	$ 15,619
	Weighted average shares outstanding	4,228,232	4,305,557	4,345,665
	Earnings per share	$ 3.80	$ 4.19	$ 3.59

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years ended December 31,		
	2023	**2022**	**2021**
Net income	$ 16,065	$ 18,066	$ 15,635
Other comprehensive income (loss)			
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $6,497, $(26,485) and $(3,952), respectively	18,215	(74,998)	(11,189)
Reclassification adjustment for realized losses (gains) included in net income, net of taxes of $83, $1 and ($162), respectively	234	4	(459)
Adjustment for amortization of net actuarial gains, net of taxes of ($44), ($40) and ($35), respectively	(123)	(112)	(101)
Adjustment for actuarial (losses) gains incurred in current year, net of taxes of ($28), $58 and $24, respectively	(78)	166	67
Adjustment for amortization of prior year service costs, net of taxes of ($1), ($1) and ($1), respectively	(4)	(4)	(4)
Other comprehensive income (loss)	18,244	(74,944)	(11,685)
Total comprehensive income (loss)	$ 34,309	$ (56,878)	$ 3,950

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share data)

	Shares of stock	Non-controlling interest - Preferred stock of subsidiary	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2021	4,359,738	$ 95	$ 43,597	$ 108,761	$ 7,541	$ 159,994
Net income				15,635		15,635
Other comprehensive loss					(11,685)	(11,685)
Repurchase under stock repurchase plan	(42,432)		(424)	(1,229)		(1,653)
Cash dividends declared, $0.84 per share				(3,644)		(3,644)
Preferred dividends paid				(16)		(16)
Balance at December 31, 2021	4,317,306	$ 95	$ 43,173	$ 119,507	$ (4,144)	$ 158,631
Net income				18,066		18,066
Other comprehensive loss					(74,944)	(74,944)
Repurchase under stock repurchase plan	(41,978)		(420)	(870)		(1,290)
Cash dividends declared, $0.88 per share				(3,782)		(3,782)
Preferred dividends paid				(16)		(16)
Balance at December 31, 2022	4,275,328	$ 95	$ 42,753	$ 132,905	$ (79,088)	$ 96,665
Implementation of ASU 2016-13				215		215
Net income				16,065		16,065
Other comprehensive income					18,244	18,244
Repurchase under stock repurchase plan	(101,186)		(1,012)	(1,923)		(2,935)
Cash dividends declared, $0.95 per share				(3,997)		(3,997)
Preferred dividends paid				(16)		(16)
Balance at December 31, 2023	4,174,142	$ 95	41,741	$ 143,249	$ (60,844)	$ 124,241

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

		Years ended December 31,		
		2023	**2022**	**2021**
OPERATING ACTIVITIES	Net income	$ 16,065	$ 18,066	$ 15,635
	Adjustments to reconcile net income to net cash provided by operating activities			
	(Provision credit) provision for credit losses	(490)	(320)	(150)
	Depreciation of premises and equipment	1,670	1,786	2,033
	Deferred tax benefit	(489)	(27)	(282)
	Net losses (gains) on sales of securities	317	5	(621)
	Net change in fair value of equity securities	383	(25)	(239)
	Net (gains) losses on sales of premises and equipment	(8)	(91)	14
	Gains on mortgage loans sold	(127)	(614)	(1,442)
	Gain on redemption of bank-owned life insurance	(331)	-	-
	Proceeds from sale of mortgage loans held-for-sale	4,843	23,485	55,465
	Funding of mortgage loans held-for-sale	(5,186)	(25,068)	(55,505)
	Amortization of investment security premiums, net of accretion of discounts	4,633	5,599	6,404
	Net increase in cash surrender value of bank-owned life insurance	(558)	(475)	(554)
	Changes in:			
	Other assets	(4,598)	(6,647)	1,058
	Other liabilities	1,610	(835)	773
	Net cash provided by operating activities	17,734	14,839	22,589
INVESTING ACTIVITIES	Proceeds from sales of securities	9,752	1,346	186,368
	Proceeds from maturities and calls of securities	132,111	99,749	104,150
	Purchases of available-for-sale investment securities	(3,917)	(141,739)	(592,269)
	Gain on sale of Visa class B stock	-	-	(1,811)
	Net (increase) decrease in loans	(52,730)	(74,785)	80,808
	Proceeds from sale of premises and equipment	8	145	454
	Purchases of premises and equipment	(625)	(1,112)	(664)
	Purchase of bank-owned life insurance	(1,639)	-	(784)
	Proceeds from claims on bank-owned life insurance policies	3,755	-	-
	Net cash provided by investing activities	86,715	(116,396)	(223,748)
FINANCING ACTIVITIES	Net (decrease) increase in deposits	(180,064)	7,422	183,032
	Net decrease in securities sold under agreements to repurchase	-	-	(11,691)
	Change in FHLB and other borrowings	(25,000)	25,000	-
	Increase in Federal Reserve Bank BTFP borrowings	104,000	-	-
	Repurchase of common stock and repurchase excise tax	(2,935)	(1,290)	(1,653)
	Cash dividends paid on common stock	(3,978)	(3,785)	(3,653)
	Cash dividends paid on preferred stock of subsidiary	(16)	(16)	(16)
	Net cash (used in) provided by financing activities	(107,993)	27,331	166,019
	Decrease in cash and cash equivalents	(3,544)	(74,226)	(35,140)
	Cash and cash equivalents at beginning of period	29,004	103,230	138,370
	Cash and cash equivalents at end of period	$ 25,460	$ 29,004	$ 103,230

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in thousands)

	Years ended December 31,		
Supplemental disclosures of cash flow information:	**2023**	**2022**	**2021**
Cash paid during the period for:			
Interest on deposits and borrowed funds	$ 13,693	$ 3,360	$ 2,686
Income taxes	$ 4,013	$ 4,176	$ 3,640
Noncash investing activities:			
Increase (decrease) in fair value of securities available-for-sale, net of tax	$ 18,449	$ (74,994)	$ (11,648)
Minimum pension liability adjustment, net of taxes	$ 205	$ (50)	$ (38)
Common dividends declared	$ 3,997	$ 3,782	$ 3,644
Assets in process transferred to prepaid assets	$ 887	-	-
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows related to operating leases	$ 53	$ 57	$ 51
Operating cash flows related to finance leases	558	552	505
Financing cash flows related to finance leases	102	113	127

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The accounting principles followed and the methods of applying those principles conform with accounting principles generally accepted in the United States ("GAAP") and to general practices in the banking industry. The significant accounting policies applicable to First Farmers and Merchants Corporation (the "Company") are summarized as follows.

Nature of Operations

The Company's stock is traded on the OTC Pink Markets under ticker "FFMH", and the Company has verified its profile and meets Rule 15c2-11 under the Securities and Exchange Act of 1934. The Company is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, First Farmers and Merchants Bank (the "Bank"). The Bank is primarily engaged in providing a full range of banking and financial services, including lending, investing of funds, obtaining deposits, trust and wealth management operations, and other financing activities to individual and corporate customers in the Middle Tennessee area. The Bank is subject to competition from other financial institutions. The Company and the Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

As of December 31, 2023, the Company had 961 holders of record of its common stock and pursuant to Section 13 of the Exchange Act does not file financial reports with the Securities and Exchange Commission.

Basis of Presentation

The accompanying consolidated financial statements present the accounts of the Company and its wholly-owned subsidiary, the Bank. The preferred shares in Maury Tenn Properties, Inc., a subsidiary of the Bank, receive dividends, which are included in the consolidated statements of income shown as income to non-controlling interest. Intercompany accounts and transactions have been eliminated in consolidation.

Certain items in prior financial statements have been reclassified to conform to the current presentation. These reclassifications had no effect on net income or shareholders' equity.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management of the Company and the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities. Those estimates and assumptions also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses, the fair value of financial instruments, valuation of goodwill, valuation of deferred tax assets, the liability related to post-retirement benefits, and reserves for stop loss re-insurance and claims incurred but not reported under the self-insured employee health benefits plans.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Concentrations of Credit Risk

The Company's banking activities include granting commercial, residential, and consumer loans to customers primarily located in Middle Tennessee and northern Alabama. The Company manages its portfolio and product mix in a manner to reduce economic risk. Concentrations of credit, as defined for regulatory purposes, are reviewed quarterly by management to ensure that internally established limits are not exceeded. As of December 31, 2023, our concentrations of commercial real estate loans were 169.5% of Tier 1 Capital plus the allowance for credit losses for loans while our construction loans were 55.5%. These percentages are within our internally established limits regarding concentrations of credit.

Cash and Due From Banks

Included in cash and due from banks are balances due from the Federal Reserve Bank and other banks. From time to time throughout the year, the Bank's balances due from other financial institutions exceeded Federal Deposit Insurance Corporation ("FDIC") insurance limits. The Bank had $117,000 of federal funds sold as of December 31, 2023. Federal funds sold are essentially uncollateralized loans to other financial institutions.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents include cash on hand, cash due from banks, and federal funds sold. Federal funds are sold for one-day periods.

Securities

Certain debt securities that management has the intent and ability to hold to maturity are classified as HTM and recorded at amortized cost. Securities not classified as HTM are classified as available-for-sale ("AFS") and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income ("AOCI"), net of tax. Purchase premiums and discounts are amortized or accreted to interest income over the expected lives of the securities using the interest method with a constant effective yield. Callable debt securities held at a premium are amortized to the earliest call date instead of maturity. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity securities are accounted for at fair value with changes in fair value recognized in net income. The Company held equity securities in the amount of $2.1 million and $2.5 million as of December 31, 2023 and 2022, respectively.

Loans

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

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

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Loans, (continued)

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of the contractual due date. The accrual of interest on retail and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, the borrower has not missed a payment for six months, and future payments are reasonably assured.

Discounts and premiums on purchased commercial loans are amortized to income using the interest method over the remaining period to contractual maturity and adjusted for anticipated prepayments.

Allowance for Credit Losses

The Company maintains allowance for credit losses (“ACL”) on its AFS securities, HTM securities, loans, and off-balance sheet commitments, which include lines of credit, standby letters of credit, and any other commitments to extend credit that are unconditionally cancelable. The ACLs on loans, HTM securities, and off-balance sheet commitments are calculated using a current expected credit losses (“CECL”) methodology. The ACL on available-for-sale securities is provided when a credit loss is deemed to have occurred for securities which the Company does not intend to sell or is not required to sell.

Investment securities

The Company evaluates its AFS securities on a quarterly basis for indicators of credit loss. The Company assesses whether a credit loss has occurred when the fair value of a security is less than the amortized cost. Management reviews the amount of unrealized loss, the credit rating history, market trends of similar classes, time remaining to maturity, and the source of both interest and principal payments to identify securities which could potentially have a credit loss. For those available-for-sale securities that the Company intends to sell or is more likely than not required to sell, before the recovery of their amortized cost basis, the difference between fair value and amortized cost is considered a credit loss and is recognized through a provision for credit losses. For those AFS securities that the Company does not intend to sell or is not more likely than not required to sell, prior to expected recovery of amortized cost basis, the credit potion of the loss is recognized through an allowance for credit losses through a provision for credit losses while the noncredit portion is recognized in other comprehensive income, net of taxes.

Prior to the implementation of CECL on January 1, 2023, the Company evaluated its AFS securities portfolio in accordance with the methodology specified in the preceding paragraph except that the credit potion of the loss would reduce the amortized cost basis of the security. Any subsequent increase in the expected cash flows would be recognized as an adjustment to interest income.

The Company estimates potential losses for HTM securities using a historical loss methodology based on the type of security. The securities are segmented based on similar risk characteristics. If the Company’s internal historical information is insufficient to estimate potential losses, management may use third party or peer information. Any expected credit loss is provided through the allowance for credit loss on HTM securities and is deducted from the amortized cost basis of the security so that the balance sheet reflects the net amount the Company expects to collect.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Allowance for Credit Losses, (continued)

Prior to the implementation of CECL on January 1, 2023, the Company evaluated its HTM securities portfolio on a quarterly basis for indicators of other than temporary impairment ("OTTI"). The Company assessed whether OTTI had occurred when the fair value of a security was less than the amortized cost at the balance sheet date. If an OTTI was deemed to have occurred, the credit portion of the OTTI was recognized in noninterest income while the noncredit portion was recognized in other comprehensive income, net of taxes.

Loans and Off-balance sheet commitments

The ACL on loans is deducted from the amortized cost basis of a financial asset or a group of financial assets so that the balance sheet reflects the net amount the Company expects to collect. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, and deferred fees and costs. The ACL on loans is established through provisions for credit losses charged against income. Loan losses are charged against the allowance when management determines that the uncollectibility of a loan has been confirmed. Subsequent recoveries, if any, are credited to the ACL in the period received.

The ACL is measured on a collective basis for pools with similar risk characteristics for measuring expected credit losses. The segmentation is consistent with those utilized in the Quarterly Report of Condition and Income filed by the Bank with the FDIC.

For the loan segments, management estimates the allowance by projecting probability-of-default and loss-given-default associated with the two-year period most closely aligned with the two-year forecasted national unemployment rate. The Company's reasonable and supportable forecast period of two years immediately reverts to an analysis of historical loss experience under the weighted average remaining maturity ("WARM") methodology. The reversion period is dependent on each loan segment's WARM, in which the contractual terms are adjusted for expected prepayments. Historical credit experience provides the basis for the estimation of expected credit losses, with adjustments made for differences in current loan-specific risk characteristics, such as differences in delinquency levels, industry concentration risks, and commercial loan policy exceptions.

The allowance for credit losses is measured on a collective basis when similar risk characteristics exist. Loans that are determined to have unique risk characteristics are evaluated on an individual basis by management. Individual evaluations are generally performed for loans greater than $500,000 which have experienced significant credit deterioration. If a loan is determined to be collateral dependent or meets the criteria to apply the collateral dependent practical expedient, expected credit losses are determined based on the fair value of the collateral at the reporting date, less costs to sell as appropriate. Loans with unique risk characteristics that are not subject to collateral dependent accounting, are assessed using a discounted cash flows methodology.

In addition to the transactional reserve described above, the company also maintains a reserve that consists of qualitative measurements and assessments of the loan portfolios including levels of new loan growth, the quality of the Bank's credit review function, lending staffing experience and abilities, economic uncertainty, and potential credit risks associated with the interest rate environment.

The adequacy of the allowance for credit losses is evaluated quarterly, in which subjective inputs and assumptions are discussed in meetings with the CECL Committee and the Bank's Board of Directors. The Company's ACL methodology is intended to reflect all loan portfolio risk. This process is inherently subjective as it requires material estimates that are susceptible to significant change.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Allowance for Credit Losses, (continued)

The Company has elected to exclude accrued interest receivable from the measurement of its ACL given the well-defined non-accrual policies in place for all loan portfolios which results in timely reversal of outstanding interest.

The Company has made a policy election to exclude accrued interest income from the amortized cost basis of available-for-sale debt securities and report accrued interest separately in other assets in the Consolidated Balance Sheets. A debt security is placed on nonaccrual status at the time we no longer expect to receive all contractual amounts due, which is generally at 90 days past due. Accrued interest for a security placed on nonaccrual is reversed against interest income. Accordingly, we do not recognize an allowance for credit loss against accrued interest receivable.

The estimate for off-balance sheet commitments is determined using the same procedures and methodologies as used for the loan portfolio supplemented by the information related to future draws and related credit loss expectations. The ACL on off-balance sheet commitments is recorded in accounts payable and other liabilities in the Consolidated Balance Sheets.

Prior to the implementation of CECL on January 1, 2023, the allowance for loan and lease losses for loans was subject to the guidance included in ASC 310 and ASC 450. Under the guidance, the Company was required to use an incurred loss methodology to estimate credit losses that were estimated to be incurred in the loan portfolio and that could ultimately materialize into confirmed losses in the form of charge-offs. The incurred loss methodology was a backward-looking approach to loss recognition and based on the concept of a triggering event having taken place, causing a loss to be inherent within the portfolio. This methodology under ASC 450 was predicated on a loss emergence period that was applied at a portfolio level and based on historical loss experience within the loan portfolios. Consideration of forward-looking macro-economic expectations was not permitted under this allowance methodology. Additionally, loans that were identified as impaired under the definition of ASC 310, were required to be assessed on an individual basis. The allowance for credit losses and resulting provision expense levels for comparative periods presented in this document were estimated in accordance with these requirements.

Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gains and losses on loan sales are recorded in non-interest income. The Company does not retain servicing rights on loans sold.

Other Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

When foreclosed properties are acquired current appraisals are obtained on the properties. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected selling costs. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market. The Company did not hold any other real estate repossessed as of December 31, 2023 and 2022.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Premises and Equipment

Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. The provision for depreciation is computed principally on an accelerated method over the estimated useful life of an asset, which ranges from 15 to 39 years for buildings, from three to seven years for equipment, and the expected lease terms for leasehold improvements. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses from the disposition of property are reflected in operations, and the asset accounts and related allowances for depreciation are reduced.

Right-of-use assets associated with financing leases are included in premises and equipment on the consolidated balance sheets and stated at the estimated present value of lease payments over the lease term. Disclosures about the Company's leasing activities are presented in Note 7 – Leases.

Federal Reserve and Federal Home Loan Bank Stock

Federal Reserve and Federal Home Loan Bank stock are required investments for institutions that are members of the Federal Reserve and Federal Home Loan Bank systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment. As of December 31, 2023 and 2022 Federal Reserve and Federal Home Loan Bank stock totaled $6.6 million and $6.1 million, respectively, and is recorded in other assets on the consolidated balance sheet.

Bank-owned Life Insurance

The Bank has purchased life insurance policies on certain key officers. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized upon immediate liquidation.

Goodwill

Goodwill is evaluated annually for impairment. Quantitative and qualitative assessments are performed to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more-likely-than-not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Transfers of Financial Assets

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

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with FASB ASC Topic 606, Revenue from Contracts with Customers ("Topic 606"). Under Topic 606, we must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when, or as we satisfy a performance obligation.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Revenue from Contracts with Customers, (continued)

Our primary sources of revenue are derived from financial instruments, namely loans, investment securities, and other financial instruments that are not within the scope of Topic 606. We have evaluated the nature of the Company's contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgement involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Leases

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

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB advance rate.

Stock-Based Compensation

Compensation cost is recognized for restricted stock units granted to directors and employees based upon the fair value of the awards at the date of grant. The market price of the Company's common stock at the date of grant is used. Compensation cost is recognized over the required service period, generally defined as the vesting period, reduced for estimated forfeitures.

Income Taxes

The Company files consolidated income tax returns with its subsidiaries. The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance requires two components of income tax expense which are 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 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.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Income Taxes, (continued)

Tax positions are recognized if it is more-likely-than-not, based on the technical merits that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, the Company is no longer subject to U.S. federal tax examinations and state and local tax examinations by tax authorities for years prior to 2020.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. As of December 31, 2023, the Company has not accrued any interest or penalties related to uncertain tax positions.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction.

Fair Value Measurements

Fair value of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates. See Note 11 – Fair Value Measurement.

Earnings Per Share

Earnings per share represents income available to shareholders divided by the weighted average number of shares of the Company's common stock outstanding during the period. Fully diluted earnings per share is not presented as there are no common stock equivalents.

The following is a summary of the earnings per share calculation for the periods presented:

	Years ended December 31,		
	2023	**2022**	**2021**
	(dollars in thousands, expect per share data)		
Earnings per share calculation:			
Numerator – Net income available to common shareholders	$ 16,049	$ 18,050	$ 15,619
Denominator – Weighted average common shares outstanding	4,228,232	4,305,557	4,345,665
Net income per common share available to common shareholders	$ 3.80	$ 4.19	$ 3.59

Upon annual evaluation in 2023, the Company reauthorized a plan to repurchase up to 200,000 shares of its common stock. As of December 31, 2023, no shares had been repurchased under the reauthorized plan and all 200,000 shares were available for repurchase in 2024.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Other Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss), net of applicable income tax expenses or benefits. Other comprehensive income (loss) includes unrealized appreciation or depreciation on available-for-sale securities and changes in the net actuarial gain or loss of the post-retirement benefit obligation.

Segment Reporting

Management analyzes the operations of the Company assuming one operating segment, community lending services.

Recent Accounting Pronouncements

In June of 2016, the FASB issued *ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326),* and has issued subsequent amendments there to, which introduces the CECL methodology. The ASU is commonly referred to as CECL. The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment and held-to maturity securities. The ASU requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets. The standard also included revisions and updates to the required footnote disclosures.

The Company formed a CECL Committee to oversee the adoption of the ASU 2016-13, including assessing the impact on its accounting and disclosures. The CECL Committee is a cross-functional Bank management committee comprised of individuals from areas including accounting, credit administration, executive, and treasury. The CECL Committee established the historical data available, identified loan segmentation, and determined the methodologies and relevant economic factors to be utilized for estimating credit losses. The CECL Committee developed an ACL model which calculates reserves over the life of the loan and is largely driven by probability-of-default, loss-given- default, historical losses, portfolio characteristics, economic outlook, and other qualitative factors. The probability-of-default is calculated using loan risk rating downgrades compared to forecasted changes in unemployment. The methodology utilizes a national unemployment rate forecast over a two-year reasonable and supportable forecast period with immediate reversion to historical losses.

The Company adopted ASU 2016-13 effective January 1, 2023 using the modified retrospective approach. The effect of adoption was a $9,000 increase in the allowance for credit losses on held-to-maturity ("HTM") securities, $711,000 decrease in the allowance for credit losses (formally referred to as the allowance for loan losses) and a $411,000 increase in other liabilities for off-balance sheet credit exposure with a related increase in shareholders' equity of $215,000, net of tax. The impact of adoption and required disclosures are incorporated above into Note 1 – General and Summary of Significant Accounting Policies and below into Note 4 – Loans and Allowance for Credit Losses.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Recent Accounting Pronouncements, (continued)

In March 2020, the FASB issued *ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and has issued subsequent amendments thereto, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The update provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance was initially effective for all entities as of March 12, 2020, through December 31, 2022. In December 2022, the FASB issued an update to ASU 2020-04 with update *ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which updated the effective date to be March 12, 2020, through December 31, 2024. The Company moved its LIBOR-based loans to its preferred replacement index, a Secured Overnight Financing Rate ("SOFR") based index prior to December 31, 2023. The transition from LIBOR to SOFR is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.

In March of 2022, the FASB issued *ASU 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.* The update eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. This update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Additionally, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures. The amendments of this update are effective for the entities that have adopted the amendments in Update 2016-13 for fiscal years beginning after December 15, 2022. The Company adopted ASU 2022-02 on January 1, 2023 and incorporated the required disclosures into Note 4 – Loans and Allowance for Credit Losses.

In June of 2022, the FASB issued *ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.* The amendments in this update clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments also require certain disclosures for equity securities subject to contractual sale restrictions. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023. The guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.

In December of 2023, the FASB issued *ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* ASU 2023-09 requires public business entities to disclose in their income tax rate reconciliation table additional categories of information about federal, state and foreign income tax and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. ASU 2023-09 also requires all entities to disclose income taxes paid, net of refunds, disaggregated by federal, state, and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative and qualitative threshold, among other things. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2024. The guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.

NOTE 2 – ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

The components of accumulated other comprehensive loss, included in shareholder's equity, are as follows:

	Years ended December 31,		
	2023	2022	2021
	(dollars in thousands)		
Net unrealized losses			
on available-for-sale securities	$ (83,316)	$ (108,345)	$ (6,866)
Net actuarial gain on unfunded portion			
of post-retirement benefit obligation	1,047	1,325	1,258
Total	(82,269)	(107,020)	(5,608)
Tax benefit	21,425	27,932	1,464
Accumulated other comprehensive loss	$ (60,844)	$ (79,088)	$ (4,144)

Amounts reclassified from AOCI and the affected line items in the statements of income during the periods presented are as follows:

	Amounts reclassified from AOCI			
	Years ended December 31,			
	2023	2022	2021	Affected line item in the Statements of income
Realized (losses) gains on securities	$ (317)	$ (5)	$ 621	(Loss) gain on sale of securities
Tax benefit (provision)	83	1	(162)	Provision for income taxes
Net realized (losses) gains on securities	$ (234)	$ (4)	$ 459	Net reclassified amount
Amortization of defined benefit pension items	$ 167	$ 152	$ 136	Other non-interest expense
Tax provision	(44)	(40)	(35)	Provision for income taxes
Net amortization of defined benefit pension	$ 123	$ 112	$ 101	Net reclassified amount
Amortization of prior year service costs	$ 5	$ 5	$ 5	Other non-interest expense
Tax provision	(1)	(1)	(1)	Provision for income taxes
Net amortization of prior year service costs	4	4	4	Net reclassified amount
Total reclassifications out of AOCI	$ (107)	$ 112	$ 564	

NOTE 3 – SECURITIES

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2023 and 2022 are summarized as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2023		(dollars in thousands)		
Available-for-sale securities:				
U.S. treasuries securities	$ 46,983	$ -	$ (1,723)	$ 45,260
U.S. government sponsored agencies	225,344	-	(25,611)	199,733
U.S. government sponsored agency mortgage-backed securities	376,756	-	(44,869)	331,887
States and political subdivisions	110,216	21	(10,531)	99,706
Corporate bonds	16,780	5	(608)	16,177
Total	$ 776,079	$ 26	$ (83,342)	$ 692,763
Held-to-maturity securities:				
States and political subdivisions	$ 15,047	$ 2	$ (655)	$ 14,394
December 31, 2022				
Available-for-sale securities:				
U.S. treasuries securities	$ 73,017	$ -	$ (3,332)	$ 69,685
U.S. government sponsored agencies	262,152	-	(33,131)	229,021
U.S. government sponsored agency mortgage-backed securities	439,175	-	(56,115)	383,060
States and political subdivisions	127,870	12	(14,683)	113,199
Corporate bonds	16,722	1	(1,097)	15,626
Total	$ 918,936	$ 13	$ (108,358)	$ 810,591
Held-to-maturity securities:				
States and political subdivisions	$ 15,087	$ -	$ (925)	$ 14,162

NOTE 3 – SECURITIES, (CONTINUED)

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that were not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities had been in a continuous unrealized loss position at December 31, 2023 and 2022:

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
			(dollars in thousands)			
December 31, 2023						
Available-for-sale securities:						
U.S. treasuries securities	$ -	$ -	$ 45,260	$ (1,723)	$ 45,260	$ (1,723)
U.S. government sponsored agencies	-	-	199,733	(25,611)	199,733	(25,611)
U.S. government sponsored agency mortgage backed securities	-	-	331,887	(44,869)	331,887	(44,869)
States and political subdivisions	9,644	(221)	86,929	(10,310)	96,573	(10,531)
Corporate bonds	1,733	(2)	12,969	(606)	14,702	(608)
Total	$ 11,377	$ (223)	$ 676,778	$ (83,119)	$ 688,155	$ (83,342)
Held-to-maturity securities:						
States and political subdivisions	$ 1,952	$ (39)	$ 11,781	$ (616)	$ 13,733	$ (655)
December 31, 2022						
Available-for-sale securities:						
U.S. treasuries securities	$ 53,200	$ (1,782)	$ 16,485	$ (1,550)	$ 69,685	$ (3,332)
U.S. government sponsored agencies	22,270	(3,626)	206,751	(29,505)	229,021	(33,131)
U.S. government sponsored agency mortgage backed securities	131,532	(14,697)	251,528	(41,418)	383,060	(56,115)
States and political subdivisions	56,952	(6,121)	51,994	(8,562)	108,946	(14,683)
Corporate bonds	2,967	(46)	12,408	(1,051)	15,375	(1,097)
Total	$ 266,921	$ (26,272)	$ 539,166	$ (82,086)	$ 806,087	$ (108,358)
Held-to-maturity securities:						
States and political subdivisions	$ 14,162	$ (925)	$ -	$ -	$ 14,162	$ (925)

NOTE 3 – SECURITIES, (CONTINUED)

As shown in the tables above, as of December 31, 2023, the Company had $83.3 million in unrealized losses on $776.1 million of securities. The level of unrealized loss positions impacted all types of securities owned by the Company with the largest balance of unrealized losses recorded in U.S. government sponsored agency mortgage-backed securities. The mortgage-backed securities owned by the Company are issued by government agencies or government-sponsored enterprises which have an implied guarantee by the U.S. government. The unrealized losses associated with these investment securities are driven by changes in interest rates and the unrealized loss is recorded as a component of equity. Accordingly, no allowance for credit losses is considered necessary related to available-for-sale securities at December 31, 2023. These securities will continue to be monitored as part of the Company's ongoing evaluation of credit quality. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments.

The Company owns one type of held-to maturity security which is state and municipal securities. Third party loss given default rates are applied against the outstanding balances of held-to maturity securities to estimate an allowance for credit losses. At December 31, 2023, the estimated allowance for credit losses on these held-to-maturity securities was $9,000.

The amortized cost and fair value of available-for-sale and held-to-maturity securities as of December 31, 2023 and 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-sale		**Held-to-maturity**	
December 31, 2023	**Amortized Cost**	**Fair value**	**Amortized cost**	**Fair value**
	(dollars in thousands)			
Within one year	$ 61,266	$ 59,874	$ 320	$ 317
One to five years	154,062	142,924	1,754	1,712
Five to ten years	137,874	118,339	7,698	7,352
After ten years	46,121	39,739	5,275	5,013
Mortgage-backed securities	376,756	331,887	-	-
Total	$ 776,079	$ 692,763	$ 15,047	$ 14,394

	Available-for-sale		**Held-to-maturity**	
December 31, 2022	**Amortized cost**	**Fair value**	**Amortized cost**	**Fair Value**
	(dollars in thousands)			
Within one year	$ 70,114	$ 68,692	$ -	$ -
One to five years	198,201	182,043	1,320	1,280
Five to ten years	155,087	129,994	5,168	4,903
After ten years	56,358	46,802	8,599	7,979
Mortgage-backed securities	439,176	383,060	-	-
Total	$ 918,936	$ 810,591	$ 15,087	$ 14,162

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $335.5 million and $431.2 million at December 31, 2023 and 2022, respectively. There were no securities sold under repurchase agreements as of December 31, 2023 and 2022.

NOTE 3 – SECURITIES, (CONTINUED)

	Years ended December 31,		
	2023	2022	2021
	(dollars in thousands)		
Gross gains recognized on sales of securities	$ 4	$ -	$ 922
Gross losses recognized on sales of securities	(321)	(5)	(301)
Net realized (losses) gains on sales of securities	$ (317)	$ (5)	$ 621

The Corporation held equity securities in the amount of $2.1 and $2.5 million at December 31, 2023 and 2022, respectively. There have been no sales of equity securities during 2023, 2022, and 2021.

On March 18, 2008, the company participated in a Visa IPO as a financial institution customer and was granted shares of Visa Stock at no cost. Because of certain restrictions on the Visa Stock, the Company elected to account for this investment at cost minus impairment. On May 20, 2021, the Company sold all of its holdings and recorded a gain on the sale of its Visa Stock of $1.8 million.

During 2021, the company transferred two held-to-maturity securities with a net carrying value of $664,000 to available-for-sale classification. Under ASC 320-10-25-6, the Company concluded that there was sufficient evidence of a significant deterioration in the issuer's credit worthiness. Immediately following the reclassification, the Company sold the securities recognizing a realized gain of $46,000 as of December 31, 2021.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

The Company classifies its loan portfolio based on the underlying collateral utilized to secure each loan. This classification is consistent with those utilized in the Quarterly Report of Condition and Income filed by the Bank with the FDIC. The loan categories for presentation of loan balances and the related allowance for credit losses on loans are as follows:

- *Commercial real estate* – These loans represent owner occupied commercial real estate mortgage loans secured by commercial office buildings, industrial buildings, warehouses, or retail buildings where the owner of the building occupies the property, in addition to non-owner occupied commercial real estate loans secured by office buildings, industrial buildings warehouses, or retail buildings where repayment is primarily dependent on lease income generated from the underlying collateral.
- *Construction and land development* – Construction and land development loans include loans where the repayment is dependent on the successful completion and eventual sale, refinance or operation of the related real estate project. Construction and land development loans include commercial construction endeavors such as warehouses, apartments, office and retail space and land acquisition and development.
- *Commercial and industrial* – These loans represent loans to business enterprises issued for commercial, industrial and /or other professional purposes. These loans are generally secured by equipment, inventory, and accounts receivable of the borrower and repayment is primarily dependent on business cash flows.
- *Multifamily and other commercial* – Multifamily loans include loans on nonfarm properties with five or more dwelling units in structures such as apartment buildings or commercial units combined with five or more residential units. Repayment is primarily dependent on lease income generated from the underlying collateral. This loan segment also includes other commercial loans, such as loans made to state and political subdivisions.
- *Single family residential* – Single family residential loans include closed-end loans and revolving open-end lines of credit such as HELOCs secured by real estate. These loans are typically secured by nonfarm property containing one to four dwelling units or more than four dwelling units and repayment is primarily dependent on the personal cash flow of the borrower.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

- *Loans to individuals and other* – These loans include loans issued to individuals such as automobile loans and consumer loans and exclude consumer real estate loans or loans to individuals secured by 1-4 family residential properties. Many of these loans to individuals are unsecured and repayment is primarily dependent on the personal cash flow of the borrower.

In conjunction with the adoption of the ASC 326, the Company made certain loan portfolio segment reclassifications to conform to the new ACL methodology. The effect of the adoption of ASC 326 on the allowance for credit losses by portfolio segment are summarized as follows:

Loans:	**Post-adoption December 31, 2022**	**The effect of adoption**	**Pre-adoption December 31, 2022**
Commercial real estate	$ 322,730	$ (210,740)	$ 533,470
Construction and land development	108,095	108,095	-
Commercial and industrial	85,106	287	84,819
Multifamily and other commercial	81,383	52,599	28,784
Single family residential	324,039	45,650	278,389
Loans to individuals and other	44,814	4,109	40,705
Total loans	$ 966,167	$ -	$ 966,167
Less allowance for credit losses:			
Commercial real estate	4,037	(239)	4,276
Construction and land development	1,218	(80)	1,298
Commercial and industrial	1,014	(62)	1,076
Multifamily and other commercial	752	(60)	812
Single family residential	1,152	(238)	1,390
Loans to individuals and other	498	(32)	530
Total allowance for credit losses	8,671	(711)	9,382
Net loans	$ 957,496	$ 711	$ 956,785

Loans at December 31, 2023 and 2022 were as follows:

	December 31, 2023	**December 31, 2022**
	(dollars in thousands)	
Commercial real estate	$ 351,278	$ 322,730
Construction and land development	102,711	108,095
Commercial and industrial	91,838	85,106
Multifamily and other commercial	92,139	81,383
Single family residential	339,903	324,039
Loans to individuals and other	40,997	44,814
Total loans, net of deferred fees	$ 1,018,866	$ 966,167
Less:		
Allowance for credit losses	(7,666)	(9,382)
Total net loans	$ 1,011,200	$ 956,785

The amount of net capitalized fees, calculated in accordance with accounting guidance included in the above loan totals were $1.5 million and $1.3 million as of December 31, 2023 and 2022, respectively.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The goal of the Bank is to diversify loans to avoid a concentration of credit in a specific industry, person, entity, product, service, or any area vulnerable to a tax law change or an economic event. A concentration of credit occurs when obligations, direct or indirect, of the same or affiliated interests represent 25% or more of the Bank's capital structure. Owner-occupied and non-owner occupied commercial real estate represented the highest concentration at 276% of tier 1 capital. The Board of Directors recognizes that the Bank's geographic trade area imposes some limitations regarding loan diversification if the Bank is to perform the function for which it has been chartered. Specifically, lending to qualified borrowers within the Bank's trade area will naturally cause concentrations of real estate loans in the primary communities served by the Bank and loans to employees of major employers in the area.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

The Company originates residential and consumer loans utilizing a computer-based credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by line and staff personnel. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements.

The Company engages a third-party vendor to perform loan reviews. The Company reviews and validates the credit risk program on an annual basis. Results of these reviews are presented to management and the Company's Audit Committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the weighted-average risk grade of commercial loans, (ii) the level of classified commercial loans, (iii) net charge-offs, (iv) non-performing loans, and (v) the general economic conditions in the State of Tennessee. The Company uses a risk grading matrix to assign a risk grade to each of its commercial loans. Loans are graded on a scale of 1 through 8. The credit risk profile of the retail loan portfolio is based on delinquency status classification. Retail loans that are not past due are considered performing and are classified as Acceptable Risk. If a retail loan reaches 90 days past due, the loan is considered nonperforming and is placed on non-accrual status. A description of the general characteristics of the eight risk grades is as follows:

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

Risk Rating 1 – Minimal Risk – Loans in this category are secured by a cash deposit or fully guaranteed by the SBA and are substantially risk free.

Risk Rating 2 – Modest Risk – Loans in this category have borrowers that show profitability, liquidity, and capitalization better than industry norms and a strong market position in the region. The borrower of these loans have a proven history of profitability and financial stability, along with an abundance of financeable assets available to protect the Bank's position.

Risk Rating 3 – Average Risk – Loans in this category have borrowers that show a stable earnings history and financial condition in line with industry norms. The borrower's liquidity and leverage are in line with industry norms. The credit extension is considered sound; however, elements may be present which suggest the borrower may not be free from temporary impairments in the future.

Risk Rating 4 – Acceptable Risk – Loans in this category have sound risk profiles, in which the borrower shows satisfactory asset quality and liquidity, good debt capacity and coverage, and good management in critical positions. Performing retail loans are considered acceptable risk unless otherwise assigned a specific risk rating.

Risk Rating 5 – Pass/Watch – Loans in this category require a heightened level of supervision. The borrower may exhibit declining earnings, strained cash flow, increasing leverage, or weakening market positions that indicate a trend toward an unacceptable risk. The borrowers liquidity, leverage, and earnings performance is below or trending below industry norms.

Risk Rating 6 – Special Mention – Loans in this category are not currently adequate. These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Risk Rating 7 – Substandard – Loans in this category are inadequately protected by the current sound worth and paying capacity of the obligor of the collateral pledged, if any. These loans must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Risk Rating 8 – Doubtful – Loans in this category have all the weaknesses inherent in a loan classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.

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

The following table presents loan balances classified within each risk rating category by primary loan type and based on year of origination as of December 31, 2023:

	Term loans amortized cost basis by origination year							
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
	(dollars in thousands)							
Commercial real estate								
Minimal risk	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Modest risk	-	-	-	-	-	-	-	-
Average risk	5,891	17,325	9,126	7,817	7,299	19,655	638	67,751
Acceptable risk	26,709	73,213	43,580	48,312	17,722	49,180	10,096	268,812
Watch	-	-	1,199	-	-	-	-	1,199
Special mention	-	-	-	-	-	844	-	844
Substandard	-	-	-	-	-	12,672	-	12,672
Doubtful	-	-	-	-	-	-	-	-
Total	$ 32,600	$ 90,538	$ 53,905	$ 56,129	$ 25,021	$ 82,351	$ 10,734	$ 351,278
Construction and land development								
Minimal risk	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Modest risk	-	-	-	-	-	-	-	-
Average risk	7,165	199	-	-	-	995	-	8,359
Acceptable risk	54,544	20,812	13,237	3,872	1,307	517	-	94,289
Watch	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	63	-	63
Doubtful	-	-	-	-	-	-	-	-
Total	$ 61,709	$ 21,011	$ 13,237	$ 3,872	$ 1,307	$ 1,575	$ -	$ 102,711
Commercial and industrial								
Minimal risk	$ -	$ -	$ 421	$ -	$ 170	$ -	$ 116	$ 707
Modest risk	-	-	-	-	-	360	5	365
Average risk	1,784	5,525	2,635	581	617	5,753	1,348	18,243
Acceptable risk	26,799	10,373	9,552	4,032	3,327	9,141	3,257	66,481
Watch	259	276	2,251	-	-	105	20	2,911
Special mention	-	-	-	-	-	-	-	-
Substandard	-	9	2	2	-	3,118	-	3,131
Doubtful	-	-	-	-	-	-	-	-
Total	$ 28,842	$ 16,183	$ 14,861	$ 4,615	$ 4,114	$ 18,477	$ 4,746	$ 91,838
Multifamily and other commercial								
Minimal risk	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Modest risk	7,309	2,795	5,998	-	-	11,259	-	27,361
Average risk	-	3,626	-	-	-	1,899	-	5,525
Acceptable risk	1,500	29,603	6,905	8,897	1,310	11,038	-	59,253
Watch	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	$ 8,809	$ 36,024	$ 12,903	$ 8,897	$ 1,310	$ 24,196	$ -	$ 92,139

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

	Term loans amortized cost basis by origination year							
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Total**
				(dollars in thousands)				
Single family residential								
Minimal risk	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Modest risk	-	-	-	-	-	-	-	-
Average risk	-	-	-	-	-	-	-	-
Acceptable risk	39,262	47,235	42,175	42,539	27,135	72,057	67,214	337,617
Watch	50	95	765	-	-	-	-	910
Special mention	-	-	-	-	-	-	-	-
Substandard	-	73	-	35	326	663	279	1,376
Doubtful	-	-	-	-	-	-	-	-
Total	$ 39,312	$ 47,403	$ 42,940	$ 42,574	$ 27,461	$ 72,720	$ 67,493	$ 339,903
Loans to individuals and other								
Minimal risk	$ 13	$ -	$ -	$ -	$ -	$ -	$ -	$ 13
Modest risk	-	13,504	-	-	-	9,426	-	22,930
Average risk	-	-	-	-	-	413	-	413
Acceptable risk	5,129	3,782	1,379	367	178	6,110	688	17,633
Watch	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	8	-	-	-	8
Doubtful	-	-	-	-	-	-	-	-
Total	$ 5,142	$ 17,286	$ 1,379	$ 375	$ 178	$ 15,949	$ 688	$ 40,997
Total loans	**$ 176,414**	**$ 228,445**	**$ 139,225**	**$ 116,462**	**$ 59,391**	**$ 215,268**	**$ 83,661**	**$ 1,018,866**

During 2023, the Company had $933,000 in revolving loans that were converted to term loans. These loans were categorized as Single family residential, all of which have a credit grade of Acceptable risk.

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

The following table outlines the risk category of loans as of December 31, 2022:

December 31, 2022 Commercial loan portfolio: Credit risk profile by internally assigned grade	Commercial and industrial	Non-farm, non-residential real estate	Construction and development	Commercial loans secured by real estate	Other commercial	Commercial loan totals
			(dollars in thousands)			
Risk rating 1 – minimal risk	$ 2,275	$ 537	$ -	$ -	$ 85	$ 2,897
Risk rating 2 – modest risk	611	-	-	-	43,695	44,306
Risk rating 3 – average risk	18,806	52,975	9,997	6,366	4,098	92,242
Risk rating 4 – acceptable risk	53,157	254,523	80,123	94,045	6,391	488,239
Risk rating 5 – pass/watch	8,428	9,200	-	2,234	-	19,862
Risk rating 6 – special mention	-	-	-	-	-	-
Risk rating 7 – substandard	440	5,771	-	-	-	6,211
Totals	$ 83,717	$ 323,006	$ 90,120	$ 102,645	$ 54,269	$ 653,757

Retail loan portfolio: Credit risk profiles based on delinquency status classification	Consumer	Single family residential **	Other retail	Retail loan totals
		(dollars in thousands)		
Performing – risk ratings 1 – 6	$ 6,481	$ 295,752	$ 9,070	$ 311,303
Risk rated 7*	21	1,086	-	1,107
Totals	$ 6,502	$ 296,838	$ 9,070	$ 312,410

*Loans are classified as nonperforming loans and are automatically placed on nonaccrual status once they reach 90 days past due. For the purposes of this table, the total includes all risk rated 7 loans, of which may be performing or nonperforming.
**Single family residential loans includes first mortgages, closed-end second mortgages, residential construction loans, and home equity lines of credit (HELOCs).

The table below presents the aging of past due balances by class of financing receivable at December 31, 2023 and 2022:

December 31, 2023	**30-59 days past due**	**60-89 days past due**	**90 days and greater past due**	**Total past due**	**Current**	**Total loans**
			(dollars in thousands)			
Commercial real estate	$ 341	$ -	$ 312	$ 653	$ 350,625	$ 351,278
Construction and land development	86	-	-	86	102,625	102,711
Commercial and industrial	75	-	-	75	91,763	91,838
Multifamily and other commercial	-	-	-	-	92,139	92,139
Single family residential	1,843	62	410	2,315	337,588	339,903
Loans to individuals and other	61	5	-	66	40,931	40,997
Total	$ 2,406	$ 67	$ 722	$ 3,195	$ 1,015,671	$ 1,018,866

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

December 31, 2022	30-59 days past due	60-89 days past due	90 days and greater past due	Total past due	Current	Total loans
			(dollars in thousands)			
Commercial						
Commercial and industrial	$ -	$ -	$ -	$ -	$ 83,717	$ 83,717
Non-farm, non-residential real estate	-	-	-	-	323,006	323,006
Construction and development	360	-	-	360	89,760	90,120
Commercial loans secured by real estate	-	-	-	-	102,645	102,645
Other commercial loans	525	-	-	525	53,744	54,269
Total commercial loans	885	-	-	885	652,872	653,757
Retail						
Consumer	23	4	11	38	6,464	6,502
Single family residential	1,368	247	197	1,812	295,026	296,838
Other retail loans	1	-	-	1	9,069	9,070
Total retail loans	1,392	251	208	1,851	310,559	312,410
Total	$ 2,277	$ 251	$ 208	$ 2,736	$ 963,431	$ 966,167

There were no loans past due 90 or more days and still accruing as of December 31, 2023 and 2022.

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

The following table details the changes in allowance for credit losses from December 31, 2022 to December 31, 2023 by loan classification and the allocation of allowance for credit losses:

(dollars in thousands)	Commercial real estate	Construction and land development	Commercial and industrial	Multifamily and other commercial	Single family residential	Loans to individuals and other	Total
Balance at December 31, 2022	$ 4,276	$ 1,298	$ 1,076	$ 812	$ 1,390	$ 530	$ 9,382
Implementation of ASU 2016-13	(239)	(80)	(62)	(60)	(238)	(32)	(711)
Charge-offs	-	-	(9)	-	-	(46)	(55)
Recoveries	-	-	14	-	1	10	25
(Provision credit) for credit losses	(351)	(486)	(327)	(244)	689	(256)	(975)
Balance at December 31, 2023	$ 3,686	$ 732	$ 692	$ 508	$ 1,842	$ 206	$ 7,666

The adequacy of the allowance for credit losses is reviewed by the Company's CECL Committee 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 a two-year future forecast using a probability of default/loss given default method with immediate reversion to a WARM method using the Bank's historical loss rates. The level of the allowance for credit losses maintained by the Company is believed adequate to absorb all expected future losses inherent in the loan portfolio at the balance sheet date. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off.

The following table details the changes in allowance for loan losses from December 31, 2021 to December 31, 2022 by loan segment prior to the adoption of ASU 2016-13:

December 31, 2022	Beginning balance	Charge-offs	Recoveries	Provision (Provision credit)	Ending balance
Commercial:					
Commercial and industrial	$ 1,917	$ (4)	$ 28	$ 10	$ 1,951
Non-farm, non-residential real estate	3,351	-	-	(242)	3,109
Construction and development	946	-	-	62	1,008
Commercial loans secured by real estate	1,679	-	-	(112)	1,567
Other commercial	654	-	-	(48)	606
Total commercial	8,547	(4)	28	(330)	8,241
Retail:					
Consumer loans	201	(6)	2	-	197
Single family residential	124	-	95	(2)	217
Other retail	733	(24)	6	12	727
Total retail	1,058	(30)	103	10	1,141
Totals	$ 9,605	$ (34)	$ 131	$ (320)	$ 9,382

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

The following table details the allowance for loan losses and recorded investment in loans by loan classification and by impairment evaluation method as of December 31, 2022, as determined in accordance with ASC 310 prior to the adoption of ASU 2016-13:

Allowance for loan losses: December 31, 2022	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Ending balance
Commercial:			
Commercial and industrial	$ -	$ 1,951	$ 1,951
Non-farm, non-residential real estate	-	3,109	3,109
Construction and development	-	1,008	1,008
Commercial loans secured by real estate	-	1,567	1,567
Other commercial	-	606	606
Total commercial	-	8,241	8,241
Retail:			
Consumer loans	-	197	197
Single family residential	-	217	217
Other retail	-	727	727
Total retail	-	1,141	1,141
Totals	$ -	$ 9,382	$ 9,382

Loans: December 31, 2022	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Ending balance
Commercial:			
Commercial and industrial	$ -	$ 83,717	$ 83,717
Non-farm, non-residential real estate	73	322,933	323,006
Construction and development	-	90,120	90,120
Commercial loans secured by real estate	-	102,645	102,645
Other commercial	-	54,269	54,269
Total commercial	73	653,684	653,757
Retail:			
Consumer loans	11	6,491	6,502
Single family residential	910	295,928	296,838
Other retail	74	8,996	9,070
Total retail	995	311,415	312,410
Totals	$ 1,068	$ 965,099	$ 966,167

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

The table below presents the amortized cost basis of loans on nonaccrual status on December 31, 2023. Also presented is the balance of loans on nonaccrual status on December 31, 2023 for which there was no related allowance for credit losses recorded:

December 31, 2023	Total nonaccrual loans	Nonaccrual loans with no allowance for credit losses	Interest income recognized during the period on nonaccrual loans
Commercial real estate	$ 313	$ -	$ -
Construction and land development	63	-	-
Commercial and industrial	2	-	-
Multifamily and other commercial	-	-	-
Single family residential	1,021	-	-
Loans to individuals and other	8	-	-
Total	$ 1,407	$ -	$ -

The table below presents non-accrual loans by loan class at December 31, 2022.

	December 31, 2022
Commercial	(dollars in thousands)
Commercial and industrial	$ -
Non-farm, non-residential real estate	-
Total commercial loans	-
Retail	
Consumer loans	11
Single family residential	620
Other retail	74
Total retail loans	705
Total non-accrual loans	$ 705

As of December 31, 2023 and 2022, the Company held no foreclosed real estate. In addition, the Company had no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to location requirement of the applicable jurisdiction.

The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification.

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

In some cases, a loan restructuring will result in providing multiple types of modifications. Typically, one type of modification, such as a payment delay or term extension, is granted initially. If the borrower continues to experience financial difficulty, another modification, such as principal forgiveness or an interest rate reduction, may be granted. Additionally, multiple types of modifications may be made on the same loan within the current reporting period. Such a combination of at least two of the following: a payment delay, term extension, principal forgiveness, and interest rate reduction meets the definition of a loan modification. Upon determination that a modified loan (or 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.

The amortized cost basis of the loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2023 was $2,000, of which the loans were classified as commercial and industrial and a term extension was granted. None of these loans were subsequently past due in the months following modification. Additionally, none had a payment default in the year ended December 31, 2023 and none had been modified within the previous twelve months.

NOTE 5 – PREMISES AND EQUIPMENT

The following table presents the Company’s fixed assets by category:

	2023	2022
	(dollars in thousands)	
Land	$ 12,869	$ 12,869
Premises	26,492	26,411
Furniture and equipment	13,338	13,316
Leasehold improvements	2,158	2,158
Right-of-use assets	4,712	4,501
Construction in progress	-	883
Bank premises and equipment	59,569	60,138
Less accumulated depreciation	(29,361)	(27,998)
Bank premises and equipment, net	$ 30,208	$ 32,140

Depreciation expense was $1.7 million, $1.8 million, and $2.0 million for 2023, 2022, and 2021, respectively.

NOTE 6 – RELATED PARTY TRANSACTIONS

Certain related parties as identified under the guidance in *ASC 850-05 Related Party Disclosures* were customers of, and had loans and other transactions with, the Bank in the ordinary course of business. An analysis of the activity with respect to such loans are shown in the table below. These totals exclude loans made in the ordinary course of business to other companies with which neither the Company nor the Bank had a relationship other than the association of one of its directors in the capacity of officer or director.

The Bank has granted loans to certain related parties including directors and their related interests. These loan transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans to persons not related to the Bank and did not involve more than the normal risk of collectability or present other unfavorable features. None of these loans to directors and their related interests are individually evaluated at December 31, 2023 and 2022. Changes in related party loans for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
	(dollars in thousands)	
Related party extensions of credit, beginning of period	$ 3,245	$ 4,349
New loans	14	288
Repayments or reductions	(143)	(1,392)
Related party extension of credit, end of period	$ 3,116	$ 3,245

The aggregate balances of related party deposits at December 31, 2023 and 2022 were $45.8 million and $51.7 million, respectively. The aggregate balances of related party insured cash sweep accounts at December 31, 2023 and 2022 were $46.5 million and $44.7 million, respectively.

The aggregate managed asset balances of certain related parties that receive trust and wealth management services at December 31, 2023 and 2022 were $1 billion and $933 million, respectively. The aggregate non-managed asset balances of certain related parties that receive trust and wealth management services at December 31, 2023 and 2022 were $3.6 billion and $3.6 billion, respectively. Trust service fees earned from trust accounts held by related parties during 2023, 2022, and 2021 were $811,000, $787,000 and $758,000, respectively.

The Company and Bank utilize various services and purchased goods provided by certain related parties, in which some are governed by contractual agreements. Payments to related parties for services provided during 2023, 2022 and 2021 totaled $144,000, $243,000 and $276,000, respectively.

The Company's equity securities at December 31, 2023 and 2022 reflect investment in the stock of a related party.

NOTE 7 – LEASES

The Bank has entered into various operating and finance leases primarily for office space and branch facilities. The Bank recognizes right-of-use assets and lease liabilities related to its operating and finance leases. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

Right-of-use assets and lease liabilities related to the Bank's operating and finance leases are as follows:

	Balance sheet location	(dollars in thousands) 2023	2022
Right-of-use assets			
Operating leases	Other assets	$ 148	$ 195
Finance leases	Bank premises and equipment, net	2,546	2,774
Total right-of-use assets		$ 2,694	$ 2,969
Leases liabilities			
Operating leases	Accounts payable and accrued liabilities	$ 148	195
Finance leases	Accounts payable and accrued liabilities	2,930	3,176
Total lease liabilities		$ 3,078	$ 3,371

The following table presents lease costs related to these leases:

	December 31, 2023	December 31, 2022
	(dollars in thousands)	
Operating lease cost	$ 48	$ 46
Finance lease cost:		
Interest on lease liabilities	102	111
Amortization of right-of-use asset	439	432
Net lease cost	$ 589	$ 589

NOTE 7 – LEASES, (CONTINUED)

The following table presents the weighted average remaining lease term and weighted average discount rate used to determine lease liabilities:

Weighted average remaining lease term (years):	December 31, 2023	December 31, 2022
Operating leases	2.9	3.9
Finance leases	6.8	7.6
Weighted average discount rate:		
Operating leases	3.09%	3.09%
Finance leases	3.45%	3.36%

The following table presents a maturity analysis of undiscounted cash flows due under operating leases and finance leases and a reconciliation to total operating lease liabilities and finance lease liabilities:

	December 31, 2023	
	Operating leases	Finance leases
	(dollars in thousands)	
2024	$ 53	$ 600
2025	53	604
2026	49	583
2027	-	386
2028	-	331
Thereafter	-	943
Total	155	3,447
Less: Imputed interest	(7)	(517)
Total lease liabilities	$ 148	$ 2,930

NOTE 8 – FEDERAL AND STATE INCOME TAXES

The following table presents components of income tax expense (benefit) attributable to continuing operations:

	2023	2022	2021
	(dollars in thousands)		
Current	$ 3,891	$ 4,244	$ 3,770
Deferred	(489)	(27)	(282)
Total provision for income taxes	$ 3,402	$ 4,217	$ 3,488

A reconciliation between reported income tax expense and the amounts computed by applying the U.S. federal statutory income tax rate of 21% to income before income taxes is presented in the following table:

	2023	2022	2021
	(dollars in thousands)		
Tax expense at statutory rate	$ 4,085	$ 4,676	$ 4,012
Increase (decrease) in taxes resulting from:			
Tax-exempt interest	(511)	(520)	(558)
Nondeductible interest expense	124	23	16
Employee benefits	(220)	(106)	(113)
Other nondeductible expenses	9	7	8
State income taxes net of federal tax benefit	(80)	134	127
Other	(5)	3	(4)
Total provision for income taxes	$ 3,402	$ 4,217	$ 3,488
Effective tax rate	17.5%	18.9%	18.3%

NOTE 8 – FEDERAL AND STATE INCOME TAXES, (CONTINUED)

Year-end net deferred taxes included on the Company's balance sheets are presented in the table below.

	(dollars in thousands)	
Deferred tax effects of principal temporary differences	**2023**	**2022**
Allowance for loan and lease losses	$ 2,001	$ 2,450
Deferred compensation	2,871	2,917
Amortization of intangibles	(2,100)	(2,100)
Recognition of nonaccrual loan income	75	70
Unrealized (gains)/losses on available-for-sale securities	21,698	28,278
Post-retirement benefit obligation	397	395
Accelerated depreciation	(786)	(830)
Prepaid expenses	(32)	(37)
REIT dividends	(425)	(359)
Loan fees	380	342
FHLB stock dividends	-	(344)
Right-of-use asset	(665)	(725)
Lease liability	805	881
Accrued expenses	467	182
Other	176	(164)
Net deferred tax asset	$ 24,862	$ 30,956

No valuation allowance for deferred tax assets was recorded at December 31, 2023 and 2022 as management believes it is more likely than not that all of the deferred tax assets will be realized against deferred tax liabilities and projected future taxable income. There were no unrecognized tax benefits during any of the reported periods.

The Company and its subsidiaries file income tax returns with the Internal Revenue Service, State of Tennessee and State of Alabama. The Company is not subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2020.

NOTE 9 – BORROWED FUNDS

The Bank is a party to the Blanket Agreement for Advances and Security Agreement (the "Blanket Agreement") with the Federal Home Loan Bank of Cincinnati (the "FHLB"). Advances made to the Bank under the Blanket Agreement are collateralized by qualifying residential mortgage loans totaling 150% of the outstanding amount borrowed. These collateralization matters are outlined in the Blanket Agreement between the Bank and FHLB. As of December 31, 2023 and 2022, the FHLB advances totaled $0 and $25 million, respectively. The advances were collateralized by $432.7 million and $254.4 million of qualifying residential mortgage loans and commercial real estate loans under a blanket lien arrangement at December 31, 2023 and 2022, respectively. Based on this collateral, the Bank was eligible to borrow up to a total of $276.3 million in additional advances at December 31, 2023.

Stock held in the FHLB totaling $5.8 million and $5.2 million at December 31, 2023 and 2022, respectively, is carried at cost. The stock is restricted, can only be sold back to the FHLB at par, and is included in other assets on the consolidated balance sheet.

NOTE 9 – BORROWED FUNDS, (CONTINUED)

The Bank also can borrow funds from the Federal Reserve's Bank Term Funding Program ("BTFP"). The BTFP is a new borrowing facility established during 2023 in response to liquidity concerns within the banking industry and designed to provide available funding to eligible depository institutions. Under the program, eligible depository institutions can obtain loans of up to one year in length by pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets acquired prior to March 2023 as collateral and valued at amortized cost. The BTFP is intended to eliminate the need for depository institutions to sell their securities when they are experiencing stress on their liquidity. As of December 31, 2023, the Bank's BTFP borrowings totaled $104 million and have one year maturity dates with interest rates ranging from 4.83% to 4.84%. Pursuant to collateral agreements with the Federal Reserve Bank, advances are secured by certain qualified investment securities totaling $167.4 million as of December 31, 2023. On January 24, 2024, the Federal Reserve Board announced the BTFP will cease making new loans as originally scheduled on March 11, 2024.

NOTE 10 – SIGNIFICANT ESTIMATES, COMMITMENTS, AND CONTINGENCIES

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the ALLL are reflected in the Note 4 – Loans and Allowance for Credit Losses. Other significant estimates and concentrations not discussed in those footnotes include:

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations, cash flows and disclosures of the Company.

Pension and Other Post-Retirement Benefit Obligations

The Company has a noncontributory defined benefit post-retirement health care plan whereby it agrees to provide certain post-retirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Self-Insurance Reserves

The Company is self-insured for its employees' health benefit programs, which include medical, dental, and prescription drug benefits. The costs of the Company's employee health insurance benefits, including paid claims, an estimate of incurred but not reported ("IBNR") claims, stop loss premiums and administrative fees are included in salaries and employee benefits on the consolidated statements of income.

The accrual for stop loss premiums and employee health insurance benefits is based on analysis performed internally by management. There was no receivable for stop loss premiums at December 31, 2023 and 2022. The liability for employee health insurance benefits at December 31, 2023 and 2022 was $324,000 and $356,000, respectively. The Company analyzes the liability on a regular basis for the IBNR claims and believes the reserves are adequate. However, judgement is involved in assessing these reserves, such as assessing historical claims paid, average lag times between claims incurred dates, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustment is included in expense once a probable amount is known. Any significant increase in the number of employee health insurance claims or costs of those claims above our recorded reserve could have a material impact to our financial results. The Company mitigates the risk of potential claims for both individual participants and in the aggregate by carrying stop loss insurance coverage.

NOTE 10 – SIGNIFICANT ESTIMATES, COMMITMENTS, AND CONTINGENCIES, (CONTINUED)

Current Economic Conditions

The accompanying financial statements have been prepared using values and information currently available to the Company. Given the potential for volatility of economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the ACL and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity. Furthermore, the Company's regulators could require material adjustments to asset values or the allowance for credit losses for regulatory capital purposes that could affect the Company's measurement of regulatory capital and compliance with the capital adequacy guidelines under the regulatory framework for prompt corrective action.

Commitments and Credit Risk

The Company grants commercial, consumer, and residential loans to customers primarily throughout the States of Tennessee and Alabama. The Bank is a 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 include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in those particular financial instruments.

Commitments to Originate Loans

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

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 30 to 90 days, and which are intended for sale to investors in the secondary market. Total mortgage loans in process of origination were $944,000 and $376,000 at December 31, 2023 and 2022, respectively. Total mortgage loans held-for-sale amounted to $470,000 and $0, at December 31, 2023 and 2022, respectively.

NOTE 10 – SIGNIFICANT ESTIMATES, COMMITMENTS, AND CONTINGENCIES, (CONTINUED)

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid. The Company had total outstanding standby letters of credit amounting to $8.9 million and $12.9 million, at December 31, 2023 and 2022, respectively, with terms ranging from seven days to 24 months.

Lines of Credit

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

At December 31, 2023, the Company had granted unused lines of credit to borrowers for commercial lines and open-end consumer lines aggregating $208.4 million and $93.8 million, respectively. At December 31, 2022, unused lines of credit to borrowers for commercial lines and open-end consumer lines aggregated $183.0 million and $95.5 million, respectively.

NOTE 11 – FAIR VALUE MEASUREMENT

The fair value of an asset or liability is the exchange price that would be received for an asset or paid to transfer a liability or exit price in an orderly transaction between market participants on the measurement date. Fair value measurement must maximize the use of observable inputs and minimize the use of unobservable inputs. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. The three levels of inputs that may be used to measure fair values are as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities.

- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, market consensus, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

NOTE 11 – FAIR VALUE MEASUREMENT, (CONTINUED)

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's monthly and/or quarterly valuation process. There were no transfers between levels during 2023 or 2022.

Recurring Measurements

The following table summarizes financial assets measured at fair value on a recurring basis by the level within the fair value hierarchy utilized to measure fair value:

	Recurring fair value measurements at December 31, 2023			
	Total carrying value	Level 1	Level 2	Level 3
	(dollars in thousands)			
Assets				
Available-for-sale investment securities:				
U.S. treasuries securities	$ 45,260	$ -	$ 45,260	$ -
U.S. government sponsored agencies	199,733	-	199,733	-
U.S. government sponsored agency mortgage-backed securities	331,887	-	331,887	-
State and political subdivision	99,706	-	99,706	-
Corporate bonds	16,177	-	16,177	-
Equity securities	2,123	-	-	2,123
Total assets at fair value	$ 694,886	$ -	$ 692,763	$ 2,123

	Recurring fair value measurements at December 31, 2022			
	Total carrying value	Level 1	Level 2	Level 3
	(dollars in thousands)			
Assets				
Available-for-sale investment securities:				
U.S. treasuries securities	$ 69,685	$ -	$ 69,685	$ -
U.S. government sponsored agencies	229,021		229,021	-
U.S. government sponsored agency mortgage-backed securities	383,060	-	383,060	-
State and political subdivision	113,199	-	113,199	-
Corporate bonds	15,626	-	15,626	-
Equity securities	2,505	-	-	2,505
Total assets at fair value	$ 813,096	$ -	$ 810,591	$ 2,505

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

NOTE 11 – FAIR VALUE MEASUREMENT, (CONTINUED)

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service, such as ICE Data Pricing & Reference Data, LLC, which utilizes pricing models to determine fair value measurement. The Company reviews the pricing quarterly to verify the reasonableness of the pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other factors. U.S. government agencies, state and political subdivisions, U.S. government sponsored agency mortgage-backed securities and corporate bonds are classified as Level 2 inputs.

Equity Securities

Equity securities held by the Company are common shares in a private company. The common shares held are not freely tradeable on any market exchange. The investment is held at fair value on the consolidated balance sheets. An annual appraisal is conducted as of each calendar year and communicated to shareholders. Upon receipt of the annual appraisal, the investment is adjusted to fair value with changes in fair value recognized in income.

Nonrecurring Measurements

The following table summarizes financial assets measured at fair value on a nonrecurring basis as of December 31, 2023 and 2022, by the level within the fair value hierarchy utilized to measure fair value:

December 31, 2023	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Collateral-dependent loans	$ -	$ -	$ -	$ -

December 31, 2022	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Impaired loans	$ -	$ -	$ 135	$ 135

Collateral-dependent loans

A collateral-dependent loan is defined as a loan for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. The Company records nonrecurring adjustments of collateral-dependent loans held for investment. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Appraisals are generally obtained to support the fair value of the collateral and incorporate measures such as recent sales prices for comparable properties and cost of construction. Periodically, in cases where the carrying value exceeds the fair value of the collateral less cost to sell, an impairment charge is recognized in the form of a charge-off. There were no loans that met the definition of a collateral-dependent loan as of December 31, 2023.

NOTE 11 – FAIR VALUE MEASUREMENT, (CONTINUED)

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements:

	Quantitative Information about Level 3 fair value measurements			
December 31, 2022	Fair value	Valuation technique(s)	Unobservable input	Range (weighted average)
	(dollars in thousands)			
Impaired loans	$ 135	Market comparable properties	Marketability discount	10.0% (10.0%)

ASC Topic 825, "Financial Instruments," requires disclosure of the fair value of financial assets and liabilities, including those financial assets and liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The following tables present the assets and liabilities that are measured at fair value on a non-recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial position:

Fair value measurements at December 31, 2023

	Carrying amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(dollars in thousands)			
Financial assets				
Cash and due from banks	$ 22,654	$ 22,654	$ -	$ -
Interest-bearing deposits in other banks	2,689	2,689	-	-
Federal funds sold	117	117	-	-
Securities available-for-sale	692,763	-	692,763	-
Securities held-to-maturity	15,038	-	14,394	-
Equity securities	2,123	-	-	2,123
Loans held-for-sale	470	470		
Loans, net	1,018,866	-	-	947,960
Federal Home Loan Bank and Federal Reserve Bank stock	6,626	-	6,626	-
Accrued interest receivable	6,353	-	6,353	-
Financial liabilities				
Non-interest-bearing deposits	463,858	463,858	-	-
Interest-bearing deposits	1,154,706	-	1,047,830	-
Accrued interest payable	3,110	-	3,110	-
Federal Reserve Bank BTFP borrowings	104,000	103,984	-	-
Off-balance sheet credit related instruments:				
Commitments to extend credit and letters of credit	-	-	-	-

NOTE 11 – FAIR VALUE MEASUREMENT, (CONTINUED)

Fair value measurements at December 31, 2022

	Carrying amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(dollars in thousands)			
Financial assets				
Cash and due from banks	$ 27,193	$ 27,193	$ -	$ -
Interest-bearing deposits in other banks	1,754	1,754	-	-
Federal funds sold	57	57	-	-
Securities available-for-sale	810,591	-	810,591	-
Securities held-to-maturity	15,087	-	14,162	-
Equity securities	2,505	-	-	2,505
Loans held-for-sale	-	-	-	-
Loans, net	966,167	-	-	900,167
Federal Home Loan Bank and Federal Reserve Bank stock	6,092	-	6,092	-
Accrued interest receivable	5,943	-	5,943	-
Financial liabilities				
Non-interest-bearing deposits	534,474	534,474	-	-
Interest-bearing deposits	1,264,154	-	1,120,882	-
Accrued interest payable	407	-	407	-
FHLB borrowings	25,000	25,000	-	-
Off-balance sheet credit related instruments:				
Commitments to extend credit and letters of credit	-	-	-	-

NOTE 12 – QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following tables present unaudited quarterly interim financial information for the Company for the periods presented:

	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023	Total
			(dollars in thousands)		
Interest income	$ 14,401	$ 15,020	$ 15,240	$ 16,091	$ 60,752
Interest expense	2,189	2,923	5,237	6,048	16,397
Net interest income	12,212	12,097	10,003	10,043	44,355
Provision credit for loan and lease losses	-	(260)	-	(230)	(490)
Non-interest income	2,756	3,262	3,497	3,685	13,200
Non-interest expenses and non-controlling interest – preferred stock of subsidiary	10,061	9,369	9,487	9,677	38,594
Income before provision for income taxes	4,907	6,250	4,013	4,281	19,451
Provision for income taxes	894	1,211	675	622	3,402
Net income available to common shareholders	4,013	5,039	3,338	3,659	16,049
Basic earnings per share	$ 0.94	$ 1.19	$ 0.79	$ 0.88	$ 3.80
Weighted average shares outstanding	4,273,571	4,244,359	4,206,805	4,174,283	4,228,232

	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022	Total
			(dollars in thousands)		
Interest income	$ 11,490	$ 12,198	$ 13,279	$ 14,256	$ 51,223
Interest expense	372	505	810	1,552	3,239
Net interest income	11,118	11,693	12,469	12,704	47,984
Provision credit for loan and lease losses	(320)	-	-	-	(320)
Non-interest income	3,466	3,660	3,526	3,495	14,147
Non-interest expenses and non-controlling interest – preferred stock of subsidiary	10,425	9,763	10,076	9,920	40,184
Income before provision for income taxes	4,479	5,590	5,919	6,279	22,267
Provision for income taxes	797	1,052	1,116	1,252	4,217
Net income available to common shareholders	$ 3,682	4,538	$ 4,803	5,027	18,050
Basic earnings per share	$ 0.85	$ 1.05	$ 1.12	$ 1.17	$ 4.19
Weighted average shares outstanding	4,317,169	4,313,455	4,301,056	4,290,886	4,305,557

NOTE 13 – DEPOSITS

The Bank does not have any foreign offices and all deposits are serviced in its 22 domestic offices. Maturities of time deposits more than $250,000 at December 31, 2023 and 2022 are as follows:

	2023	2022
	(dollars in thousands)	
Under 3 months	$ 107,054	$ 3,900
3 to 12 months	22,356	9,680
Over 12 months	1,078	4,521
Total	$ 130,488	$ 18,101

At December 31, 2023 and 2022, the Bank had $590,000 and $318,000, respectively, of deposit accounts in overdraft status and thus have been reclassified to loans in the accompanying consolidated balance sheets.

The following table presents maturities of interest-bearing time deposits as of December 31, 2023:

	(dollars in thousands)
2024	$ 259,771
2025	6,096
2026	2,192
2027	3,709
2028 and thereafter	5,206
Total	$ 276,974

NOTE 14 – CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

The following tables present the condensed balance sheet, statements of income, and cash flows of the Parent Company:

CONDENSED BALANCE SHEET

	As of December 31, 2023	As of December 31, 2022
	(dollars in thousands)	
Cash	$ 3	$ 3
Investment in bank subsidiary	124,735	96,604
Investment in credit life insurance company	54	54
Dividends receivable from bank subsidiary	1,002	983
Equity securities	2,123	2,505
Other assets	-	-
Total assets	$ 127,917	$ 100,149
Liabilities		
Accrued liabilities	$ 2,760	$ 2,596
Due to bank	9	-
Dividends payable	1,002	983
Total liabilities	3,771	3,579
Shareholders' equity		
Common stock - $10 par value, 8,000,000 shares authorized; 4,174,142 and 4,275,328 shares issued and outstanding as of the periods presented	41,741	42,753
Retained earnings	143,249	132,905
Accumulated other comprehensive loss	(60,844)	(79,088)
Total shareholders' equity	124,146	96,570
Total liabilities and shareholders' equity	$ 127,917	$ 100,149

NOTE 14 – CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY, (CONTINUED)

CONDENSED STATEMENTS OF INCOME

	Years ended December 31,		
	2023	**2022**	**2021**
		(dollars in thousands)	
Operating income			
Dividends from bank subsidiary	$ 7,306	$ 5,340	$ 5,647
Other	(383)	25	239
Operating expenses	(547)	(418)	(464)
Income before equity in undistributed net income of bank subsidiary	6,376	4,947	5,422
Equity in undistributed net income of bank subsidiary	9,689	13,119	10,213
Net income	$ 16,065	$ 18,066	$ 15,635
Non-controlling interest – dividends on preferred stock of subsidiary	(16)	(16)	(16)
Net income available to common shareholders	$ 16,049	$ 18,050	$ 15,619

NOTE 14 – CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY, (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2023	2022	2021
	(dollars in thousands)		
Operating activities			
Net income	$ 16,065	$ 18,066	$ 15,635
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed net income of bank subsidiary	(9,689)	(13,119)	(10,213)
Loss (gain) on equity securities	383	(25)	(239)
(Increase) decrease in other assets	(21)	(56)	9
Increase (decrease) in payables	163	64	(89)
Total adjustments	(9,164)	(13,136)	(10,532)
Net cash provided by operating activities	6,901	4,930	5,103
Investing activities			
Net cash used in investing activities	-	-	-
Financing activities			
Payment to repurchase common stock	(2,907)	(1,290)	(1,653)
Common stock dividends paid	(3,978)	(3,706)	(3,653)
Preferred stock of subsidiary dividends paid	(16)	(16)	(16)
Net cash used in financing activities	(6,901)	(5,012)	(5,322)
Decrease in cash	-	(82)	(219)
Cash at beginning of year	3	85	304
Cash at end of year	$ 3	$ 3	$ 85

NOTE 15 – EMPLOYEE BENEFIT PLANS

The Bank contributes to a qualified profit-sharing plan covering employees who meet participation requirements. To be eligible to participate, employees must complete 1,000 hours of service within the twelve-month time period following their date of hire. Employees must be age 20 or older. The amount of the contribution is at the discretion of the Bank's Board of Directors, up to the maximum deduction allowed for federal income tax purposes. Contributions to the plan, which amounted to $694,000, $1.3 million, and $1.4 million in 2023, 2022 and 2021, respectively, are included in salaries and employee benefits expense.

The Bank has SERP agreements for certain key officers, and the principal cost of these agreements is accrued over the anticipated remaining period of active employment, based on the present value of the expected retirement benefit. At December 31, 2023 and 2022, the related liability totaled $3.1 million and $3.4 million, respectively, and was included in other liabilities.

NOTE 15 – EMPLOYEE BENEFIT PLANS, (CONTINUED)

The Company and the Bank have deferred compensation plans that permit directors to defer their director's fees and earn interest on the deferred amount at the wall street journal prime rate plus three percent, with an interest rate cap of 9.75% on most plans. The agreements provide for a lump sum payment or 120 monthly payments of deferred fees plus accrued interest after retirement, separation from service, or death. At December 31, 2023 and 2022, the liability accrued for this plan totaled $7.4 million and $7.5 million, respectively. The charge to expense for the agreements was $1.1 million, $900,000, and $975,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

On December 1, 2023, the Company established a 2023 Omnibus Stock Incentive Plan ("the Plan") to provide a performance incentive and to encourage stock ownership by directors, officers, employees, and other persons providing services to the Company and its affiliates. The Plan provides for incentive awards of the Company's common stock in the form of restricted stock units, restricted stock, stock options, performance units or stock appreciation rights. The Plan authorizes a total of 250,000 shares for issuance. There were 1,715 restricted stock units granted during December 2023, all of which remain outstanding on December 31, 2023. Each restricted stock unit at vesting is converted to an equal number of shares of the Company's common stock. Total unrecognized compensation cost of restricted awards was $42,000 as of December 31, 2023, which is expected to be recognized over 4.9 years.

NOTE 16 – POST-RETIREMENT BENEFIT PLAN

Effective July 1, 2013, the Company revised its retiree medical benefit plan for employees who were hired before March 20, 2007. Newly retiring employees will no longer be offered medical, dental or life insurance coverage. Instead, qualified retirees will receive a post-retirement bonus. The Company will pay a post-retirement bonus equal to $20,000 to employees who: (i) were hired prior to March 20, 2007; (ii) retire on or after July 1, 2013; (iii) are at least age 59 ½ at the time of retirement; and (iv) have at least 25 years of service to the Company as of retirement. The bonus will be paid in a lump sum cash payment (subject to applicable tax withholding requirements) within 60 days after the employee's retirement, provided such retirement constitutes a "separation from service" under section 409A of the Internal Revenue Code. The Company still sponsors a defined benefit post-retirement health care plan for retirees who retired prior to July 1, 2007. Under this plan, premiums paid by retirees and spouses depend on date of retirement, age and coverage election.

NOTE 16 – POST-RETIREMENT BENEFIT PLAN

The Company funding policy is to make the minimal annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute $298,000 to the plan in 2024.

The following table provides further information about the plan:

	Post-retirement benefits 2023	Post-retirement benefits 2022
	(dollars in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 1,510	$ 1,835
Service cost	16	23
Interest cost	73	50
Expected benefits paid	(188)	(174)
Actuarial gain (loss)	106	(224)
Benefit obligation at end of year	$ 1,517	$ 1,510
Change in fair value of assets		
Fair value of plans assets at beginning of year	$ -	$ -
Employer contribution	188	174
Benefits paid	(188)	(174)
Fair value of plan assets at end of year	$ -	$ -
Reconciliation of funded status to benefit costs recognized		
Projected benefit obligation, end of year	$ (1,517)	$ (1,510)
Fair value of assets, end of year	-	-
Funded status, end of year	$ (1,517)	$ (1,510)

Amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

	2023	2022
	(dollars in thousands)	
Unrecognized net actuarial gain	$ (1,047)	$ (1,320)
Unrecognized prior service cost	-	(5)
	$ (1,047)	$ (1,325)

Amounts recognized in statement of financial position are as follows:

	2023	2022
	(dollars in thousands)	
Accounts payable and accrued liabilities	$ 1,517	$ 1,510

NOTE 16 – POST-RETIREMENT BENEFIT PLAN, (CONTINUED)

A reconciliation of other comprehensive loss is as follows:

	Post-retirement benefits 2023	Post-retirement benefits 2022
	(dollars in thousands)	
Accumulated other comprehensive loss beginning of year	$ (1,325)	$ (1,258)
Amortization of net actuarial gain	167	152
Loss (gain) incurred in current year	106	(224)
Prior service cost established in current year	5	5
Other comprehensive income (loss)	278	(67)
Ending balance (before tax effects)	$ (1,047)	$ (1,325)

	Post-retirement benefits 2023	Post-retirement benefits 2022
Components of net periodic benefit cost	(dollars in thousands)	
Service cost	$ 16	$ 23
Interest cost	73	50
Amortization of prior service cost	-	(5)
Recognized net actuarial gain	(167)	(152)
Net periodic benefit cost	$ (78)	$ (84)

The components of net periodic benefit cost other than the service cost component are included in other non-interest expense in the consolidated income statement. The estimated net gain for the defined benefits post-retirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $149,000.

	Post-retirement benefits 2023	Post-retirement benefits 2022
Weighted-average assumption used to determine benefit obligation:		
Discount rate	5.35%	5.15%
Rate of compensation increase	NA	NA

	Post-retirement benefits 2023	Post-retirement benefits 2022
Weighted-average assumptions used to determine benefit costs:		
Discount rate	5.35%	5.15%

NOTE 16 – POST-RETIREMENT BENEFIT PLAN, (CONTINUED)

The following table gives the health care cost trend, which is applied to gross charges, net claims and retiree paid premiums to reflect the Company's past practice and stated ongoing intention to maintain relatively constant cost sharing between the Company and retirees:

Health care trend rate	2023	2022
Initial		
Pre-65	7.50%	7.50%
Post-65	6.50%	6.50%
Ultimate (pre and post-65)	4.50%	4.50%
Years to ultimate		
Pre-65	6	6
Post-65	7	7

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid, net of participant contributions:

FYE	Company benefits (dollars in thousands)
2024	$ 298
2025	152
2026	190
2027	168
2028	132
2029-2033	622
	$ 1,562

NOTE 17 – REGULATORY CAPITAL

The Company and Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the financial statements.

In May of 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was signed into law. The new law makes a variety of changes aimed to simplify regulatory reporting requirements on community banks and scale down requirements previously required by Dodd-Frank Act. The new law contains a Small Bank Holding Company Policy statement which provides a capital requirement exemption for holding companies with total consolidated assets under $3 billion. The Company, which was previously subject to similar regulatory capital requirements as the Bank, is now subject to the Federal Reserve's "Small Bank Holding Company and Savings and Loan Policy Statement." As such, the Company is no longer subject to certain capital adequacy guidelines and regulatory reporting.

To be considered well capitalized under applicable banking regulations, the Bank must maintain the following minimum capital ratios and not be subject to a written agreement, order or directive to maintain a higher capital level:

(1) a common equity Tier 1 capital ratio of 6.5%;
(2) a Tier 1 risk based capital ratio of 8%;
(3) a Total risk based capital ratio of 10%; and
(4) a Tier 1 leverage ratio of 5%.

NOTE 17 – REGULATORY CAPITAL, (CONTINUED)

Under capital level requirements, common equity Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions. Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Tier 2 capital generally consists of subordinated debt (including that portion of subordinated debentures associated with trust preferred securities in excess of the amount that is treated as Tier 1 capital), types of preferred stock that don't qualify as Tier 1 capital and a limited amount of loan loss reserves, subject to certain eligibility criteria.

The current capital level requirements allow banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. The Bank has opted out of this requirement.

Actual capital amounts and ratios are presented in the table below. Management believes, as of December 31, 2023, that the Bank met the guidelines to which they were subject.

(Dollars in thousands)	Actual		Minimum capital requirement		Minimum to be well capitalized	
As of December 31, 2023	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Common equity Tier 1 (to risk weighted assets)	$ 176,561	15.1%	$ 52,721	4.5%	$ 76,153	6.5%
Total capital (to risk weighted assets)	185,131	15.8%	93,727	8.0%	117,158	10.0%
Tier 1 capital (to risk weighted assets)	176,561	15.1%	70,295	6.0%	93,727	8.0%
Tier 1 capital (to average assets)	176,561	9.0%	78,397	4.0%	97,996	5.0%

(Dollars in thousands)	Actual		Minimum capital requirement		Minimum to be well capitalized	
As of December 31, 2022	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Common equity Tier 1 (to risk weighted assets)	$ 166,675	14.6%	$ 51,335	4.5%	$ 74,151	6.5%
Total capital (to risk weighted assets)	176,057	15.4%	91,263	8.0%	114,079	10.0%
Tier 1 capital (to risk weighted assets)	166,675	14.6%	68,447	6.0%	91,263	8.0%
Tier 1 capital (to average assets)	166,675	8.1%	82,103	4.0%	102,629	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2023, approximately $9.1 million of retained earnings were available for dividend declaration without prior approval.

NOTE 18 – REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The following table presents the Company's sources of non-interest income for the periods presented. Items outside the scope of ASC Topic 606 are noted as such.

	Years ended December 31, 2023	2022	2021
	(dollars in thousands)		
Mortgage banking activities[(1)]	$ 127	$ 614	$ 1,442
Trust service fees income	4,331	4,160	4,045
Service fees on deposit accounts:			
Overdraft fees	1,429	1,838	1,508
Interchange income	3,408	3,315	3,268
Maintenance fees and charges	1,636	1,759	1,535
Other	697	743	782
Investment service fees income	366	406	341
Earnings on bank-owned life insurance[(1)]	558	475	554
Gain on redemption of bank-owned life insurance[(1)]	331	-	-
(Loss) gain on sales of investments[(1)]	(317)	(5)	621
(Loss) gain on equity securities	(383)	25	239
Gain on sale of Visa class B stock[(1)]	-	-	1,811
Other non-interest income	1,017	817	637
Total non-interest income	$ 13,200	$ 14,147	$ 16,783

[(1)] Not within the scope of ASC Topic 606.

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

Trust service fees - The Company earns wealth management fees from its contracts with trust customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly services and are generally assessed based on a tiered scale of the market value of assets under management at month-end. The fees are recognized monthly when the Company satisfies the performance obligation. Other services provided include third party benefit plan administration and estate management. Fees for third party benefit plan administration are billed quarterly or annually and accrued for over the period the performance obligation of administrating the third party plan is being performed. Executor fees earned for estate management are a source of nonrecurring revenue and are recorded upon the satisfaction of the performance obligation, which is determined to be when the estate is closed and/or in some instances when the court has approved the executor's billing to the estate.

Service fees on deposit accounts - 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.

NOTE 18 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and is concurrent with the transaction processing services provided to the cardholder. Revenue activity associated with cardholder transactions is recognized on the business day the Company satisfies the performance obligation. Additionally, the Company is acting as an agent in providing cardholder services to customers, thus costs associated with cardholder transactions is netted against the fee income from such transactions.

Investment service fees income - 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 bi-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.

NOTE 19 – SUBSEQUENT EVENTS

The Company evaluated all events or transactions that occurred after December 31, 2023, through February 27, 2024. There were no material recognizable subsequent events that occurred after December 31, 2023 through the date of the independent auditor's report that require recognition or disclosure in the December 31, 2023 consolidated financial statements.