FIRST STATE BANK

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Built on Belief

EST 1884

WINCHESTER, OHIO

2023
annual report

FIRST STATE BANCORP, INC.
AND SUBSIDIARY

Consolidated Financial Statements
December 31st, 2023 and 2022 with
Independent Auditors' Report

Our Promise

Built on belief, we're committed to our promise of making a lifelong difference in people's lives.

Our Mission

Built on belief, we're committed to our mission of doing right by rural communities and making a lifelong difference in people's lives.

Our Vision

Built on belief, we're committed to our vision of maximizing the potential of rural communities and making a lifelong difference in people's lives.

Community Involvement

First State Bank is here to "make a lifelong difference in people's lives" and the bank continually strives to achieve this not only by offering products and services that allow community members to reach their full potential, but also through charitable giving, sponsorships and volunteerism in the communities they serve.

Give Back 2023:

116 Volunteers

7 Counties

13 Organizations

First State Bank

Dear Shareholder:

I am pleased to report our consolidated net income for 2023 was $8,503,129 which is up 6.9% from 2022. Net interest income (up 4.8%) contributed to our success. Our allowance for credit losses as of 12/31/2023 was $5,498,241 or 1.18% of total loans. Net charge offs for 2023 were $91,754 (0.02% of average loans) which is down from $489,546 in 2022.

Other 2023 highlights included:

- Net Loans were $461,336,319 at year-end up 6.4% from prior year
- Investment Securities were $370,140,030 up 9.1% from prior year
- Deposits were $872,280,867 up 9.7% from prior year
- Dividends paid in 2023 were $1,800,000 up 11.1% from prior year

After seven interest rate hikes totaling 4.25% in 2022, the Federal Open Market Committee (FOMC) hiked four times in 2023, raising the federal funds target rate range to 5.25 - 5.50% at year-end. The prime interest rate for loans as of year-end 2023 was 8.50%. As I write this letter, the FOMC has not moved rates the last two meetings and key inflation data has moved from a high of 9+% in the early 2020's to a range of 3-4% today. Although "higher for longer" may be the narrative from some economists, we may get some rate reductions from the FOMC later this year. The fair market value of our investment portfolio did improve in 2023.

We continue to look for the best opportunities for your community bank to grow customers, deposits, and loans in key markets. We elected to close our St. Bernard banking center after seven years of operation at the end of 2023 and received approval from our regulator to open full-service banking centers in Maysville, Kentucky and Portsmouth, Ohio in 2024. These new markets will bridge the gap between our Ohio base and our Eastern Kentucky banking centers acquired in 2021.

After three big banks had issues early in 2023, bank stocks in general were down across the board last year. We are pleased to report that the current appraised value from our independent third party of First State Bancorp, Inc. stock as of 12/31/2023 is $100/share, which is the same as last year.

We've been "Built on Belief" since 1884. Many things have changed since then, but our beliefs remain the same. We believe in rural communities. We believe in the value of hard work. We believe in looking you in the eye and telling the truth. We believe in doing what's right. We believe your value has nothing to do with money. We believe how you treat people matters. And we believe when we build up our customers, our communities, and each other, we can make a lifelong difference.

First State Bank, "Built on Belief"

Thank you for your continued support.

Sincerely,

Michael P Pell
President / CEO

First State Bank

DAVID E. RICHEY
CHIEF FINANCIAL OFFICER

As we conclude another year, I am pleased to share with you the financial performance of your company. Our commitment to delivering value to our shareholders, customers, and communities has yielded positive results. We have achieved positive results despite navigating through a challenging and dynamic interest rate environment. During 2023, the Federal Reserve increased the federal funds target rate (high end of range) from 4.50% to 5.50%. This is on top of increases from 0.25% to 4.50% in 2022. First State Bancorp produced record earnings due to stable net interest income, strong non-interest income, and expense reductions. We feel net income will continue to grow as we put more assets to work in loans in 2024 and beyond. 2023 was the 19th consecutive year of improved net income for the company.

In 2023, your investment in First State Bancorp, Inc. returned a dividend of $2.00 per share up from $1.80 one year ago. Basic earnings per share improved to $9.45 in 2023 up from $8.84 one year ago.

Thank you for your role in making First State Bank a success.

Financial Highlights and Selected Financial Data

The following table sets forth certain information covering the consolidated financial position and results of operations of the company at the dates indicated.

	As of December 31,		
	2023	2022	2021
Balance Sheet: (in thousands)			
Assets	$977,970	$852,693	$808,232
Loans receivable, net	461,336	433,477	371,949
Investments	370,140	339,198	346,055
Deposits	872,281	795,234	716,169
Stockholders' equity	52,390	39,202	73,798

	For the Year Ended December 31,		
	2023	2022	2021
Results of operations:			
Net income	8,503,129	7,954,425	6,591,390
Per share data (common stock):			
Basic earnings per share	9.45	8.84	8.23
Year end book value	58.21	43.56	82.00
Dividends declared (common)	1,800,000	1,619,975	1,362,240
Performance ratios:			
Return on average assets	0.93%	0.95%	0.85%
Return on average equity	19.29%	16.07%	10.39%
Net interest margin (for the year)*	3.16%	2.81%	2.70%
Equity to assets (at year end)	5.36%	4.60%	9.13%
Allowance to total loans	1.18%	1.08%	1.30%

*Source: FFIEC, subsidiary only

Your 2023 First State Bank Board of Directors and Leadership Team

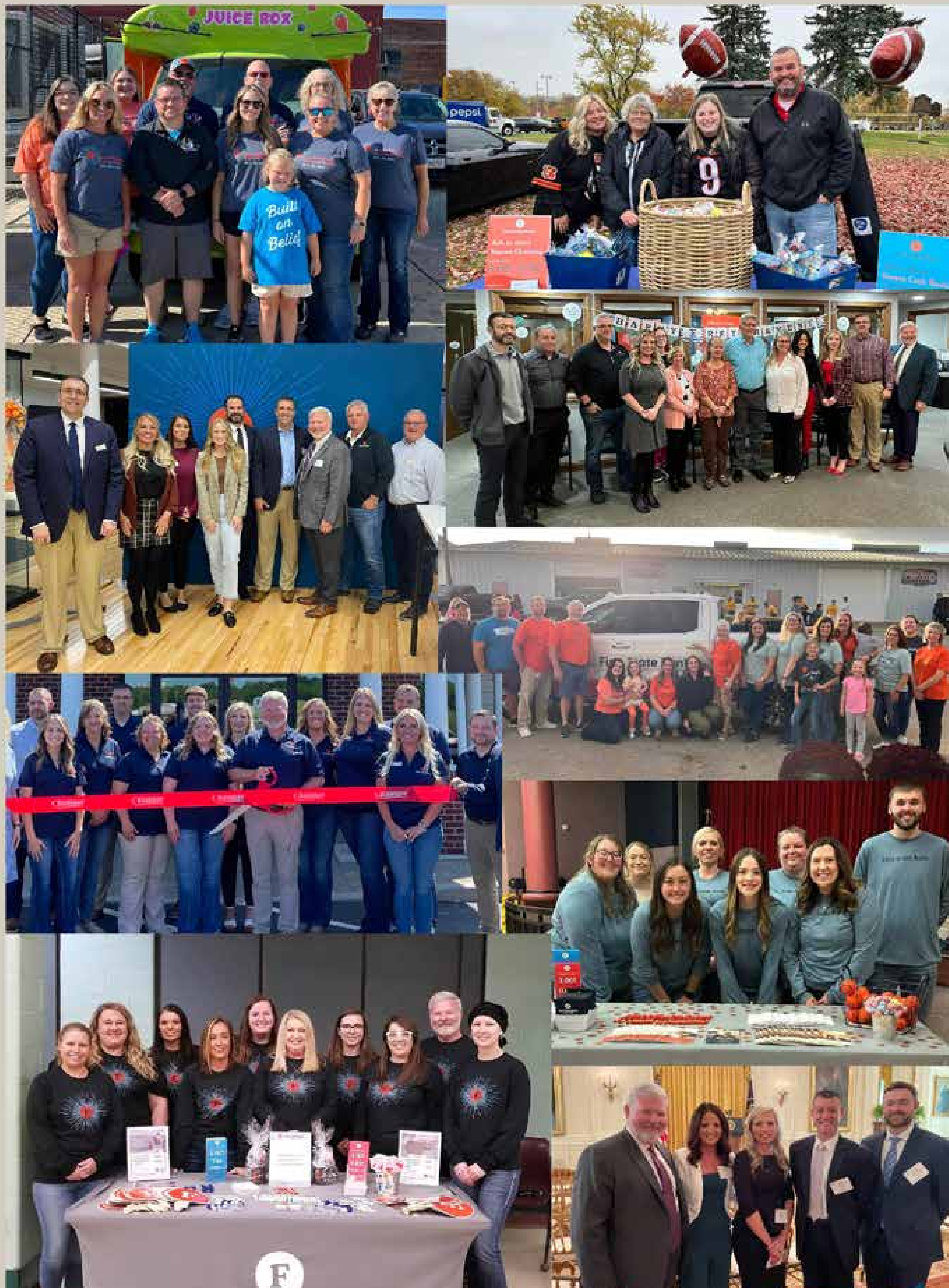
2023 Board Members include:
Standing (L to R): Chris H. Baxla, Michael P. Pell, David Richey, Roy (Spud) Gustin, Matthew Greene, Eric Toole and Alan W. Foster.
Seated (L to R): Daniel R. Naylor and Tony Applegate

Leadership Team includes:
Standing (L to R): David Richey; Executive Vice President / Chief Financial Officer, Mike Pell; President / Chief Executive Officer, Daniel Ferguson; Vice President / Chief Information Officer, Judd Johnson; Vice President / Retail Lending Manager, Chad Wilson; Executive Vice President / Senior Lender, Tim Grooms; Vice President / Chief Risk Officer

Seated (L to R): Brad Jones; Vice President / Credit Manager, Shalana Shreffler; Vice President / Human Resources Manager, Ellie Zint; Vice President / Marketing / Retail Banking Manager, Tom Kizer; Vice President / Mortgage Operations / Indirect Manager

We believe **when we build up our customers, our communities,**

and each other, we can make a → *lifelong difference.*



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CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

One East Fourth Street, Suite 1200, Cincinnati, Ohio 45202
P. 513.241.3111 | F. 513.241.1212

INDEPENDENT AUDITORS' REPORT

Board of Directors
First State Bancorp, Inc. and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of First State Bancorp, Inc. and Subsidiary which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First State Bancorp, Inc. and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 First State Bancorp, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of First State Bancorp, Inc. and Subsidiary'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about First State Bancorp, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report
Management is responsible for the other information included in the Annual Report. The other information comprises the letter to shareholders, five-year summary of selected financial data, personnel and director information, investor and annual meeting information, and bank location information, but it 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 on it.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 19, 2024

	2023	2022
Assets		
Cash and due from banks:		
Cash and cash items	$ 5,301,468	5,747,781
Due from banks	93,566,665	25,119,439
Federal funds sold	2,067,000	3,423,000
	100,935,133	34,290,220
Interest bearing bank deposits	499,000	748,000
Investment securities, available-for-sale	368,005,003	337,421,892
Investment securities, held-to-maturity	2,135,027	1,776,385
Other equity securities	105,905	73,660
Federal Home Loan Bank, at cost	1,178,000	1,423,800
Loans held-for-sale	474,250	-
Loans receivable, net of allowance for credit losses of $5,498,762 and $4,731,541 as of December 31, 2023 and 2022, respectively	460,862,069	433,477,043
Accrued interest receivable	4,578,124	3,853,944
Premises and equipment, net	14,391,286	11,929,858
Bank owned life insurance	11,524,166	12,997,314
Intangible assets, net	212,500	361,729
Goodwill, net	872,859	1,168,708
Income tax receivable	82,588	-
Net deferred tax asset	9,658,764	11,218,909
Other assets	2,454,884	1,951,049
Total assets	$ 977,969,558	852,692,511
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 139,743,381	141,548,202
Savings and interest checking	455,549,823	492,167,636
Time deposits	276,987,663	161,518,371
Total	872,280,867	795,234,209
Advances from Federal Home Loan Bank and Federal Reserve	30,137,091	171,797
Subordinated debt, net	14,915,552	14,852,215
Accrued interest payable	1,312,718	168,014
Accrued expenses and other liabilities	6,933,557	3,064,300
Total liabilities	925,579,785	813,490,535
Shareholders' equity:		
Common stock, no par value, 4,000,000 shares authorized at December 31, 2023 and 2022. 900,000 issued and outstanding at both, December 31, 2023 and 2022.	14,873,382	14,873,382
Additional paid-in capital	1,800,000	1,800,000
Treasury stock	-	(4,750)
Retained earnings	68,473,800	62,329,592
Accumulated other comprehensive loss	(32,757,409)	(39,796,248)
Total shareholders' equity	52,389,773	39,201,976
Total liabilities and shareholders' equity	$ 977,969,558	852,692,511

		2023	2022
Interest income:			
Interest and fees on loans	$	24,394,144	20,070,667
Interest on investment securities:			
Taxable		12,438,453	6,972,997
Tax-exempt		1,988,115	2,129,809
Interest on federal funds sold and deposits in banks		3,508,375	438,203
		42,329,087	29,611,676
Interest expense:			
Savings and interest checking		7,521,533	1,987,792
Other time deposits		6,530,631	1,286,292
Federal funds purchased and FHLB advances		733,015	19,900
Subordinated debt, net		850,836	850,836
		15,636,015	4,144,820
Net interest income		26,693,072	25,466,856
Provision for credit losses		181,185	332,885
Net interest income after provision for credit losses		26,511,887	25,133,971
Other income (loss):			
Loss on sale of investments		(32,158)	(597,495)
Gain on sale of loans		104,748	185,954
Gain (loss) on sale of other real estate owned		1,565	(38,831)
Gain (loss) on sale of fixed assets		(7,328)	165,139
Earnings on bank owned life insurance		372,872	288,518
Service charges on deposit accounts		1,950,003	1,933,560
ATM service charges and other fees, net		1,657,459	1,818,628
		4,047,161	3,755,473
Other expenses:			
Salaries, directors' fees and employee benefits		12,157,095	11,335,974
Software and equipment expenses		1,968,134	1,780,206
Supplies and postage expenses		537,600	456,782
Taxes other than federal income taxes		572,253	805,623
Occupancy expenses		1,081,919	1,030,286
FDIC insurance premiums and assessments		438,000	230,250
Professional fees		377,827	524,661
Telephone and data expenses		312,644	309,051
Marketing expenses		838,923	681,847
Amortization of intangible assets and goodwill		445,078	530,962
Other operating expenses		1,745,232	1,675,699
		20,474,705	19,361,341
Income before federal income taxes		10,084,343	9,528,103
Federal and state income taxes		1,581,214	1,573,678
Net income		8,503,129	7,954,425
Net income per share of common stock	$	9.45	8.84

	2023	2022
Net income	$ 8,503,129	7,954,425
Other comprehensive income (loss):		
Unrealized holding gain (loss) during the period on securities available-for-sale, net of deferred tax expense (benefit) of $2,090,320 and ($10,879,116)	7,888,989	(40,454,175)
Unrealized loss during the period on fair value hedge, net of deferred tax benefit of ($219,236) and $-0-	(824,745)	-
Reclassification adjustment for net loss included in net income on securities available-for-sale, net of deferred tax benefit of ($6,753) and ($125,475)	(25,405)	(472,020)
Other comprehensive income (loss)	7,038,839	(40,926,195)
Comprehensive income (loss)	$ 15,541,968	(32,971,770)

First State Bancorp, Inc. and Subsidiary
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2023 and 2022

		Common Stock	Additional Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, January 1, 2022	$	14,873,382	1,800,000	-	55,995,142	1,129,947	73,798,471
Net income		-	-	-	7,954,425	-	7,954,425
Other comprehensive loss, net of tax		-	-	-	-	(40,926,195)	(40,926,195)
Purchase of 7,110 shares of treasury stock		-	-	(674,570)	-	-	(674,570)
Proceeds from sale of 7,060 shares of treasury stock		-	-	669,820	-	-	669,820
Cash dividends declared ($1.80 per share)		-	-	-	(1,619,975)	-	(1,619,975)
Balance, December 31, 2022	$	14,873,382	1,800,000	(4,750)	62,329,592	(39,796,248)	39,201,976
Cumulative effect of adoption of ASU 2016-13, net of tax		-	-	-	(558,921)	-	(558,921)
Balance, January 1, 2023		14,873,382	1,800,000	(4,750)	61,770,671	(39,796,248)	38,643,055
Net income		-	-	-	8,503,129	-	8,503,129
Other comprehensive income, net of tax		-	-	-	-	7,038,839	7,038,839
Purchase of 4,713 shares of treasury stock		-	-	(470,010)	-	-	(470,010)
Proceeds from sale of 4,763 shares of treasury stock		-	-	474,760	-	-	474,760
Cash dividends declared ($2.00 per share)		-	-	-	(1,800,000)	-	(1,800,000)
Balance, December 31, 2023	$	14,873,382	1,800,000	-	68,473,800	(32,757,409)	52,389,773

	2023	2022
Operating activities:		
Net income	$ 8,503,129	7,954,425
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premiums on securities, net	2,767,131	3,114,081
Loss on sale of investments	32,158	597,495
Gain on sale of loans	(104,748)	(185,954)
Proceeds from sale of mortgage loans	4,543,918	6,410,718
Loans disbursed for sale in the secondary market	(4,913,420)	(5,737,764)
Provision for credit losses	181,185	332,885
Loss (gain) on sale of other real estate owned	(1,565)	38,831
Depreciation expense	857,682	821,260
Loss (gain) on sale of fixed assets	7,328	(165,139)
Earnings on bank owned life insurance	(372,872)	(288,518)
Amortization of debt issuance costs	63,337	63,336
Amortization of intangible assets and goodwill	445,078	530,962
Payments to reduce lease liabilities	110,511	88,835
Deferred federal income tax expense (benefit)	(162,325)	13,323
Changes in assets and liabilities:		
Accrued interest receivable	(724,180)	(758,677)
Other assets	(586,423)	178,779
Accrued interest payable	1,144,704	61,254
Other liabilities	1,480,697	(504,026)
Net cash provided by operating activities	13,271,325	12,566,106
Investing activities:		
Repayments of mortgage-backed securities	22,838,128	28,767,791
Proceeds from sale, call and maturities of securities available-for-sale	307,159	25,712,345
Purchases of securities available-for-sale	(46,432,425)	(104,390,281)
Maturities of interest bearing bank deposits	249,000	-
Purchases of securities held-to-maturity	(159,537)	(1,000,000)
Proceeds from sale, call and maturities of securities held-to-maturity	-	2,250,000
Net increase in loans	(28,388,605)	(62,438,569)
Capital expenditures	(2,500,900)	(816,913)
Change in value of equity securities	(32,245)	13,840
Proceeds from sale of other real estate owned	146,690	214,744
Proceeds from sale of fixed assets	37,985	667,788
Proceeds from bank owned life insurance	1,845,836	-
Redemption of Federal Home Loan Bank stock	245,800	193,600
Net cash used in investing activities	(51,843,114)	(110,825,655)
Financing activities:		
Net increase in deposits	77,046,658	79,065,060
Repayments of FHLB advances	(34,706)	(10,065)
Borrowings from Federal Reserve	30,000,000	-
Dividends paid	(1,800,000)	(1,619,975)
Purchase of treasury stock	(470,010)	(674,570)
Proceeds from sale of treasury stock	474,760	669,820
Net cash provided by financing activities	105,216,702	77,430,270
Change in cash and due from banks	66,644,913	(20,829,279)
Cash and due from banks, beginning of year	34,290,220	55,119,499
Cash and due from banks, end of year	$ 100,935,133	34,290,220
Supplemental disclosures of cash flow information:		
Change in unrealized gain (loss) on securities	$ 9,953,904	(51,805,311)
Real estate owned acquired through foreclosure	$ 145,125	90,675
Transfer of investment securities from held-to-maturity to available-for-sale	-	8,750,000
Cash paid during the year for:		
Federal and state income taxes	$ 1,663,502	1,319,072
Interest	$ 14,427,974	4,083,566

See accompanying notes to the consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:

The following accounting policies are set forth to facilitate the understanding of data presented in the consolidated financial statements:

Nature of operations
First State Bancorp, Inc. (the Company) and First State Bank (the Bank) revenues, operating income and assets are primarily from the banking industry. The Bank operates fifteen branches in Adams, Brown, Highland, Fayette, and Clinton Counties in Ohio and in Martin and Lawrence County in Kentucky. The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in South Central Ohio and Eastern Kentucky. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations or businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic environment in the area.

The Bank is a state-chartered bank subject to regulation by the Ohio Department of Commerce, Division of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). The Bank is also a member of the Federal Home Loan Bank (FHLB) system, and as a member, maintains a required investment in the capital stock of the FHLB of Cincinnati.

Deposit accounts are insured within certain limitations by the Deposit Insurance Fund (DIF), which is administered by the FDIC. An annual premium is required by the DIF for insurance of such deposits.

Basis of presentation
The accounting and reporting policies of the Company conform with accounting principles generally accepted in United States of America (GAAP) as contained in the Accounting Standards Codification (ASC) issued by the Financial Accounting Standards Board (FASB) and general practices within the financial services industry. Amounts denoted in thousands will be noted.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary the Bank. All significant intercompany transactions have been eliminated in consolidation.

Use of estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for credit losses. Actual results could differ from those estimates.

Adoption of New Accounting Standard

As of January 1, 2023, the Company adopted ASU 2016-13, "Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)" ("ASU 2016-13"), which changes the impairment model for most financial assets. This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the ASU is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses ("ACL") that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The Company recorded a net decrease to retained earnings of $558,921 upon adoption of ASU 2016-13 with a $677,269 increase to the allowance for credit losses and a $30,266 increase to other liabilities for the liability for credit losses on unused commitments, partially offset by a $148,614 increase to the net deferred tax asset. See the pre-tax impact of the increased allowance for credit losses applicable to each segment of the loan portfolio in Note 3.

As of January 1, 2023, the Company adopted ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02"), which eliminates the accounting guidance for troubled debt restructurings ("TDR"s) while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulties. ASU 2022-02 was applied on a prospective basis. Upon adoption of ASU 2022-02, the Company no longer establishes a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in the historical loss rate which is applied to the current loan balance in the calculation of the Allowance for Credit Losses.

The following table illustrates the impact of ASC 326 at January 1, 2023 (in thousands).

		As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:				
Residential real estate:				
Construction	$	51	45	6
Owner occupied		1,960	1,715	245
Non-owner occupied		562	492	70
Commercial real estate				
Construction		153	134	19
Farmland		375	328	47
Nonfarm		1,551	1,357	194
Commercial and industrial		247	216	31
Consumer		479	419	60
Other		31	26	5
Allowance for credit losses on loans	$	5,409	4,732	677

Cash flows
Cash and cash equivalents include deposits with other financial institutions with maturities fewer than 90 days and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

The Company and Bank may at times maintain deposit accounts with other financial institutions in excess of FDIC limits. The Company and Bank have not experienced any losses in such accounts and do not believe they are exposed to any significant credit risk on cash.

Investment securities
Investment securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available-for-sale when they might be sold before maturity for any reason, including liquidity needs, changes in market interest rates, or asset/liability management strategies. Investment securities available-for-sale are carried at fair value with unrealized holding gains and losses reported separately in shareholders' equity, net of applicable taxes. Available-for-sale equity securities are reported at fair value, with unrealized holding gains and losses recognized in the consolidated income statement.

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

Allowance for Credit Losses - Available-for-sale debt securities
The Company follows ASC 326-30, “Financial Instruments - Credit Loss - Available-for-Sale Debt Securities”, which provides guidance related to the recognition of and expanded disclosure requirements for expected credit losses on available-for-sale debt securities. For available-for-sale debt securities in an unrealized loss position, the Company first evaluates whether it intends to sell, or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either criterion is met, the security's amortized cost basis is reduced to fair value and recognized as a reduction to Noninterest income in the consolidated statements of income. For debt securities available-for-sale in which the Company does not intend to sell, or it is not likely the security would be required to be sold before recovery, it evaluates whether a decline in fair value has resulted from credit losses or other adverse factors, such as a change in the security's credit rating. In assessing whether a credit loss exists, the Company compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, equal to the excess of amortized cost basis over fair value. Any impairment not recorded through an allowance for credit loss is included in other comprehensive income (loss), net of the tax effect.

The allowance for credit losses on available-for-sale debt securities is included within the investment securities available-for-sale in the consolidated balance sheets. Changes in the allowance are recorded in the provision for credit losses in the consolidated statements of income. Losses are charged against the allowance when the Company believes the collectability of an available-for-sale debt security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $2.1 million at December 31, 2023 and is excluded from the estimate of credit losses.

The Company recorded no allowance for credit losses on available-for-sale debt securities as of December 31, 2023.

Loans held-for-sale
Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

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

Loans receivable
Loans which management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Loans are placed on non-accrual status at 90 days delinquent or when management believes the borrower's financial condition, after considering economic and business conditions and collection efforts, is such that collection of interest is doubtful. Interest income is not reported when full loan repayment is in doubt, typically when payments are past due over 90 days and evaluated as such by management. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely.

All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis, until qualifying for return to accrual. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for credit losses – Loans receivable
The allowance for credit losses (ACL) is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Credit losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers historical credit loss experience, current conditions and forecasts of future economic conditions. The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans. The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Company uses call report classifications to determine its loan segments and measures the ACL using the weighted average remaining maturity (WARM)method for all loan segments.

Historical loss rates are applied to the loan segments with qualitative adjustments for changes in such items as economic conditions, loan composition and volume, experience of lending staff, past due loans, quality of the loan review system, values of collateral for collateral dependent loans, concentrations of credit and other external factors.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and, therefore, should be individually assessed. Specific reserves are established based on the fair value of the collateral when the loan is collateral dependent. The Company utilizes updated independent appraisals to determine fair value for collateral-dependent loans, adjusted for estimated selling costs, in determining the specific reserve.

The Company has elected to exclude accrued interest receivable from its measurement of the ACL. When a loan is placed on nonaccrual status, any outstanding accrued interest is reversed against interest income.

Derivatives
At the inception of a derivative contract, the Company designates the derivative as one of two types based on the Company's intentions and belief as to likely effectiveness as a hedge. These two types are (1) a hedge of the fair value of a recognized asset ("fair value hedge"), or (2) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as other non-interest income.

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

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value of the hedged item, the derivative is settled or terminates, or treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability.

Servicing rights
When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the consolidated income statement effect recorded in gains on sale of loans. Fair value is based on market prices for comparable mortgage servicing contracts when available, or alternatively, based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to their carrying amount. Impairment, if any, is recognized through a valuation allowance to the extent that fair value is less than the carrying amount. If the Bank later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.
Servicing fee income is recorded in other service charges and fees within the consolidated income statement. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Lender risk account
The Bank provides credit enhancements to the FHLB of Cincinnati by sharing losses with other members of the program in an aggregated pool. A Fixed Lender Risk Account (LRA) has been established and is maintained by the FHLB on behalf of the Bank and other members selling mortgages to the FHLB of Cincinnati. The LRA amount is established as a percentage applied to the sum of the initial unpaid principal balance of each mortgage in the aggregated pool at the time of the purchase of the mortgage as determined by the FHLB and is funded by the deduction from the proceeds of sale of each mortgage in the aggregated pool to the FHLB. These accounts are held by the FHLB, and the Bank bears the risk of receiving less than 100% of its LRA contribution in the event of losses, either by the Bank or other members selling mortgages in the aggregated pool. Any portion of the LRA not used to pay losses will be released over a thirty-year period and will not start until the end of five years after the initial fill-up period. The fair value of the LRA is recorded in other assets and increased noninterest income within the consolidated financial statements.

Premises and equipment
Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation computed on straight-line methods over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 3 to 39 years. Furniture, fixtures and equipment are depreciated over useful lives ranging from 3 to 20 years. Gains and losses on dispositions are included in current operations. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized.

Other real estate owned (OREO)
Other real estate owned is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of real estate property collateralizing a mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed as incurred.

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

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

Goodwill
Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill consists of bank branches acquired in 2014, 2016, and 2021. The Company made the accounting policy election to test goodwill for impairment at the entity level and to amortize the goodwill on straight line basis over ten years upon acquisition.

Goodwill consists of the following:

	2023	2022
Goodwill, net – January 1	$ 1,168,708	1,464,557
Amortization expense	(295,849)	(295,849)
Goodwill, net - December 31	$ 872,859	1,168,708

As of December 31, 2023, gross goodwill totaled $2,958,493 and accumulated amortization was $2,085,634. As of December 31, 2022, gross goodwill totaled $2,958,493 and accumulated amortization was $1,789,785.

Future net amortization expense is as follows:

2024	$ 255,886
2025	242,562
2026	162,669
2027	50,818
2028	50,818
Thereafter	110,106
	$ 872,859

Intangible assets
Intangible assets consist of premiums paid for core deposits identified through fair value accounting of bank branches acquired in 2016 and 2021. Intangible assets are stated at cost, less accumulated amortization computed on straight line and net present value methods over the estimated life of the related premium, and consist of the following:

	2023	2022
Intangible assets, net - January 1	$ 361,729	596,842
Amortization expense	(149,229)	(235,113)
Intangible assets, net - December 31	$ 212,500	361,729

As of December 31, 2023, gross intangible assets totaled $854,000 and accumulated amortization was $641,500. As of December 31, 2022, gross intangible assets totaled $1,167,633 and accumulated amortization was $805,904. The intangible asset from the 2016 acquisition of $313,633 became fully amortized in 2023 and was therefore removed.

Future amortization expense is as follows:

2024	$ 97,300
2025	63,450
2026	36,200
2027	13,320
2028	2,230
	$ 212,500

Income taxes
Income tax expense is the total of the current year income tax due, the change in deferred federal income taxes and benefit of available tax credits. Deferred federal income taxes represent the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for federal income tax purposes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Net income per share of common stock
Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements.

Comprehensive income (loss)
Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale and fair value hedges which are also recognized as separate components of equity.

The following information discloses the reclassification adjustments for each component of accumulated other comprehensive income, including the consolidated statement of income items affected as of December 31, 2023:

Accumulated Other Comprehensive Loss Components	Reclassification Amount	Affected Line Item in the Consolidated Statements of Income
Unrealized losses on securities available-for-sale	$ (32,158)	Net realized loss on sale of securities
	6,753	Federal income tax benefit
Total reclassifications for the period	$ (25,405)	Reclassification adjustment, net of tax

The following information discloses the reclassification adjustments for each component of accumulated other comprehensive income, including the consolidated statement of income items affected as of December 31, 2022:

Accumulated Other Comprehensive Loss Components	Reclassification Amount	Affected Line Item in the Consolidated Statements of Income
Unrealized losses on securities available-for-sale	$ (597,495)	Net realized loss on sale of securities
	125,475	Federal income tax benefit
Total reclassifications for the period	$ (472,020)	Reclassification adjustment, net of tax

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

Advertising
Advertising and marketing costs are expensed as incurred. Advertising and marketing expense was $838,923 and $681,847 for the years ended December 31, 2023 and 2022, respectively.

Off-balance sheet financial instruments
In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through the provision for credit losses. This estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The liability for credit losses on unused commitments totaled $30,226 at December 31, 2023.

Subsequent events
The Company has evaluated subsequent events for recognition and disclosure through February 19, 2024, which is the date the consolidated financial statements were available to be issued.

2. INVESTMENT SECURITIES:

The following tables provide information related to investment securities by category at December 31 (in thousands):

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
US Treasuries	$ 7,856	-	929	6,927
Mortgage-backed securities	184,346	49	9,678	174,717
Asset-backed securities	17,926	14	116	17,824
State and political subdivisions	184,298	-	27,735	156,563
Corporate bonds	14,000	3	2,029	11,974
Total	$ 408,426	66	40,487	368,005
Held-to-maturity:				
Qualified affordable housing	$ 2,135	-	-	2,135
Available-for-sale:				
Marketable equity securities	$ 41	65	-	106

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
US Treasuries	$ 7,834	-	1,069	6,765
Mortgage-backed securities	167,009	16	11,208	155,817
Asset-backed securities	12,510	-	283	12,227
State and political subdivisions	186,444	-	36,389	150,055
Corporate bonds	14,000	-	1,442	12,558
Total	$ 387,797	16	50,391	337,422
Held-to-maturity:				
Qualified affordable housing	$ 1,776	-	-	1,776
Available-for-sale:				
Marketable equity securities	$ 41	33	-	74

During 2022, the Bank transferred $8,750,000 of corporate bonds from held-to-maturity to available-for-sale to more accurately reflect the classification of these investment securities.

The amortized cost and fair value of investment securities, by contractual maturity, are shown below (in thousands). Actual maturities may differ from contractual maturities when a right to call or prepay an obligation exists:

		2023		2022	
		Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:					
US Treasuries:					
Less than one year	$	-	-	-	-
One to five years		4,960	4,426	-	-
Five to ten years		2,896	2,501	7,834	6,765
Over ten years		-	-	-	-
Mortgage-backed securities:					
Less than one year		20,318	19,903	14,147	13,798
One to five years		73,054	71,393	113,328	106,361
Five to ten years		83,457	77,257	34,610	31,794
Over ten years		7,517	6,164	4,924	3,864
Asset-backed securities:					
Less than one year		353	344	735	713
One to five years		10,497	10,431	5,690	5,598
Five to ten years		7,076	7,049	6,085	5,916
Over ten years		-	-	-	-
State and political subdivisions:					
Less than one year		-	-	-	-
One to five years		7,972	7,487	-	-
Five to ten years		89,207	78,427	45,534	39,459
Over ten years		87,119	70,649	140,910	110,596
Corporate bonds:					
Less than one year		-	-	-	-
One to five years		-	-	1,000	1,002
Five to ten years		13,000	11,343	12,000	10,796
Over ten years		1,000	631	1,000	760
Total	$	408,426	368,005	387,797	337,422
Held-to-maturity:					
Qualified affordable housing:	$	2,135	2,135	1,776	1,776
Total	$	2,135	2,135	1,776	1,776

At December 31, 2023 and 2022 investment securities with an amortized cost of $270,323,728 and $161,117,106 respectively, were pledged to secure public deposits and for other purposes as required or permitted by law. These securities had fair values of $236,860,419 and $137,000,421 at December 31, 2023 and 2022, respectively.

The tables below indicate the length of time individual investment securities have been in a continuous loss position at December 31 (in thousands):

	2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
US Treasuries	$ -	-	6,927	929	6,927	929
Mortgage-backed securities	46,164	395	120,763	9,283	166,927	9,678
Asset-backed securities	2,980	8	7,573	108	10,553	116
States and political subdivisions	751	9	155,812	27,726	156,563	27,735
Corporate bonds	-	-	10,221	2,029	10,221	2,029
Total	$ 49,895	412	301,296	40,075	351,191	40,487
Number of investments	30		281		311	

	2022					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
US Treasuries	$ -	-	6,765	1,069	6,765	1,069
Mortgage-backed securities	74,990	2,811	76,442	8,397	151,432	11,208
Asset-backed securities	7,764	124	4,463	159	12,227	283
States and political subdivisions	41,814	6,467	108,241	29,922	150,055	36,389
Corporate bonds	6,102	648	4,703	794	10,805	1,442
Total	$ 130,670	10,050	200,614	40,341	331,284	50,391
Number of investments	120		176		296	

Management does not intend to sell these securities, and it is more likely than not the Bank will retain, and not be required to sell, the securities in an unrealized loss position prior to the recovery of value. The decline in market value is due to fluctuations in market interest rates and not credit quality. The fair values are expected to recover as securities approach their maturity dates.

Qualified Affordable Housing Project Investment

The Bank holds investments in qualified affordable housing projects totaling $2,135,027 and $1,776,385 at December 31, 2023 and 2022, respectively. The unfunded commitments at December 31, 2023 related to investments in qualified affordable housing projects are $1,509,772. The Bank's anticipates fulfilling these commitments as follows:

2024	$ 767,548
2025	501,787
2026	54,432
2027	44,327
2028	35,554
Thereafter	105,524
	$ 1,509,772

During 2023 and 2022, the Bank recognized tax credits in connection with its investment in qualified affordable housing projects of $169,000 and $115,000, respectively.

3. LOANS RECEIVABLE:

Loans receivable consist of the following, net of deferred loan fees (in thousands):

	2023	2022
Residential real estate:		
Construction	$ 2,896	4,456
Owner occupied	160,956	150,610
Non-owner occupied	57,397	49,859
Commercial real estate:		
Construction	14,825	13,673
Farmland	34,966	33,622
Nonfarm	140,755	130,655
Commercial and industrial	23,285	22,673
Consumer	30,585	31,973
Other	695	688
	466,360	438,209
Less allowance for credit losses	(5,498)	(4,732)
	$ 460,862	433,477

The amounts above include net deferred loan costs of $388,323 and $448,209 at December 31, 2023 and 2022, respectively.

The risk characteristics applicable to each segment of the loan portfolio are described as follows:

Residential real estate loans are secured by 1 - 4 family residences and are generally owner-occupied.

The Bank generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels. Repayment can also be impacted by changes in property values of residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial real estate loans, including farmland and nonfarm loans, are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves larger loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Bank's commercial real estate portfolio are diverse, but by geographic location are almost entirely in the Bank's market area. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography and risk grade criteria.

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

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrowers to collect amounts due from its customers.

Consumer loans consist substantially of automobile loans. Automobile loans are generally secured by the automobile being financed or other personal assets. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels, and secondarily on the collateral securing the loan. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The following tables present the activity in the ACL by portfolio segment for the years ended December 31, 2023 and 2022 (in thousands):

	Residential Real Estate			Commercial Real Estate						
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	Commercial and Industrial	Consumer	Other	Total
Year ended December 31, 2023:										
Beginning balance	$ 45	1,715	492	134	328	1,357	216	419	26	4,732
Adoption of ASU 2016-13	6	245	70	19	47	194	31	60	5	677
Provision	(29)	520	(177)	(46)	(121)	(497)	33	383	115	181
Charge-offs	-	(18)	-	-	-	(38)	(29)	(198)	(206)	(489)
Recoveries	-	69	-	-	-	195	5	61	67	397
Ending balance	$ 22	2,531	385	107	254	1,211	256	725	7	5,498
Year ended December 31, 2022:										
Beginning balance	$ 48	1,671	493	130	323	1,317	287	616	3	4,888
Provision	(3)	296	(1)	4	11	40	(53)	(119)	158	333
Charge-offs	-	(284)	-	-	(6)	-	(29)	(128)	(229)	(676)
Recoveries	-	32	-	-	-	-	11	50	94	187
Ending balance	$ 45	1,715	492	134	328	1,357	216	419	26	4,732

The following table presents the amortized cost basis of collateral-dependent loans by class of loans at December 31, 2023 (in thousands):

	Real Estate	Vehicles and Other	Total	ACL on collateral-dependent loans
Residential real estate:				
Construction	$ -	-	-	-
Owner occupied	235	-	235	-
Non-owner occupied	-	-	-	-
Commercial real estate:				
Construction	-	-	-	-
Farmland	29	-	29	-
Nonfarm	85	-	85	-
Commercial and industrial	-	-	-	-
Consumer	-	96	96	-
Other	-	-	-	-
	$ 349	96	445	-

The following table presents the balance in the ACL and the recorded investment in loans by portfolio class based on the impairment method as of December 31, 2022 (in thousands):

	Loans individually evaluated for impairment	ACL on individually evaluated loans	Loans collectively evaluated for impairment	ACL on collectively evaluated loans
Residential real estate:				
Construction	$ -	-	4,456	45
Owner occupied	287	92	150,323	1,623
Non-owner occupied	-	-	49,859	492
Commercial real estate:				
Construction	-	-	13,673	134
Farmland	-	-	33,381	328
Nonfarm	241	-	130,655	1,357
Commercial and industrial	855	-	21,818	216
Consumer	80	-	31,893	419
Other	2	2	686	24
	$ 1,465	94	436,744	4,638

The following tables present the aging of the amortized cost basis on past due loans by class of loan as of December 31, 2023 and 2022 (in thousands):

Age Analysis of Loans Receivable (in thousands)
December 31, 2023

	30-59 days past due	60-89 days past due	90 days and greater past due	Total past due	Loans not past due	Total
Residential real estate:						
Construction	$ -	-	1	1	2,895	2,896
Owner occupied	1,372	215	474	2,061	158,470	160,956
Non-owner occupied	-	-	-	-	57,397	57,397
Commercial real estate:						
Construction	-	-	-	-	14,825	14,825
Farmland	-	-	7	7	34,959	34,966
Nonfarm	347	-	-	347	140,310	140,755
Commercial and industrial	88	17	21	126	23,160	23,285
Consumer	331	19	10	360	30,206	30,585
Other	-	-	-	-	695	695
Total	$ 2,138	251	513	2,902	462,917	466,360

Age Analysis of Loans Receivable (in thousands)
December 31, 2022

	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Total current and accruing	Total financing receivables	Nonaccrual	Recorded investment > 90 days and accruing
Residential real estate:								
Construction	$ -	-	-	-	4,456	4,456	-	-
Owner occupied	1,611	50	408	2,069	147,591	150,610	1,545	-
Non-owner occupied	-	-	-	-	49,846	49,859	13	-
Commercial real estate:								
Construction	41	4	-	45	13,628	13,673	4	-
Farmland	201	-	-	201	33,216	33,622	205	-
Nonfarm	-	33	-	33	129,947	130,655	675	-
Commercial and industrial	53	2	29	84	22,589	22,673	20	-
Consumer	233	28	13	274	31,619	31,973	174	-
Other	-	-	-	-	688	688	-	-
Total	$ 2,139	117	450	2,706	433,580	438,209	2,636	-

Credit risk profile categories

The Bank assigns credit risk grades to evaluated loans using grading standards employed by regulatory agencies. The following are the bank's internally assigned grades:

Pass – loans in this category are considered satisfactory or fair. Satisfactory loans represent the Bank's standard or average loans that require a normal amount of supervision. These credits should have orderly updated credit files with borrowers/guarantors that have an acceptable net worth and sufficient income to retire debt.

Special Mention – special mention loans that do not currently expose the Bank to a sufficient degree of risk to warrant a substandard classification. However, it does possess credit deficiencies or potential weaknesses deserving management's close attention. If not corrected, such weaknesses or deficiencies may expose the Bank to an increased risk of loss in the future.

Substandard – an asset classified as substandard is inadequately protected by the current net worth and paying capacity of the borrower or the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – an asset classified as doubtful has all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable.

Loss – the portion of a loan classified as loss is considered uncollectible and of such little value that its continuance as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has absolutely no recovery or salvage value; but rather, it is not practical or desirable to defer reserving for a basically worthless asset even though a partial recovery may occur in the future.

Credit Risk Profile by Internally Assigned Grade (in thousands)
December 31, 2023

	Residential Real Estate			Commercial Real Estate						
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	Commercial and Industrial	Consumer	Other	Total
Grade:										
Pass	$ 2,890	157,470	57,386	12,696	34,929	137,714	23,231	30,368	695	457,379
Special mention	6	1,465	11	2,127	-	2,787	3	24	-	6,423
Substandard	-	2,021	-	2	37	254	51	193	-	2,558
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 2,896	160,956	57,397	14,825	34,966	140,755	23,285	30,585	695	466,360

Credit Risk Profile by Internally Assigned Grade (in thousands)
December 31, 2022

	Residential Real Estate			Commercial Real Estate						
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	Commercial and Industrial	Consumer	Other	Total
Grade:										
Pass	$ 4,452	147,159	49,846	13,673	33,388	127,064	22,653	31,581	688	430,504
Special mention	-	1,462	13	-	205	2,917	18	45	-	4,660
Substandard	4	1,989	-	-	29	674	2	347	-	3,045
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 4,456	150,610	49,859	13,673	33,622	130,655	22,673	31,973	688	438,209

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due 90 days and greater and still accruing interest at December 31, 2023 (in thousands):

	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans past due > 90 days still accruing	Total non-performing
Residential real estate:					
Construction	$ 1	-	1	-	1
Owner occupied	1,373	-	1,373	73	1,446
Non-owner occupied	-	-	-	-	-
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	7	-	7	-	7
Nonfarm	152	-	152	-	152
Commercial and industrial	43	-	43	-	43
Consumer	112	-	112	-	112
Other	-	-	-	-	-
	$ 1,688	-	1,688	73	1,761

Impaired Loans

For 2022, a loan was considered impaired, in accordance with the impairment accounting guidance in ASC 310-10-35-16, when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Impaired Loans (in thousands)
December 31, 2022

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Residential real estate:					
Construction	$ -	-	-	-	-
Owner occupied	31	64	-	104	-
Non-owner occupied	-	-	-	-	-
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	238	241	-	119	-
Nonfarm	-	-	-	-	-
Commercial and industrial	454	855	-	611	-
Consumer	84	80	-	71	-
Other	-	-	-	-	-
	$ 807	1,240	-		-
Loans with an allowance recorded:					
Residential real estate:					
Construction	$ -	-	-	-	-
Owner occupied	220	223	92	244	-
Non-owner occupied	-	-	-	-	-
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Nonfarm	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Consumer	-	-	-	-	-
Other	2	2	2	2	-
	$ 222	225	94		-
Total:					
Residential real estate:					
Construction	$ -	-	-		-
Owner occupied	251	287	92		-
Non-owner occupied	-	-	-		-
Commercial real estate:					
Construction	-	-	-		-
Farmland	238	241	-		-
Nonfarm	-	-	-		-
Commercial and industrial	454	855	-		-
Consumer	84	80	-		-
Other	2	2	2		-
	$ 1,029	1,465	94		-

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

Loan Modifications

Occasionally, the Bank modifies loans to borrowers in financial distress by providing concessions such as a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. When principal forgiveness is provided, the amount of forgiveness is charged off against the ACL. In some cases, the Bank may provide multiple types of concessions on one loan.

There were no loans modified during the year ended December 31, 2023 to borrowers experiencing financial difficulties.

Troubled Debt Restructurings

Prior to the adoption of ASU 2022-02, if a borrower is experiencing financial difficulty, the Bank considered, in certain circumstances, modifying the terms of their loan in a troubled debt restructuring (TDR) to maximize collection of amounts due. Within each of the Company's loan classes, TDRs typically involved either a reduction of the stated interest rate of the loan or an extension of the loan's maturity date(s) with a stated rate lower than the current market rate for a new loan with similar risk. Modifying the terms of loans may have resulted in an increase or decrease to the allowance for credit loss (ACL) depending upon the terms modified, the method used to measure the ACL for a loan prior to modification, and whether any charge-offs were recorded on the loan before or at the time of modification.

The following table provides a summary of loans modified in a TDR during the year ended December 31, 2022 (in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Effect on ACL upon Modification
Troubled Debt Restructurings				
Residential real estate:				
Owner occupied	1	$ 19	26	-

The one troubled debt restructured loan shown in the table was modified during 2022 with a longer repayment term due to negative escrow funds being added to the balance. At December 31, 2022, the Bank had a recorded investment of $1,018,493 in TDRs. No troubled debt restructurings subsequently defaulted as of December 31, 2022.

At December 31, 2023 and 2022, $162,753 and $198,021 respectively, of overdrafts on deposit accounts have been reclassified and included in the loan receivable balance.

Loan Servicing
Mortgage loans the Bank services for others are not included in the accompanying consolidated financial statements. The Bank sells loans in the secondary market under terms of a Mortgage Purchase Program ("MPP") with the Federal Home Loan Bank ("FHLB") – Cincinnati and the Federal Home Loan Mortgage Corporation and Freddie Home Loan Mortgage Corporation ("Freddie Mac"). The unpaid principal balance of loans serviced for others, including loan participations, as of December 31, 2023 and 2022 was $120,164,455 and $129,704,802, respectively. Custodial escrow balances maintained in connection with serviced loans (both sold and retained) were $1,141,054 and $1,063,024, respectively.

Mortgage servicing rights
The following is an analysis of the activity of mortgage servicing rights, which are included in other assets on the consolidated balance sheets, for the years December 31, 2023 and 2022:

	2023	2022
Balance, beginning of the year	$ 853,393	744,379
Additions, net	44,377	262,248
Amortization	(117,824)	(153,234)
Balance, end of the year	$ 779,945	853,393

No impairment has been identified on the mortgage servicing assets and correspondingly, no valuation allowance has been recognized as of December 31, 2023 and 2022. The Bank recorded gains from sales of mortgage loans including associated servicing rights of $104,748 and $185,954 during 2023 and 2022, respectively. These gains are recorded in gain on sale of loans on the consolidated financial statements.

Under terms of the Mortgage Purchase Program, a fixed Lender Risk Account (LRA) is established and is maintained by FHLB on behalf of the Bank and other members selling mortgages in an aggregated pool to the FHLB - Cincinnati. The Bank had on deposit in LRA with the FHLB - Cincinnati $382,874 and $391,246 at December 31, 2023 and 2022, respectively. These accounts are held by the FHLB and the Bank bears the risk of receiving less than 100% of its LRA contribution in the event of losses, either by the Bank or other members selling mortgages in the aggregated pool. If losses incurred in the pool are greater than the Bank's LRA contribution, such losses will be deducted from the LRA contribution of other members. Any portion of the LRA not used to pay losses will be released over a thirty-year period starting five years after the initial pool period. The Bank included income (expense) of ($29,928) and ($8,857) in other income on the statements of operations during the years ended December 31, 2023 and 2022, respectively. The estimated LRA balance included in other assets on the consolidated balance sheets is $194,000 and $254,000 at December 31, 2023 and 2022, respectively. These amounts represent present values of the estimated future cash flows to be received. Unless the Bank is required to repurchase a loan because it did not meet the criteria under the representations and warranties to be covered as part of the aggregated pool, the credit risk on these loans is limited to the amount provided in the LRA.

4. OTHER REAL ESTATE OWNED:

The Bank had no real estate held for sale at December 31, 2023 and 2022. During 2023 and 2022, there were $49,042 and $130,859, respectively, in foreclosure losses charged-off to the allowance for credit losses. The Bank realized related gains (losses) of $1,565 and ($38,831) on disposal of foreclosed real estate during 2023 and 2022, respectively. Other real estate owned expenses recognized in other expenses during 2023 and 2022 were immaterial to consolidated financial statements.

5. PREMISES AND EQUIPMENT:

Premises and equipment at December 31 consist of the following (in thousands):

	2023	2022
Land	$ 4,078	3,704
Buildings	11,546	9,912
Equipment	6,010	6,146
Total	21,634	19,762
Accumulated depreciation	(8,399)	(8,124)
	13,235	11,638
Right-of-use assets	1,156	292
	$ 14,391	11,930

Leases
The Bank implemented ASU 2016-02 “Leases (Topic 842)” in 2022, which required lessees to recognize lease assets and liabilities on the balance sheet and expanded disclosure about leasing arrangements. Leases are classified as operating or finance leases at the lease commencement date. The Bank enters into leases in the normal course of business primarily for bank branch locations and office space with maturity dates ranging from 2023 until 2026. The Bank is reasonably certain to exercise renewal options on two of their four operating leases. Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. 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 Bank has elected to use a risk-free rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known.

	2023	2022
Lease Expense:		
Operating lease expense	$ 116,143	91,227
Other Information:		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	110,511	88,835
ROU assets obtained in exchange for new operating lease liabilities	974,034	378,606
Weighted-average remaining lease term for operating leases	17.30 years	2.76 years
Weighted-average discount rate for operating leases	4.17%	2.19%

At December 31, 2023, the scheduled maturity of lease liabilities is as follows:

2024	$ 139,488
2025	106,302
2026	95,811
2027	95,238
2028	80,619
Thereafter	1,201,100
	1,718,558
Less imputed interest	(558,327)
Total lease liabilities	$ 1,160,231

The Bank’s ROU asset is recorded in premises and equipment and lease liabilities are recorded in accrued expenses and other liabilities on the balance sheet.

6. DEPOSITS:

At December 31, 2023, the scheduled maturity of time deposits is as follows (in thousands):

Under one year	$ 159,668
One to three years	62,020
Three to five years	54,767
More than five years	533
	$ 276,988

Total non-interest bearing deposits were $145,878,546 and $145,268,940 at December 31, 2023 and 2022, respectively.

Time deposits of $250,000 or more were $24,880,000 and $39,921,670 at December 31, 2023 and 2022, respectively.

7. BROKERED DEPOSITS:

The Bank is a network participant in the Certificate of Deposit Account Registry Service (CDARS) network. As part of this network and participation in the CDARS reciprocal program, the Bank can accept FDIC insured deposits as a broker for customers up to $500 million. This program allows the Bank to accept deposits on the customers' behalf, place them in the CDARS program, and receive matching reciprocal funds from the CDARS network. At December 31, 2023 and 2022, the Bank had received approximately $28,532,000 and $9,322,000, respectively, in deposits on behalf of customers and received matching reciprocal funds in the same amount under the CDARS program.

The Bank is a network participant in the Insured Cash Sweep (ICS) network. As part of this network and participation in the ICS reciprocal program, the Bank can accept FDIC insured deposits as a broker for customers with multi-million-dollar savings accounts. This program allows the Bank to accept deposits on the customers' behalf, place them in the ICS program, and receive matching reciprocal funds from the ICS network. At December 31, 2023 and 2022, the Bank had received approximately $120,327,000 and $98,139,000, respectively, in deposits on behalf of customers and received matching reciprocal funds in the same amount under the ICS program.

8. FEDERAL HOME LOAN BANK AND FEDERAL RESERVE ADVANCES:

The Bank has fixed-rate advances with the Federal Home Loan Bank ("FHLB") of $137,091 and $171,797 at December 31, 2023 and 2022, respectively. The FHLB advances mature at various dates through 2038 and bear interest at 1.60%.

During 2023, the Bank renewed a "Cash Management Advance" (CMA) credit line with the FHLB to a maximum of $15,000,000. Interest due on advances from the FHLB will be at either a variable rate set daily for 90 days, or a fixed rate for up to 30 days at the Bank's option. There were no amounts outstanding under this agreement at December 31, 2023 and 2022, respectively.

As collateral for the FHLB advances and potential advances from the FHLB above, the Bank has pledged residential one-to-four family mortgages equal to 100% of the outstanding balance and its investment in FHLB stock.

In 2023, the Federal Reserve established the Bank Term Funding Program (“BTFP”) to make available funding to eligible depository institutions. The BTFP allows for advances for up to one year secured by eligible high-quality securities at par value. At December 31, 2023, the Company had advances totaling $30,000,000 under the BTFP at a weighted average interest rate of 4.54% with maturity dates in 2024.

The contractual maturities of the advances by year are as follows (in thousands):

	FHLB	Federal Reserve	Total
2024	$ 10	30,000	30,010
2025	11	-	11
2026	11	-	11
2027	11	-	11
2028	11	-	11
Thereafter	83	-	83
	$137	30,000	30,137

9. SUBORDINATED DEBT:

During 2020, the Company entered into unsecured subordinated debt agreements. The notes are for a combined $15,000,000 principal balance, with a fixed interest rate of 5.25% paid in arrears through semiannual interest only payments, all interest and principal are due upon maturity on April 24, 2030. Unless stipulated events transpire, these notes are redeemable by the Company after April 24, 2025. These notes and related interest are subordinate in right of payment to all senior indebtedness including obligations to general and secured creditors, and unsecured creditors. Balances are shown net of debt issuance costs.

10. DERIVATIVES AND HEDGING ACTIVITIES:

As part of its asset liability management strategy, the Company entered into interest rate swap arrangements during 2023 as fair value hedges to mitigate the effect of changing interest rates on the fair values of certain designated available-for-sale investment securities. This involves the receipt of variable amounts from a counterparty in exchange for fixed payments over the life of the arrangements without the exchange of the underlying notional amount.

The following table presents the amounts recorded on the balance sheet related to cumulative basis adjustments for fair value hedges as of December 31 (in thousands):

Line item in the balance sheet in which the hedged item is included	Carrying Amount of the hedged asset		Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged asset	
	2023	2022	2023	2022
Investment securities, available-for-sale	$185,044	$ -	$1,044	$ -

The Company presents derivative position gross on the balance sheet. The following table reflects the derivatives recorded on the balance sheet as of December 31 (in thousands):

	2023		2022	
	Notional amount	Fair value	Notional amount	Fair value
Included in other liabilities:	$ 120,000	$ (1,021)	$ -	$ -

11. FEDERAL AND STATE INCOME TAXES:

Federal and state income tax expense (benefit) consists of the following (in thousands):

	2023	2022
Current	$ 1,743	1,561
Deferred	(162)	13
Total	$ 1,581	1,574

The effective tax rate varies from the federal statutory tax rate primarily due to the following (in thousands):

	2023	2022
Federal income taxes computed at statutory rates	$ 2,118	2,001
Increase (decrease) in taxes resulting from:		
Tax exempt interest	(407)	(406)
Bank owned life insurance earnings	(79)	(61)
Nondeductible merger expenses	11	11
State income taxes, net of federal benefit	9	9
Other	(71)	20
Total	$ 1,581	1,574

The net deferred tax asset is recorded on the consolidated balance sheet at December 31, 2023 and 2022 and consists of the following (in thousands):

	2023	2022
Deferred tax assets:		
Net unrealized holding losses on securities	$ 8,488	10,579
Net unrealized loss on derivative	214	-
Allowance for credit losses	1,125	892
Nonaccrual interest	12	14
Intangibles	332	304
Accrued retirement and director fees	243	200
Deferred tax assets	10,414	11,989
Deferred tax liabilities:		
Property and equipment	(477)	(458)
FHLB stock dividends	(8)	(9)
Mortgage servicing rights	(164)	(164)
Deferred loan fees	(49)	(60)
Other	(57)	(79)
Deferred tax liabilities	(755)	(770)
Net deferred tax asset	$ 9,659	11,219

12. RETIREMENT PLAN:

The Bank has a 401(k) plan that covers all employees who have completed one year of service and reached a minimum age of 21 years old. The Bank may make discretionary contributions and contributed $360,785 and $321,591 to the plan during each of the years ended December 31, 2023 and 2022, respectively.

13. COMMITMENTS AND CONTINGENT LIABILITIES:

In the normal course of business, the Bank has outstanding various commitments to extend credit. At December 31, 2023 and 2022, the Bank had approximately $50,835,000 and $49,209,000, respectively, of such commitments, all of which were at fixed or variable rates of interest. Commitments to extend credit are agreements to lend. No material losses or liquidity demands are anticipated as a result of these commitments. The Bank had standby letters of credit outstanding of $20,250,000 and $20,350,000 at December 31, 2023 and 2022, respectively.

The Bank evaluates each customer's creditworthiness on a case-by-case basis in accordance with the Bank's credit policies. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based upon management's credit evaluation of the customer. Collateral held varies but may include business assets of commercial borrowers as well as personal property and real estate of individual borrowers or guarantors.

The Bank grants agri-business, commercial, residential and installment loans to customers in the surrounding areas of its offices. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their commitments is dependent upon the local economic sector. As of December 31, 2023 and 2022, the Bank had $36,938,080 and $35,390,360, respectively, of loans outstanding for agricultural purposes or secured by agricultural property. The Bank recorded an allowance for credit loss of $30,226 for unfunded commitments at December 31, 2023. This amount is recorded within accrued expenses and other liabilities on the balance sheet.

14. RELATED PARTY TRANSACTIONS:

Directors, officers and certain related parties had loans outstanding during the years ended December 31, 2023 and 2022. This amount includes unused lines of credit. The directors and officers mentioned above were customers in the ordinary course of business. Additional transactions may be expected in the ordinary course of business in the future. All outstanding loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and did not involve more than a normal risk of collectability or present other unfavorable features.

The following is an analysis of the activity of such loans for the years indicated (in thousands):

	2023	2022
Balance, beginning of year	$ 2,905	2,523
Loans originated	487	1,065
Repayments	(1,142)	(697)
New directors/officers	-	14
Balance, end of year	$ 2,250	2,905

The Bank held deposits for directors, officers and certain related parties of $929,512 and $2,105,673 at December 31, 2023 and 2022, respectively.

15. FAIR VALUE:

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Bank has the ability to access.

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

- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following methods and assumptions were used by the Bank in estimating the fair value disclosures for financial instruments:

Investment securities
The fair values of available-for-sale securities are determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. Level 1 securities include U.S. Treasuries and exchange-traded equity securities. For securities traded in secondary markets for which quoted market prices are not available, the fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include obligations of U.S. government corporations and agencies, mortgage-backed securities, certificates of deposit, collateralized mortgage obligations and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Loans held-for-sale
These loans are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors.

Impaired loans
Prior to the adoption of ASU 2016-13, loans for which it is probable that the Bank will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

Collateral-dependent loans
Impairment of collateral-dependent individually analyzed loans is generally based on the fair value of the loan's collateral. Fair value is generally determined based on an independent third-party appraisal of the property net of estimated expected costs to sell. If the fair value of the collateral-dependent loan is less than the carrying amount of the loan, a specific reserve for the loan is made in the allowance for credit losses and the loan is included in the table below as a Level 3 measurement in the period in which the adjustment is recorded. If the fair value of the collateral exceeds the carrying amount of the loan, the loan is not included in the table below as it is not currently being carried at its fair value.

Derivatives
The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). The derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources. Including brokers, market transactions and third-party pricing services.

Mortgage servicing rights
Mortgage servicing rights are evaluated annually for impairment based upon the fair value of the rights as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts (Level 2), when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data.

Other real estate owned
Real estate acquired through foreclosure assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Bank records the foreclosed asset as nonrecurring Level 2.

Lender risk account
The fair value is determined by discounting the expected cash flows by the 10-year and 30-year treasury rate depending on payment terms from the FHLB. The expected cash flows consider a default rate on loans and an estimated loss on defaulted loans. The default rate is based on delinquency data from the FDIC for all institutions in Ohio. The estimated loss is based on the charge-off percentage for loans for all financial institutions in Ohio.

Fair value measurements for certain assets and liabilities measured at fair value on a recurring basis (in thousands):

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
December 31, 2023:				
US Treasuries	$ 6,927	-	6,927	-
Mortgage-backed securities	174,717	-	174,717	-
Asset-backed securities	17,824	-	17,824	-
State and political subdivisions	156,563	-	156,563	-
Corporate bonds	11,974	-	11,974	-
Derivative liability	(1,021)	-	(1,021)	-
December 31, 2022:				
US Treasuries	$ 6,765	-	6,765	-
Mortgage-backed securities	155,817	-	155,817	-
Asset-backed securities	12,227	-	12,227	-
State and political subdivisions	150,055	-	150,055	-
Corporate bonds	12,558	-	12,558	-

Fair value measurements for certain assets and liabilities measured at fair value on a non-recurring basis (in thousands):

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
December 31, 2023:				
Collateral-dependent loans	$ 445	-	445	-
Real estate owned	-	-	-	-
Mortgage servicing rights	780	-	780	-
Lender risk account	194	-	194	-
December 31, 2022:				
Impaired loans	$ 1,029	-	1,029	-
Real estate owned	-	-	-	-
Mortgage servicing rights	853	-	853	-
Lender risk account	254	-	254	-

In accordance with accounting standards for financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

16. REGULATORY MATTERS:

Banks and holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. The net unrealized gain or loss on available-for-sale for securities is not included in computing regulatory capital. Management believes as of December 31, 2023, the Bank meets all capital adequacy requirements to which they are subject.

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

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2023 and 2022 are presented in the table below (dollars in thousands):

December 31, 2023:	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:						
Consolidated	$ 104,395	18.4%	$ 45,421	8.0%	N/A	
Bank	102,385	18.0%	45,421	8.0%	$ 56,776	10.0%
Tier I (Core) capital to risk-weighted assets:						
Consolidated	98,867	17.4%	34,066	6.0%	N/A	
Bank	96,857	17.1%	34,066	6.0%	45,421	8.0%
Tier I capital (to average assets)						
Consolidated	98,867	10.0%	39,492	4.0%	N/A	
Bank	96,857	9.8%	39,492	4.0%	49,365	5.0%
Tangible capital (to risk-weighted assets)						
Consolidated	98,867	17.4%	25,549	4.5%	N/A	
Bank	96,857	17.1%	25,549	4.5%	36,904	6.5%

December 31, 2022:

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:						
Consolidated	$ 96,945	17.8%	$ 43,480	8.0%	N/A	
Bank	94,248	17.3%	43,480	8.0%	$ 54,350	10.0%
Tier I (Core) capital to risk-weighted assets:						
Consolidated	91,377	16.8%	32,610	6.0%	N/A	
Bank	89,516	16.5%	32,610	6.0%	43,480	8.0%
Tier I capital (to average assets)						
Consolidated	91,377	10.2%	35,751	4.0%	N/A	
Bank	89,516	10.0%	35,743	4.0%	44,679	5.0%
Tangible capital (to risk-weighted assets)						
Consolidated	91,377	16.8%	24,458	4.5%	N/A	
Bank	89,516	16.5%	24,458	4.5%	35,328	6.5%

Dividend restrictions

All State of Ohio Chartered Banks are subject to the dividend restrictions set forth by the State of Ohio. Under such restrictions, the Bank may not, without the prior approval of the Superintendent of Banks of the State of Ohio, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 2202023, that the Bank could declare, without the approval of the Superintendent of Banks of the State of Ohio, amounted to $19,769,903.

17. REVENUE FROM CONTRACTS WITH CUSTOMERS:

The Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within Other income (loss). The following table presents the Bank's sources of non-interest income for the twelve months ended December 31, 2023 and 2022. Items outside the scope of ASC 606 are noted as such.

	2023	2022
Other income (loss):		
Gain (loss) on sale of other real estate owned	$ 1,565	(38,831)
Service charges on deposit accounts	1,950,003	1,933,560
ATM service charges and other fees, net	1,657,459	1,818,628
	$ 3,609,027	3,713,357

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

Loss on sale of other real estate owned - the Bank records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of other real estate owned to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on the sale is recorded upon transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

Service charges on deposit accounts - the Bank earns revenue from its deposit customers for transaction-based activities, account maintenance, and overdraft fees. Transaction-based fees, which include services such as stop payment charges, statement rendering, and ACH fees are recognized at the time the transaction is executed as that is the point in time the Bank 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 Bank 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.

ATM Service charges and other fees, net - The Bank earns fees from cardholder transactions conducted through debit cards and the ATM network. Fees from cardholder transactions are recognized concurrent with the transaction processing services provided to the cardholder. Income is presented on the Consolidated Statements of Income net of expenses. Other income (loss) includes other recurring revenue streams such as wire transaction fees, safe deposit rental income, insurance commissions, and merchant referral income. Transaction fees primarily include check printing sales commissions, collection fees and wire transfer fees which arise from in-branch transactions. Safe deposit rental income arises from fees charged to the customer on an annual basis and recognized upon receipt of payment. Insurance commissions are agent commissions earned by the Bank upon the effective date of the coverage. Revenue is recognized at the point in time when the transaction occurs.

18. CONDENSED FINANCIAL STATEMENTS OF FIRST STATE BANCORP (PARENT COMPANY ONLY):

The following condensed financial information comprising the financial position, results of operations and cash of flows of First State Bancorp, Inc. as of and for years ended, December 31, 2023 and 2022, respectively:

Condensed Balance Sheets

		2023	2022
Assets:			
Cash and cash equivalents	$	1,742,483	2,549,493
Investment in First State Bank		65,379,059	51,504,698
Other assets		183,783	-
Total assets		67,305,325	54,054,191
Liabilities:			
Subordinated debt, net of debt issuance costs		14,915,552	14,852,215
Shareholders' Equity:			
Common stock		14,873,382	14,873,382
Additional paid-in capital		1,800,000	1,800,000
Retained earnings		68,473,800	62,329,592
Treasury stock		-	(4,750)
Accumulated other comprehensive income (loss)		(32,757,409)	(39,796,248)
Total shareholders' equity		52,389,773	39,201,976
Total liabilities and shareholders' equity	$	67,305,325	54,054,191

Condensed Statements of Income

		2023	2022
Dividend income from subsidiary	$	1,800,000	1,619,975
Income tax benefit		183,783	183,380
Interest expense		(850,836)	(850,836)
General and administrative expenses		(24,262)	(22,402)
		1,108,685	930,117
Equity in earnings of First State Bank		7,394,444	7,024,308
Net income	$	8,503,129	7,954,425

Condensed Statements of Cash Flows

		2023	2022
Operating activities:			
Net income	$	8,503,129	7,954,425
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary		(7,394,444)	(7,024,308)
Change in assets and liabilities:			
Other assets		(183,782)	370,025
Net cash provided by operating activities		924,903	1,300,142
Financing activities:			
Debt issuance costs		63,337	63,337
Investment in First State Bank		-	(7,500,000)
Purchase of treasury stock, net		4,750	(4,750)
Cash dividends paid to shareholders		(1,800,000)	(1,619,975)
Net cash used by financing activities		(1,731,913)	(9,061,388)
Net change in cash		(807,010)	(7,761,246)
Cash – beginning of year		2,549,493	10,310,739
Cash – end of year	$	1,742,483	2,549,493

Banking Center Locations

Ohio

Winchester (headquarters)

Fayetteville
Georgetown
Hillsboro
Manchester
Mt. Orab
Peebles
Ripley
Seaman
Washington Court House
West Union
Wilmington

Kentucky

Inez
Louisa
Warfield

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