2022 annual report

FIRST STATE BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements
December 31st, 2022 and 2021 with
Independent Auditors' Report

Built on Belief

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 2022:

130 Volunteers

7 Counties

9 Organizations

First State Bank

Dear Shareholder:

I am pleased to report our consolidated net income for 2022 was $7,954,425 which is up 20.68% from 2021. Net interest income (up 24.38%) contributed to our success. Our allowance for loan loss as of 12/31/2022 was $4,731,541 or 1.08% of total loans. Net charge offs for 2022 were $489,546 (0.12% of average loans) which is up from 2021.

Other 2022 highlights included:

- Net Loans were $433,477,043 at year-end up 16.54% from prior year
- Investment Securities were $339,198,277 down 5.00% from prior year
- Deposits were $795,234,209 at year-end adding $79 million in balances
- Dividends paid in 2022 were $1,619,975 up 18.92% from prior year

After two years of fiscal stimulus, the Federal Open Market Committee (FOMC) began to fight inflation in 2022 with seven fed funds rate hikes totaling 4.25%. The prime interest rate as of year end 2022 was 7.50%. Longer term treasuries have also seen a jump. The 10-year treasury reached a high of 4.25% in 2022 from a low in mid-2020 of 0.52%. This has created a fair market value decline in our investment portfolio. Higher interest rates typically are good for net interest margins and overall net income.

The year following a significant acquisition (Inez Deposit Bank in February 2021) is typically the time we focus on expense control. I'm pleased to share non-interest expense was down 5.65% in 2022 from prior year. We reduced FTE's (full time equivalent employees) by three, we consolidated our Yatesville banking center into our Louisa office (the two offices were only two miles apart in the same community). We improved our overall efficiency from 80.89% in 2021 to 65.55% in 2022.

Maintaining and growing deposit relationships will be a primary focus for 2023. We plan to invest in our mobile banking product, enhance checking account features and improve debit card technology; all to attract consumer checking accounts. We will also continue to look for ways to grow loan balances, increase fee income, and improve efficiency.

We are pleased to report the current appraised value of First State Bancorp, Inc. stock as of 12/31/2022 is $100/share, up 5.27% from 12/31/2021.

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"

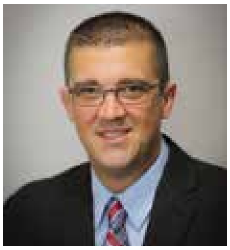
Thank you for your continued support.

Sincerely,

Michael P Pell
President / CEO

First State Bank

DAVID E. RICHEY
EXECUTIVE VICE PRESIDENT / CHIEF FINANCIAL OFFICER



Your company had another very successful year in 2022 despite challenges related to the rapidly increasing interest rate environment and its impact on Accumulated Other Comprehensive Income. When interest rates rise, it creates a fair market value decline in the value of the investment portfolio. The unrealized losses are carried in shareholder's equity and not through the income statement. Losses in these investments are not realized unless sold prior to the maturity or call date. First State Bancorp produced record earnings due to improving 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 2023 and beyond. 2022 was the 18th consecutive year of improved net income for the company.

In 2022, your investment in First State Bancorp, Inc. returned a dividend of $1.80 per share up from $1.72 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,	
	2022	2021	2020
Balance Sheet: (in thousands)			
Assets	$852,693	$808,232	$603,029
Loans receivable, net	433,477	371,949	313,381
Investments	339,198	346,055	206,910
Deposits	795,234	716,169	511,340
Stockholders' equity	39,202	73,798	63,277

		For the Year Ended December 31,	
	2022	2021	2020
Results of operations:			
Net income	7,954,425	6,591,390	5,991,820
Per share data (common stock):			
Basic earnings per share	8.84	8.23	7.57
Year end book value	43.56	82.00	79.89
Dividends declared (common)	1,619,975	1,362,240	1,267,200
Performance ratios:			
Return on average assets	0.95%	0.85%	1.05%
Return on average equity	16.07%	10.39%	10.09%
Net interest margin (for the year)*	3.16%	2.81%	3.38%
Equity to assets (at year end)	4.60%	9.13%	10.49%
Allowance to total loans	1.08%	1.30%	1.75%

*Source: FFIEC

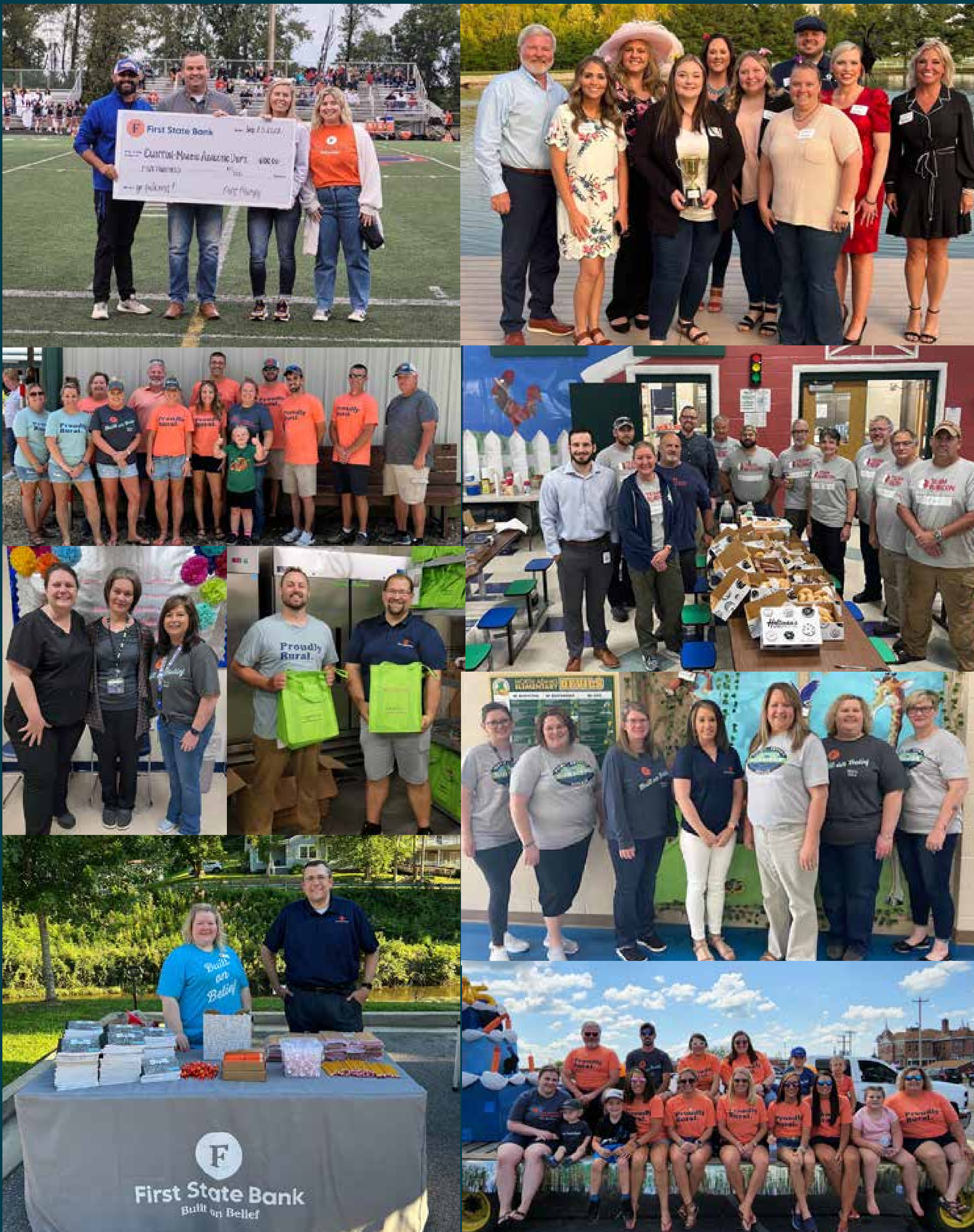
Your 2022 First State Bank Board of Directors and Senior Management Team

2022 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

Senior Management 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.*

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, 2022 and 2021, 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, 2022 and 2021, 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 audit 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.

CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

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

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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 17, 2023

	2022	2021
Assets		
Cash and due from banks:		
Cash and cash items	$ 5,747,781	5,202,947
Due from banks	25,119,439	47,030,552
Federal funds sold	3,423,000	2,886,000
	34,290,220	55,119,499
Interest bearing bank deposits	748,000	748,000
Investment securities, available-for-sale	337,421,892	334,190,728
Investment securities, held-to-maturity	1,776,385	11,864,291
Federal Home Loan Bank, at cost	1,423,800	1,617,400
Other equity securities	73,660	87,500
Loans held-for-sale	-	487,000
Loans receivable, net	433,477,043	371,462,034
Accrued interest receivable	3,853,944	3,095,267
Premises and equipment, net	11,929,858	12,144,665
Other real estate owned	-	162,900
Bank owned life insurance	12,997,314	12,708,796
Intangible assets, net	361,729	596,842
Goodwill, net	1,168,708	1,464,557
Income tax receivable	-	370,025
Net deferred tax asset	11,218,909	353,116
Other assets	1,951,049	1,759,803
Total assets	$ 852,692,511	808,232,423
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 141,548,202	140,546,059
Savings and interest checking	492,167,636	434,514,327
Time deposits	161,518,371	141,108,763
Total	795,234,209	716,169,149
Federal Home Loan Bank advances	171,797	181,862
Subordinated debt, net	14,852,215	14,788,879
Accrued interest payable	168,014	106,760
Accrued taxes and other liabilities	3,064,300	3,187,302
Total liabilities	813,490,535	734,433,952
Shareholders' equity:		
Common stock, no par value, 4,000,000 shares authorized at December 31, 2022 and 2021. 900,000 issued and outstanding at December 31, 2022 and 2021.	14,873,382	14,873,382
Additional paid-in capital	1,800,000	1,800,000
Treasury stock	(4,750)	-
Retained earnings	62,329,592	55,995,142
Accumulated other comprehensive (loss) income	(39,796,248)	1,129,947
Total shareholders' equity	39,201,976	73,798,471
Total liabilities and shareholders' equity	$ 852,692,511	808,232,423

See accompanying notes to the consolidated financial statements

	2022	2021
Interest income:		
Interest and fees on loans	$ 20,070,667	17,995,790
Interest on investment securities:		
Taxable	6,972,997	3,807,455
Tax-exempt	2,129,809	1,686,158
Interest on federal funds sold and deposits in banks	438,203	129,363
	29,611,676	23,618,766
Interest expense:		
Savings and interest checking	1,987,792	739,161
Other time deposits	1,286,292	1,081,304
Federal funds purchased and FHLB advances	19,900	471,798
Subordinated debt, net	850,836	850,836
	4,144,820	3,143,099
Net interest income	25,466,856	20,475,667
Provision for (recovery of) loan losses	332,885	(545,868)
Net interest income after provision for loan losses	25,133,971	21,021,535
Other income (loss):		
(Loss) gain on sale of investments	(597,495)	2,848,154
Gain on sale of loans	185,954	1,121,948
(Loss) gain on sale of other real estate owned	(38,831)	43,579
Gain on sale of fixed assets	165,139	6,387
Earnings on bank owned life insurance	288,518	233,278
Service charges on deposit accounts	1,933,560	1,404,923
ATM service charges and other fees, net	1,818,628	1,919,645
	3,755,473	7,577,914
Other expenses:		
Salaries, directors' fees and employee benefits	11,335,974	11,186,338
Software and equipment expenses	1,780,206	2,641,577
Supplies and postage expenses	456,782	412,565
Taxes other than federal income taxes	805,623	774,047
Occupancy expenses	1,030,286	941,726
FDIC insurance premiums and assessments	230,250	220,500
Professional fees	524,661	985,257
Telephone and data expenses	309,051	317,966
Marketing expenses	681,847	614,567
Amortization of intangible assets and goodwill	530,962	573,846
Other operating expenses	1,675,699	1,852,961
	19,361,341	20,521,350
Income before federal income taxes	9,528,103	8,078,099
Federal and state income taxes	1,573,678	1,486,709
Net income	7,954,425	6,591,390
Net income per share of common stock	$ 8.84	8.23

See accompanying notes to the consolidated financial statements

	2022	2021
Net income	$ 7,954,425	6,591,390
Other comprehensive income:		
Unrealized holding loss during the period on securities available-for-sale, net of deferred tax benefit of $10,879,116 and $1,170,174	(40,454,175)	(6,652,127)
Reclassification adjustment for net (loss) gain included in net income on securities available-for-sale, net of deferred tax (benefit) expense of ($125,474) and $598,112	(472,020)	2,250,041
Other comprehensive loss	(40,926,195)	(4,402,086)
Comprehensive (loss) income	$ (32,971,770)	2,189,304

First State Bancorp, Inc. and Subsidiary
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2022 and 2021

		Common Stock	Additional Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, January 1, 2021	$	5,178,533	1,800,000	-	50,765,992	5,532,033	63,276,558
Net income		-	-	-	6,591,390	-	6,591,390
Other comprehensive loss, net of tax		-	-	-	-	(4,402,086)	(4,402,086)
Purchase of 2,450 shares of treasury stock		-	-	(209,125)	-	-	(209,125)
Proceeds from sale of 2,450 shares of treasury stock		-	-	209,125	-	-	209,125
Issuance of new shares of common stock		9,694,849					9,694,849
Cash dividends declared ($1.72 per share)		-	-	-	(1,362,240)	-	(1,362,240)
Balance, December 31, 2021		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

See accompanying notes to the consolidated financial statements

		2022	2021
Operating activities:			
Net income	$	7,954,425	6,591,390
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of net premiums on securities, net		3,114,081	2,831,656
(Loss) gain on sale of investments		597,495	(2,848,154)
Gain on sale of loans		(185,954)	(1,121,948)
Proceeds from sale of mortgage loans		6,410,718	42,498,380
Loans disbursed for sale in the secondary market		(5,737,764)	(38,476,631)
Provision for (recovery of) loan losses		332,885	(545,868)
Loss (gain) on sale of other real estate owned		38,831	(43,579)
Depreciation expense		821,260	802,236
Gain on sale of fixed assets		(165,139)	(6,387)
Earnings on bank owned life insurance		(288,518)	(233,278)
Amortization of debt issuance costs		63,336	63,336
Amortization of intangible assets, goodwill and other assets		530,962	906,668
Payments to reduce lease liabilities		88,835	-
Deferred federal income tax		13,323	119,945
Changes in assets and liabilities:			
Accrued interest receivable		(758,677)	(211,284)
Other assets		178,779	(645,940)
Accrued interest payable		61,254	(191,119)
Other liabilities		(504,026)	403,084
Net cash provided by operating activities		12,566,106	9,892,507
Investing activities:			
Repayment of mortgage-backed securities		28,767,791	33,953,475
Proceeds from sale, call and maturities of securities available-for-sale		25,712,345	83,708,046
Purchases of securities available-for-sale		(104,390,281)	(220,072,550)
Maturities of interest bearing bank deposits		-	1,243,000
Purchase of securities held-to-maturity		(1,000,000)	(5,750,000)
Proceeds from sale, call and maturities of securities held-to-maturity		2,250,000	-
Net increase in loans		(62,438,569)	(20,413,217)
Capital expenditures		(816,913)	(1,023,900)
Change in value of equity securities		13,840	(25,555)
Proceeds from sale of other real estate owned		214,744	702,406
Proceeds from sale of fixed assets		667,788	413,076
Purchase of bank owned life insurance		-	(3,000,000)
Buy-back (purchase) of Federal Home Loan Bank stock		193,600	(285,800)
Acquisition, cash assumed, net		-	52,154,837
Net cash used in investing activities		(110,825,655)	(78,396,182)
Financing activities:			
Net increase in deposits		79,065,060	69,220,993
Repayments of FHLB advances		(10,065)	(10,055,866)
Dividends paid		(1,619,975)	(1,362,240)
Net proceeds from issuance of common stock		-	9,694,849
Purchase of treasury stock		(674,570)	(209,125)
Proceeds from sale of treasury stock		669,820	209,125
Net cash provided by financing activities		77,430,270	67,497,736
Change in cash and due from banks		(20,829,279)	(1,005,939)
Cash and due from banks, beginning of year		55,119,499	56,125,438
Cash and due from banks, end of year	$	34,290,220	55,119,499
Supplemental disclosures of cash flow information:			
Change in unrealized gain (loss) on securities	$	(51,805,311)	(5,572,260)
Real estate owned acquired through foreclosure	$	90,675	703,955
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	$	1,319,072	1,645,520
Interest	$	4,083,566	3,157,112

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 sixteen branches in Adams, Brown, Highland, Fayette, Clinton, and Hamilton 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.

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 loan losses. Actual results could differ from those estimates.

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.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or more likely than not will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized in the consolidated income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

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

The allowance consists of specific and general components. The specific component relates to loans individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current environmental factors.

A loan is impaired when, based on current information and events, it is probable the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all relevant circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

In situations where for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception including the probability of re-default. If a TDR is considered to be a collateral dependent loan, the loan is reported net, at the fair value of collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: current loan to value, current credit score, levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: residential real estate, commercial real estate, commercial and industrial and consumer. The Bank reviews the credit risk exposure of all its portfolio segments by internally assessing risk factors. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, and reduced credit availability.

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.

Community Holding Company and Inez Deposit Bank Acquisition
In February 2021, the Company acquired Community Holding Company and Inez Deposit Bank (Inez) which was headquartered in Inez, Kentucky by paying cash to the former stockholders. The acquisition was accounted for as a stock acquisition, which included all of the assets and liabilities of Inez. In accordance with GAAP, assets acquired and liabilities assumed were recorded at their fair values. Management measured loan fair values based on loan file reviews (including borrower financial statements or tax returns), appraised collateral values, expected cash flows at contractual interest rates and historical loss factors of Community Holding Company and Inez Deposit Bank. The net fair value adjustment to loans was immaterial to the overall financial statements. Real estate acquired through foreclosure was primarily valued based on appraised collateral values. The Company recorded a core deposit intangible asset of $854,000 based on management's calculation of the sum of the present value of future cash flows of the various deposits acquired. An interest rate adjustment on deposits of approximately $505,000 was recorded upon acquisition due to CD and IRA interest rates acquired being higher than existing CDs and IRAs originated by the Company. Purchase price accounting associated with the acquisition was as follows:

Cash consideration	$	13,784,906
Fair value of net assets acquired:		
Cash	$	65,939,743
Securities, available-for-sale		38,530,623
Loans receivable		41,213,011
Premises and equipment		2,226,007
Other assets		726,730
Intangible assets		854,000
Deposits		(135,608,117)
Other liabilities		(605,276)
Fair value of net assets acquired	$	13,276,721
Goodwill resulting from acquisition	$	508,185

Goodwill resulting from the acquisition will be amortized over ten years. Due to this being a stock acquisition, goodwill amortization is disallowed for tax purposes. The core deposit intangible will be amortized over the assumed average life of the core deposits. The CD adjustment will be accreted into income over the assigned 18-month life.

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 the branch acquisition 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 (in thousands) consists of the following:

	2022	2021
Goodwill, net – January 1	$ 1,464,557	1,243,752
Amortization expense	(295,849)	(287,380)
Goodwill from acquisition in 2021	-	508,185
Goodwill, net - December 31	$ 1,168,708	1,464,557

Intangible assets
Intangible assets consist of premiums paid for core deposits identified through fair value accounting of bank branches acquired in 2014, 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 (in thousands) consist of the following:

	2022	2021
Intangible assets, net - January 1	$ 596,842	29,308
Amortization expense	(235,113)	(286,466)
Core deposit intangible on acquisition in 2021	-	854,000
Intangible assets, net - December 31	$ 361,729	596,842

Accumulated amortization was $4,783,767 and $4,548,654 at December 31, 2022 and 2021, respectively.

Future amortization expense (in thousands) is as follows:

2023	$ 149,542
2024	97,300
2025	63,450
2026	36,200
2027	13,320
Thereafter	1,917
	$ 361,729

Accumulated amortization was $1,789,785 and $1,493,936 at December 31, 2022 and 2022, respectively.
Future net amortization expense (in thousands) is as follows:

2023	$ 295,849
2024	255,886
2025	242,562
2026	162,669
2027	50,818
Thereafter	160,924
	$ 1,168,708

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
Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale 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, 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

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, 2021:

Accumulated Other Comprehensive Loss Components	Reclassification Amount	Affected Line Item in the Consolidated Statements of Income
Unrealized losses on securities available-for-sale	$ 2,848,154	Net realized gain on sale of securities
	(598,113)	Federal income tax expense
Total reclassifications for the period	$ 2,250,041	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 $681,847 and $614,567 for the years ended December 31, 2022 and 2021, 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.

Reclassifications
Certain items in the prior year consolidated financial statements were reclassified to conform to the current year presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Subsequent events
The Company has evaluated subsequent events for recognition and disclosure through February 17, 2023, which is the date the consolidated financial statements were available to be issued.

As of January 1, 2023, the bank adopted ASU 2016-13, "Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)", 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 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 new standard will create a $707,495 debit (decrease) from capital, a $677,269 credit (increase) to the Allowance for Credit Losses, and a $30,266 credit (increase) to the Liability for Credit Losses on Unused Commitments

2. INVESTMENT SECURITIES:

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

	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

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
US Treasuries	$ 2,869	50	-	2,919
Mortgage-backed securities	133,065	418	1,234	132,249
Asset-backed securities	13,744	103	31	13,816
State and political subdivisions	183,083	3,150	1,026	185,207
Total	$ 332,761	3,721	2,291	334,191
Held-to-maturity:				
Qualified affordable housing	$ 864	-	-	864
Corporate bonds	11,000	68	60	11,008
Total	$ 11,864	68	60	11,872
Available for sale:				
Marketable equity securities	$ 41	47	-	88

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:

	2022		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
US Treasuries:				
Less than one year	$ -	-	-	-
One to five years	-	-	-	-
Five to ten years	7,834	6,765	2,869	2,919
Over ten years	-	-	-	-
Mortgage-backed securities:				
Less than one year	14,147	13,798	11,848	11,831
One to five years	113,328	106,361	60,892	60,702
Five to ten years	34,610	31,794	58,011	57,498
Over ten years	4,924	3,864	2,314	2,218
Asset-backed securities:				
Less than one year	735	713	-	-
One to five years	5,690	5,598	3,735	3,725
Five to ten years	6,085	5,916	10,009	10,091
Over ten years	-	-	-	-
State and political subdivisions:				
Less than one year	-	-	215	218
One to five years	-	-	2,675	2,811
Five to ten years	45,534	39,459	148,960	151,435
Over ten years	140,910	110,596	31,233	30,743
Corporate bonds:				
Less than one year	-	-	-	-
One to five years	1,000	1,002	-	-
Five to ten years	12,000	10,796	-	-
Over ten years	1,000	761	-	-
Total	$ 387,797	337,422	332,761	334,191
Held-to-maturity:				
Qualified affordable housing:	$ 1,776	1,776	864	864
Corporate bonds:				
One to five years	-	-	4,250	4,315
Five to ten years	-	-	5,250	5,196
Over ten years	-	-	1,500	1,497
Total	$ 1,776	1,776	11,864	11,872

At December 31, 2022 and 2021 investment securities with an amortized cost of $161,117,106 and $125,724,193 respectively, were pledged to secure public deposits and for other purposes as required or permitted by law. These securities had fair values of $137,000,421 and $127,963,427 at December 31, 2022 and 2021, respectively.

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

	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	

	2021					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Mortgage-backed Securities	$ 89,161	1,143	6,052	91	95,213	1,234
Asset-backed securities	4,769	23	1,146	8	5,915	31
States and political Subdivisions	81,172	1,017	1,003	9	82,175	1,026
Total	$ 172,102	2,183	8,201	108	183,560	2,291
Number of Investments	122		8		130	
Corporate bonds	$ 4,440	60	-	-	4,440	60
Number of Investments	7		-		7	

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 $1,776,385 and $864,291 at December 31, 2022 and 2021, respectively. The unfunded commitments at December 31, 2022 related to investments in qualified affordable housing projects are $1,114,992. The Bank's anticipates fulfilling these commitments as follows:

2023	$ 122,961
2024	632,231
2025	190,270
2026	39,149
2027	36,924
Thereafter	93,457
	$ 1,114,992

During 2022 and 2021, the Bank recognized tax credits in connection with its investment in qualified affordable housing projects of $115,000 and $63,000, respectively.

3. LOANS RECEIVABLE:

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

	2022	2021
Residential real estate:		
Construction	$ 4,456	4,222
Owner occupied	150,610	129,845
Non-owner occupied	49,859	44,485
Commercial real estate:		
Construction	13,673	12,135
Farmland	33,622	30,321
Nonfarm	130,655	98,843
Commercial and industrial	22,673	20,192
Consumer	31,973	35,653
Other	688	654
	438,209	376,350
Less allowance for loan losses	(4,732)	(4,888)
	$ 433,477	371,462

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.

Allowance for Loan Losses and Recorded Investment in Financing Receivables (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
Allowance for loan losses:										
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
Ending balance: Individually evaluated for impairment	$ -	92	-	-	-	-	-	-	2	94
Ending balance: Collectively evaluated for impairment	$ 45	1,623	492	134	328	1,357	216	419	24	4,638
Loans receivable:										
Ending balance	$ 4,456	150,610	49,859	13,673	33,622	130,655	22,673	31,973	688	438,209
Ending balance: Individually evaluated for impairment	$ -	287	-	-	241	-	855	80	2	1,465
Ending balance: Collectively evaluated for impairment	$ 4,456	150,323	49,859	13,673	33,381	130,655	21,818	31,893	686	436,744

Allowance for Loan Losses and Recorded Investment in Financing Receivables (in thousands)
December 31, 2021

	Residential Real Estate			Commercial Real Estate						
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	Commercial and Industrial	Consumer	Other	Total
Allowance for loan losses:										
Beginning balance	$ 67	1,693	528	95	315	1,580	356	929	10	5,573
Provision	(19)	(55)	(41)	35	8	(291)	(112)	(176)	105	(546)
Charge-offs	-	(34)	-	-	-	-	(10)	(204)	(167)	(415)
Recoveries	-	67	6	-	-	27	53	67	56	276
Ending balance	$ 48	1,671	493	130	323	1,316	287	616	4	4,888
Ending balance: Individually evaluated for impairment	$ -	113	-	-	-	-	-	-	2	115
Ending balance: Collectively evaluated for impairment	$ 48	1,558	493	130	323	1,316	287	616	2	4,773
Loans receivable:										
Ending balance	$ 4,222	129,845	44,485	12,135	30,321	98,843	20,192	35,653	654	376,350
Ending balance: Individually evaluated for impairment	$ -	445	-	-	-	-	769	58	2	1,274
Ending balance: Collectively evaluated for impairment	$ 4,222	129,400	44,485	12,135	30,321	98,843	19,253	35,595	652	374,906

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, 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

Credit Risk Profile by Internally Assigned Grade (in thousands)
December 31, 2021

	Residential Real Estate			Commercial Real Estate						
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	Commercial and Industrial	Consumer	Other	Total
Grade:										
Pass	$ 4,204	125,388	44,436	12,135	29,821	88,953	20,049	35,264	654	360,904
Special mention	-	1,457	49	-	470	8,543	20	134	-	10,673
Substandard	18	2,966	-	-	30	1,347	123	255	-	4,739
Doubtful	-	34	-	-	-	-	-	-	-	34
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 4,222	129,845	44,485	12,135	30,321	98,843	20,192	35,653	654	376,350

The following tables summarize loans by delinquency, nonaccrual status and impaired loans:

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	-

Age Analysis of Loans Receivable (in thousands)
December 31, 2021

	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	$ -	-	-	-	4,222	4,222	-	-
Owner occupied	706	394	323	1,423	127,461	129,845	1,673	-
Non-owner occupied	-	-	-	-	44,469	44,485	16	-
Commercial real estate:								
Construction	-	-	-	-	12,129	12,135	6	-
Farmland	-	-	-	-	30,321	30,321	-	-
Nonfarm	-	-	-	-	97,891	98,843	952	-
Commercial and industrial	-	-	122	122	20,064	20,192	128	-
Consumer	207	2	48	257	35,270	35,653	203	-
Other	34	-	24	58	595	654	58	-
Total	$ 947	396	517	1,860	372,422	376,350	3,036	-

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		-

Impaired Loans (in thousands)
December 31, 2021

	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	177	182	-	89	-
Non-owner occupied	-	-	-	-	-
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Nonfarm	-	-	-	-	-
Commercial and industrial	769	1,132	-	934	-
Consumer	58	58	-	29	-
Other	-	-	-	-	-
	$ 1,174	1,372	-		-
Loans with an allowance recorded:					
Residential real estate:					
Construction	$ -	-	-	-	-
Owner occupied	268	301	113	172	-
Non-owner occupied	-	-	-	-	-
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Nonfarm	-	-	-	151	-
Commercial and industrial	-	-	-	133	-
Consumer	-	-	-	-	-
Other	2	2	2	1	-
	$ 270	303	115		-
Total:					
Residential real estate:					
Construction	$ -	-	-		-
Owner occupied	445	483	113		-
Non-owner occupied	-	-	-		-
Commercial real estate:					
Construction	-	-	-		-
Farmland	-	-	-		-
Nonfarm	-	-	-		-
Commercial and industrial	769	1,132	-		-
Consumer	58	58	-		-
Other	2	2	2		-
	$ 1,274	1,675	115		-

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. There were no outstanding commitments to lend additional amounts to borrowers who have impaired loans at December 31, 2022.

Troubled Debt Restructurings

If a borrower is experiencing financial difficulty, the Bank may consider, 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 involve 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 result in an increase or decrease to the allowance for loan loss (ALLL) depending upon the terms modified, the method used to measure the ALLL 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:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Effect on ALLL upon Modification
		(Dollars in thousands)		
December 31, 2022:				
Troubled Debt Restructurings				
Residential real estate:				
Owner occupied	1	$ 19	26	-
December 31, 2021:				
Troubled Debt Restructurings				
Residential real estate:				
Owner occupied	3	$ 529	544	-

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 and 2021, the Bank had a recorded investment of $1,018,493 and $1,168,604 in TDRs, respectively. The Bank has not committed to lend additional amounts to these borrowers. No troubled debt restructurings subsequently defaulted as of December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, $198,021 and $169,064 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, 2022 and 2021 was $129,704,802 and $136,147,388, respectively. Custodial escrow balances maintained in connection with serviced loans (both sold and retained) were $1,063,204 and $1,056,176, 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, 2022 and 2021:

	2022	2021
Balance, beginning of the year	$ 744,379	711,154
Additions, net	262,248	366,047
Amortization	(153,234)	(332,822)
Balance, end of the year	$ 853,393	744,379

No impairment has been identified on the mortgage servicing assets and correspondingly, no valuation allowance has been recognized as of December 31, 2022 and 2021. The Bank recorded gains from sales of mortgage loans including associated servicing rights of $185,954 and $1,121,948 during 2022 and 2021, 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 the 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 $391,246 and $434,389 at December 31, 2022 and 2021, 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 ($8,857) and $45,652 in other income on the statements of operations during the years ended December 31, 2022 and 2021, respectively. The estimated LRA balance included in other assets on the consolidated balance sheets is $254,000 and $306,000 at December 31, 2022 and 2021, 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 $0 and $162,900 in real estate held for sale at December 31, 2022 and 2021, respectively. During 2022 and 2021, there were $130,859 and $122,201, respectively, in foreclosure losses charged-off to the allowance for loan losses. The Bank realized related gains (losses) of ($38,831) and $43,579 on disposal of foreclosed real estate during 2022 and 2021, respectively. Other real estate owned expenses recognized in other expenses during 2022 and 2021 were immaterial to consolidated financial statements.

5. PREMISES AND EQUIPMENT:

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

	2022	2021
Land	$ 3,704	3,896
Buildings	9,912	10,002
Equipment	6,146	5,763
Total	19,762	19,661
Accumulated depreciation	(8,124)	(7,516)
	11,638	12,145
Right-of-use assets	292	-
	$ 11,930	12,145

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.

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

At December 31, 2022, the scheduled maturity of lease liabilities is as follows:

2023	$ 118,249
2024	103,369
2025	67,802
2026	12,659
	302,079
Less imputed interest	(8,836)
Total lease liabilities	$ 293,243

6. DEPOSITS:

At December 31, 2022, the scheduled maturity of time deposits is as follows (in thousands):

Under one year	$ 74,276
One to three years	63,175
Three to five years	23,400
More than five years	667
	$ 161,518

Total non-interest bearing deposits were $145,268,940 and $151,707,466 at December 31, 2022 and 2021, respectively.

Time deposits of $250,000 or more were $39,921,670 and $9,082,303 at December 31, 2022 and 2021, 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, 2022 and 2021, the Bank had received approximately $9,322,189 and $12,333,255, 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, 2022 and 2021, the Bank had received approximately $98,139,000 and $45,324,000, 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 ADVANCES:

The Bank has fixed-rate advances of $171,797 and $181,862 at December 31, 2022 and 2021, respectively. The advances mature in various years through 2038. At December 31, 2022 and 2021 the interest rate on all fixed rate advances were 1.60%.

During 2022, 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, 2022 and 2021, respectively.

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

2023	$ 11
2024	10
2025	11
2026	11
2027	11
Thereafter	118
	$ 172

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.

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. FEDERAL INCOME TAXES:

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

	2022	2021
Current	$ 1,561	1,367
Deferred	13	120
Total	$ 1,574	1,487

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

	2022	2021
Federal income taxes computed at statutory rates	$ 2,001	1,687
Increase (decrease) in taxes resulting from:		
Tax exempt interest	(406)	(347)
Bank owned life insurance earnings	(61)	(49)
Nondeductible merger expenses	11	101
State income taxes, net of federal benefits	9	30
Other	20	65
Total	$ 1,574	1,487

The net deferred tax asset (liability) is recorded on the consolidated balance sheet at December 31, 2022 and 2021 and consists of the following (in thousands):

	2022	2021
Deferred tax assets:		
Net unrealized holding losses on securities	$ 10,579	-
Allowance for loan losses	892	872
Nonaccrual interest	14	30
Intangibles	304	331
Accrued retirement and director fees	200	-
Net operating loss carryforward	-	17
Deferred tax assets	11,989	1,250
Deferred tax liabilities:		
Net unrealized holding gains on securities	-	(300)
Property and equipment	(458)	(439)
FHLB stock dividends	(9)	(11)
Mortgage servicing rights	(164)	(136)
Deferred loan fees	(60)	-
Other	(79)	(11)
Deferred tax liabilities	(770)	(897)
Net deferred tax asset	$ 11,219	353

11. 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 $321,591 and $291,325 to the plan during each of the years ended December 31, 2022 and 2021, respectively.

12. COMMITMENTS AND CONTINGENT LIABILITIES:

In the normal course of business, the Bank has outstanding various commitments to extend credit. At December 31, 2022 and 2021, the Bank had approximately $49,209,000 and $54,626,000, 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 $20,350,000 and $20,110,000 at December 31, 2022 and 2021, 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, 2022, the Bank had $35,390,360 of loans outstanding for agricultural purposes or secured by agricultural property.

13. RELATED PARTY TRANSACTIONS:

Directors, officers and certain related parties had loans outstanding during the years ended December 31, 2022 and 2021. 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):

	2022	2021
Balance, beginning of year	$ 2,523	2,573
Loans originated	1,065	803
Repayments	(697)	(853)
New directors/officers	14	-
Balance, end of year	$ 2,905	2,523

The Bank held deposits for directors, officers and certain related parties of $2,105,673 and $1,916,867 at December 31, 2022 and 2021, respectively.

14. 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
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.

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, 2022:				
US Treasuries	$ 6,765	-	6,765	-
Mortgage-backed securities	155,818	-	155,818	-
Asset-backed securities	12,227	-	12,227	-
State and political subdivisions	150,055	-	150,055	-
Corporate bonds	12,558	-	12,558	-
December 31, 2021:				
US Treasuries	$ 2,919	-	2,919	-
Mortgage-backed securities	132,249	-	132,249	-
Asset-backed securities	13,816	-	13,816	-
State and political subdivisions	185,207	-	185,207	-

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, 2022:				
Impaired loans	$ 1,029	-	1,029	-
Real estate owned	-	-	-	-
Mortgage servicing rights	853	-	853	-
Lender risk account	254	-	254	-
December 31, 2021:				
Impaired loans	$ 1,274	-	1,274	-
Real estate owned	163	-	163	-
Mortgage servicing rights	744	-	744	-
Lender risk account	306	-	306	-

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.

15. 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, 2021, 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 2022 and 2021, 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, 2022 and 2021 are presented in the table below (dollars in thousands):

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%

December 31, 2021:

	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	$ 90,188	21.5%	$ 37,128	8.0%	N/A	
Bank	79,297	17.1%	37,098	8.0%	$ 46,373	10.0%
Tier I (Core) capital to risk-weighted assets:						
Consolidated	70,300	16.7%	25,202	6.0%	N/A	
Bank	74,409	16.0%	27,824	6.0%	37,098	8.0%
Tier I capital (to average assets)						
Consolidated	70,300	8.6%	32,646	4.0%	N/A	
Bank	74,409	9.2%	32,441	4.0%	40,552	5.0%
Tangible capital (to risk-weighted assets)						
Consolidated	70,300	16.7%	18,901	4.5%	N/A	
Bank	74,409	16.0%	20,868	4.5%	30,142	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, 2022, that the Bank could declare, without the approval of the Superintendent of Banks of the State of Ohio, amounted to $17,268,721.

16. 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, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

	2022	2021
Other income (loss):		
(Loss) gain on sale of other real estate owned	$ (38,831)	43,579
Service charges on deposit accounts	1,933,560	1,404,923
ATM service charges and other fees, net	1,818,628	1,919,645
	$ 3,713,357	3,368,147

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.

17. 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, 2022 and 2021, respectively:

Condensed Balance Sheets

		2022	2021
Assets:			
Cash and cash equivalents	$	2,549,493	10,310,739
Investment in First State Bank		51,504,698	77,906,586
Other assets		-	370,025
Total assets	$	54,054,191	88,587,350
Liabilities:			
Subordinated debt, net of debt issuance costs	$	14,852,215	14,788,879
Shareholders' Equity:			
Common stock	$	14,873,382	14,873,382
Additional paid-in capital		1,800,000	1,800,000
Retained earnings		62,329,579	55,995,142
Treasury stock		(4,750)	-
Accumulated other comprehensive income		(39,796,248)	1,129,947
Total shareholders' equity		39,201,976	73,798,471
Total liabilities and shareholders' equity	$	54,054,191	88,587,350

Condensed Statements of Income

		2022	2021
Dividend income from subsidiary	$	1,619,975	1,362,240
Income tax benefit		183,380	181,003
Interest expense		(850,836)	(850,835)
General and administrative expenses		(22,402)	(11,090)
		930,117	681,318
Equity in earnings of First State Bank		7,024,308	5,910,072
Net income	$	7,954,425	6,591,390

Condensed Statements of Cash Flows

		2022	2021
Operating activities:			
Net income	$	7,954,425	6,591,390
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary		(7,024,308)	(5,910,072)
Change in assets and liabilities:			
Other assets		370,025	(181,004)
Net cash provided by operating activities		1,300,142	500,314
Financing activities:			
Debt issuance costs		63,337	63,336
Investment in First State Bank		(7,500,000)	(14,164,029)
Proceeds from issuance of stock		-	9,694,849
Purchase of treasury stock, net		(4,750)	-
Cash dividends paid to shareholders		(1,619,975)	(1,362,240)
Net cash used by financing activities		(9,061,388)	(5,768,084)
Net change in cash		(7,761,246)	(5,267,770)
Cash – beginning of year		10,310,739	15,578,509
Cash – end of year	$	2,549,493	10,310,739

Banking Center Locations

Ohio

Winchester (headquarters)

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

Kentucky

Inez	Louisa	Warfield

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