2023 ANNUAL REPORT

we are

a market driven, people oriented
community banking organization dedicated to enhancing
shareholder value by providing our customers with
diversified financial services that help them achieve
economic success and financial security.

we will

pursue these goals while balancing shareholder
and customer interests with the ongoing welfare
of our employees and local communities.

The member banks of our group maintain
a high degree of independence and
sensitivity to the concerns of the local communities
and markets that we choose to serve.

we will

seek to expand sensibly into new markets
when we believe that our business model and
community banking philosophy can be successfully extended.

In summary:

"Community Building through Community Banking"

OUR **SHARED CULTURE** • OUR **SHARED VALUES**

MISSION

Community Building through Community Banking

VISION

Leverage the collective strengths of our banks to create customer loyalty, empower employees, and enhance value for our communities and shareholders

VALUES

Service Excellence, Integrity, Collaboration, Engagement, Innovation, Agility

FORESIGHT SUBSIDIARIES

State Bank of Davis

State Bank
Freeport, IL

SBH
State Bank of Herscher

German American
State Bank

Lena State Bank

northwestbank

www.foresightfg.com

Dear Stockholders,

We are happy to report that 2023 represented a third consecutive year of record earnings despite the significant challenges we faced during these turbulent economic times. We concluded the year with earnings of $14.5 million, a 6.75% increase over 2022 earnings. Asset quality remains strong and despite funding cost pressures throughout the year, a result of both Fed policy as well as an increasingly competitive banking landscape, our Net Interest Margin continued to drive results that were accretive to our bottom-line success. Year over year, Loans net of allowance for credit losses increased $115 million or 12.05%, Deposits increased $63 million or 4.85%, and Total Assets saw an increase of $97 million or 6.58%.

I am also pleased to report that the F2 (Future Forward) initiative, which began back in 2021 and included a number of significant projects and initiatives, not the least of which was the implementation of a shared services environment, has come to a successful conclusion. I would personally like to thank and recognize our amazing staff who have not only been the catalyst for the successful completion of these projects, but who also put in considerable time and effort above and beyond their regular duties. The teamwork and dedication exhibited was truly inspiring and you should all be enormously proud of these folks. That said, we do not plan to rest on our laurels and have already tagged 2024 for a total of twenty-seven new projects, ten of which are already underway, and most significantly includes our new digital banking initiative that will take Foresight to the next level of our overall digital strategy.

The sale of State Bank of Herscher as announced in July of 2022, had been expected to close during the second half of 2023. As reported in our announcement dated October 5, 2023, the Foresight Board, after careful consideration, decided to terminate the agreement. Despite best efforts on the part of both Foresight and the buyer it became increasingly clear that the probability of securing regulatory approval within the timelines as outlined in the July 19, 2022, agreement was unlikely the longer the process went on and as such our Board determined that it was in the best financial interests of our shareholders to terminate the proposed transaction. In retrospect, we continue to be confident this was the correct decision and are happy that the directors, officers, and staff of State Bank of Herscher will continue to be an important part of the Foresight bank group as well as a staunch supporter of the communities they serve.

On October 25, 2023, the Board of Directors was also pleased to announce the initiation of a program to repurchase $2 million in Foresight stock. Due to the success of that initial program, the repurchase of an additional $2 million was announced on February 20, 2024. These repurchases, in combination with other efforts to increase the organization's price per share, continue to be a priority of the Board and management to increase shareholder value. We are pleased to report that the stock price, which reached a low of $22.80 per share in November of 2023, has rebounded to $28.30 as of month-end February 2024, an increase of 24%. Based on the current market price of Foresight's common stock, which the Board continues to believe is significantly undervalued, stock repurchases as well as additional efforts the Board has identified are expected to provide results that are in the best interests of our shareholders.

Fiscal year 2023 will also serve as the final full year for two of Foresight Financials' longest serving and valued executive officers. EVP and CFO Dean Cooke and SVP and Chief Risk Officer Denise Osadjan will be retiring from their positions in 2024 after serving 27 and 33 years, respectively. The depth and breadth of their knowledge and experience will be sorely missed. We were incredibly happy to announce in January of 2024 that Brooke Crull joined Foresight as our new SVP and Chief Risk Officer. Brooke comes to us with a wealth of experience including 16 years with Wipfli LLP in the financial institutions area, most recently as a Senior Audit Manager. Brooke has already established herself as a valued Foresight team member.

I would be remiss if I failed to mention the loss of Jennifer Blumer who was brought on in September of 2023 to assume the duties of Dean Cooke as Foresight CFO. Jennifer passed away unexpectedly in January of 2024. Despite her brief time with us, Jennifer left an indelible impression and will be sorely missed. Dean Cooke has been gracious enough to extend his retirement plans to provide us an opportunity to resume a search for his replacement. We are all thankful for Dean's continued support and dedication to the Company.

Looking forward as we move further into 2024, we expect funding costs to continue to drive our Net Interest Margin, thus making 2024 a challenging year. We will closely monitor credit quality trends both industry wide as well as within our portfolio and react accordingly. Despite the economic challenges that we anticipate persisting, we look forward to a positive 2024.

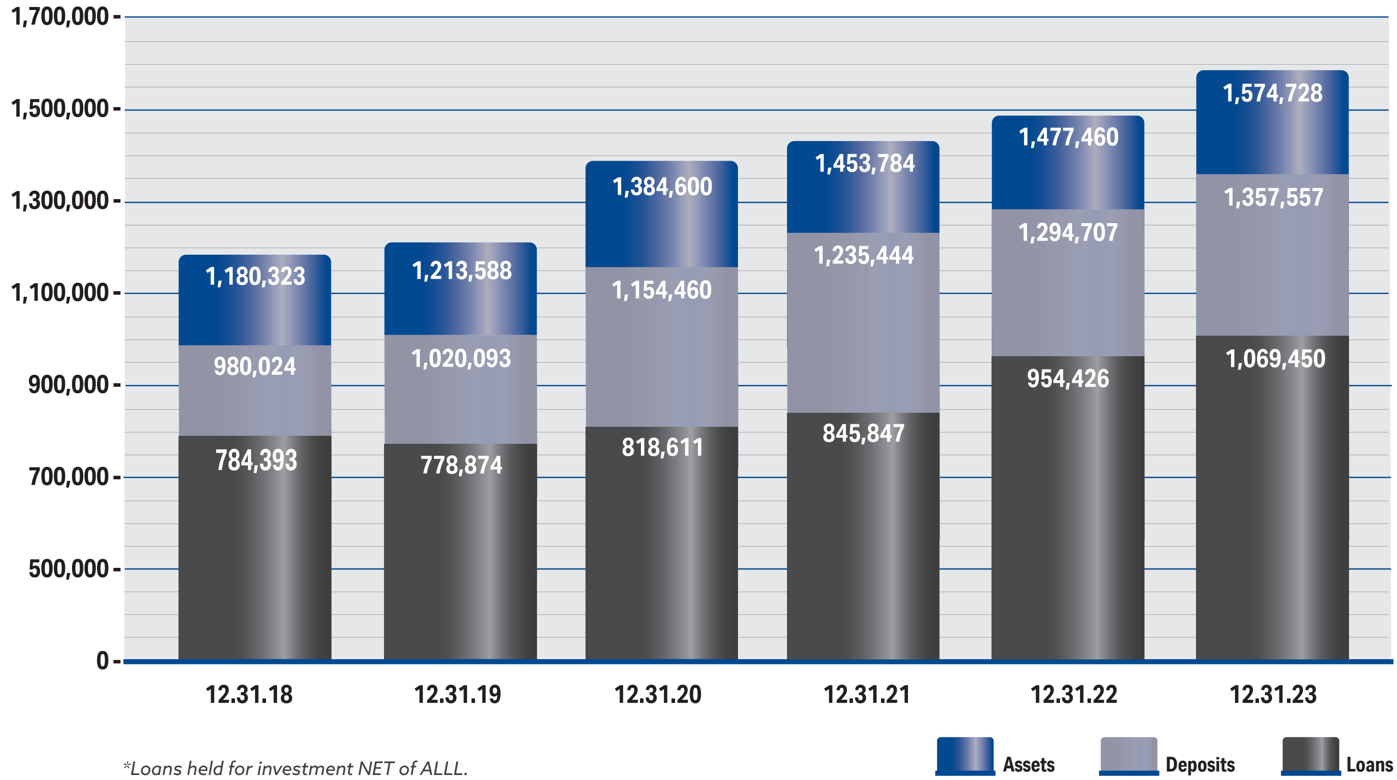
Foresight Financial community banks have a traditional, relationship-based business model that focuses on safety and soundness and service to the communities in which we reside. Community Building through Community Banking will continue to be who we are and as such will drive our efforts to achieve that goal while at the same time acting upon opportunities for increased market share and shareholder value as they present themselves.

Thank you for being a shareholder of Foresight Financial Group. It is through your support that we continue to realize the success we have achieved to date, and that which we strive for as we move into the future.

Respectfully,

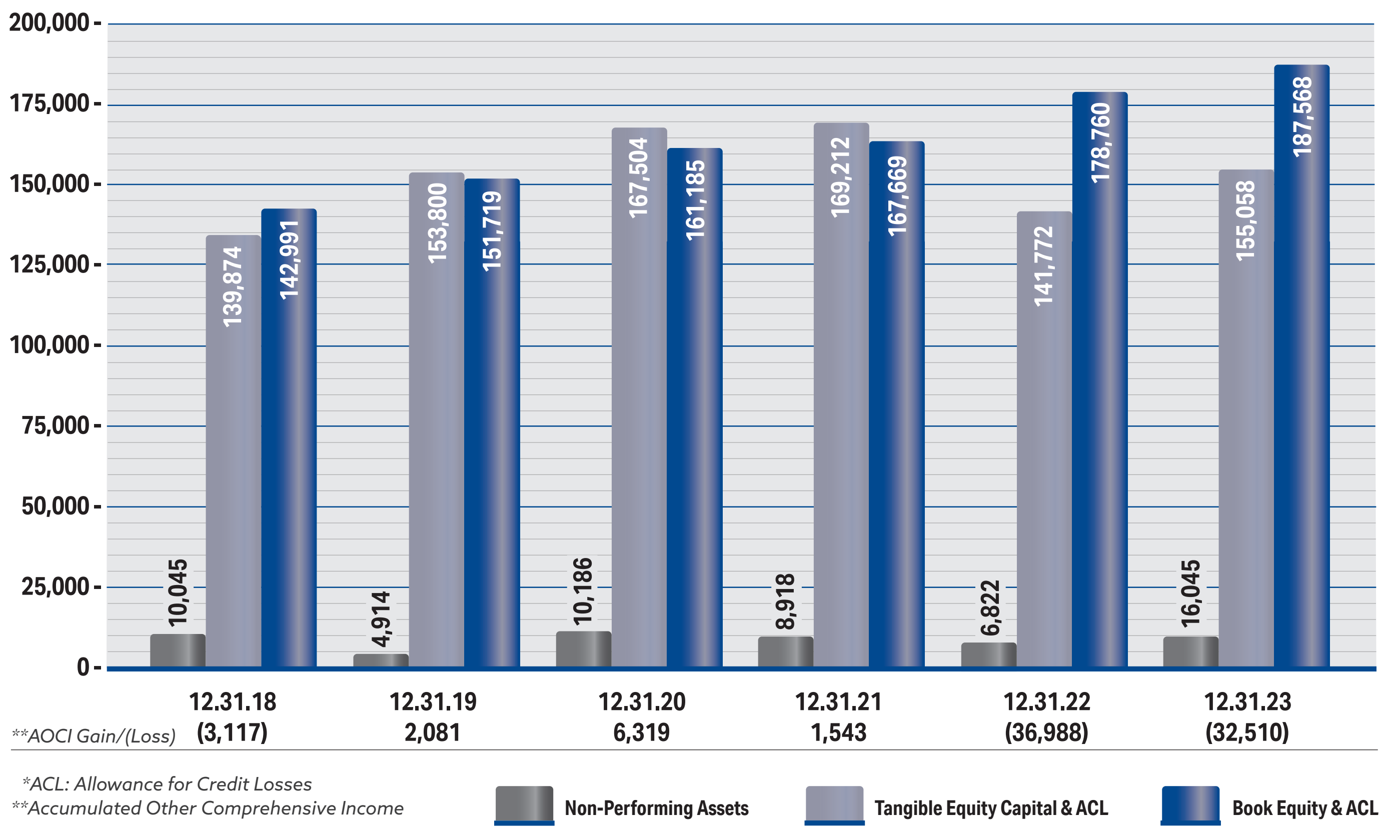
Peter Q. Morrison
President/Chief Executive Officer

Trends in Assets, Deposits & Loans (000's)



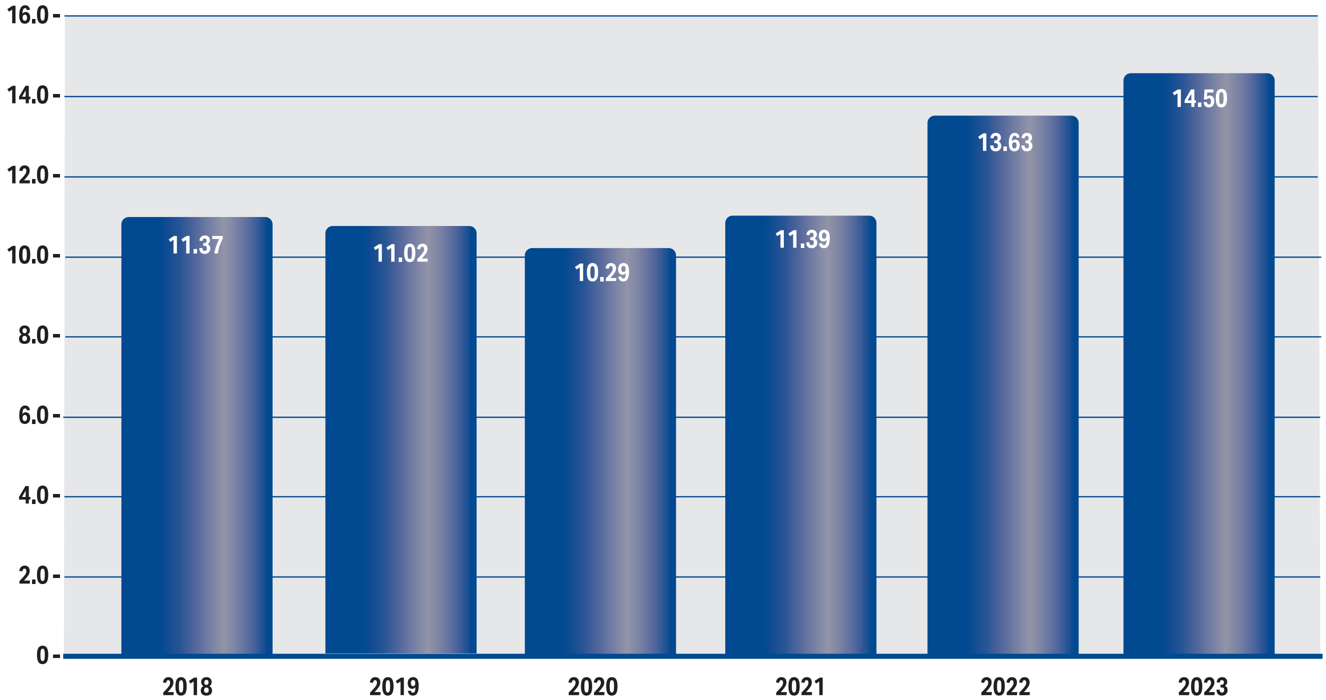
Loans held for investment NET of ALLL.

Trends in Combined Tangible Equity Capital & ACL* Book Equity Capital & ACL* to Non Performing Assets (000's)

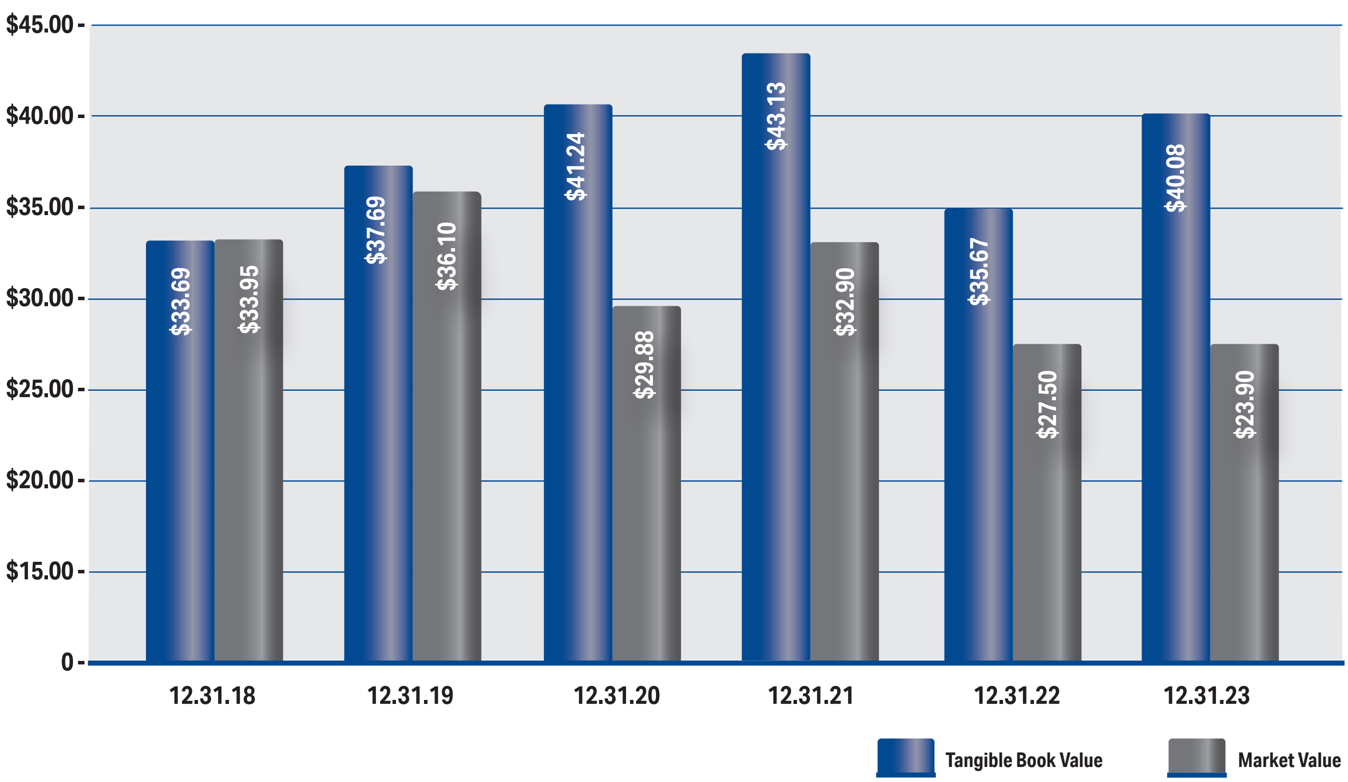


**ACL: Allowance for Credit Losses*
***Accumulated Other Comprehensive Income*

Net Income (1,000,000's)



Common Stock Per Share Tangible Book & Market Value - 12/31



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Independent Auditor's Report

To the Audit Committee and the Board of Directors
Foresight Financial Group, Inc.

Opinion

We have audited the consolidated financial statements (the "financial statements") of Foresight Financial Group, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and the results of its operations and its cash flows for the year 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 (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Company and to meet our 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, and ASU No. 2022-02, *Troubled Debt Restructurings and Vintage Disclosures*, as of January 1, 2023. Our opinion is not modified with respect to this matter.

Report on Prior Year Financial Statements

The financial statements of Foresight Financial Group, Inc. and its subsidiaries as of December 31, 2022 and 2021 were audited by other auditors, who expressed an unmodified opinion on those statements on March 8, 2023.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Plante & Moran, PLLC

March 12, 2024

Consolidated Balance Sheets

(000s omitted except share data)

December 31, 2023 and 2022

ASSETS	2023	2022
Cash and due from banks	**$22,168**	$28,354
Interest-bearing deposits in banks	**20,828**	7,975
Federal funds sold	**2,722**	7,493
Total cash and cash equivalents	**45,718**	43,822
Interest-bearing deposits in banks - term deposits	**4,511**	6,058
Debt securities:		
Debt securities available-for-sale (AFS)	**365,618**	391,334
Debt securities held-to-maturity (HTM)	**3,596**	4,076
Marketable equity securities and other investments	**5,718**	3,945
Loans held for sale	**990**	421
Loans, net of allowance for credit losses of $14,195 and $14,541, respectively	**1,069,450**	954,426
Foreclosed assets and other real estate owned, net	**-**	70
Premises and equipment, net	**17,525**	17,598
Bank owned life insurance	**24,644**	24,058
Other assets	**36,958**	31,652
Total assets	**$1,574,728**	$1,477,460

LIABILITIES AND STOCKHOLDERS' EQUITY	2023	2022
Liabilities:		
Deposits:		
Noninterest-bearing	**$256,205**	$276,055
Interest-bearing	**1,101,352**	1,018,652
Total deposits	**1,357,557**	1,294,707
Federal funds purchased	**1,153**	-
Securities sold under agreements to repurchase	**31,554**	36,298
Federal Home Loan Bank (FHLB) and other borrowings	**25,954**	7,366
Accrued interest payable and other liabilities	**17,647**	11,858
Total liabilities	**1,433,865**	1,350,229
Stockholders' equity:		
Preferred stock (no par value; authorized 500,000 shares)	**-**	-
Common stock ($.25 par value; authorized 10,000,000 shares; 4,080,304 and 4,071,494 shares issued, respectively)	**1,020**	1,018
Additional paid-in capital	**11,432**	11,138
Retained earnings	**174,826**	164,597
Treasury stock, at cost (569,079 and 509,079 shares, respectively)	**(13,905)**	(12,534)
Accumulated other comprehensive loss	**(32,510)**	(36,988)
Total stockholders' equity	**140,863**	127,231
Total liabilities and stockholders' equity	**$1,574,728**	$1,477,460

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

(000s omitted except share data)

December 31, 2023, 2022, and 2021

	2023	2022	2021
Interest and dividend income:			
Loans, including fees	**$59,919**	$42,990	$39,995
Debt securities:			
Taxable	**6,287**	6,117	4,276
Tax-exempt	**1,935**	2,518	2,599
Interest-bearing deposits in banks and other	**2,198**	646	508
Federal funds sold	**188**	190	1
Total interest and dividend income	**70,527**	52,461	47,379
Interest expense:			
Deposits	**19,802**	6,291	5,902
Federal funds purchased	**78**	38	-
Securities sold under agreements to repurchase	**668**	323	36
FHLB and other borrowings	**708**	136	211
Total interest expense	**21,256**	6,788	6,149
Net interest and dividend income	**49,271**	45,673	41,230
Provision for credit losses	**1,105**	552	756
Net interest and dividend income, after provision for credit losses	**48,166**	45,121	40,474
Noninterest income:			
Customer service fees	**1,155**	1,055	870
(Loss) gain on sales and calls of AFS securities, net	**(185)**	(246)	126
Gain on sale of loans, net	**611**	969	2,663
Loan servicing fees, net	**814**	1,978	1,334
Bank owned life insurance	**585**	580	554
ATM / interchange fees	**2,155**	2,126	2,063
Other	**2,421**	1,947	1,884
Total noninterest income	**7,556**	8,409	9,494
Noninterest expenses:			
Salaries and employee benefits	**22,627**	22,627	21,433
Occupancy expense of premises, net	**2,298**	2,312	2,292
Outside services	**1,311**	1,553	3,031
Data processing	**3,025**	3,040	2,737
Foreclosed assets and other real estate owned, net	**(43)**	(53)	(112)
Other	**7,384**	6,343	5,964
Total noninterest expenses	**36,602**	35,822	35,345
Income before income taxes	**19,120**	17,708	14,623
Income tax expense	**4,574**	4,082	3,237
Net income	**$14,546**	$13,626	$11,386
Earnings per common share:			
Basic	**$4.08**	$3.83	$3.11
Diluted	**$4.08**	$3.81	$3.09

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

(000s omitted except share data)

December 31, 2023, 2022, and 2021

	2023	2022	2021
Net income	**$14,546**	$13,626	$11,386
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available for sale, net of tax of $1,917, $15,292, & $1,868, respectively	**4,346**	(38,707)	(4,686)
Reclassification adjustments for net securities losses (gains) recognized in income, net of tax of $53, $70, & $36, respectively	**132**	176	(90)
Total other comprehensive income (loss)	**4,478**	(38,531)	(4,776)
Total comprehensive income (loss)	**$19,024**	$(24,905)	$6,610

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Equity

(000s omitted except share data)

December 31, 2023, 2022, and 2021

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance – January 1, 2021	$1,013	$10,513	$142,807	$(6,830)	$6,319	$153,822
Effect of change in accounting principle -						
Mortgage servicing rights (net of tax $101)	-	-	254	-	-	254
Net income	-	-	11,386	-	-	11,386
Other comprehensive loss	-	-	-	-	(4,776)	(4,776)
Cash dividends ($.42 per share)	-	-	(1,544)	-	-	(1,544)
Purchase of treasury stock (131,500 shares)	-	-	-	(4,172)	-	(4,172)
Stock-based compensation expense	-	16	-	-	-	16
Restricted stock vested (7,854 shares)	2	239	-	-	-	241
Balance – December 31, 2021	1,015	10,768	152,903	(11,002)	1,543	155,227
Net income	-	-	13,626	-	-	13,626
Other comprehensive loss	-	-	-	-	(38,531)	(38,531)
Cash dividends ($.54 per share)	-	-	(1,932)	-	-	(1,932)
Purchase of treasury stock (44,760 shares)	-	-	-	(1,532)	-	(1,532)
Stock-based compensation expense	-	25	-	-	-	25
Restricted stock vested (11,406 shares)	3	345	-	-	-	348
Balance – December 31, 2022	1,018	11,138	164,597	(12,534)	(36,988)	127,231
Effect of change in accounting principle -						
Adoption of ASU 2016-13	-	-	(2,029)	-	-	(2,029)
Net income	-	-	14,546	-	-	14,546
Other comprehensive income	-	-	-	-	4,478	4,478
Cash dividends ($.64 per share)	-	-	(2,288)	-	-	(2,288)
Purchase of treasury stock (60,000 shares)	-	-	-	(1,371)	-	(1,371)
Stock-based compensation expense	-	16	-	-	-	16
Restricted stock vested (8,810 shares)	2	278	-	-	-	280
Balance – December 31, 2023	$1,020	$11,432	$174,826	$(13,905)	$(32,510)	$140,863

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(000s omitted except share data)

December 31, 2023, 2022, and 2021

	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$14,546**	$13,626	$11,386
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Provision for credit losses	**1,105**	552	756
Foreclosed asset valuation losses	**-**	64	195
Depreciation	**1,098**	1,106	1,053
Net amortization of securities premiums	**2,160**	3,019	4,570
Originations of loans held-for-sale	**(21,310)**	(39,073)	(89,783)
Proceeds from sales of loans held-for-sale	**21,184**	41,631	92,511
Net gains on sales of mortgage loans	**(443)**	(725)	(2,136)
Income on bank owned life insurance	**(585)**	(547)	(504)
Gain on death benefits	**-**	(33)	(50)
Deferred income tax expense (benefit)	**292**	115	(86)
Stock-based compensation expense	**16**	25	16
Restricted stock expense	**280**	348	241
Net loss (gain) on the sales and calls of AFS securities	**185**	246	(126)
Net gain on the sales of foreclosed assets	**(43)**	(262)	(121)
Change in mortgage servicing rights	**(67)**	(1,208)	(523)
Net change in:			
Other assets	**(6,507)**	(270)	(878)
Accrued interest payable and other liabilities	**5,796**	1,463	2,138
Net cash provided by operating activities	**$17,707**	$20,077	$18,659
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in interest-bearing deposits in banks - term deposits	**1,547**	6,140	3,086
Proceeds from sales of AFS securities	**13,501**	10,348	16,899
Proceeds from maturities, call, and paydowns of AFS securities	**25,707**	45,029	115,632
Proceeds from maturities, call, and paydowns of HTM securities	**510**	345	340
Purchases of AFS securities	**(9,604)**	(64,023)	(219,357)
Purchases of bank owned life insurance	**-**	(930)	-
Proceeds from death benefits of bank owned life insurance	**-**	662	938
(Purchase) redemption of marketable equity securities, net	**(1,773)**	(1,678)	(975)
Loan originations and principal collections, net	**(119,588)**	(109,201)	(28,059)
Proceeds from sale of foreclosed assets	**733**	237	266
Purchases of premises and equipment, net	**(1,025)**	(1,573)	(455)
Net cash used in investing activities	**(89,992)**	(114,644)	(111,685)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	**62,843**	59,263	80,984
Net change in securities sold under agreements to repurchase	**(4,744)**	1,189	3,960
Cash dividends paid	**(2,288)**	(1,932)	(1,544)
Net change in federal funds purchased	**1,153**	(533)	(1,591)
Purchase of treasury stock	**(1,371)**	(1,532)	(4,172)
Proceeds from FHLB and other borrowings	**64,441**	18,950	5,000
Payments on FHLB and other borrowings	**(45,853)**	(28,660)	(22,712)
Net cash provided by financing activities	**74,181**	46,745	59,925
Net Increase (Decrease) in cash and cash equivalents	**1,896**	(47,822)	(33,101)
Cash and cash equivalents at beginning of year	**43,822**	91,644	124,745
Cash and cash equivalents at end of year	**$45,718**	$43,822	$91,644

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(000s omitted except share data)

December 31, 2023, 2022, and 2021

	2023	2022	2021
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for:			
Interest	**$19,940**	$6,505	$6,441
Taxes	**$3,600**	$2,882	$3,109
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES:			
Foreclosed assets acquired in settlement of loans	**$620**	$70	$67

See Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

The accounting and reporting principles of Foresight Financial Group, Inc. (Company) and its wholly-owned subsidiaries (Banks) conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The following is a description of the more significant accounting policies:

(a) Nature of Operations

The Company provides a variety of banking services to individuals and businesses through its facilities in the Rockford, Freeport, German Valley, Davis, Lena, Winnebago, Pecatonica, Kankakee, Loves Park, Machesney Park, Belvidere, and Herscher, Illinois areas. Its primary deposit products are demand deposits and certificates of deposit and its primary lending products are agriculture, agribusiness, commercial, real estate, and installment loans.

(b) Basis of Consolidation

The financial statements include the accounts and results of operations of the Company and its wholly-owned subsidiaries: German-American State Bank (German), State Bank of Davis (Davis), State Bank (Freeport), Northwest Bank of Rockford (Northwest), Lena State Bank (Lena), and State Bank of Herscher (Herscher) (collectively the “Banks”). All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 12, 2024, which is the date the financial statements were available to be issued.

(d) Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The allowance for credit losses, deferred tax assets, fair values of securities, foreclosed assets and financial instruments are particularly susceptible to change in the near-term.

(e) Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in banks, and federal funds sold, all of which generally mature within ninety days.

(f) Interest-bearing Deposits in Banks

Interest-bearing deposits in banks are comprised of liquid non-maturing deposits but also include some balances in time deposits with the maturity being the determining factor for inclusion in cash and cash equivalents with the non-maturing interest-bearing deposits. Interest-bearing deposits in banks are carried at cost.

(1) Summary of Significant Accounting Policies (continued)

(g) Debt Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity (HTM) and recorded at amortized cost. Securities not classified as HTM are classified as available for sale (AFS) and recorded at fair value, with unrealized gains or losses excluded from earnings and reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Effective January 1, 2023, the Company uses a current expected credit loss ("CECL") model to estimate the allowance for credit losses on securities held to maturity. The CECL model considers historical loss rates and other qualitative adjustments, as well as a new forward-looking component that considers reasonable and supportable forecasts over the expected life.

Management believes the Company will collect all amounts owed on securities held to maturity which are issued by highly rated municipalities or local municipalities with which the Company holds significant banking relationships. Management evaluates municipal securities held to maturity using a probability of default method. The probability of default method estimates the probability a security with a certain credit rating or issuer characteristics will default during its remaining contractual term (probability of default) and how much loss is expected to be incurred if a security defaults (loss given default rate). The Company obtains information from our historical loss rate to estimate the probability of default for each credit rating based on the remaining term of the security and the loss given default rate with the exception of certain immaterial held to maturity securities.

The past due status of each security is based on the contractual terms of the security. The accrual of interest on a security is discontinued when the security becomes 90 days delinquent or whenever management believes the issuer will be unable to make payments as they become due. When securities are placed on nonaccrual status, all unpaid accrued interest is reversed against interest income. The Company excludes accrued interest receivable from the amortized cost basis of securities held to maturity when estimating credit losses and when presenting required disclosures in the financial statements. There was $6 and $7 of accrued interest receivable on held to maturity securities as of December 31, 2023 and 2022, respectively.

The Company conducts periodic reviews of available-for-sale securities with declines in fair value below their cost to evaluate for potential impairment. In evaluating available-for-sale securities for potential impairment, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. If the Company determines that it is more likely than not that it will sell the security before recovery of its amortized cost basis, the Company will record an allowance for credit losses related to securities available-for-sale with an offsetting entry to the provision for credit losses on securities on the statement of operations.

Prior to the adoption of ASU 2016-13 (CECL) on January 1, 2023, the Company evaluated its available for sale securities in accordance with the methodology specified in the preceding paragraph except that the credit portion of the impairment would reduce the amortized cost basis of the security.

(1) Summary of Significant Accounting Policies (continued)

(h) Marketable Equity Securities and Other Investments

Marketable equity securities have a readily determinable fair value and are measured at fair value with changes in fair value reported in net income. Gains and losses on the sale of marketable equity securities are recorded on the trade date and determined using the specific-identification method.

Other investments include equity securities without a readily determinable fair value which consists primarily of Federal Home Loan Bank (FHLB) stock and a participating interest in an energy LLC. The Company has elected to account for equity securities without readily determinable fair values using the alternative measurement method. Under this method, those securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. The Company is required to hold FHLB stock as a member of the FHLB and transfer of the stock is substantially restricted. The FHLB stock is pledged as collateral for outstanding FHLB advances. FHLB stock is evaluated for impairment on an annual basis.

(i) Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or market in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Realized gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

(j) Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff; generally, are reported at their outstanding unpaid principal balances adjusted for purchase premiums or discounts, charge-offs, and an allowance for credit losses. Interest on loans is accrued daily based on the unpaid principal balance.

A loan is considered to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. The accrual of interest on a loan is generally discontinued when the loan becomes 90 days delinquent unless the credit is well-secured and in the process of collection. Credit card loans and other personal loans are typically charged off at an earlier date if collection of principal or interest is considered doubtful. Generally, interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan-origination fees and direct origination costs are generally recognized as income or expense when received or incurred since capitalization of these fees and costs would not have a significant impact on the financial statements.

(1) Summary of Significant Accounting Policies (continued)

(k) Allowance for Credit Losses and Unfunded Commitments

The allowance for credit losses (ACL) on loans is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Company's loan portfolio. The ACL on loans is established through provisions for credit losses charged against earnings. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the ACL on loans, and subsequent recoveries, if any, are credited to the ACL on loans.

Effective January 1, 2023, the Company uses a current expected credit loss ("CECL") model to estimate the ACL on loans. The CECL model considers historical loss rates and other qualitative adjustments, as well as a new forward-looking component that considers reasonable and supportable forecasts over the expected life of each loan. To develop the ACL on loans estimate under the CECL model, the Company segments the loan portfolio into loan pools based on loan type and similar credit risk elements; performs an individual evaluation of certain collateral dependent and other credit-deteriorated loans; calculates the historical loss rates for the segmented loan pools; applies the loss rates over the calculated life of the collectively evaluated loan pools; adjusts for forecasted macro-level economic conditions and other anticipated changes in credit quality; and determines qualitative adjustments based on factors and conditions unique to the Company's loan portfolio.

Management considers the following when assessing the risk in the loan portfolio segments:

- Residential real estate loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt-to-income and credit scores. Appraisals are generally obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate sufficiency of cash flows to service debt at the time of origination.

- Agricultural and commercial real estate loans are dependent on the industries tied to these loans. Agricultural real estate loans are primarily for land acquisition. Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, retail shopping facilities and various special purpose properties, including hotels and restaurants. Financial information is obtained from the borrowers and/or the individual project to evaluate sufficiency of cash flows to service debt; and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market, such as geographic location and/or property type.

- Commercial and agricultural loans are primarily for working capital, physical asset expansion, asset acquisition loans and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate sufficiency of cash flows to service debt and is periodically updated during the life of the loan.

- Consumer and other loans may take the form of installment loans, demand loans, or single payment loans and are extended to individuals for household, family, and other personal expenditures. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt-to-income and credit score.

Under the CECL model, loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates.

(1) Summary of Significant Accounting Policies (continued)

(k) Allowance for Credit Losses and Unfunded Commitments (continued)

Management evaluates all collectively evaluated loan pools using the weighted average remaining life ("remaining life") methodology. The remaining life methodology applies calculated quarterly net loss rates to collectively evaluated loan pools on a periodic basis based on the estimated remaining life of each pool. The estimated losses under the remaining life methodology are then adjusted for qualitative factors deemed appropriate by management.

The estimated remaining life of each pool is determined using quarterly, pool-based attrition measurements using the Company's loan-level historical data. The Company's historical call report data is utilized for historical loss rate calculations, and the lookback period for each collectively evaluated loan pool is determined by management based upon the estimated remaining life of the pool. Forecasted historical loss rates are calculated using the Company's historical data based on the lookback and forecast period inputs by management.

The quantitative analysis described above is supplemented with other qualitative factors based on the risks present for each collectively evaluated loan pool. These qualitative factors include: levels of and trends in delinquencies and nonaccrual 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.

In addition to the ACL on loans, the Company maintains a reserve for unfunded loan commitments at a level that management believes is adequate to absorb estimated probable credit losses over the contractual terms of the Company's noncancellable loan commitments. The reserve for unfunded loan commitments, which is included in accrued interest payable and other liabilities on the accompanying Consolidated Balance Sheets, is established through provisions for credit losses charged against earnings.

Unfunded loan commitments are segmented into the same pools used for estimating the ACL on loans. Estimated credit losses on unfunded loan commitments are based on the same methodology, inputs, and assumptions used to estimate credit losses on collectively evaluated loans, adjusted for estimated funding probabilities. The estimated funding probabilities represent management's estimate of the amount of the current unfunded loan commitment that will be funded over the remaining contractual life of the commitment and is based on historical data.

The Company may modify loans to borrowers experiencing financial difficulty and grant certain concessions that include principal forgiveness, a term extension, an other-than-insignificant payment delay, an interest rate reduction, or a combination of these concessions. An assessment of whether the borrower is experiencing financial difficulty is made at the time of the loan modification.

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

Prior to the implementation of ASU 2016-13 (CECL) on January 1, 2023, the ACL was subject to the guidance included in ASC 310 and ASC 450. Under that guidance, the Company was required to use an incurred loss methodology to estimate credit losses that were estimated to be incurred in the loan portfolio and that could ultimately materialize into confirmed losses in the form of charge-offs. The incurred loss methodology was a backward-looking approach to loss recognition and based on the concept of a triggering event having taken place, causing a loss to be inherent within the portfolio. Additionally, loans that were identified as impaired under the definition of ASC 310, were required to be assessed on an individual basis. The ACL and resulting provision expense levels for comparative periods presented were estimated in accordance with these requirements.

(1) Summary of Significant Accounting Policies (continued)

(k) Allowance for Credit Losses and Unfunded Commitments (continued)

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

The allowance consisted of specific and general components. The specific component related to loans that were individually classified as impaired. A loan was impaired when, based on current information and events, it was probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms had been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, were considered troubled debt restructurings (TDRs) and classified as impaired.

Factors considered by management in determining impairment included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the 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.

All problem loans meeting Company criteria were individually evaluated for impairment. If a loan was impaired, a portion of the allowance was allocated so that the loan was reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected from the collateral.

TDRs were individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs were measured at the present value of estimated future cash flows using the loan’s effective rate at inception. If a TDR was considered to be a collateral dependent loan, the loan was reported, net, at the fair value of the collateral. For TDRs that subsequently defaulted, the Company determined the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component covered loans that were collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, were collectively evaluated for impairment, and accordingly, they were not included in the impairment disclosures. The general allowance component also included loans that were not individually identified for impairment evaluation, such as commercial loans below the individual evaluation threshold, as well as those loans that are individually evaluated but were not considered impaired.

The general component was based on historical loss experience adjusted for current qualitative factors. The historical loss experience was determined by portfolio segment or loan class and was based on the actual loss history experienced by the Company. This actual loss experience was supplemented with other economic factors based on the risks present for each portfolio segment or loan class. These economic factors included: 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 employees; national and economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

(1) Summary of Significant Accounting Policies (continued)

(l) Loan Commitments

The Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit issued to meet customer-financing needs. Loan commitments are recorded when they are funded. Standby or performance letters of credit are considered financial guarantees in accordance with Generally Accepted Accounting Standards and are recorded at fair value if material.

(m) Loan Servicing

The Company services mortgage loans it sells to third-party institutions. Servicing loans includes collecting monthly principal and interest payments from borrowers, passing such payments through to the third-party investors, and maintaining escrow accounts for taxes and insurance. When necessary, the Company also performs collection functions for delinquent loan payments, handles loan foreclosure proceedings, and disposes of foreclosed property. The Company generally earns a servicing fee of 25 basis points on the outstanding loan balance for performing these services as well as fees and interest income from ancillary sources, such as late fees and float.

(n) *Rate Lock Commitments*

Commitments to fund mortgage loans (interest-rate lock) to be sold into the secondary market and mandatory delivery forward commitments for the future delivery of these mortgage loans are to be accounted for as derivatives not qualifying for hedge accounting. The fair values of these mortgage derivatives are to be estimated based on the net future cash flows related to the associated servicing of the loans and on changes in mortgage interest rates from the date of the commitments. Changes in fair values on these derivatives are to be included in net gains on sales of loans. The Company has deemed the effect of these derivatives to be immaterial to the financial statements, and, accordingly, has elected not to record fair values associated with these derivatives.

(o) *Foreclosed Assets and Other Real Estate Owned*

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated cost of disposal when acquired. Subsequent to foreclosure and transfer to other real estate owned, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenues and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets and other real estate owned.

(p) *Premises and Equipment*

Premises and equipment are carried at cost less accumulated depreciation, based on the estimated useful lives of the assets. Depreciation is generally computed on the straight-line method over estimated useful lives ranging from 3 to 40 years as indicated below:

3 – 5 Years	Technology equipment (computers, copiers, etc.), company vehicles
5 – 10 Years	Furnishings, building infrastructure and major repairs, security technology
10 – 20 Years	Remodeling / updates of existing facilities, parking lots
20 – 40 Years	Major facility renovations, building expansions, new facilities

(q) *Bank-Owned Life Insurance*

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

(1) Summary of Significant Accounting Policies (continued)

(r) *Significant Group Concentrations of Credit Risk*

Most of the Company's activities are with customers located in the area and communities noted above. Note 3 details the type of securities in which the Company invests. Note 4 details the types of lending in which the Company engages. The Company does not have any significant concentrations with any one industry or customer.

(s) *Revenue from Contracts with Customers*

The core revenue recognition principle requires the Company to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration to which the Company expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The guidance includes a five-step model to apply to revenue recognition, consisting of the following: (1) identify the contract with a customer; (2) identify the performance obligations within the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations within the contract; and (5) recognize revenue when the performance obligations are satisfied.

The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying revenue recognition that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The following significant revenue-generating transactions are within the scope of revenue recognition, which are presented in the statements of income as components of noninterest income:

Customer service fees – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, such as statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly service charges and maintenance fees, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation.

Interchange fees – Customers use a bank-issued debit card to purchase goods and services, and the Company earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Company is considered an agent with respect to these transactions. Interchange fee payments received included in other noninterest income, net of related expense, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Company that could be subject to a claw-back in future periods.

Trust fees – The Company earns trust fees, included in other noninterest income, from its contracts with trust customers for providing investment management and/or transaction-based services on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are assessed based on the total investable assets of the customer's trust account. A signed contract between the Company and the customer is maintained for all customer trust accounts with payment terms identified. There are no contingent incentive fees recorded by the Company that could be subject to a claw-back in future periods.

(1) Summary of Significant Accounting Policies (continued)

(s) *Revenue from Contracts with Customers (continued)*

Insurance commissions – Insurance agency commissions, included in other noninterest income, are received from insurance carriers for the agency's share of commissions from customer premium payments. These commissions are recorded into income when checks are received from the insurance carriers, and there is no contingent portion associated with these commission checks that may be clawed back by the carrier in the future. There may be a short time-lag in recording revenue when cash is received instead of recording the revenue when the policy is signed by the customer, but the time lag is insignificant and does not impact the revenue recognition process. The Company has evaluated the potential amount of premium refunds due to customers when policies are cancelled and has determined such amounts are insignificant.

(t) *Income Taxes*

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. The Company files consolidated Federal and State income tax returns.

At December 31, 2023 and 2022, the Company evaluated tax positions taken for filing with the Internal Revenue Service and all state jurisdictions in which it operates. The Company believes that income tax filing positions will be sustained under examination and does not anticipate any adjustments that would result in a material adverse effect on the Company's financial condition, results of operations, or cash flows. Accordingly, the Company has not recorded any reserves or related accruals for interest and penalties for uncertain tax positions at December 31, 2023 and 2022.

(u) *Comprehensive Income (Loss)*

Accounting principles generally require the Company to include in net income recognized revenue, expenses, gains and losses. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheets, net of taxes. Such items, along with net income, are components of comprehensive income.

(v) *Earnings Per Share*

Basic earnings per share (EPS) represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

(w) *Loss Contingencies*

Loss contingencies, including claims and legal actions arising from time to time in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that could have a material effect on the financial statements.

(1) Summary of Significant Accounting Policies (continued)

(x) *Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(y) *Trust Assets*

Assets of the trust departments of State Bank and State Bank of Herscher, other than trust cash on deposit at the Banks, are not included in these financial statements because they are not assets of the Company.

(z) *Securities Sold Under Agreements to Repurchase*

Securities sold under agreements to repurchase liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

(aa) *Stock Compensation Plans*

The Company records the cost of stock-based employee compensation using the fair-value method. Compensation expense for share-based awards is recorded over the vesting period at the fair value of the award at the time of grant. The Company has historically assumed no projected forfeitures on its stock based compensation, since forfeitures have not been significant.

(bb) *Advertising*

Advertising costs are expensed as incurred.

(cc) *Reclassifications*

Certain amounts in the 2021 and 2022 financial statements have been reclassified to conform to the 2023 presentation.

(dd) *New Accounting Pronouncements*

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* - This standard significantly changes how financial assets measured at amortized cost are presented. Such assets, which include most loans and securities held to maturity, are presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The standard also changes the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. As a result of the adoption of the ASU, the Company recorded a reduction to retained earnings of $2,029 as of January 1, 2023, as a cumulative effect of change in accounting principle. The transition adjustment included an increase to the ACL on loans of $2,452, the recording of the unfunded commitment liability of $387, and a corresponding increase in deferred tax assets of $810. Results for the year ended December 31, 2023, are presented under Accounting Standards Codification (ASC) 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards generally accepted in the United States (US GAAP).

(000s omitted except share data)

(1) Summary of Significant Accounting Policies (continued)

(dd) *New Accounting Pronouncements (continued)*

ASU No. 2022-02, *Troubled Debt Restructurings and Vintage Disclosures, Topic 326 (Financial Instruments-Credit Losses)* – This standard eliminates the recognition and measurement guidance for troubled debt restructurings by creditors under ASC Subtopic 310-40, *Receivables-Troubled Debt Restructurings by Creditors*, and, instead, requires the Company to evaluate (consistent with other loan modification accounting standards) whether a loan modification represents a new loan or a continuation of an existing loan. The amendments enhance existing disclosure requirements, and introduce new requirements related to certain modifications of loans made to borrowers experiencing financial difficulty. ASU 2022-02 also requires that public business entities disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases within the scope of ASC Subtopic 326-20, *Financial Instruments-Credit Losses-Measured at Amortized Cost*. The Company adopted ASU No. 2022-02 on January 1, 2023, on a prospective basis. See Note 4 for new disclosures related to the new accounting standard.

(2) Cash Equivalents and Interest-Bearing Deposits

Effective March 12, 2021, the Federal Reserve's board of directors approved the final rule reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined timeframe and may be revised by the Federal Reserve's board in the future.

In the normal course of business, the Company maintains cash and due from bank balances in accounts with correspondent banks. Balances in these accounts may exceed the Federal Deposit Insurance Corporation's (FDIC) insured limit of $250. These financial institutions have strong credit ratings and that credit risk related to these deposits is not material.

Interest-bearing deposits consist of certificates of deposit at other financial institutions. Certificates of deposit are in denominations of $250 or less and are fully insured by the FDIC.

Maturities of certificates of deposits at other financial institutions as of December 31, 2023 are as follows:

2024	$2,327
2025	1,437
2026	747
2027 and thereafter	-
	$4,511

(000s omitted except share data)

(2) Debt Securities

The following tables reflect the amortized costs and approximate fair values of securities at December 31:

Held-to-Maturity 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and municipal	$3,596	$ -	$(231)	$3,365

Held-to-Maturity 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State and municipal	$4,076	$4	$(246)	$3,834

Available-for-Sale 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored entities and U.S. agencies	$129,106	$8	$(12,685)	$116,429
State and municipal	110,943	130	(9,600)	101,473
Agency mortgage-backed	169,542	9	(23,390)	146,161
Corporate debt securities	1,499	56	-	1,555
	$411,090	$203	$(45,675)	$365,618

Available-for-Sale 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored entities and U.S. agencies	$123,066	$4	$(15,140)	$107,930
State and municipal	130,888	146	(12,499)	118,535
Agency mortgage-backed	189,115	-	(24,246)	164,869
	$443,069	$150	$(51,885)	$391,334

(000s omitted except share data)

(3) Debt Securities (continued)

For the years ended December 31, 2023, 2022 and 2021, proceeds from sales of available-for-sale securities amounted to $13,501, $10,348 and $16,899, respectively. Gross realized gains and losses from the sales and calls of available-for-sale securities for the years ended December 31 are as follows:

	2023	2022	2021
Realized gains	**$32**	$170	$211
Realized losses	**(217)**	(416)	(85)

Securities with carrying amounts of approximately $264,449 and $217,957 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The amortized costs and estimated fair values of securities at December 31, 2023 are shown below by contractual maturities, except for U.S. agencies which are shown by contractual maturities or their expected call dates if the call dates are considered likely to occur based on present market conditions. Expected maturities may differ from contractual maturities on mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Held-to-Maturity	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$356	$346
Due after one year through five years	1,998	1,887
Due after five years through ten years	1,242	1,132
Due after ten years	-	-
	$3,596	$3,365

Available-for-Sale	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$11,771	$11,732
Due after one year through five years	80,066	75,472
Due after five years through ten years	88,047	78,009
Due after ten years	61,664	54,244
	241,548	219,457
Agency mortgage-backed	169,542	146,161
	$411,090	$365,618

(000s omitted except share data)

(3) Debt Securities (continued)

The following tables show the fair values and unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2023 and 2022:

2023
Held-to-Maturity

	Less Than 12 Months			12 Months or Greater		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
State and municipal	$480	$18	1	$2,885	$213	9

2022
Held-to-Maturity

	Less Than 12 Months			12 Months or Greater		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
State and municipal	$3,201	$246	10	$ -	$ -	-

2023
Available-for-Sale

	Less Than 12 Months			12 Months or Greater		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
U.S. Government sponsored entities and U.S. agencies	$6,893	$32	14	$106,026	$12,653	174
State and municipal	5,750	319	21	78,245	9,281	293
Agency mortgage-backed	-	-	-	144,681	23,390	428
Total	$12,643	$351	35	$328,952	$45,324	895

2022
Available-for-Sale

	Less Than 12 Months			12 Months or Greater		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
U.S. Government sponsored entities and U.S. agencies	$41,193	$2,798	$78	$63,470	$12,342	98
State and municipal	75,964	6,497	295	26,270	6,002	83
Agency mortgage-backed	69,899	6,526	248	94,963	17,720	187
Total	$187,056	$15,821	621	$184,703	$36,064	368

(000s omitted except share data)

(3) Debt Securities (continued)

Unrealized losses on securities have not been recognized into income because the bonds are of high credit quality, management has the intent and ability to hold for the foreseeable future and the decline in fair value is largely due to market interest rate fluctuations and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach their maturity dates.

Included in mortgage-backed securities are agency issued and government-sponsored enterprise issued mortgage-backed securities. Agency-issued securities are generally guaranteed by a U.S. government agency, such as the Government National Mortgage Association. Government-sponsored enterprises, such as the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association, have an implied guarantee by the U.S. government. The municipal bond portfolio consists of highly rated securities rated A or better, all have made payments as agreed, and there is no other evidence of significant deterioration in the underlying issuers' financial positions. The Company evaluated whether the unrealized losses in the investment portfolio were a result of credit losses or other factors and concluded the unrealized losses were the result of other market conditions, primarily changes in interest rates, and therefore no credit losses identified.

(4) Loans

The following table presents total loans at December 31, 2023 and 2022 by portfolio segment and class of loan:

	2023	2022
Commercial		
Commercial & industrial	**$222,760**	$212,449
Commercial real estate	**303,056**	284,826
Commercial construction	**51,612**	29,197
Total commercial	**577,428**	526,472
Agriculture		
Agriculture real estate	**176,878**	147,486
Agriculture production	**112,455**	96,211
Total agriculture	**289,333**	243,697
Residential Mortgage		
1 - 4 family first lien	**91,567**	90,108
1 - 4 family junior lien	**29,379**	25,377
Residential construction	**5,193**	12,692
Total residential mortgage	**126,139**	128,177
Consumer		
Auto	**58,199**	43,445
Consumer other	**17,857**	13,619
Total consumer	**76,056**	57,064
Other loans and leases	**15,170**	13,671
Gross loans	**1,084,126**	969,081
Allowance for credit losses	**14,195**	14,541
Unamortized deferred fees, net	**481**	114
Net loans	**$1,069,450**	$954,426

(000s omitted except share data)

(4) Loans (continued)

The Company's allowance for credit losses on loans information for the year ended December 31, 2023, is presented under ASC 326. The Company's allowance for credit losses on loans information for the year ended December 31, 2022 is presented under the incurred loss impairment model. Refer to the "New Accounting Pronouncements" section of Note 1 for more information.

The Company's activity in the allowance for credit losses for the years ended December 31, 2023 and 2022, by loan segment is summarized below:

2023	Commercial	Agriculture	Residential Mortgage	Consumer	Other	Total
Balance, beginning of period	$10,425	$2,396	$966	$667	$87	$14,541
Cumulative effect of change in accounting principal	2,105	264	(149)	80	152	2,452
Provision	409	227	32	107	58	833
Charge-offs	4,010	-	63	203	61	4,337
Recoveries collected	663	-	21	17	5	706
Balance, end of period	$9,592	$2,887	$807	$668	$241	$14,195

2022	Commercial	Agriculture	Residential Mortgage	Consumer	Other	Total
Balance, beginning of period	$7,618	$4,236	$1,797	$269	$65	$13,985
Provision	2,787	(1,840)	(923)	443	85	552
Charge-offs	175	-	78	131	67	451
Recoveries collected	195	-	170	86	4	455
Balance, end of period	$10,425	$2,396	$966	$667	$87	$14,541

Collateral dependent loans individually evaluated for purposes of the allowance for credit losses by collateral type were as follows at December 31, 2023:

Commercial	$10,930
Agriculture	1,176
Residential Mortgage	1,168
Consumer	4,369
Other	47
Total	$17,690

(000s omitted except share data)

(4) Loans (continued)

Detailed analysis of loans evaluated for impairment by portfolio segment for the year ended December 31, 2022 follows:

	Commercial	Agriculture	Residential Mortgage	Consumer	Other	Total
Loans						
Individually evaluated for impairment	$13,794	$271	$1,654	$126	$ -	$15,845
Collectively evaluated for impairment	512,678	243,426	126,523	56,938	13,671	953,236
Totals	$526,472	$243,697	$128,177	$57,064	$13,671	$969,081

Detailed information regarding impaired loans by class of loan as of December 31, 2022 follows:

	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Commercial	$5,611	$6,229	N/A	$5,967	$271
Agriculture	218	741	N/A	427	48
Residential mortgage	1,507	2,303	N/A	1,511	295
Consumer	77	89	N/A	88	5
Other	-	-	N/A	-	-
Totals	7,414	9,362		7,993	619
Loans with an allowance for loan losses:					
Commercial	8,182	8,199	4,256	9,447	480
Agriculture	53	71	53	56	-
Residential mortgage	147	160	19	152	6
Consumer	49	49	33	55	6
Other	-	-	-	-	-
Totals	8,431	8,479	4,361	9,710	492
Grand Totals	$15,845	$17,841	$4,361	$17,703	$1,111

(000s omitted except share data)

(4) Loans (continued)

The Company regularly evaluates various attributes of loans to determine the appropriateness of the allowance for credit losses. The Company generally monitors credit quality indicators for all loans using the following:

'Pass' ratings are assigned to loans with adequate collateral and debt service ability; such that collectability of the contractual loan payments is highly probable.

'Special Mention' ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectability of the contractual loan payments is still probable.

'Substandard' ratings are assigned to loans that do not have adequate collateral and / or debt service ability; such that collectability of the contractual loan payments is no longer probable.

'Doubtful' ratings are assigned to loans that do not have adequate collateral and / or debt service ability, and collectability of the contractual loan payments is unlikely.

Internally prepared ratings for business loans are updated at least annually. Residential real estate and consumer loans are generally evaluated based on whether or not the loan is performing according to the contractual terms of the loan as of the balance sheet date.

Information regarding the loan portfolio by risk classification and origination year for the year ended December 31, 2023, follows:

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial								
Pass	$86,334	$172,051	$99,760	$30,821	$20,024	$80,145	$61,303	$550,438
Special Mention	176	10,463	-	1,939	71	2,440	130	15,219
Substandard	1,178	761	1,002	4,397	553	429	3,451	11,771
Total commercial	87,688	183,275	100,762	37,157	20,648	83,014	64,884	577,428
Agriculture								
Pass	49,112	36,952	32,786	21,128	13,546	35,371	92,497	281,392
Special Mention	-	-	-	-	-		-	-
Substandard	258	376	2,179	5,082	-	46	-	7,941
Total agriculture	49,370	37,328	34,965	26,210	13,546	35,417	92,497	289,333
Residential mortgage								
Pass	20,141	26,416	21,755	9,044	6,082	14,924	25,023	123,385
Special Mention	-	139	175	62	-	495	83	954
Substandard	99	179	554	74	79	748	67	1,800
Total residential mortgage	20,240	26,734	22,484	9,180	6,161	16,167	25,173	126,139
Consumer								
Pass	37,801	23,139	9,829	2,959	1,742	307	183	75,960
Special Mention	-	-	-	-	-	-	-	-
Substandard	15	48	9	10	14	-	-	96
Total consumer	37,816	23,187	9,838	2,969	1,756	307	183	76,056
Other loans and leases								
Pass	2,650	1,130	5,230	906	13	5,241	-	15,170
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total other loans and leases	2,650	1,130	5,230	906	13	5,241	-	15,170
Totals	$197,764	$271,654	$173,279	$76,422	$42,124	$140,146	$182,737	$1,084,126

(000s omitted except share data)

(4) Loans (continued)

The following table presents the amortized cost basis of loans by credit quality indicator, class of financing receivable, and year of origination for term loans at December 31, 2022 follows:

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Commercial & industrial	$206,346	$3,070	$3,033	$ -	$212,449
Commercial real estate	275,854	2,654	6,318	-	284,826
Commercial construction	29,197	-	-	-	29,197
Total commercial	511,397	5,724	9,351	-	526,472
Agriculture					
Agriculture real estate	142,854	4,413	219	-	147,486
Agriculture production	96,012	146	53	-	96,211
Total agriculture	238,866	4,559	272	-	243,697
Residential Mortgage					
1 - 4 family first lien	88,191	564	1,353	-	90,108
1 - 4 family junior lien	24,989	167	221	-	25,377
Residential construction	12,692	-	-	-	12,692
Total residential mortgage	125,872	731	1,574	-	128,177
Consumer					
Auto	43,318	95	32	-	43,445
Consumer other	13,597	-	22	-	13,619
Total consumer	56,915	95	54	-	57,064
Other loans and leases	13,671	-	-	-	13,671
Totals	$946,721	$11,109	$11,251	$ -	$969,081

The gross charge-offs by loan type and year of origination for the year ended December 31, 2023 were as follows:

Current Period Gross Charge-offs	2023	2022	2021	2020	2019	Prior	Total
Commercial	$2	$102	$ -	$965	$1,473	$1,468	$4,010
Residential mortgage	-	-	-	25	-	38	63
Consumer	-	120	17	20	37	9	203
Other loans and leases	61	-	-	-	-	-	61
Totals	$63	$222	$17	$1,010	$1,510	$1,515	$4,337

(000s omitted except share data)

(4) Loans (continued)

Loan aging information by class of loans at December 31 follows:

As of December 31, 2023	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	90 or more days past due and accruing
Commercial						
Commercial & industrial	$432	$121	$553	$222,207	$222,760	$82
Commercial real estate	1,563	-	1,563	301,493	303,056	-
Commercial construction	-	-	-	51,612	51,612	-
Total commercial	1,995	121	2,116	575,312	577,428	82
Agriculture						
Agriculture real estate	316	-	316	176,562	176,878	-
Agriculture production	151	84	235	112,220	112,455	-
Total agriculture	467	84	551	288,782	289,333	-
Residential mortgage						
1 - 4 family first lien	859	364	1,223	90,344	91,567	189
1 - 4 family junior lien	230	-	230	29,149	29,379	-
Residential construction	-	-	-	5,193	5,193	-
Total residential mortgage	1,089	364	1,453	124,686	126,139	189
Consumer						
Auto	827	35	862	57,337	58,199	25
Consumer other	196	7	203	17,654	17,857	6
Total consumer	1,023	42	1,065	74,991	76,056	31
Other Loans and Leases	-	-	-	15,170	15,170	-
Totals	$4,574	$611	$5,185	$1,078,941	$1,084,126	$302

(000s omitted except share data)

(4) Loans (continued)

As of December 31, 2022	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	90 or more days past due and accruing
Commercial						
Commercial & industrial	$284	$3,010	$3,294	$209,155	$212,449	$ -
Commercial real estate	549	2,469	3,018	281,808	284,826	47
Commercial construction	-	-	-	29,197	29,197	-
Total commercial	833	5,479	6,312	520,160	526,472	47
Agriculture						
Agriculture real estate	189	-	189	147,297	147,486	-
Agriculture production	11	-	11	96,200	96,211	-
Total agriculture	200	-	200	243,497	243,697	-
Residential Mortgage						
1 - 4 family first lien	707	405	1,112	88,996	90,108	79
1 - 4 family junior lien	373	44	417	24,960	25,377	44
Residential construction	-	-	-	12,692	12,692	-
Total residential mortgage	1,080	449	1,529	126,648	128,177	123
Consumer						
Auto	634	90	724	42,721	43,445	57
Consumer other	189	46	235	13,384	13,619	46
Total consumer	823	136	959	56,105	57,064	103
Other loans and leases	-	-	-	13,671	13,671	-
Totals	$2,936	$6,064	$9,000	$960,081	$969,081	$273

(000s omitted except share data)

(4) Loans (continued)

Information regarding nonaccrual loans during the years ended December 31 follows:

	December 31, 2023			December 31, 2022		
	Nonaccrual loans With No ACL	Total Nonaccrual Loans	Interest Income Recognized During the Period on Nonaccrual Loans	Nonaccrual loans With No ACL	Total Nonaccrual Loans	Interest Income Recognized During the Period on Nonaccrual Loans
Commercial						
Commercial & industrial	$44	$5,029	$ -	$52	$3,032	$160
Commercial real estate	14	2,156	-	174	2,549	91
Commercial construction	-	-	-	-	-	-
Total commercial	58	7,185	-	226	5,581	251
Agriculture						
Agriculture real estate	1,175	4,703	-	219	219	57
Agriculture production	-	3,180	60	-	53	-
Total agriculture	1,175	7,883	60	219	272	57
Residential Mortgage						
1 - 4 family first lien	-	446	-	469	498	46
1 - 4 family junior lien	99	137	-	28	39	6
Residential construction	-	-	-	-	-	-
Total residential mortgage	99	583	-	497	537	52
Consumer						
Auto	-	66	-	-	66	-
Consumer other		26	-	-	23	-
Total consumer	-	92	-	-	89	6
Other loans and leases	-	-	-	-	-	-
Totals	$1,332	$15,743	$60	$942	$6,479	$366

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

As of December 31, 2023, the Company had commitments to lend additional funds of $129 on loans modified to borrowers experiencing financial difficulty.

(000s omitted except share data)

(4) Loans (continued)

The following presents the amortized cost basis as of December 31, 2023 of loans modified to borrowers experiencing financial difficulty during the year disaggregated by loan class and by type of concession granted.

	Term Extension		Other-than-Insignificant Payment Delay		Combination: Term Extension and Principal Forgiveness	
	Amortized Cost Basis	% of Total Class of Financing Receivable	Amortized Cost Basis	% of Total Class of Financing Receivable	Amortized Cost Basis	% of Total Class of Financing Receivable
Commercial						
Commercial & industrial	$3,403	1.5%	$6	0.0%	$ -	-
Commercial real estate	194	0.1%	114	0.0%	-	-
Total commercial	3,597	0.6%	120	0.0%	-	-
Agriculture						
Agriculture production	2,559	0.1%	-	-	-	-
Total agriculture	2,559	0.1%	-	-	-	-
Residential Mortgage						
1 - 4 family junior lien	17	0.1%	-	-	99	0.3%
Total residential mortgage	17	0.0%	-	-	99	0.1%
Totals	$6,173	0.6%	$120	0.0%	$99	0.0%

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

	Other-than-Insignificant Payment Delay	Term Extension	Principal Forgiveness
Commercial & industrial	Interest only payments for 7 months	Extended 5 to 13 months to the maturity dates	
Commercial real estate	Interest only payments for 7 months	Extended 1-5 years to maturity dates	
Agriculture production		Extended 13 months to maturity dates	
1 - 4 family junior lien		Extended 6 years to maturity date	Reduced amortized cost basis between $412M and $442M dependent on finalization of the sale of collateral.

(000s omitted except share data)

(4) Loans (continued)

The following table presents the amortized cost basis of loans that had a payment default during the year ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty:

	Term extension
Commercial	
Commercial & industrial	$29
Commercial real estate	41
Total commercial	70
Agriculture	
Agriculture production	2,179
Total agriculture	2,179
Totals	$2,249

The following table presents the period-end amortized cost basis of loans that have been modified in the past 12 months to borrowers experiencing financial difficulty by payment status and class of financing receivable:

	Current	30-89 days	Greater than 90 days	Total
Commercial				
Commercial & industrial	$3,380	$ -	$29	$3,409
Commercial real estate	267	41	-	308
Total commercial	3,647	41	29	3,717
Agriculture				
Agriculture production	380	2,179	-	2,559
Total agriculture	380	2,179	-	2,559
Residential Mortgage				
1 - 4 family junior lien	116	-	-	116
Total residential mortgage	116	-	-	116
Totals	$4,143	$2,220	$29	$6,392

Prior to the adoption of ASU No. 2022-02, when, for economic or legal reasons related to the borrower's financial difficulties, the Company granted a concession to a borrower that the Company would not otherwise consider, the modified loan was classified as a troubled debt restructuring. Loan modifications may have consisted of forgiveness of interest and/or principal, a reduction of the interest rate, interest-only payments for a period of time, and/or extending amortization terms. All troubled debt restructurings were classified as impaired loans.

(000s omitted except share data)

(4) Loans (continued)

The following table presents information regarding modifications of loans that were classified as troubled debt restructurings by class of loan that occurred during the year ended December 31, 2022:

	Number of Loans	Pre-Modification Investment	Post Modification Investment
Real Estate:			
Commercial real estate	1	$3,375	$3,375
Commercial:			
Commercial & industrial	3	4,408	4,408
Total	4	$7,783	$7,783

The following table summarizes troubled debt restructurings that defaulted within 12 months of their modification as of December 31, 2022:

	Number of Loans	Recorded Investment
Real Estate:		
Commercial real estate	1	$3,375
Commercial:		
Commercial & industrial	3	4,484
Total	4	$7,859

(5) Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. Mortgage loans serviced for others as of December 31, 2023 and 2022, were approximately $275,743 and $286,804, respectively. Custodial escrow balances maintained in conjunction with serviced loans were approximately $3,451 and $3,552 at December 31, 2023 and 2022, respectively.

The balances for mortgage servicing rights were $3,303 and $3,236 as of December 31, 2023 and 2022, respectively.

The estimated fair value of mortgage servicing rights is determined using a valuation model that calculates the present value of expected future servicing and ancillary income, net of expected servicing costs. The model incorporates various assumptions, such as discount rates and prepayment speeds based on market data from independent organizations. Information about the estimated fair value of mortgage servicing rights at December 31:

	2023	2022	2021
Range of discount rates	**9.75% - 11.75%**	9.00% - 11.00%	9.00% - 11.00%
Range of prepayment speeds	**5.29% - 26.25%**	6.30% - 26.25%	6.79% - 33.96%

(000s omitted except share data)

(6) Mortgage Banking Loan Commitments

The Company enters into commitments to fund residential mortgage loans (interest rate locks) at specified times in the future, with the intention that these loans will be subsequently sold to third-party investors. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock. It is the Company's practice to enter into best efforts and mandatory delivery forward commitments for the future delivery of residential mortgage loans to third-party investors when an interest rate lock commitment is granted. Best efforts forward commitments bind the Company to deliver a mortgage loan to a third-party investor only if the underlying loan is funded. Mandatory delivery forward commitments bind the Company to deliver a residential mortgage loan to a third-party investor even if the underlying loan never funds. As of December 31, 2023 and 2022, the Company had approximately $805 and $907, respectively, in interest rate lock commitments outstanding. As of December 31, 2023 and 2022, the Company had approximately $1,611 and $947, respectively, in mandatory delivery forward commitments outstanding. There were no best effort forward commitments outstanding at December 31, 2023 and $867 outstanding at December 31, 2022. These outstanding mortgage loan commitments are considered to be derivatives.

(7) Foreclosed Assets and Other Real Estate Owned

There was no other real estate owned at December 31, 2023 and $70 at December 31, 2022.

Residential real estate loans that are in process of foreclosure totaled $79 at December 31, 2023 and $29 at December 31, 2022.

(8) Premises and Equipment

The components of premises and equipment at December 31 are as follows:

	2023	2022
Land	**$2,640**	$2,640
Buildings and leasehold improvements	**22,700**	22,186
Furniture, fixtures, and equipment	**14,440**	13,976
	39,780	38,802
Less accumulated depreciation	**22,255**	21,204
	$17,525	$17,598

Depreciation expense for the years ended December 31, 2023, 2022 and 2021 amounted to $1,098, $1,106, and $1,053, respectively.

(9) Other Assets

The components of other assets at December 31 are as follows:

	2023	2022
Accrued interest receivable	**$9,763**	$7,255
Mortgage servicing rights	**3,303**	3,236
Net deferred tax assets	**16,960**	18,227
Qualified affordable housing project investments	**4,818**	84
Other	**2,114**	2,850
	$36,958	$31,652

(000s omitted except share data)

(10) Deposits

Deposits consist of the following at December 31, 2023 and 2022:

	2023	**2022**
Non-interest-bearing demand	$256,205	$276,055
Interest-bearing demand	220,417	229,577
Money market and savings	408,278	411,654
Time	472,657	377,421
	$1,357,557	$1,294,707

The aggregate amount of time deposits with a minimum denomination of $250 was approximately $143,788 and $101,661 at December 31, 2023 and 2022, respectively. Time deposits are included in the interest-bearing deposits on the consolidated balance sheets.

At December 31, 2023, the scheduled maturities of time deposits are as follows:

2023	$343,920
2024	96,198
2025	24,026
2026	4,867
2027 and thereafter	3,646
	$472,657

(11) Income Taxes

The components of income tax expense for the years ended December 31 are as follows:

	2023	2022	2021
Current - federal	**$2,956**	$2,700	$2,148
Current - state	**1,326**	1,267	1,175
	4,282	3,967	3,323
Deferred - federal	**195**	74	(61)
Deferred - state	**97**	41	(25)
	292	115	(86)
Total income tax expense	**$4,574**	$4,082	$3,237

(000s omitted except share data)

(11) Income Taxes (continued)

A reconciliation of the differences between the statutory federal income tax rate and the effective federal income tax rate with the resulting dollar amounts is shown in the following table:

	2023		2022		2021	
	Amount	**% of Pretax Earnings**	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Statutory federal tax	**$4,015**	**21.0%**	$3,718	21.0%	$3,071	21.0%
(Decrease) increase in taxes resulting from:						
Tax-exempt interest	**(330)**	**(1.7%)**	(598)	(3.4%)	(619)	(4.2%)
Bank-owned life insurance	**(123)**	**(0.6%)**	(122)	(0.7%)	(126)	(0.9%)
State taxes, net of federal benefit	**1,124**	**5.9%**	1,033	5.8%	909	6..2%
Other	**(112)**	**(0.6%)**	51	0.3%	2	0.0%
Effective tax rates	**$4,574**	**24.0%**	$4,082	23.0%	$3,237	22.1%

The tax effects of existing temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 2023 and 2022 are summarized as follows:

	2023	2022
Deferred tax assets:		
Allowance for credit losses	**$4,046**	$4,144
CECL reserve for unfunded loan commitments	**188**	-
Available-for-sale securities	**12,962**	14,747
Deferred compensation and other	**2,611**	2,176
Total deferred tax assets	**$19,807**	$21,067
Deferred tax liabilities:		
FHLB stock dividend	**$55**	$55
Depreciation	**1,299**	1,407
Mortgage servicing rights and other	**1,365**	1,246
Purchase accounting adjustments	**128**	132
Total deferred tax liabilities	**2,847**	2,840
Net deferred tax assets	**$16,960**	$18,227

No valuation allowance has been recorded since deferred tax assets are expected to be realized.

(000s omitted except share data)

(12) Transactions with Related Parties

The Company had, and may be expected to have in the future, loans or other banking transactions in the ordinary course of business with directors, significant stakeholders, principal officers, their immediate families, and affiliated companies in which they are principal stakeholders (commonly referred to as related parties). These loans and transactions were on the same terms as those for comparable loans and transactions with non-related parties.

Activity for related party loans for the years ending December 31, is as follows:

	2023	2022
Balance at beginning of year	**$3,584**	$5,063
New credits	**2,026**	594
Repayments	**(1,084)**	(2,073)
Balance at end of year	**$4,526**	$3,584

Deposit accounts from related parties totaled approximately $21,284 and $18,663 at December 31, 2023 and 2022, respectively.

(13) Financial Instruments with Off-Balance-Sheet Risk and Concentrations

Financial instruments with off-balance-sheet risk:

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit, credit lines, letters of credit, and overdraft protection. They involve, to varying degrees, elements of credit risk in excess of amounts recognized on the consolidated balance sheets.

The Company's exposure to credit losses in the event of nonperformance by the other parties to the financial instruments, for commitments to extend credit, and letters of credit are represented by the contractual amounts of those instruments. The Banks use the same credit policies in making commitments and issuing letters of credit as they do for on-balance-sheet instruments.

A summary of the contractual amounts of the Banks' exposures to off-balance-sheet risk as of December 31 is as follows:

	2023	2022
Unused lines of credit and other loan commitments	**$267,108**	$271,980
Commercial letters of credit	**320**	510
Performance and standby letters of credit	**3,915**	3,637

(13) Financial Instruments with Off-Balance-Sheet Risk and Concentrations (continued)

Commitments to extend credit are agreements to lend to customers as long as there are no violations of any conditions established in the contracts. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Banks upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies; but may include accounts receivable, inventory, crops, livestock, property and equipment, residential real estate, and income-producing commercial properties.

Standby, performance and commercial letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. They are considered financial guarantees under FASB guidance. The fair value of these financial guarantees is considered immaterial.

The Company participates in the FHLB Mortgage Partnership Finance Program (the "Program"). In addition to entering into forward commitments to sell mortgage loans to a secondary market agency, the Company enters into firm commitments to deliver loans to the FHLB through the Program. Under the Program, loans are funded by the FHLB, and the Company receives an agency fee reported as a component of gain on sale of loans. The Company had no firm commitments outstanding to deliver loans through the Program at December 31, 2023 and 2022. Once delivered to the Program, the Company provides a contractually agreed- upon credit enhancement and performs servicing of the loans. Under the credit enhancement, the Company is liable for losses on loans delivered to the Program after application of any mortgage insurance and a contractually agreed-upon credit enhancement provided by the Program subject to an agreed-upon maximum. The agreed-upon accumulated credit enhancement provided by the Program totaled $539, subject to an agreed- upon maximum. The fee the Company received for this credit enhancement was not material in each of the years ended December 31, 2023, 2022 and 2021.

Concentration of credit risk:

The Company provides several types of loans to customers including real estate, agricultural, commercial, and installment loans. The largest component of loans is secured by residential real estate, commercial real estate, or other interest in real property. Lending activities are conducted with customers in a wide variety of industries as well as with individuals with a wide variety of credit requirements. The Company does not have a concentration of loans in any specific industry. Credit risk, as it relates to the Company's business activities, tends to be geographically concentrated in that the majority of the customer base lies within the surrounding communities served by its subsidiary banks.

(14) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $31,554 and $36,298 at December 31, 2023 and 2022, respectively, and are collateralized by U.S. agencies and mortgage-backed investment securities with fair values of approximately $61,393 and $59,736. The weighted-average interest rates on these agreements were 2.00% and 1.11% at December 31, 2023 and 2022, respectively. Securities sold under agreements to repurchase mature on a daily basis.

(000s omitted except share data)

(15) Employee and Director Benefit Plans

The Company and the Banks maintain a 401(k) plan with profit sharing features covering substantially all employees under which the Company has historically provided a discretionary match of eligible employee contributions. Total 401(k) expense was approximately $593, $574, and $561, for 2023, 2022, and 2021, respectively. Each plan participant elects how the employer contributions are invested; whereby the participants choose between purchasing the Company's common stock or investing in the plan's investment funds.

In addition, the Company and the Banks maintain non-qualified deferred compensation plans whereby certain directors and officers are provided with guaranteed annual payments for periods ranging from 10 to 15 years after reaching a variation of retirement ages pending participant plan. The compensation plans are funded by bank-owned life insurance policies which had an aggregate death benefit of approximately $53,902 and $53,372 as of December 31, 2023 and 2022, respectively. The Banks accrue amounts to be paid over the participant's active service life. The accrued benefits were $3,421, $3,329, and $2,888 at December 31, 2023, 2022 and 2021, respectively. Non-qualified deferred compensation expenses were $339, $539, and $413 in 2023, 2022 and 2021, respectively.

(16) Federal Home Loan Bank (FHLB) and Other Borrowings

At December 31, the scheduled maturities of FHLB advances and other borrowings are as follows:

FHLB Advances at December 31:	**2023**	2022
Fixed rate advances with rates ranging from 2.31% to 4.49% and weighted average rates of 3.96% and 3.79% as of December 31, 2023 and 2022, respectively. Interest is payable monthly with principal due at maturity.	**$20,738**	$6,500

Advances are collateralized by 1-4 family mortgage loans, other qualifying loans and securities. The total amounts of collateral securing FHLB advances were approximately $133,256 and $188,468 as of December 31, 2023 and 2022, respectively. FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. FHLB advances are also secured by $1,727 and $1,468 of FHLB stock owned by the Company at December 31, 2023 and 2022, respectively.

The Company participates in the Federal Reserve Bank of Chicago's Discount Window Lending Program. Primary advances generally mature daily and bear interest at a generally approved rate in relation to the federal funds rate. The primary advance interest rate at December 31, 2023 was 5.5%. There were no outstanding advances at December 31, 2023 and 2022. Advances are collateralized by investment securities pledged totaling approximately $14,200 and $8,867 at December 31, 2023 and 2022, respectively, to the Federal Reserve Bank.

Additional other borrowings totaled $5,216 and $866 at December 31, 2023 and 2022, respectively, and mature from 2024 to 2032, at interest rates ranging from 2.00% to 4.85%.

(000s omitted except share data)

(16) Federal Home Loan Bank (FHLB) and Other Borrowings (continued)

At December 31, the scheduled maturities of FHLB advances and other borrowings are as follows:

	2023	2022
2023		$4,500
2024	**$2,526**	500
2025	**6,000**	798
2026	**5,000**	-
2027	**1,541**	1,568
2028	**6,488**	-
2029 and thereafter	**4,399**	-
	$25,954	$7,366

The Company had federal funds purchased with its main correspondent institutions totaling $1,153 at December 31, 2023 and no federal funds purchased at December 31, 2022. Federal funds purchased generally mature within one day from transaction date. The weighted average interest rate was 5.75% as of December 31, 2023.

The Company has a $15,000 line of credit with Bankers' Bank secured by the stock of the Banks. The line has a variable interest rate of Wall Street Journal Prime less 0.50 percentage points. As of December 31, 2023, the balance of the line was $0.

(17) Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an 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. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

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

Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of valuation methodologies used for assets recorded at fair value:

Securities available-for-sale: The fair values of the Company's securities available-for-sale are primarily determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. The values determined by matrix pricing are considered Level 2 fair value measurements.

(17) Fair Value Measurements (continued)

Marketable equity securities: Marketable equity securities with a readily determinable fair value are measured at fair value on a recurring basis. The fair value measurement of equity securities with a readily determinable fair value are based on the quoted price of the security and is considered a Level 1 fair value measurement. Equity securities without a readily determinable fair value are measured at fair value on a nonrecurring basis when transaction prices for identical or similar securities are identified. Fair value measurements on equity securities without a readily determinable fair value are generally considered a Level 2 fair value measurement.

Collateral-dependent individually evaluated loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. The fair value of collateral dependent individually evaluated loans is generally based on recent real estate appraisals. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification. Non-real estate collateral may be valued using an appraisal, net book value of the borrower’s financial statements or aging reports, adjusted or discounted based on management’s expertise and knowledge of the borrower and borrower’s business. Fair value measurements prepared internally are based on management's comparisons to sales of comparable assets, but include significant unobservable data and are therefore considered Level 3 measurements.

Foreclosed assets and other real estate owned: Real estate acquired through or in lieu of loan foreclosure is not measured at fair value on a recurring basis. However, other real estate is initially measured at fair value (less estimated costs to sell) when it is acquired and may also be measured at fair value (less estimated costs to sell) if it becomes subsequently impaired. The fair value measurement for each property may be obtained from an independent appraiser or prepared internally. Fair value measurements obtained from independent appraisers generally utilize a market approach based on sales of comparable assets and/or an income approach. Such measurements are usually considered Level 2 measurements. However, management routinely evaluates fair value measurements of independent appraisers by comparing actual selling prices to the most recent appraisals. If management determines significant adjustments should be made to the independent appraisals based on these evaluations, these measurements are considered Level 3 measurements. Fair value measurements prepared internally are based on management's comparisons to sales of comparable assets but include significant unobservable data and are therefore considered Level 3 measurements.

Mortgage servicing rights: Mortgage servicing rights are measured at fair value on a recurring basis. Serviced loan pools are stratified by year of origination, and a fair value measurement is obtained for each stratum from an independent firm. The measurement is based on recent sales of mortgage servicing rights with similar characteristics. Since the fair value measurement is based on observable market data, it is considered a Level 2 measurement.

(000s omitted except share data)

(17) Fair Value Measurements (continued)

The following table presents the Company's approximate fair-value hierarchy for the assets measured at fair value as of December 31:

As of December 31, 2023		Fair Value Measurements at Reporting Date Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value on a recurring basis:				
Assets:				
Securities available-for-sale				
U.S. Government sponsored entities and U.S. agencies	$116,429		$116,429	
State and municipal	101,473		99,128	$2,345
Agency mortgage-backed	146,161		146,161	
Corporate debt securities	1,555		1,555	
Marketable equity securities	1,066		1,066	
Loans held for sale	990		990	
Mortgage servicing rights	3,303		3,303	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent individually evaluated loans	$16,361			$16,361

Collateral-dependent individually evaluated loans, which are measured for impairment using the fair value of collateral, had a carrying value of $17,690 with specific reserves of $1,329 as of December 31, 2023.

The changes in level 3 items occurring between December 31, 2022 and December 31, 2023 were increases in collateral-dependent individually evaluated loans and sale of other real estate owned.

As of December 31, 2022		Fair Value Measurements at Reporting Date Using		
	Total	(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value on a recurring basis:				
Assets:				
Securities available-for-sale				
U.S. Government sponsored entities and U.S. agencies	$107,930		$107,930	
State and municipal	118,535		116,190	$2,345
Agency mortgage-backed	164,869		164,869	
Marketable equity securities	996		996	
Loans held for sale	421		421	
Mortgage servicing rights	3,236		3,236	
Assets measured at fair value on a non-recurring basis:				
Assets:				
Collateral-dependent impaired loans	$4,070			$4,070
Foreclosed assets and other real estate owned	70			70

(000s omitted except share data)

(17) Fair Value Measurements (continued)

Collateral-dependent impaired loans, which are measured for impairment using the fair value of collateral, had a carrying value of $8,431 with specific reserves of $4,361 as of December 31, 2022.

Foreclosed assets and other real estate owned, which are measured at the lower of carrying or fair value less costs to sell, were carried at their fair value of $70 as of December 31, 2022.

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2023 and 2022:

	Valuation Technique	Unobservable Input	Range
Collateral-dependent individually evaluated loans, net of specific reserves	Sales comparison approach	Appraised values	10% - 20%
Foreclosed assets and other real estate owned	Sales comparison approach	Appraised values	10% - 20%

FASB guidance requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates may not be realized in immediate settlement of the instrument. Accounting guidance excludes certain financial instruments and certain nonfinancial instruments from its disclosure requirements. These fair value disclosures may not represent the fair value of the Company.

(000s omitted except share data)

(17) Fair Value Measurements (continued)

The estimated fair values of the Company's financial instruments as of December 31, 2023 are as follows:

	Carrying Amount	Fair Value	Fair Value Measurements at Reporting Date Using (Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	$45,718	$45,718	$45,718		
Interest-bearing deposits in other banks- term deposits	4,511	4,399	4,299	$100	
Securities	369,214	368,983		366,638	$2,345
Marketable equity securities and other	5,718	5,718	4,639	1,079	
Loans held for sale	990	990		990	
Loans, net of allowance	1,069,450	1,043,192			1,043,192
Accrued interest receivable	9,763	9,763	9,763		
Mortgage servicing rights	3,303	3,303		3,303	
Financial liabilities:					
Demand and saving deposits	$884,900	$884,900	$884,900		
Time deposits	472,657	468,839			$468,839
Federal Funds Purchased	1,153	1,153	1,153		
Securities sold under agreements to repurchase	31,554	31,234		$31,234	
FHLB advances and other borrowings	25,954	25,571			25,571
Accrued interest payable	2,082	2,082	2,082		

(000s omitted except share data)

(17) Fair Value Measurements (continued)

The estimated fair values of the Company's financial instruments as of December 31, 2022 are as follows:

			Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Cash and cash equivalents	$43,822	$43,822	$43,822		
Interest-bearing deposits in other banks- term deposits	6,058	5,833	5,733	$100	
Securities	395,410	395,168		392,823	$2,345
Marketable equity securities and other	3,945	3,945	2,947	998	
Loans held for sale	421	421		421	
Loans, net of allowance	954,426	928,416			928,416
Accrued interest receivable	7,255	7,255	7,255		
Mortgage servicing rights	3,236	3,236		3,236	
Financial liabilities:					
Demand and saving deposits	$917,286	$917,286	$917,286		
Time deposits	377,421	367,715			$367,715
Securities sold under agreements to repurchase	36,298	35,819		$35,819	
FHLB advances and other borrowings	7,366	7,225			7,225
Accrued interest payable	977	977	977		

(000s omitted except share data)

(18) Stock Compensation Plans

During 2012, the Company approved an equity incentive plan to promote the long-term financial success of the Company through stock-based awards to employees, directors or service providers who contribute to that success. This equity incentive plan permits Company management to approve and grant a maximum of 150,000 shares of common stock-based awards in the form of any combination of stock options, stock appreciation rights, stock awards or cash incentive awards. The 2012 equity incentive plan expired in September 2022 and a new plan was implemented in October 2022. The 2022 plan mirrors the expired 2012 plan with the exception of the cash incentive awards which were excluded from the 2022 plan.

Stock Options

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

No options were granted for the year ended December 31, 2023 and 2021. For the year ended December 31, 2022, 5,000 shares of non-qualified stock options were granted under the 2012 equity incentive plan. The following assumptions were used in estimating the fair value of options granted during the year ended December 31, 2022:

	2022
Expected volatility	64.09%
Expected dividend yield	1.40%
Expected term (in years)	5.00
Risk free rate	3.03%

Based on these assumptions the estimated weighted average grant date fair value of options granted was $15.96 during 2022.

For the years ended December 31, 2023, 2022 and 2021, the Company recognized $16, $25, and $16 in compensation expense for stock options, respectively. No tax benefits were recognized for the three-year period ended December 31, 2023. The intrinsic value of options exercised during the years ended December 31, 2023, 2022 and 2021 was $0, $0 and $0, respectively.

(000s omitted except share data)

(18) Stock Compensation Plans (continued)

The following table summarizes the activity of options for the year ended:

	December 31,2023		December 31,2022	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Shares under option, beginning of year	**21,666**	**$34.60**	25,000	$35.55
Granted during the year	-	**-**	5,000	$31.40
Forfeited and expired during the year	**(16,666)**	**35.55**	(8,334)	35.55
Exercised during the year	**-**	**-**	-	-
Shares under option, end of year	**5,000**	**31.40**	21,666	34.60
Options exercisable, end of year	**1,000**	**31.40**	16,666	35.55

The following table summarizes information about stock options outstanding at December 31, 2023:

Exercise Price	**Number Outstanding**	**Remaining Contractual Life (Years)**	**Number Exercisable**
$31.40	5,000	8.50	1,000

Total shares available for grant under the 2012 equity incentive plan were 0, 0 and 64,603 at December 31, 2023, 2022 and 2021, respectively. Total shares available for grant under the 2022 equity incentive plan was 139,071 and 150,000 as of December 31, 2023 and 2022, respectively.

Stock Awards

Stock awards are granted in the form of restricted stock awards (RSA's) and restricted stock units (RSU's) which typically vest equally over a two-year period; however, there were RSAs and RSUs issued in 2021 that vest over a five-year period. RSA's share in dividends and have voting rights throughout the vesting period. RSU's are paid a dividend equivalent during the vesting period but have no voting rights.

(000s omitted except share data)

(18) Stock Compensation Plans (continued)

The following table summarizes information regarding unvested restricted stock and shares outstanding during the year ended:

	December 31,2023		December 31,2022	
	Unvested Shares	**Weighted Average Grant Value**	Unvested Shares	Weighted Average Grant Value
Restricted stock, beginning of year	**14,190**	**$33.01**	19,754	$30.86
Granted during the year	**11,426**	**26.93**	9,104	34.00
Forfeited during the year	**(812)**	**29.77**	(1,282)	33.03
Restricted shares (net for taxes)	**(1,887)**	**32.25**	(1,980)	30.51
Vested during the year	**(8,650)**	**32.25**	(11,406)	30.51
Restricted stock, end of year	**14,267**	**28.88**	14,190	33.01

During 2023, 2022 and 2021, total accrued compensation expense of $294, $390 and $332 (before tax benefits of $84, $111 and $95) was recorded from amortization of restricted shares expected to vest, respectively. Future projected compensation expense (before tax benefits); assuming all restricted shares eventually vest to employees; would be $173, $41 and $2 for years 2024, 2025, and 2026, respectively.

(19) Stock Repurchase Program

In November 2020, the Company's Board of Directors adopted a stock repurchase plan. The plan provided a maximum dollar threshold of aggregate cost of repurchases under the plan, set a limit on the daily number of shares that could be repurchased and provided a maximum per share price. This plan, scheduled to expire on November 30, 2021, was subsequently extended to November 30, 2022 with modification of maximum per share price and daily purchase limits. A revised repurchase plan was approved by the Board of Directors as of December 30, 2021 and effective January 1, 2022, replacing the prior active plan. The revised stock repurchase plan provided additional funding, updated maximum per share price and adjusted daily limits and expired June 1, 2022 with no further extensions approved in 2022. A new stock repurchase plan was approved by the Board of Directors as of October 25, 2023 and effective November 1, 2023. The approved plan sets a maximum repurchase dollar limit, maximum per share price and daily limits. The plan has an expiration date of June 1, 2024. For the years ended December 31, 2023, 2022 and 2021, the Company repurchased 60,000, 44,760 and 131,500 shares under the repurchase program, respectively.

The purchase price for the shares of the Company's stock repurchased is reflected as a reduction to shareholders' equity as treasury stock.

(000s omitted except share data)

(20) Earnings Per Common Share

For the years ended December 31, earnings per common share have been computed based on the following:

	2023	2022	2021
Net income	**$14,546**	$13,626	$11,386
Net income available to common stockholders	**14,546**	13,626	11,386
Average number of common shares outstanding	**3,562,885**	3,565,548	3,665,228
Effect of dilutive options	**4,723**	12,280	15,844
Average number of common shares outstanding used to calculate diluted earnings per common share	**3,567,608**	**3,577,828**	**3,681,072**

(21) Equity and Regulatory Matters

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

In September 2019, the FDIC finalized a rule that introduced an optional simplified measure of capital adequacy known as the community bank leverage ratio (CBLR) framework. In order to qualify for the CBLR framework, the Company and Banks must have a Tier 1 leverage ratio of greater than 9%, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. As of December 31, 2023 and 2022, the Company and Banks qualified for and elected to use the CBLR framework. An institution opting into the CBLR framework and meeting all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital.

As of December 31, 2023, the most recent notification from the regulatory agencies categorized all six Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain minimum regulatory capital ratios as set forth in the table. There are no conditions or events since December 31, 2023, which management believes have changed the capital categories of the Banks.

(21) Equity and Regulatory Matters (continued)

The Company and the Banks actual capital amounts and ratios as of December 31 are presented in the following tables:

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount In $000s	Ratio	Amount In $000s	Ratio
As of December 31, 2023				
Community Bank Leverage Ratio				
Company	173,232	10.76%	144,899	9.00%
Northwest	39,422	9.22%	38,480	9.00%
German	31,592	9.37%	30,337	9.00%
Davis	19,755	10.94%	16,247	9.00%
Freeport	38,269	9.91%	34,764	9.00%
Lena	11,469	11.49%	8,986	9.00%
Herscher	21,149	11.94%	15,937	9.00%

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount In $000s	Ratio	Amount In $000s	Ratio
As of December 31, 2022				
Community Bank Leverage Ratio				
Company	164,081	10.81%	136,583	9.00%
Northwest	36,762	9.64%	34,334	9.00%
German	30,249	9.11%	29,892	9.00%
Davis	19,082	10.77%	15,942	9.00%
Freeport	35,708	10.26%	31,317	9.00%
Lena	10,994	11.23%	8,811	9.00%
Herscher	20,406	11.88%	15,465	9.00%

(22) Dividends

State banking regulations restrict the amount of dividends that a bank may pay to its stockholders. The regulations provide that dividends are limited to the balance of undivided profits, subject to capital-adequacy requirements, plus an additional amount equal to the Bank's current-year earnings through the date of any declaration of dividends. The payment of dividends would also be restricted if a Bank does not meet the minimum capital conservation buffer as defined by Basel III regulatory capital guidelines.

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Independent Auditor's Report on Supplemental Information

To the Audit Committee and the Board of Directors
Foresight Financial Group, Inc.

We have audited the consolidated financial statements (the "financial statements") of Foresight Financial Group, Inc. and its subsidiaries as of and for the year ended December 31, 2023 and have issued our report thereon dated March 12, 2024, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The consolidating schedule 1 - December 31, 2023 balance sheet and consolidating schedule 2 - December 31, 2023 statement of income are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

March 12, 2024

Consolidating Schedule – Balance Sheet

(000s omitted except share data)

December 31, 2023

ASSETS	German American State Bank	State Bank of Davis	Northwest Bank
Cash and due from banks	$4,202	$1,473	$5,014
Interest-bearing deposits in banks	5,532	1,903	17,824
Federal funds sold	683	380	940
Interest-bearing deposits in banks - term deposits	1,930	-	1,245
Debt securities:			
Debt securities available-for-sale (AFS)	54,200	66,314	71,993
Debt securities held-to-maturity (HTM)	-	499	-
Marketable equity securities and other investments	3,519	290	964
Loans held for sale	-	-	990
Loans, net	246,476	95,407	303,822
Foreclosed assets and other real estate owned, net	-	-	-
Premises and equipment, net	2,925	738	6,419
Bank owned life insurance	4,014	2,100	6,486
Other assets	9,034	5,375	7,783
Investment in subsidiary banks	-	-	-
Total assets	$332,515	174,479	423,480
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Noninterest-bearing	$50,942	$18,894	$91,344
Interest-bearing	246,357	137,374	266,831
Total deposits	297,299	156,268	358,175
Federal funds purchased	-	-	-
Securities sold under agreements to repurchase	0	795	16,111
Federal Home Loan Bank (FHLB) and other borrowings	2,988	2,000	13,940
Accrued interest payable and other liabilities	4,620	1,407	2,518
Total liabilities	304,907	160,470	390,744
Stockholders' equity:			
Preferred stock	-	-	-
Common stock	400	100	1,450
Additional paid-in capital	3,122	1,719	8,020
Retained earnings	28,070	17,935	29,952
Treasury stock	-	-	-
Accumulated other comprehensive income (loss)	(3,984)	(5,745)	(6,686)
Total stockholders' equity	27,608	14,009	32,736
Total liabilities and stockholders' equity	$332,515	$174,479	$423,480

Consolidating Schedule – Balance Sheet
(000s omitted except share data)

State Bank	Lena State Bank	State Bank of Herscher	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$6,153	$1,522	$3,804	$194	$(194)	$22,168
303	53	14,812	6,592	(26,191)	20,828
18	-	701	-	-	2,722
-	594	742	-	-	4,511
74,157	29,305	69,649	-	-	365,618
3,097	-	-	-	-	3,596
502	143	300	-	-	5,718
-	-	-	-	-	990
292,029	61,711	70,005	-	-	1,069,450
-	-	-	-	-	-
1,409	260	1,665	4,109	-	17,525
1,643	1,153	5,026	4,222	-	24,644
6,558	3,383	3,722	1,103		36,958
-	-	-	129,145	(129,145)	-
$385,869	$98,124	$170,426	$145,365	$(155,530)	$1,574,728

$43,002	$8,485	$43,732	$ -	$(194)	$256,205
290,476	75,463	111,042	-	(26,191)	1,101,352
333,478	83,948	154,774	-	(26,385)	1,357,557
-	1,153	-	-	-	1,153
14,648	-	-	-	-	31,554
4,276	2,750	-	-	-	25,954
1,969	1,606	1,025	4,502	-	17,647
354,371	89,457	155,799	4,502	(26,385)	1,433,865
-	-	-	-	-	-
1,000	500	400	1,020	(3,850)	1,020
4,879	3,803	18,005	11,432	(39,548)	11,432
32,390	7,166	2,744	174,826	(118,257)	174,826
-	-	-	(13,905)	-	(13,905)
(6,771)	(2,802)	(6,522)	(32,510)	32,510	(32,510)
31,498	8,667	14,627	140,863	(129,145)	140,863
$385,869	$98,124	$170,426	$145,365	$(155,530)	$1,574,728

Consolidating Schedule – Statement of Income

(000s omitted except share data)

December 31, 2023

	German American State Bank	State Bank of Davis	Northwest Bank
Interest and dividend income:			
Loans, including fees	$13,734	$5,070	$18,009
Debt securities:			
Taxable	865	1,169	1,257
Tax-exempt	515	369	175
Interest-bearing deposits in banks and other	432	173	734
Federal funds sold	44	20	58
Total interest and dividend income	15,590	6,801	20,233
Interest expense:			
Deposits	5,118	1,983	5,220
Federal funds purchased	7	3	16
Securities sold under agreements to repurchase	-	28	160
FHLB and other borrowings	146	68	335
Total interest expense	5,271	2,082	5,731
Net interest and dividend income	10,319	4,719	14,502
Provision for credit losses	410	165	472
Net interest and dividend income, after provision for credit losses	9,909	4,554	14,030
Noninterest income:			
Customer service fees	224	59	613
Equity in earnings of subsidiaries	-	-	-
(Loss) gain on sales and calls of AFS securities, net	(3)	(52)	(32)
Gain on sale of loans, net	-	-	611
Loan servicing fees, nett	-	-	804
Bank owned life insurance	97	48	162
ATM / interchange fees	732	226	710
Other	697	220	660
Total noninterest income	1,747	501	3,528
Noninterest expense:			
Salaries and employee benefits	4,087	1,270	5,221
Occupancy expense of premises, net	490	132	846
Outside services	930	480	1,472
Data processing	1,164	580	1,236
Foreclosed assets and other real estate owned, net	(37)	-	-
Other	1,907	584	1,752
Total noninterest expenses	8,541	3,046	10,527
Income before income taxes	3,115	2,009	7,031
Income tax expense	690	437	1,828
Net income	$2,425	$1,572	$5,203

Consolidating Schedule – Statement of Income
(000s omitted except share data)

State Bank	Lena State Bank	State Bank of Herscher	Foresight Financial Group, Inc.	Eliminations	Consolidated Total
$16,179	$3,356	$3,571	$ -	$ -	$59,919
1,375	478	1,143	-	-	6,287
416	166	294	-	-	1,935
168	109	904	19	(341)	2,198
26	17	23	-	-	188
18,164	4,126	5,935	19	(341)	70,527
5,635	1,184	1,003	-	(341)	19,802
43	6	3	-	-	78
480	-	-	-	-	668
120	39	-	-	-	708
6,278	1,229	1,006	-	(341)	21,256
11,886	2,897	4,929	19	-	49,271
(42)	100	-	-	-	1,105
11,928	2,797	4,929	19	-	48,166
92	75	92	-	-	1,155
0	0	0	16,777	(16,777)	-
(40)	(58)	-	-	-	(185)
-	-	-	-	-	611
-	-	10	-	-	814
41	26	112	99	-	585
232	80	175	-	-	2,155
915	58	146	5,477	(5,752)	2,421
1,240	181	535	22,353	(22,529)	7,556
3,287	625	1,699	6,438	-	22,627
273	83	264	273	(63)	2,298
764	336	400	238	(3,309)	1,311
965	399	611	451	(2,381)	3,025
-	(1)	-	(5)	-	(43)
996	300	487	1,358	-	7,384
6,285	1,742	3,461	8,753	(5,753)	36,602
6,883	1,236	2,003	13,619	(16,776)	19,120
1,794	297	455	(927)	-	4,574
$5,089	$939	$1,548	$14,546	$(16,776)	$14,546

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