First Bankers Trustshares, Inc.

2023 Annual Report

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Corporate Description

First Bankers Trustshares, Inc. (FBTI) is a bank holding company for First Bankers Trust Company, N.A., FBIL Statutory Trust II and FBIL Statutory Trust III. The Company was incorporated on August 25, 1988 and is headquartered in Quincy, Illinois.

First Bankers Trustshares' mission, through its subsidiaries, is to provide comprehensive financial products and services to its retail, institutional, and corporate customers.

First Bankers Trust Company, N.A. , a community-oriented financial institution which traces its beginnings to 1946, operates 9 banking facilities in Adams, Hancock, McDonough, Sangamon and Schuyler counties in West Central Illinois and one loan production office in St. Clair county Illinois.

FBIL Statutory Trust II and FBIL Statutory Trust III were capitalized in September 2003 and August 2004, respectively, for the purpose of issuing Company Obligated Mandatorily Redeemable Preferred Securities.

For additional financial information contact:
Allen W. Shafer, President and CEO
First Bankers Trustshares, Inc.
(217) 228-8000

Stockholder Information

Common shares authorized:	6,000,000
Common shares outstanding as of December 31, 2023:	2,994,973
Certificate holders of record:	218*

*As of December 31, 2023

Inquiries regarding transfer requirements, lost certificates, changes of address and account status should be directed to the corporation's transfer agent:

Equiniti, LLC
6201 15th Avenue
Brooklyn, NY 11219

Corporate Address

First Bankers Trustshares, Inc.
1201 Broadway
P.O. Box 3566
Quincy, IL 62301

Independent Auditors

RSM US LLP
201 1rd St. SE, Ste. 800
Cedar Rapids, IA 52401

General Counsel

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, TX 75201-2784

First Bankers Trustshares, Inc. Board of Directors

Donald K. Gnuse
Board Member Emeritus, First Bankers Trustshares, Inc.
Carl Adams, Jr.
Chairman, Illinois Ayers Oil Company
Director, TI Trust, Inc.
Scott A. Cisel
Strategic Advisor to Energy Internet Corporation
President of Cisel Consulting, LLC
William D. Daniels
Chairman of the Board, First Bankers Trustshares, Inc.
Chairman of the Board, First Bankers Trust Company, N.A.
Member, Harborstone Group, LLC
Mark E. Freiburg
Owner, Freiburg Insurance Agency & Freiburg Development
Owner, Diamond Construction, Inc.
Owner, Maxamillion, Inc.
Owner, Wink Drinks, Inc.
Charles M. Gnuse
President/CEO, United State Bank Lewistown, MO.
Arthur E. Greenbank
Former President/CEO, First Bankers Trust Company, N.A. and First Bankers Trustshares, Inc.
Steve Hassell
CEO, Atomation
Kurt Hofmeister
Partner North American Wiring Accessories
Kemia M. Sarraf, M. D., M.P.H.
CEO, Lodestar Consulting and Executive Coaching
Richard W. Schulte
Wright & Schulte, Attorney at Law
Allen W. Shafer
President/CEO, First Bankers Trust Company, N.A.
President/CEO, First Bankers Trustshares, Inc.
Steven E. Siebers
Attorney at Law, Schmiedeskamp, Robertson Neu & Mitchell
Director, Ti-Trust Inc.
Erin Wharton
CPA and Partner, Gray Hunter Stenn LLP

Secretary for the Board of Directors

Melinda A. Boyer

Executive Officers

Allen W. Shafer, *President and CEO*
Seth H. Runkle, CFO

First Bankers Trustshares, Inc. Stock Prices

(*For the three months period ended)*

Market Value	12/31/23	9/30/23	6/30/23	3/31/23	12/31/22
High	$19.00	$18.40	$22.40	$23.59	$27.00
Low	$12.85	$14.30	$18.10	$21.55	$22.75
Period End Close	$19.00	$14.60	$18.10	$22.40	$23.59

The following companies make a market in FBTI common stock:

Raymond James
225 S. Riverside Plz
Chicago, IL 60606
(800) 800-4693

Janney Montgomery Scott LLC
1475 Peachtree St. NE
Atlanta, GA 30309
(844) 273-2189

D.A. Davidson & Co.
75 West Front St.
Red Bank, NJ 07701
(866) 248-4051

Stifel Nicolas & Co., Inc.
501 N. Broadway
St. Louis, MO 63102
(800) 679-5446

Monroe Financial Partners
100 N. Riverside Plz
Chicago, IL 60606
(312) 327-2530

Board of Director Committees

The Audit and the Governance And Compensation Committees are chaired by a board member. They are given the necessary resources to lead their committees, monitor the committee actions, and report to the full Board the committee's activities. The committees are staffed with employees who have been carefully chosen to support the Board member chairperson and provide the expertise and support to allow the committee to accomplish its objective.

<u>THE COMMITTEES</u>

1. <u>Audit Committee</u>

   Chair: Charles M. Gnuse
   Board Members: Arthur E. Greenbank, William D. Daniels and Kemia M. Sarraf, M.D., M.P.H.

   The Audit Committee is comprised of independent Directors and assists the Board with its oversight of the systems and procedures relating to the Company's financial reporting process, internal accounting and financial controls, and risk management program. The Committee also assists with the administration and monitoring of the internal audit process, the annual independent audit of the Company's annual financial statements, and the Company's compliance with legal and regulatory requirements. The qualification, independence and performance of the Company's independent, registered public accounting firm, are also monitored by the Committee.

2. <u>Governance And Compensation Committee (HR)</u>

   Chair: Scott A. Cisel
   Board Members: Carl Adams, Jr., Richard W. Schulte and Steven E. Siebers

   This is a Holding Company committee with the following responsibilities: address corporate governance matters; establish qualifications and independence requirements for Directors; recommend nominees for election to the Board; approve a management succession policy and review the identified candidates; oversee employee compensation and benefit plans; approve incentive compensation arrangements; and assess the contributions of current Directors. This committee will meet at least four times a year.

William D. Daniels
Chairman of the Board

Allen W. Shafer
President and CEO

Dear Stockholders of First Bankers Trustshares, Inc.,

We are pleased to report that 2023 was a year of significant progress for First Bankers Trustshares, Inc. The Company continued to recognize the benefits of ongoing loan growth in a year that also saw the most rapid increase in interest rates on record. While the higher interest rate environment has meant community banks have faced short-term margin pressures associated with an increase in funding costs, we are excited about the long-term value being created through our expanded lending business.

The Company's focus on the long-term has meant investments in new markets have started to show significant progress. In 2023 we hired a market president to start a commercial banking center in St. Charles, Missouri, further building our lending footprint in the Metro St. Louis market, this after opening a banking center in O'Fallon, Illinois the previous year. We also announced the sale of a portfolio of mortgage servicing rights, a transaction that closed in the fourth quarter and that will be accretive to earnings 2024. This was an important step to allow capital and resources to be directed toward higher growth, higher margin products going forward.

The following insights, as well as additional details on the Company's performance can be found in the following pages:

- Net income of $5.4 Million
- Earnings per Share of $1.81
- Loans growing to a record $599 Million, up 9%

Looking ahead, we expect the interest rate environment will continue to be front and center over the near term, providing both opportunities and challenges. We feel well positioned to capitalize on the growth initiatives we have undertaken, which will be a catalyst for future earnings.

We look forward to seeing you at the annual meeting on Tuesday, May 14, 2024. The meeting will be held at the corporate headquarters located at 1201 Broadway, Quincy, Illinois. The meeting will start at 9:00 a.m.

Thank you for your continued confidence and ongoing investment in First Bankers Trustshares, Inc.

William D. Daniels

William D. Daniels
Chairman of the Board
First Bankers Trustshares, Inc.

Allen W Shafer

Allen W. Shafer
President and CEO
First Bankers Trustshares, Inc.

Selected Financial Data (unaudited)

(Amounts in Thousands of Dollars, Except Per Share Data Statistics)

*

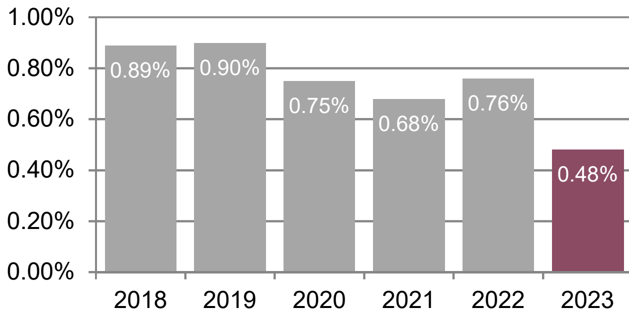
Year Ended December 31,	2023	2022	2021	2020	2019	2018
PERFORMANCE						
Net income	$ 5,407	$ 8,823	$ 8,170	$ 7,843	$ 8,319	$ 8,382
Common stock cash dividends paid	$ 2,393	$ 2,316	$ 2,223	$ 2,101	$ 1,977	$ 1,852
Common stock cash dividend payout ratio	44.26%	26.25%	27.21%	26.79%	23.77%	22.10%
Return on average assets	0.48%	0.76%	0.68%	0.75%	0.90%	0.89%
Return on average adjusted common stockholders' equity [1]	4.94%	8.33%	8.13%	8.24%	8.99%	9.40%
PER COMMON SHARE						
Earnings, basic and diluted	$ 1.81	$ 2.92	$ 2.64	$ 2.54	$ 2.69	$ 2.72
Dividends paid on common stock	$ 0.80	$ 0.76	$ 0.72	$ 0.68	$ 0.64	$ 0.60
Adjusted book value [2]	$ 37.05	$ 35.78	$ 33.46	$ 31.54	$ 29.68	$ 29.79
Stock price						
High	$ 23.59	$ 31.45	$ 32.00	$ 33.00	$ 36.00	$ 37.95
Low	$ 12.85	$ 22.75	$ 27.75	$ 24.75	$ 30.25	$ 30.01
Close	$ 19.00	$ 23.59	$ 31.45	$ 27.75	$ 31.20	$ 32.00
Price/Earnings per share (at period end)	10.5	8.1	11.9	10.9	11.6	11.8
Market price/Adjusted book value (at period end)	0.51	0.66	0.94	0.88	1.05	1.07
Weighted average number of shares outstanding	2,993,687	3,027,147	3,089,997	3,093,398	3,089,247	3,087,488
AT DECEMBER 31,						
Assets	$ 1,148,708	$ 1,118,117	$ 1,226,137	$ 1,117,675	$ 922,579	$ 930,044
Investment securities	445,249	483,311	667,157	542,170	345,140	357,311
Loans held for sale	189	211	-	-	169	38
Loans (prior to allowance)	598,647	551,269	478,398	485,153	500,599	480,792
Deposits	971,432	913,551	978,624	853,302	727,656	733,435
Short-term borrowings and Federal Home Loan Bank advances	94,917	130,478	126,273	137,904	81,572	88,559
Junior subordinated debentures	10,310	10,310	10,310	10,310	10,310	10,310
Adjusted stockholders' equity [3]	$ 110,959	$ 106,844	$ 103,214	$ 97,606	$ 91,711	$ 91,968
Adjusted equity to total assets [3]	9.66%	9.56%	8.42%	8.73%	9.94%	9.89%
Common Equity Tier 1 capital ratio (risk based)	14.73%	15.28%	16.14%	15.78%	14.98%	14.89%
Tier 1 capital ratio (risk based)	16.10%	16.75%	17.76%	17.45%	16.67%	16.58%
Total capital ratio (risk based)	17.35%	18.01%	19.01%	18.71%	17.93%	17.84%
Leverage ratio	10.13%	9.89%	8.62%	9.34%	10.79%	10.50%

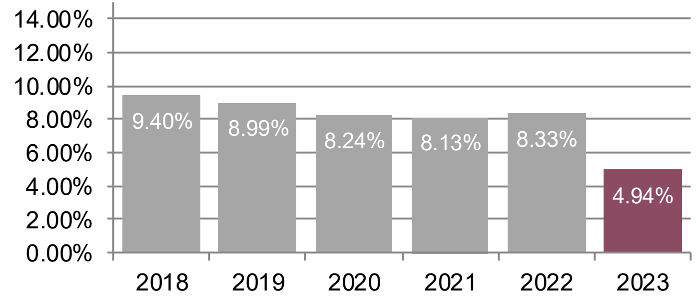
1 Return on average common stockholders' equity is calculated by dividing net income by average common stockholders' equity. Common stockholders' equity is defined as equity less accumulated other comprehensive income or loss.

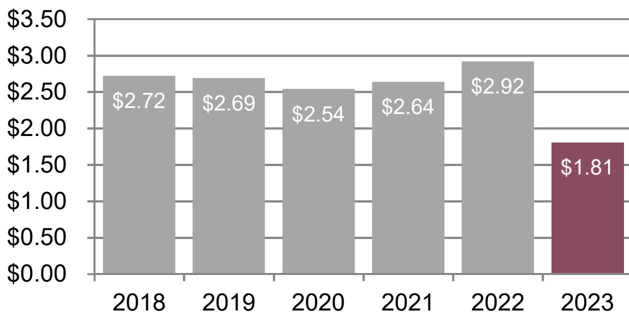
2 Adjusted book value per share is calculated by dividing stockholders' equity, excluding accumulated other comprehensive income or loss, by outstanding common shares.

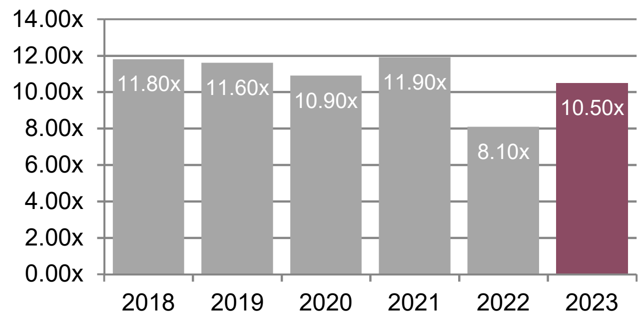
3 Stockholders' equity excludes accumulated other comprehensive income or loss.

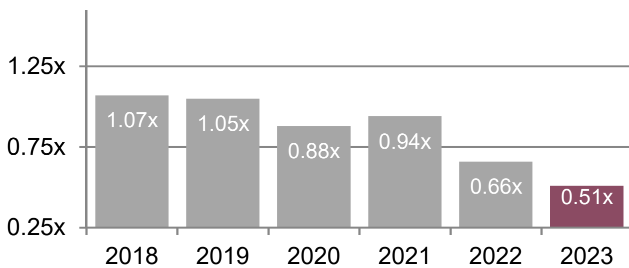
** This table includes results of discontinued operations through June 30, 2019.*

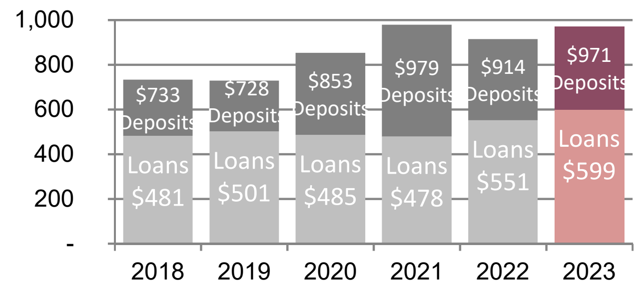












See explanation for adjusted book value and adjusted common stockholders' equity on previous page.

Management's Report for FDICIA Requirements

Management Report

In this management report, the following subsidiary institutions of the First Bankers Trustshares, Inc. and its subsidiaries (the Company) that are subject to Part 363 are included in the statement of management's responsibilities; the report on management's assessment of compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions; and the report on management's assessment of internal control over financial reporting: First Bankers Trust Company, N.A.

Statement of Management's Responsibilities

The management of the Company is responsible for preparing the Company's annual financial statements in accordance with accounting principles generally accepted in the United States of America; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, state laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2023. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2023.

Management's Assessment of Internal Control over Financial Reporting

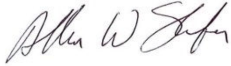
The Company's internal control over financial reporting is a process effected by those charged with governance, management and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C), as of December 31, 2023, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework in 2013. Based upon its assessment, management has concluded that, as of December 31, 2023, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C), is effective based on the criteria established in Internal Control—Integrated Framework issued in 2013.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C), as of December 31, 2023, has been audited by RSM US LLP, an independent public accounting firm, as stated in their report dated March 4, 2024.

First Bankers Trustshares, Inc.



Allen W. Shafer
Chief Executive Officer

Seth H. Runkle
Chief Financial Officer
First Bankers Trustshares, Inc.

Introduction

The following discussion of the financial condition and results of operations of First Bankers Trustshares, Inc. provides an analysis of the consolidated financial statements and focuses upon those factors which had a significant influence on the overall 2023 performance.

The discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this Annual Report.

The Company was incorporated on August 25, 1988, and acquired First Midwest Bank/M.C.N.A. (the Bank) on June 30, 1989. The Bank acquisition was accounted for using purchase accounting. Prior to the acquisition of the Bank, the Company did not engage in any significant business activities.

Financial Management

The business of the Company is that of a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves.

The Company attracts deposits from the general public and uses such deposits, together with borrowings and other funds, to originate one-to-four family residential mortgage loans, consumer loans, business loans and agricultural loans in its primary market area. The Company also invests in investment securities consisting primarily of U.S. government or agency obligations, mortgage-backed securities, financial institution certificates of deposit, and other liquid assets.

The Company's goal is to achieve consistently high levels of earning assets and loan/deposit ratios while maintaining effective expense control and high customer service levels. The term "high level" means the ability to profitably increase earning assets. As deposits have become fully deregulated, sustained earnings enhancement has focused on "earning asset" generation. The Company will focus on lending money profitably, controlling credit quality, net interest margin, operating expenses and on generating fee income from banking operations.

Consolidated Balance Sheet Summary *(Amounts in Thousands of Dollars)*

*	2023	Change	2022	Change	2021	2020	2019	2018
Assets								
Cash and due from banks:								
Non-interest bearing	$ 12,937	(23.38%)	$ 16,885	139.57%	$ 7,048	$ 9,602	$ 9,274	$ 9,014
Interest bearing	33,964	224.33	10,472	(73.09)	38,918	43,078	22,551	28,616
Securities	445,249	(7.88)	483,311	(27.56)	667,157	542,170	345,140	357,311
Federal funds sold	775	11.19	697	(60.47)	1,763	7,382	13,031	16,706
Loans held for sale	189	(10.43)	211	0.00	-	-	169	38
Net loans	588,741	8.93	540,462	15.74	466,949	472,996	488,811	467,993
Other assets	66,853	1.17	66,079	49.16	44,302	42,447	43,603	50,366
TOTAL	$ 1,148,708	2.74%	$ 1,118,117	(8.81%)	$ 1,226,137	$ 1,117,675	$ 922,579	$ 930,044
Liabilities & Stockholders' Equity								
Deposits	$ 971,432	6.34%	$ 913,551	(6.65%)	$ 978,624	$ 853,302	$ 727,656	$ 733,435
Short-term borrowings	64,917	(24.05)	85,478	(28.74)	119,950	132,581	80,533	88,559
Federal Home Loan Bank advan	30,000	(33.33)	45,000	611.69	6,323	5,323	1,039	-
Junior subordinated debentures	10,310	-	10,310	-	10,310	10,310	10,310	10,310
Other liabilities	9,946	38.41	7,186	40.93	5,099	7,084	5,722	8,594
Stockholders' equity	62,103	9.74	56,592	(46.53)	105,831	109,075	97,319	89,146
TOTAL	$ 1,148,708	2.74%	$ 1,118,117	(8.81%)	$ 1,226,137	$ 1,117,675	$ 922,579	$ 930,044

* This table includes discontinued operations for 2018 through June 30, 2019.

At December 31, 2023, the Company had assets of $1,148,708,000 compared to $1,118,117,000 at December 31, 2022. The increase in assets is primarily made up of an increase in loans of $48,279,000 (8.93%) and an increase in cash due from banks of $19,544,000 (71.44%) and offset by a decrease in securities of $38,062,000 (7.88%). These assets were funded by an increase in deposits of $57,881,000 (6.34%). The increased deposits were also used to reduce short-term borrowings of $20,561,000 (24.05%) and pay down Federal Home Loan Bank advances of $15,000,000 (33.33%).

Approximately $17,697,000 of fixed rate long-term residential real estate loans were sold in the secondary market during 2023, while $45,082,000 were sold in 2022. No agricultural real estate loans were sold in the secondary market during 2023, while $5,422,000 were sold in 2022. Management continues to place emphasis on the quality versus the quantity of the credits placed in the portfolio.

In the fourth quarter of 2023 the Company entered into an agreement to sell the majority of its residential mortgage servicing rights. The financial impact of the transaction is expected to be accretive to earnings in 2024 and is not material.

Results of Operations Summary

The Company's earnings are primarily dependent on net interest income, the difference between interest income and interest expense. Interest income is a function of the balances of loans, securities and other interest earning assets outstanding during the period and the yield earned on such assets. Interest expense is a function of the balances of deposits and borrowings outstanding during the same period and the rates paid on such deposits and borrowings. The Company's earnings are also affected by credit loss expense (recovery), service charges, other non-interest income, and expense and income taxes. Non-interest expense consists primarily of employee compensation and benefits, occupancy and equipment expenses and general and administrative expenses.

Prevailing economic conditions as well as federal regulations concerning monetary and fiscal policies as they pertain to financial institutions significantly affect the Company. Deposit balances are influenced by a number of factors including interest rates paid on competing personal investments and the level of personal income and savings within the institution's market. In addition, growth of deposit balances is influenced by the perceptions of customers regarding the stability of the financial services industry. Lending activities are influenced by the demand for housing, competition from other lending institutions, as well as interest rate levels. The primary sources of funds for lending activities include deposits, loan payments, borrowings and funds provided from operations.

For the year ended December 31, 2023, the Company reported consolidated net income of $5,407,000, a $3,416,000 (38.72%) decrease from 2022. Net interest income decreased $4,394,000 (15.89%), other income increased $772,000 (10.97%), other expenses decreased $113,000 (.47%), and income tax expense decreased $1,163,000 (51.87%). The credit loss expense (recovery) increased $1,070,000 (214.00%).

Analysis of Net Income

The Company's assets are primarily comprised of interest earning assets including commercial, agricultural, consumer and real estate loans, as well as federal funds sold, interest bearing deposits in banks and securities. Average earning assets equaled $1,114,375,000 for the year ended December 31, 2023. A combination of interest bearing and non-interest bearing deposits, securities sold under agreement to repurchase, other borrowings and capital funds are employed to finance these assets.

Consolidated Income Summary *(Amounts in Thousands of Dollars)*

*	2023	Change	2022	Change	2021	2020	2019	2018
Interest income	$ 40,398	29.78%	$ 31,127	15.82%	$ 26,875	$ 30,534	$ 32,761	$ 32,075
Interest expense	(17,143)	392.90	(3,478)	26.43	(2,751)	(4,616)	(6,432)	(5,334)
Net interest income	23,255	(15.89)	27,649	14.61	24,124	25,918	26,329	26,741
Credit loss expense (recovery)	(570)	(214.00)	500	(13.79)	580	(2,400)	(2,400)	(6,550)
Net interest income after credit loss expense (recovery)	22,685	(19.41)	28,149	13.95	24,704	23,518	23,929	20,191
Other income	7,812	10.97	7,040	(15.48)	8,329	7,519	13,153	17,524
Other expenses	(24,011)	(0.47)	(24,124)	5.99	(22,760)	(21,009)	(26,538)	(27,349)
Income before taxes	6,486	(41.38)	11,065	7.71	10,273	10,028	10,544	10,366
Income tax expense	(1,079)	(51.87)	(2,242)	6.61	(2,103)	(2,185)	(2,225)	(1,984)
NET INCOME	$ 5,407	(38.72)%	$ 8,823	7.99%	$ 8,170	$ 7,843	$ 8,319	$ 8,382

* This table includes results of discontinued operations through June 30, 2019.

Years Ended December 31,	2023	2022	2021
(Amounts in Thousands of Dollars)			
Interest income	$ 39,755	$ 30,457	$ 24,485
Loan fees	643	670	2,390
Interest expense	(17,143)	(3,478)	(2,751)
NET INTEREST INCOME	$ 23,255	$ 27,649	$ 24,124
Average earning assets	$ 1,114,375	$ 1,140,052	$ 1,145,775
Net interest margin	2.09%	2.43%	2.11%

The yield on average earning assets for the year ended December 31, 2023 was 3.63%, while the average cost of funds for the same period was 1.88% on average interest bearing liabilities of $910,499,000. The yield on average earning assets for the year ended December 31, 2022 was 2.73%, while the average cost of funds for the same period was 0.38% on average interest bearing liabilities of $913,383,000.

The decrease in net interest income of $4,394,000 can be attributed to the 1.50% increase in the cost of funds, partially offset by the .90% increase in the yield on average earning assets. Average earning assets decreased by $25,677,000, while the average interest bearing liabilities decreased by $2,884,000.

Allowance for Credit Losses

The allowance for credit losses as a percentage of gross loans outstanding is 1.65% as of December 31, 2023, compared to 1.96% as of December 31, 2022. Net loan charge-offs totaled $198,000 for the year ended December 31, 2023 compared to $142,000 in 2022.

The amounts recorded in the credit loss expense (recovery) are determined from management's quarterly evaluation of the quality of the loan portfolio. In this review, such factors as the volume and character of the loan portfolio, general economic conditions, past credit loss experience and forecasted credit losses are considered. Management believes that the allowance for credit losses is adequate to provide for possible losses in the portfolio as of December 31, 2023.

Other Income

Other income may be divided into two broad categories – recurring and non-recurring. Service charges on deposit accounts is a major source of recurring other income. Investment securities gains and other income vary annually. Other income for the year ended December 31, 2023 was $7,812,000, an increase of $722,000 (10.97%) from 2022, with a majority of the difference related to an increase service fees and debit card income and a decrease in loss on securities sales.

Other Expense

Other expense for the year ended December 31, 2023 totaled $24,011,000 an decrease of $113,000 (0.47%) from 2022. Salaries and employee benefits expense aggregated 61.04% and 60.43% of total other expense for the years ended December 31, 2023 and 2022, respectively.

Non-Accrual and Past Due Loans, Leases and Other Real Estate Owned

(Amounts in Thousands of Dollars)

As of December 31,	2023	2022	2021	2020	2019	2018
Non-accrual loans and leases	$ 10,604	$ 7,634	$ 8,634	$ 12,063	$ 6,503	$ 12,568
Other real estate owned (OREO)	80	-	400	-	377	681
Total non-accrual loans and OREO	$ 10,684	$ 7,634	$ 9,034	$ 12,063	$ 6,880	$ 13,249
Loans and leases past due 90 days or more and still accruing interest	-	42	3	447	11	-
TOTAL	$ 10,684	$ 7,676	$ 9,037	$ 12,510	$ 6,891	$ 13,249

Income Taxes

The Company files its federal income tax return on a consolidated basis with the Bank. See Note 12 for detail of income taxes.

Liquidity

The concept of liquidity comprises the ability of an enterprise to maintain sufficient cash flow to meet its needs and obligations on a timely basis. Bank liquidity must thus be considered in terms of the nature and mix of the institution's sources and uses of funds.

Bank liquidity is provided from both assets and liabilities. The asset side provides liquidity through regular maturities of investment securities and loans. Investment securities with maturities of one year or less, deposits with banks and federal funds sold are a primary source of asset liquidity. On December 31, 2023, these categories totaled $64,319,000 or 5.60% of assets, compared to $44,639,000 or 3.99% the previous year.

As of December 31, 2023 and 2022, securities held to maturity had $484,000 and $37,000, respectively, of gross unrealized gains and $5,338,000 and $6,003,000, respectively, of unrealized losses, on securities which management intends to hold until maturity. Such amounts are not expected to have a material effect on future earnings beyond the usual amortization of premium and accretion of discount.

Closely related to the management of liquidity is the management of rate sensitivity (management of variable rate assets and liabilities), which focuses on maintaining stable net interest margin, an important factor in earnings growth and stability. Emphasis is placed on maintaining an evenly balanced rate sensitivity position to avoid wide swings in margins and minimize risk due to changes in interest rates.

As market interest rates move up or down, the change in the fair value of available-for-sale securities is recognized on a tax adjusted basis as an unrealized gain or loss, through equity as Other Comprehensive Income. In 2023, market interest rates remained elevated though were lower, on average, versus 2022. Gains or losses are not realized until and unless a security is sold. No loss is realized if the security is held to maturity. Security sales may be used for liquidity purposes, though Management believes the Company has sufficient liquidity to fund operations and continued growth without significant, if any, security sales.

The Company's Asset/Liability Committee is charged with the responsibility of prudently managing the volumes and mixes of assets and liabilities of the subsidiary bank.

Management believes that it has structured its pricing mechanisms such that the net interest margin should maintain acceptable levels in 2024, regardless of the changes in interest rates that may occur.

The following table shows the repricing period for interest-earning assets and interest-bearing liabilities and the related repricing gap:

	Through One Year	After One Year through Five Years	After Five Years
(Amounts in Thousands of Dollars)			
Interest-earning assets	$ 215,174	$ 381,095	$ 493,842
Interest-bearing liabilities	$ 825,776	$ 50,114	$ 10,310
Repricing gap *(repricing assets minus repricing liabilities)*	$(610,602)	$ 330,981	$ 483,532

Repricing Period as of December 31, 2022

	Through One Year	After One Year through Five Years	After Five Years
(Amounts in Thousands of Dollars)			
Interest-earning assets	$ 151,693	$ 365,889	$ 546,026
Interest-bearing liabilities	$ 861,241	$ 22,778	$ 10,310
Repricing gap *(repricing assets minus repricing liabilities)*	$ (709,548)	$ 343,111	$ 535,716

Insured Deposits

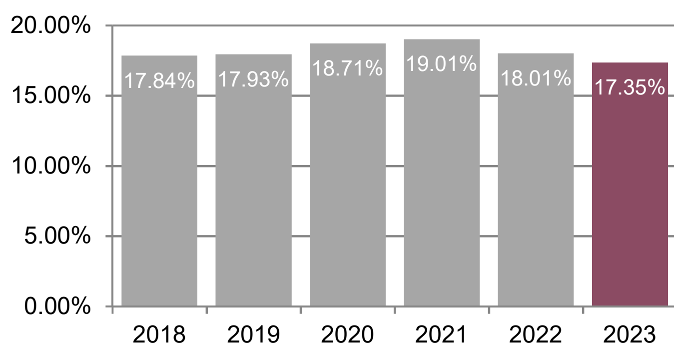
Safeguarding customer deposits is one of the Company's most important responsibilities and priorities. The Company has a broad base of customers, with deposits held from retail consumers, businesses and public funds. Public Fund deposits above FDIC insurance levels are collateralized by securities. As of December 31, 2023, 57% of deposits were insured and 78% were either insured or collateralized by securities, compared to 56% insured and 77% either insured or collateralized by securities as of December 21, 2022.

Capital

The ability to generate and maintain capital at adequate levels is critical to the Company's long-term success. A common measure of capitalization for financial institutions is primary capital as a percent of total assets.

Regulations also require the Company and Bank to maintain certain minimum capital levels in relation to consolidated Company assets. Regulations require a minimum ratio of capital to risk-weighted assets of 8%.

The Company's capital, as defined by regulation, was 17.35% of risk-weighted assets as of December 31, 2023. In addition, a leverage ratio of at least 4.00% is to be maintained. As of December 31, 2023, the Company's leverage ratio was 10.13%.



Asset Liability Management

Since changes in interest rates may have a significant impact on operations, the Company has implemented, and currently maintains, an asset liability management committee at the Bank to monitor and react to the changes in interest rates and other economic conditions. Research concerning interest rate risk is supplied by the Company from information received from a third-party source. The committee acts upon this information by adjusting pricing, fee income parameters and/or marketing emphasis.

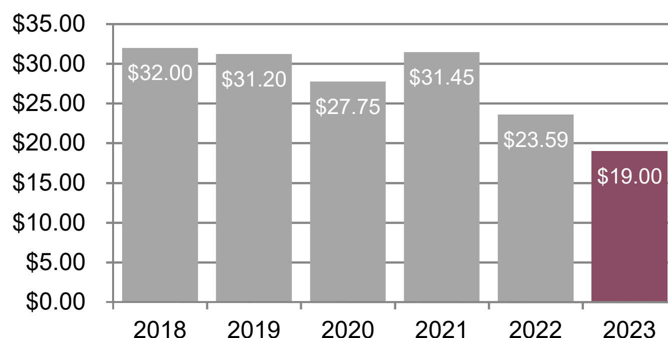
Derivatives

The Company uses derivatives to manage exposure to market risk, including interest rate risk. Derivatives are recorded at fair value. Volume is measured via notional amounts, which are not exchanged, but used as the basis on which interest and other payments are determined. The Company uses its debt portfolio and interest rate derivatives to manage interest rate risk exposure. As interest rates increase, changes in the fair value of AFS securities may negatively affect Accumulated Other Comprehensive Income (AOCI). In 2023 the Company entered into interest rate swap hedges to reduce AOCI sensitivity to the AFS debt portfolio.

Common Stock Information and Dividends

The Company's common stock is held by 218 certificate holders as of December 31, 2023, and is traded in a limited over-the-counter market.

On December 31, 2023 the market price of the Company's common stock was $19.00. Market price is based on stock transactions in the market. Dividends on common stock of approximately $2,424,000 were declared by the Board of Directors of the Company for the year ended December 31, 2023, versus $2,328,000 for the year ended December 31, 2022.



Financial Report

Upon written request of any stockholder of record on December 31, 2023, the Company will provide, without charge, a copy of its 2023 Annual Report.

Notice of Annual Meeting of Stockholders

The annual meeting of stockholders will be Tuesday, May 14, 2024 at 9:00 a.m. at the corporate headquarters, 1201 Broadway, Quincy Illinois.

RSM US LLP

Independent Auditor's Report

Audit Committee
First Bankers Trustshares, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of First Bankers Trustshares, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 4, 2024 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with 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 other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

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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.

- 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.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises selected financial data and management's discussion and analysis of financial condition and results of operations included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

RSM US LLP

Cedar Rapids, Iowa
March 4, 2024

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Independent Auditor's Report

Audit Committee
First Bankers Trustshares, Inc.

Opinion on Internal Control Over Financial Reporting
We have audited First Bankers Trustshares, Inc. and its subsidiaries' (the Company) internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO in 2013.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the consolidated financial statements of the Company, and our report dated March 4, 2024 expressed an unmodified opinion.

Basis for Opinion
We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting" section of our audit 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.

Responsibilities of Management for Internal Control Over Financial Reporting
Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report for FDICIA Requirements.

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting
Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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Definition and Inherent Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that the receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Restriction on Use

This report is intended solely for the information and use of the Audit Committee, Board of Directors and management of the Company, and the Federal Deposit Insurance Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP

Cedar Rapids, Iowa
March 4, 2024

Consolidated Balance Sheets
(Amounts in Thousands of Dollars, Except Share and Per Share Data)

December 31,	2023	2022
ASSETS		
Cash and due from banks		
Non-interest bearing	$ 12,937	$ 16,885
Interest bearing	33,964	10,472
Total cash and due from banks	46,901	27,357
Securities held to maturity (net of allowance for credit losses:2023 $3 and 2022 $0)	115,131	119,598
Securities available for sale	330,118	363,713
Federal funds sold	775	697
Loans held for sale	189	211
Loans	598,647	551,269
Less allowance for credit losses	(9,906)	(10,807)
Net loans	588,741	540,462
Premises, furniture and equipment, net	11,190	11,474
Accrued interest receivable	5,989	4,622
Life insurance contracts	19,015	18,492
Goodwill and intangibles	3,084	3,088
Other assets	27,575	28,403
Total Assets	$ 1,148,708	$ 1,118,117
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing demands	$ 190,429	$ 160,010
Interest bearing demand	482,979	500,843
Savings	89,271	106,660
Time	208,753	146,038
Total deposits	971,432	913,551
Securities sold under agreements to repurchase	64,917	85,478
FHLB Advances	30,000	45,000
Junior subordinated debentures	10,310	10,310
Accrued interest payable	1,812	428
Other liabilities	8,134	6,758
Total Liabilities	1,086,605	1,061,525
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Common stock, $1 par value; shares authorized 6,000,000; shares issued 3,605,725 and outstanding: 2023 2,994,973 and 2022 2,986,281 shares	3,606	3,606
Additional paid in capital	1,742	1,685
Retained earnings	116,031	112,121
Accumulated other comprehensive (loss)	(48,856)	(50,252)
Treasury stock, at cost: 2023 610,752 and 2022 619,444 shares	(10,420)	(10,568)
Total Stockholders' Equity	62,103	56,592
Total Liabilities And Stockholders' Equity	$ 1,148,708	$ 1,118,117

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

(Amounts in Thousands of Dollars, Except Share and Per Share Data)

Year Ended December 31,	2023	2022
INTEREST INCOME		
Loans, including fee income:		
Taxable	$ 28,358	$ 21,101
Non-taxable	339	449
Securities:		
Taxable	8,301	7,494
Non-taxable	1,560	1,577
Other	1,840	506
Total interest income	40,398	31,127
INTEREST EXPENSE		
Deposits:		
Interest bearing demand and savings	5,518	1,683
Time	7,131	693
Total interest on deposits	12,649	2,376
Junior subordinated debentures	840	479
Other	3,654	623
Total interest expense	17,143	3,478
Net interest income	23,255	27,649
Credit loss expense (recovery)	570	(500)
Net interest income after credit loss expense (recovery)	22,685	28,149
OTHER INCOME		
Service charges on deposit accounts	1,221	1,150
Gain on sale of loans	312	578
Investment securities (losses) net	-	(643)
Other	6,279	5,955
Total other income	7,812	7,040
OTHER EXPENSES		
Salaries and employee benefits	14,656	14,578
Occupancy expense	1,279	1,252
Equipment expense	397	464
Computer processing	2,036	2,774
Professional services	739	513
Other	4,904	4,543
Total other expenses	24,011	24,124
Income before income taxes	6,486	11,065
Income taxes	1,079	2,242
Net income	$ 5,407	$ 8,823
Earnings per share of common stock, basic and diluted	$ 1.81	$ 2.92
Average common shares outstanding	2,993,687	3,027,147

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(Amounts In Thousands of Dollars)

Year Ended December 31,	2023	2022
Net income	$ 5,407	$ 8,823
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the year before tax	2,573	(51,295)
Unrealized holding (losses) on debt securities transferred from available for sale to held to maturity, net of amortization	-	(23,290)
Amortization of unrealized holding losses on debt securities transferred from available for sale to held to maturity	1,571	-
Reclassification adjustment for (losses) included in net income before tax	-	(643)
Change in unrealized gains (losses) on securities available for sale	4,144	(73,942)
Unrealized (losses) on fair value hedges:		
Unrealized holding gains (losses) on fair value hedges arising during the year before tax	(2,167)	-
Change in unrealized gains (losses) on fair value hedges	(2,167)	-
Tax expense (benefit)	581	(21,073)
Other comprehensive income (loss), net of tax	1,396	(52,869)
Comprehensive income (loss)	$ 6,803	$ (44,046)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity
(Amounts in Thousands of Dollars, Except Share and Per Share Data)
Years Ended December 31, 2023 and 2022

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2021	$ 3,606	$ 1,543	$ 105,626	$ 2,617	$ (7,561)	$ 105,831
Net income	-	-	8,823	-	-	8,823
Other comprehensive (loss), net of tax	-	-	-	(52,869)	-	(52,869)
Restricted stock award	-	142	-	-	121	263
Treasury stock repurchased	-	-	-	-	(3,128)	(3,128)
Common stock dividends declared (amount per share $ .77)	-	-	(2,328)	-	-	(2,328)
Balance, December 31, 2022	$ 3,606	$ 1,685	$ 112,121	$ (50,252)	$ (10,568)	$ 56,592
Cumulative change in accounting principle, net of tax	$ -	$ -	$ 927	$ -	$ -	$ 927
Balance at January 1, 2023 (as adjusted for change in accounting principle)	3,606	1,685	113,048	(50,252)	(10,568)	57,519
Net income	-	-	5,407	-	-	5,407
Other comprehensive income, net of tax	-	-	-	1,396	-	1,396
Restricted stock award	-	57	-	-	148	205
Common stock dividends declared (amount per share $ .81)	-	-	(2,424)	-	-	(2,424)
Balance, December 31, 2023	$ 3,606	$ 1,742	$ 116,031	$ (48,856)	$ (10,420)	$ 62,103

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(Amounts in Thousands of Dollars)

Year Ended December 31,	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,407	$ 8,823
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit loss expense (recovery)	570	(500)
Depreciation	752	799
Amortization of intangibles	4	13
Restricted stock award	205	263
Amortization/accretion of premiums/discounts on securities, net	2,273	5,238
Investment securities losses, net	-	643
(Gain) on write down of other real estate	(14)	(247)
Proceeds on sale of other real estate	37	-
Loans originated for sale	(17,675)	(50,715)
Proceeds from loans sold	18,009	51,082
Gain on sale of loans	(312)	(578)
Deferred income (benefit) tax	21	27
(Increase) in accrued interest receivable and other assets	(1,599)	(867)
(Increase) in cash surrender value of life insurance contracts	(523)	(277)
Increase in accrued interest payable and other liabilities	562	2,075
Net cash provided by operating activities	7,717	15,779
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities portfolio:		
Purchases of securities available for sale	(9,843)	(92,481)
Purchases of securities held to maturity	-	(5,421)
Proceeds from sales of securities available for sale	-	118,149
Proceeds from calls, maturities and paydowns of securities available for sale	43,717	83,151
Proceeds from calls, maturities and paydowns of securities held to maturity	6,059	625
(Increase) in loans, net	(47,487)	(72,894)
(Increase) decrease in federal funds sold, net	(78)	1,066
Purchases of premises, furniture and equipment	(468)	(271)
Net cash (used in) provided by investing activities	(8,100)	31,924
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease (increase) in deposits, net	57,881	(65,073)
Cash dividends paid to common shareholders	(2,393)	(2,316)
Cash paid to purchase treasury stock	-	(3,128)
Increase in securities sold under agreement to repurchase, net	(20,561)	(34,472)
Proceeds from FHLB advances	652,000	599,500
Payments on FHLB Advances	(667,000)	(560,823)
Net cash provided by (used in) by financing activities	19,927	(66,312)
Net increase (decrease) in cash and due from banks	19,544	(18,609)
CASH AND DUE FROM BANKS		
Beginning cash	27,357	45,966
Ending cash	$ 46,901	$ 27,357

(Continued)

Consolidated Statements of Cash Flows (Continued)

(Amounts in Thousands of Dollars)

Year Ended December 31,	2023	2022
Supplemental disclosure of cash flow information, cash payments for:		
Interest	$ 15,759	$ 3,176
Income taxes	393	2,250
Supplemental schedule of non-cash investing and financing activities:		
Unrealized holding gains (losses) on securities available for sale	2,573	(51,295)
held to		
maturity, net of amortization	-	(23,290)
for		
sale to held to maturity	1,571	-
Transfer of loans to other real estate owned	92	119
Effects of common dividends payable	-	12
Change in unrealized holding (losses) on fair value hedges	(2,167)	-
Adoption of ASC 326, reclassification from retained earnings to allowance for credit net of taxes	927	-

See Notes to Consolidated Financial Statements.

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

First Bankers Trustshares, Inc. (Company) is a bank holding company which owns 100% of the outstanding common stock of First Bankers Trust Company, N.A. (Bank), FBIL Statutory Trust II (Trust II) and FBIL Statutory Trust III (Trust III). The Bank is engaged in banking and bank related services and serves a market area consisting primarily of Adams, McDonough, Schuyler, Hancock and Sangamon counties in west central Illinois and a loan production office in St. Clair county, Illinois.

Impact of Recently Adopted Accounting Standards Update

On January 1, 2023, the Bank adopted ASU 2016-13 Financial Instruments – Credit Losses ("Topic 236"): Measurement of Credit Losses on Financial Instruments (ASC 326), as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance-sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell or believes that it is more likely than not they will be required to sell before recovery of its amortized cost basis.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting principles generally accepted in the United States of America (GAAP) which includes a change in terminology from "Allowance/Provision for Loan Losses" to "Allowance for Credit Losses/Credit Loss Expense". The Bank recorded an after-tax increase to retained earnings of $927,000 as of January 1, 2023, for the cumulative effect of adopting ASC 326. This transition adjustment included a decrease of $930,000 in allowance for credit losses on loans and an increase of $3,000 for allowance for credit losses on HTM securities.

In March 2022, the FASB issued ASU No, 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method, which clarifies the guidance on fair value hedge accounting of financial rate risk portfolios of financials assets. ASU 2022-01 updates guidance in Topic 815, to expand scope of the current last-of-layer method to allow multiple hedged layers to be designated for a single closed portfolio of financial assets or one or more beneficial interest secured by a portfolio of financial instruments on a prospective basis. Additionally, ASU 2022-01 clarifies that basis adjustments related to existing portfolio layer hedge relationship should not be considered when measuring credit losses on the financial assets included in the closed portfolio. Further, ASU 2022-01 clarifies that any reversal of fair value hedge basis adjustments associated with an actual breach should be recognized in interest income immediately. The Company adopted ASU 2022-01 effective January 1, 2023 and entered into a fair value hedge agreement on August 1, 2023 and adopted the portfolio layer method of accounting for this transaction. This adoption had no impact on the Company's consolidated financial statements as the Company did not have any hedged assets using the last-of-layer hedge accounting method.

The following table illustrates the impact of ASC 326 (amounts in thousands of dollars):

	January 1, 2023		
	Post- ASC 326 Adoption	Pre-ASC 326 Adoption	Pre-tax Impact of ASC 326 Adoption
Assets:			
Investments - Held-To-Maturity			
State and political subdivisions	$ 3	$ -	$ 3
Total allowance for credit losses on held to maturity securities	$ 3	$ -	$ 3
Loans			
Commercial operating	385	846	(461)
Commercial real estate	5,357	6,298	(941)
Agricultural operating	207	470	(263)
Agricultural real estate	450	995	(545)
Construction and development	504	203	301
Real estate secured by 1-4 and multi-family	1,233	1,329	(96)
Consumer	1,398	666	732
Total allowance for credit losses- loans	$ 9,534	$ 10,807	$ (1,273)
Allowance for credit losses on loans and held-to- maturity securities	$ 9,537	$ 10,807	$ (1,270)

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for credit losses is inherently subjective as it requires material estimates that are susceptible to significant change. The fair value disclosure of financial instruments is an estimate that can be computed within a range.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of First Bankers Trustshares, Inc. and its wholly-owned subsidiaries, except Trusts II and III, which do not meet the criteria for consolidation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks, including cash items in process of clearing. Cash flows from federal funds sold, loans to customers, deposits and securities sold under agreements to repurchase are reported net.

Securities

Securities held to maturity are those for which the Company has the ability and intent to hold to maturity. Securities meeting such criteria at the date of purchase and as of the balance sheet date are carried at amortized cost, adjusted for amortization of premiums and accretion of discounts, computed by the interest method over their contracted lives.

Securities available for sale are accounted for at fair value and the unrealized holding gains or losses, net of their deferred income tax effect, are presented as increases or decreases in accumulated other comprehensive income (loss), as a separate component of stockholders' equity.

Realized gains and losses on sales of securities are based upon the adjusted book value of the specific securities sold and are included in earnings.

Transfers of debt securities into the held-to-maturity classification from the available-for-sale classification are made at fair value on the date of transfer. The unrealized holding gain or loss on the date of transfer is retained in the the separate component of stockholders' equity and in the carrying value of the held-to-maturity securities. Such amounts are amortized over the remaining contractual lives of the securities by the interest method. There were no transfers of AFS securities to the HTM classification in 2023.

There were no trading securities as of December 31, 2023 and 2022.

Allowance For Credit Losses – HTM Securities

Management measures expected credit losses on held-to-maturity investment securities on a collective basis by major security type. The Company evaluates held-to-maturity investment securities by credit rating and an external study, that includes historical information including probability of default and loss going back several years through economic cycles. Accrued interest receivable on held-to-maturity investment securities is excluded from the estimate of credit losses.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies the held-to-maturity portfolio into the following major security types: U.S. treasuries, U.S. government agency bonds, and state and political subdivisions.

Allowance For Credit Losses – AFS Securities

A debt security available for sale is impaired if the fair value of the security declines below its amortized cost basis. To determine the appropriate accounting, the Company must first determine if it intends to sell the security or if it is more likely than not that it will be required to sell the security before the fair value increases to at least the amortized cost basis. If either of these selling events is expected, the Company will write down the amortized cost basis of the security to its fair value. This is achieved by writing off any previously recorded allowance, if applicable, and recognizing any incremental impairment through earnings. If the Company neither intends to sell the security, before the fair value recovers to the amortized cost basis, the Company must determine whether any of the decline in fair value has resulted from a credit loss, or if it is entirely the result of noncredit factors.

The Company considers the following factors in assessing whether the decline is due to a credit loss:

- Extent to which the fair value is less than the amortized cost basis
- Adverse conditions specifically related to the security, an industry, or a geographic area (for example, changes in the financial condition of the issuer, or in the case of an asset-backed debt security, in the financial condition of the underlying loan obligors).
- Payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future
- Failure of the issuer of the security to make scheduled interest or principal payments
- Any changes to threating of the security by a rating agency

Impairment related to a credit loss must be measured using the discounted cash flow method. Credit loss recognition is limited to the fair value of the security. Impairment is recognized by establishing an allowance for credit losses through credit loss expense. Impairment related to noncredit factors is recognized in accumulated other comprehensive income (loss), net of applicable taxes. The Company did not recognize any impairment in 2023 or 2022.

Accrued interest receivable for debt securities available for sale totaled $1,198,000 at December 31, 2023, and is excluded from the estimate of credit losses. Accrued interest receivable is reported in Other Assets on the Consolidated Balance Sheets.

Federal Funds Sold

Federal funds sold consist of excess bank reserves lent in the federal funds market. The Company's consolidated balance sheets include federal funds sold of $775,000 and $697,000 at December 31, 2023 and 2022, respectively.

Loans and Allowance for Credit Losses

Loans held for sale: Residential real estate and agricultural loans, which are originated and intended for resale in the secondary market in the foreseeable future, are classified as held for sale. These loans are carried at the lower of cost or estimated market value in the aggregate. As assets specifically acquired for resale, the origination of, disposition of, and gain/loss on these loans are classified as operating activities in the consolidated statements of cash flows.

Loans held for investment: Loans that management has the intent and ability to hold for the foreseeable future, or until pay-off or maturity occurs, are classified as held for investment. These loans are stated at the amount of unpaid principal adjusted for charge-offs, the allowance for credit losses on loans, and any deferred fees and/or costs on originated loans. Interest is credited to earnings as earned based on the principal amount outstanding. Deferred direct loan origination fees and/or costs are amortized as an adjustment of the related loan's yield. As assets held for and used in the production of services, the origination and collection of these loans is classified as an investing activity in the consolidated statements of cash flows.

The allowance for credit losses is a significant estimate in the Company's Consolidated Financial Statements, affecting both earnings and capital. The allowance for credit losses is a valuation account that is deducted from the portfolio loans' amortized cost bases to present the net amount expected to be collected on the portfolio loans. Portfolio loans are charged off against the allowance for credit losses when management believes the uncollectibility of a loan balance is confirmed. Recoveries will be recognized up to the aggregate amount of previously charged-off balances. The allowance or credit losses is established through provision for credit loss expense charged to income.

A loan's amortized cost basis is comprised of the unpaid principal balance of the loan, accrued interest receivable, purchase premiums or discounts, and net deferred origination fees or costs. The Company has estimated its allowance on the amortized cost basis, exclusive of government guaranteed loans and accrued interest receivable. The Company writes-off uncollectible accrued interest receivable in a timely manner and has elected to not measure an allowance for accrued interest receivable. The Company presents the aggregate amount of accrued interest receivable for all financial instruments in other assets on the Consolidated Balance Sheets and the balance of accrued interest receivable is disclosed in Note 14 Fair Value Measurements.

The Company's methodology influences, and is influenced by, the Company's overall credit risk management processes. The allowance for credit losses is managed in accordance with GAAP to provide an adequate reserve for expected credit losses that is reflective of management's best estimate of what is expected to be collected. The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. The collateral-dependent practical expedient has been elected.

The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the amortized cost basis. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions such as changes in unemployment rates, property values and other relevant factors.

Ongoing impacts of the CECL methodology will be dependent upon changes in economic conditions and forecasts, originated and acquired loan portfolio composition, credit performance trends, portfolio duration and other factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments (listed below) and measures the allowance for credit losses for each segment using the Weighted Average Remaining Maturity (WARM) method.

The Company's portfolio segments are as follows:

- Commercial operating
- Commercial real estate
- Agricultural operating
- Agricultural real estate
- Construction and land development
- Real estate secured by 1-4 and multi-family
- Consumer

The Company developed expected loss estimates based on loan segmentation with a seven year look back at items such as payment rates, scoring and delinquency patterns. Loss drivers vary by segment ranging from construction delays and cost overruns for commercial construction loans, to commodity price fluctuations for agriculture farmland, to general economic conditions for consumer auto loans.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for undiscounted selling costs as appropriate.

Allowance for credit losses and fair value are disclosed by portfolio segment, while credit quality information, individually evaluated financing receivables, nonaccrual status and modifications of those experiencing financial difficulty are presented by class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. A class of financing receivable is defined as a further disaggregation of a portfolio segment based on risk characteristics and the entity's method for monitoring and assessing credit risk. The disclosures are presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance.

Given the risk characteristics and the Company's method for monitoring and assessing credit risk, further disaggregation of the loan portfolio is not warranted, and therefore, the Company's classes equal their segments.

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent for 31 days or greater.

For all classes of loans, loans will generally be placed on nonaccrual status when the loan has become 90 days past due (unless the loan is well secured and in the process of collection); or if any of the following conditions exist:

- It becomes evident that the borrower will not make payments, or will not or cannot meet the terms for renewal of a matured loan,
- When full repayment of principal and interest is not expected,
- When the loan is graded "substandard" and the future accrual of interest is not protected by sound collateral values,
- When the loan is graded "doubtful",
- When the borrower files bankruptcy and an approved plan of reorganization or liquidation is not anticipated in the near future, or
- When foreclosure action is initiated.

When a loan is placed on nonaccrual status, payments received will be applied to the principal balance. However, interest may be taken on a cash basis in the event the loan is fully secured and the risk of loss is minimal. Previously recorded but uncollected interest on a loan placed in nonaccrual status is accounted for as follows: if the previously accrued but uncollected interest and the principal amount of the loan is protected by sound collateral value based upon a current, independent qualified appraisal, such interest may remain on the Company's books. If such interest is not protected, it is considered a loss with the amount thereof recorded in the current year being reversed against current earnings, and the amount recorded in the prior year being charged against the allowance for credit losses.

For all classes of loans, nonaccrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- The loan is well secured and in the process of collection, and
- Prospects for future principal and interest payments are not in doubt.

A discussion of the risk characteristics and the allowance for credit losses by each portfolio segment follows:

For commercial operating loans, the Company focuses on small and mid-sized businesses with primary operations in transportation, warehousing and manufacturing, as well as serving as building contractors, business services companies, health care providers, financial organizations and retailers. The Company provides a wide range of commercial loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes. Approval is generally based on the following factors:

- Sufficient cash flow to support debt repayment;
  Ability and stability of current management of the borrower;
- Positive earnings and financial trends;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

Collateral for commercial loans generally includes accounts receivable, inventory, equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for commercial operating loans. For term loans, the maximum term is 7 years. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 365 days. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Commercial real estate loans, construction and land development loans and real estate secured by multi-family loans are subject to underwriting standards and processes similar to commercial operating loans and to real estate loans including the factors regarding approval of the loan noted previously.

Collateral for these loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower. The lending policy specifies maximum loan-to-value limits based on the category of commercial real estate (commercial real estate loans on improved property, raw land, land development and commercial construction). In addition, the Company often takes personal guarantees to help assure repayment.

Agricultural operating and real estate loans are subject to underwriting standards and processes similar to commercial loans including the approval factors noted previously. The Company provides a wide range of agriculture loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes.

Collateral for agricultural loans generally includes accounts receivable, inventory (typically grain or livestock), equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for agricultural loans. For term loans, the maximum term is 7 years. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 365 days. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

In some instances for all loans, it may be appropriate to originate or purchase loans that are exceptions to the guidelines and limits established within the lending policy described above and below. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are clearly noted as such and specifically identified in loan approval documents.

The Company generally retains short-term residential mortgage loans that are originated for its own portfolio but sells most long-term loans to other parties while retaining servicing rights on the majority of those loans. The market value of real estate securing residential real estate loans can fluctuate as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of the Company's markets could increase the credit risk associated with its loan portfolio. Additionally, the repayment of the loans generally is dependent, in large part, on the borrower's continuing financial stability, and is therefore more likely to be affected by adverse personal circumstances.

Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than real estate-related loans. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. Collateral for these loans generally includes automobiles, boats, recreational vehicles and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. The collateral securing these loans may depreciate over time, may be difficult to recover and may fluctuate in value based on condition. In addition, a decline in the United States economy could result in reduced employment, impacting the ability of customers to repay their obligations.

For loans categorized as "commercial," which would include the following segments: commercial operating, commercial real estate, agricultural real estate, agricultural operating, construction and land development and real estate secured by multi-family, the allowance for credit losses on loans consist of specific and general components. The specific component relates to loans that are classified as individually evaluated, as defined below. For those loans that are classified as individually evaluated, an allowance is established when the collateral value (or discounted cash flows or observable market price) of the individually evaluated loan is lower than the carrying value of that loan.

The Company utilizes the following internal risk rating scale:

Type 1 (Substantially Risk Free)

General Statement: This rating should be assigned to loans with virtually no credit risk, such as loans fully secured by certificates of deposit and other deposit accounts. It may be assigned to other loans to businesses or individuals with little or no risk.

Business Loans: A loan to a business may be rated 1 if it exhibits enough of these characteristics to make it substantially risk free:

- Bank has a high regard for the character, competence and diligence of management.
- Earnings are strong and well-assured.
- There is ample liquidity.
- Loans have paid as agreed.
- Abundant collateral which is liquid and has well-defined market value.
- Capital position well above industry averages.
- Loan structure is appropriate and documentation complete.
- No adverse trends.

Loans to Individuals: Loans to individuals may be assigned a 1 rating if the following conditions are met:

- The primary source of repayment is strong and is considered likely to remain strong throughout the life of the loan.
- The loan is secured by collateral with a loan to value (LTV) of less than 50% provided that the collateral must have well-defined market-value, must have satisfactory liquidity and should retain most of its value if the primary source of repayment falters.
- The individual has significant liquidity and is considered likely to remain liquid over the life of the loan.

Type 2 (Low Risk)

General Statement: This rating should be assigned to loans that have little credit risk. Borrowers in this category have strong earnings and capital and a secondary source of repayment that is sufficient to fully repay the loan. The business is considered to be highly resistant to adverse changes in economic or industry conditions.

Business Loans: Following are some characteristics of loans that should be rated 2. A 2 loan may not exhibit all of the following characteristics, but its strengths -- primarily the sufficiency/reliability of the sources of repayment -- result in a loan with little credit risk. To the extent that a loan is not characterized by one or more of the factors listed below, the deficiency is not considered to adversely affect the likelihood of repayment in any material way.

- Bank has a high regard for the character, competence and diligence of management.
- Consistent record of earnings; the earnings stream is considered resistant to changes in economic conditions.
- Liquidity at or above industry norms.
- Loans have paid as agreed.
- Collateral margin is well within policy guidelines with satisfactory liquidity and well-defined market value.
- Capital position above industry averages.
- Loan structure appropriate and documentation complete.
- No adverse trends.

Loans to Individuals: Loans to individuals may be rated 2 if the individual's earnings stream is considered strong and reliable and the individual maintains a conservative financial posture. The income may be from any source, including business income, passive income, or professional income.

Individuals are considered to maintain a conservative financial posture if they consistently leave themselves a wide margin of safety in terms of their ability to repay debt. This margin typically manifests itself in the form of significant liquidity, strong debt service coverage (DSC) ratios and/or quick repayment of loans.

Type 3 (Normal Risk)

General Statement: Borrowers in this category have satisfactory earnings and net worth. In most cases, there is collateral or guarantor support which provides a satisfactory secondary source of repayment. The business is considered to be capable of operating profitably throughout the normal business cycle.

Business Loans: Loans to businesses should be rated 3 if financial strength is typical for the industry and there is no significant adverse trends. Following are some characteristics of 3 loans. A loan may not exhibit all of the following characteristics, but its strengths -- primarily the sufficiency/reliability of the sources of repayment -- result in a loan with normal levels of risk.

- Management is considered to be capable and diligent.
- The earnings stream is satisfactory under present conditions and is considered likely to continue.
- Satisfactory liquidity.
- Loans have paid as agreed.
- Collateral is considered sufficient to repay the loan in full within a reasonable marketing time.
- Capital position within a reasonable range above or below industry average.
- No material deficiencies in loan structure or documentation.
- Trends typically flat or positive. No material adverse trends.

Loans to Individuals: Loans may be unsecured and still rated 3 if the individual's earnings stream is both strong and reliable. If earnings are not as strong, loans should be rated 3 if the Bank's collateral is considered sufficient to repay the loans.

Type 4 (Above Average Risk)

General Statement: Borrowers in this category are not as strong financially as the typical business in the same industry. There may be discernible weakness in management, earnings, capital or the Bank's secondary sources of repayment. The business is considered to be susceptible to adverse changes in economic or industry conditions.

Business Loans: Loans to businesses should be rated 4 if financial strength is somewhat below industry averages, but the loans are expected to repay as agreed if the company's current financial conditions stay the same or strengthen. Following are some examples of weaknesses which may cause a loan to have above average levels of risk. A 4 loan will not have all of these weaknesses, but will have one or more:

- There is some question as to the strength of management.
- The company is profitable in most years, but earnings are typically below industry averages.
- Liquidity may be limited as evidenced by occasional delinquencies.
- There may be a less than desirable margin in collateral; the collateral may be difficult to market; or the value of collateral may vary significantly depending on economic conditions.
  Capital position is below industry average.
- May have deficiencies in loan structure, incomplete legal documentation or missing financial information.
- May have an adverse trend in sales or earnings; may be capital account withdrawals in excess of earnings.

Loans to Individuals: Loans to individuals should be rated 4 if the bank appears to have a satisfactory source of repayment for the loan, but there is concern about the individual's earnings stream, leverage or tolerance for risk.

Type 5 (Special Mention Loan)

General Statement: Borrowers in this category have readily apparent weaknesses in their financial condition. There may be weak earnings, thin capital or an adverse trend that is expected to continue. The borrower currently has the capacity to repay, but is of marginal strength and is considered to have little ability to overcome economic events that would adversely affect the business. Loans with material documentation or structural deficiencies may also be rated Special Mention at the discretion of bank or loan review personnel.

Business Loans: Following are examples of weaknesses which may warrant a Special Mention rating. Loans rated Special Mention will typically have several of the following weaknesses:

- There is often a question about the ability of management to operate the business successfully over time.
- The earnings stream is weak, with possible periods of loss.
- Liquidity may be a problem as evidenced by delinquencies or amortization periods longer than is typical for the type of collateral securing the loan.
- There may be reasonable doubt as to whether the loan would be repaid in full from the sale of collateral. Possible issues include: third-party claims to the collateral, difficulty in obtaining possession, condition, marketing time and value under current market conditions.
- Capital position less than half of industry average.
- Common to have deficiencies in loan structure, incomplete legal documentation or missing financial information. Trends are flat or negative. It is common for there to be a decline in sales, earnings and/or capital.

Loans to Individuals: See "General Statement" for Special Mention loans.

Type 6 (Substandard)

General Statement: These loans have one or more pronounced weaknesses which jeopardize their timely liquidation. Neither the earnings of the business nor its realistic net worth adequately protect the Bank from possible loss. There is a distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Business Loans: Following are examples of weaknesses which may warrant a substandard rating. Loans rated Substandard will typically have several of the following weaknesses:

- Management often considered to have made incorrect strategic decisions or to be weak or inattentive.
- Earnings stream is insufficient to repay loans on a timely basis.
- Business normally has periods of loss, sometimes large.
- Liquidity usually strained by operating losses.
- Loans usually renegotiated or past-due.
- It may be unlikely that the loan would be repaid in full from the sale of collateral. Possible issues include: third party claims to the collateral; difficulty in obtaining possession, condition, marketing time and value under current market conditions.
- Typical reliance upon guarantors or other secondary sources of repayment that was not originally anticipated.
- Documentation deficiencies – including lack of important financial information – are common.
- In most cases there are negative trends, such as declines in sales, earnings and/or capital.

Loans to Individuals: Loans to individual borrowers should be rated Substandard if there is a pronounced weakness in income, liquidity or collateral that is likely to affect the ability of the bank to collect the debt in full. Debt levels may be significantly above accepted guidelines relative to income.

Type 7 (Doubtful)

General Statement: Loans with well-defined weaknesses that make collection or liquidation of the debt in full improbable based on current information.

Business Loans: Typical characteristics of a doubtful loan include the following:

- Large operating losses.
- Collateral insufficient to repay loan.
- Typical to have little or no capital. Continued viability of business is doubtful.
- Unreliable or no alternative sources of repayment.
- Loss anticipated, exact loss figure cannot be determined at present.

Loans to Individuals: Borrower's ability or willingness to repay makes collection of the debt in full unlikely. Loans may be unsecured or have an obvious collateral deficiency.

Type 8 (Loss)

General Statement: Loans with pervasive weaknesses so great that principal is considered uncollectible under current circumstances. This classification does not mean that the loan has absolutely no recovery value, but simply that it is no longer practical to defer writing it off. Recovery is dependent on favorable future events.

Normal characteristics:

- Business has failed or is near failure.
- No reliable source of repayment.

For these loans categorized as commercial or credit relationships with aggregate exposure greater than $500,000, a loan review will be required within 12 months of the most recent credit review. The reviews shall be completed in enough detail to, at a minimum, validate the risk rating. Additionally, the reviews shall determine whether any documentation exceptions exist, appropriate written analysis is included in the loan file and whether credit policies have been properly adhered to.

An ongoing independent review is conducted of a sampling of residential real estate as well to assess underwriting quality and adherence to policy.

Many of the residential real estate loans underwritten by the Company conform to the underwriting requirements of Mortgage Partnership Finance (MPF), Fannie Mae or other secondary market aggregators to allow the bank to resell loans in the secondary market.

In the fourth quarter of 2023 the Company entered into an agreement to sell the majority of its residential mortgage servicing rights. There are a limited number of servicing rights retained on the residential real estate loans sold in the secondary market. Mortgage servicing rights are not considered significant as of December 31, 2023 and 2022.

The Company provides many types of consumer and other loans including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type.

For consumer loans, this large group of smaller balance homogenous loans are collectively evaluated for impairment. The Company applies a quantitative factor based on historical charge-off experience in total for each of these segments as well as a forecast of expected future losses. Accordingly, the Company generally does not separately identify individual residential real estate loans and/or consumer loans for impairment disclosures, unless such loans are the subject of a modification agreement due to financial difficulties of the borrower or it has been identified for another specific reason.

As of December 31, 2023 and 2022, the Bank had loan concentrations in agribusiness of 20.00% and 19.57%, respectively, of outstanding loans. The Bank had no additional industry loan concentrations which, in management's judgment, were considered to be significant. The Bank had no foreign loans outstanding as of December 31, 2023 and 2022.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, only 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 assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a modest benefit to the transferor and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under lines of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Allowance For Credit Losses – Off-Balance Sheet Exposures

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of is represented by the contractual or notional amount of those instruments. The Company used a similar methodology as the allowance for credit losses on loans.

The Company recorded no allowance for unfunded commitments upon the adoption of the CECL accounting standard or during the year ended December 31, 2023. The allowance for unfunded commitments is not material as of December 31, 2023.

Premises, Furniture and Equipment

Premises, furniture and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. There were no material changes to premises and equipment during the year ended December 31, 2023. During the year ended December 31, 2022, the Company sold a building at a gain of $247,000 which is included in other income.

Other Real Estate Owned

Other real estate owned (OREO), which is included with other assets, represents properties acquired through foreclosure, in-substance foreclosure or other proceedings. Property is recorded at fair value less cost to sell when acquired. Property is evaluated regularly to ensure that the recorded amount is supported by the current fair value. Subsequent write-downs to fair value are charged to earnings.

Life Insurance Contracts

Bank-owned life insurance is carried at cash surrender value, net of surrender and other charges, with increases/decreases reflected as income/expense in the consolidated statements of income.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired in connection with business combinations. Goodwill is evaluated for

impairment annually or whenever events or changes in circumstances indicate that it is more likely than not that an impairment loss has occurred. The Company has completed its annual goodwill impairment test and has determined that goodwill was not impaired at December 31, 2023 and 2022. See Note 5.

Repurchase Agreements

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature either daily or within one year from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The underlying securities are held by the Company's safekeeping agent. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Derivative Financial Instruments

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The Company enters into derivative financial instruments, including interest rate swaps with third parties.

Derivative instruments are reported in other assets or other liabilities at estimated fair value. The accounting for changes in fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria to apply hedge accounting.

Starting in the third quarter of 2023, the Company entered into derivative instruments designated as fair value hedges. For derivative instruments that are designated and qualify as a fair value hedge, the change in fair value of the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Change in fair value of components excluded from the assessment of effectiveness are recognized in current earnings.

Earnings Per Share of Common Stock

Basic earnings per share of common stock is computed by dividing net income by the weighted average number of shares outstanding during each reporting period. Diluted earnings per share of common stock assume the conversion, exercise or issuance of all potential common stock equivalents unless the effect is to reduce the loss or increase the income per common share from continuing operations. The Company had no common stock equivalents as of and for the years ended December 31, 2023 and 2022. During the years ended December 31, 2023 and 2022, the Company purchased no shares and 106,818 shares, respectively, at a cost of $0 and $3,127,973, respectively.

Service Charge Income

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the revenue recognized, over the period in which the service is provided. Check orders, and other deposit account related fees are largely transactional-based, and therefore, the Company's performance obligation is satisfied and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Other Income

Other noninterest income consists of other recurring revenue streams such as commissions from sales of mutual funds and other investments, investment advisor fees from the Company's wealth management products, safe deposit box rental fees and other miscellaneous revenue streams. Commissions from sales of mutual funds and other investments and investment advisor fees are recognized monthly as the sales occur. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and rates on the date of enactment.

When the tax returns are filed, it is highly certain that some positions taken would be sustained upon examinations by the taxing authorities, while others could be subject to uncertainty about the merits of the position taken.

The Company may recognize the tax benefit from an uncertain tax-position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the consolidated financial statements.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Comprehensive Income

Comprehensive income is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income is the total of net income and other comprehensive income, which for the Company, is comprised of unrealized gains and losses on securities available for sale and unrealized losses on fair value hedges.

Recent Accounting Pronouncement

In December 2023, the FASB issued ASU 2023-09, *Income taxes (Topic 740): Improvements to Income Disclosures*, which provides for improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This ASU is effective for the Company beginning after December 15, 2024. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

Reclassifications

Certain amounts in the prior year's Consolidated Financial Statements have been reclassified, with no effect on net income or stockholders' equity, to conform with the current period presentation.

Subsequent Events

The Company has evaluated all subsequent events through March 4, 2024, the date the financial statements were available to be issued.

2. Securities

The amortized cost, fair values and allowance for credit losses of securities as of December 31, 2023 and 2022 are as follows. (Amounts in Thousands of Dollars):

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Allowance For Credit Losses	Fair Value
SECURITIES HELD TO MATURITY					
U.S. government agency bonds	$ 82,956	$ -	$ (5,338)	$ -	$ 77,618
State and political subdivisions	32,178	484	-	(3)	32,659
	$ 115,134	$ 484	$ (5,338)	$ (3)	$ 110,277
SECURITIES AVAILABLE FOR SALE					
U.S. treasuries	$ 9,994	$ -	$ (94)	$ -	$ 9,900
U.S. government agency bonds	114,261	-	(14,157)	-	100,104
U.S. government agency mortgage backed securities	159,903	28	(19,091)	-	140,840
State and political subdivisions	29,936	143	(3,681)	-	26,398
Collateralized mortgage obligations	60,442	-	(7,566)	-	52,876
	$ 374,536	$ 171	$ (44,589)	$ -	$ 330,118

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SECURITIES HELD TO MATURITY				
U.S. treasuries	$ 5,493	$ -	$ (9)	$ 5,484
U.S. government agency bonds	81,773	-	(4,738)	77,035
State and political subdivisions	32,332	37	(1,256)	31,113
	$ 119,598	$ 37	$ (6,003)	$ 113,632
SECURITIES AVAILABLE FOR SALE				
U.S. treasuries	$ 14,950	$ -	$ (288)	$ 14,662
U.S. government agency bonds	117,551	-	(16,220)	101,331
U.S. government agency mortgage backed securities	180,851	31	(19,858)	161,024
State and political subdivisions	33,150	177	(4,692)	28,635
Collateralized mortgage obligations	64,187	-	(6,126)	58,061
	$ 410,689	$ 208	$ (47,184)	$ 363,713

During the year ended December 31, 2022, the Bank transferred securities classified as available for sale to the held to maturity classification. The impact of this transfer was to move the unrealized losses of those securities from fair value to amortized cost. The amortized cost of securities at date of transfer was $136,116,000 with unrealized losses of $23,801,000 of which $1,571,000 and $511,000 has been amortized for the years ended December 31, 2023 and 2022, respectively.

Fair value and unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position and, for which an allowance for credit loss has not been recorded for securities available for sale, as of December 31, 2023 and 2022 are summarized as follows. (Amounts in Thousands of Dollars):

2023	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES HELD TO MATURITY:						
U.S. government agency bonds	$ -	$ -	$ 77,618	$ (5,338)	$ 77,618	$ (5,338)
	$ -	$ -	$ 77,618	$ (5,338)	$ 77,618	$ (5,338)
SECURITIES AVAILABLE FOR SALE						
U.S. treasuries	$ -	$ -	$ 9,900	$ (94)	$ 9,900	$ (94)
U.S. government agency bonds	4,823	(236)	95,281	(13,921)	100,104	(14,157)
U.S. government agency mortgage backed securities	17,603	(2,744)	121,000	(16,347)	138,603	(19,091)
State and political subdivisions	-	-	23,050	(3,681)	23,050	(3,681)
Collateralized mortgage obligations	2,114	(439)	50,762	(7,127)	52,876	(7,566)
	$ 24,540	$ (3,419)	$299,993	$(41,170)	$324,533	$(44,589)

2022	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES HELD TO MATURITY:						
U.S. treasuries	$ 5,484	$ (9)	$ -	$ -	$ 5,484	$ (9)
U.S. government agency bonds	77,035	(4,738)	-	-	77,035	(4,738)
State and political subdivisions	30,681	(1,256)	-	-	30,681	(1,256)
	$ 113,200	$ (6,003)	$ -	$ -	$ 113,200	$ (6,003)
SECURITIES AVAILABLE FOR SALE						
U.S. treasuries	$ 14,662	$ (288)	$ -	$ -	$ 14,662	$ (288)
U.S. government agency bonds	15,890	(705)	85,448	(15,515)	101,338	(16,220)
U.S. government agency mortgage backed securities	55,411	(4,374)	102,960	(15,484)	158,371	(19,858)
State and political subdivisions	8,630	(1,112)	15,981	(3,580)	24,611	(4,692)
Collateralized mortgage obligations	44,961	(3,415)	13,100	(2,711)	58,061	(6,126)
	$ 139,554	$ (9,894)	$ 217,489	$ (37,290)	$ 357,043	$ (47,184)

As of December 31, 2023, the investment portfolio included 290 securities. Of this number, 271 debt securities have current unrealized losses and 241 of them have current unrealized losses which have existed for longer than one year. All of the debt securities with unrealized losses are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes a credit loss does not exist for available for debt securities. Furthermore, the Company does not intend to sell such securities and it is more likely than not that the Company will recover the amortized cost prior to being required to sell the debt securities. The company evaluates held to maturity securities for current expected credit losses. Held to maturity securities are evaluated on a quarterly basis based on prior loss experience, credit classifications and indications of expected losses. Based on this evaluation, the Company determined the held to maturity securities had an allowance for credit loss of $3,000, of which $0 was recorded as credit loss expense and $3,000 was recorded in retained earnings.

The following table presents the activity in the allowance for credit losses for the debt securities held to maturities for the year ended December 31, 2023:

December 31, 2023	
Allowance for credit losses:	
Balance, beginning, prior to adoption of ASC 326	$ -
Adoption of ASC 326	3
Balance, ending	$ 3

The amortized cost and fair value of securities as of December 31, 2023 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the mortgages underlying the collateralized mortgage obligations may be called or prepaid without penalties. Therefore, these securities are not included in the maturity categories in the following summary. (Amounts in Thousands of Dollars):

	Amortized Cost	Fair Value
SECURITIES HELD TO MATURITY		
Due in one year or less	$ -	$ -
Due after one year through five years	158	171
Due after five years through ten years	83,114	77,793
Due after ten years	31,862	32,313
	$ 115,134	$ 110,277
SECURITIES AVAILABLE FOR SALE		
Due in one year or less	$ 16,779	$ 16,643
Due after one year through five years	41,694	39,740
Due after five years through ten years	92,772	78,377
Due after ten years	162,849	142,482
	$ 314,094	$ 277,242
Collateralized mortgage obligations	60,442	52,876
	$ 374,536	$ 330,118

Information on sales, including calls and maturities, of securities available for sale during the years ended December 31, 2023 and 2022 follows, (Amounts in Thousands of Dollars):

	2023	2022
Gross gains	$ -	$ 316
Gross losses	$ -	$ (959)

As of December 31, 2023 and 2022, securities with a carrying value of approximately $338,379,000 and $390,796,000, respectively, were pledged to collateralize deposits and securities sold under agreements to repurchase and for other purposes as required or permitted by law.

3. Loans

The composition of net loans outstanding as of December 31, 2023 and 2022 are as follows. (Amounts in Thousands of Dollars):

	2023	2022
Commercial operating	$ 65,657	$ 71,428
Commercial real estate	238,990	195,857
Agricultural operating	34,796	32,963
Agricultural real estate	84,958	74,936
Construction and land development	18,803	12,278
Real estate secured by 1-4 and multi-family	108,767	119,221
Consumer	46,676	44,586
	$ 598,647	$ 551,269
Less allowance for credit losses	(9,906)	(10,807)
Net Loans	$ 588,741	$ 540,462

The aging of the loan portfolio, by classes of loans, as of December 31, 2023 and 2022 is summarized as follows. (Amounts in Thousands of Dollars):

2023	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total
CLASSES OF LOANS					
Commercial operating	$ 65,552	$ 105	$ -	$ -	$ 65,657
Commercial real estate	238,990	-	-	-	238,990
Agricultural operating	34,786	10	-	-	34,796
Agricultural real estate	84,776	-	-	182	84,958
Construction and land development	18,778	-	-	25	18,803
Real estate secured by 1-4 and multi-family	107,198	1,352	194	23	108,767
Consumer	46,377	255	44	-	46,676
	$ 596,457	$ 1,722	$ 238	$ 230	$ 598,647

2022	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total
CLASSES OF LOANS						
Commercial operating	$ 71,316	$ 28	$ -	$ -	$ 84	$ 71,428
Commercial real estate	189,638	24	9	41	6,145	195,857
Agricultural operating	32,963	-	-	-	-	32,963
Agricultural real estate	74,864	72	-	-	-	74,936
Construction and land development	11,751	-	-	-	527	12,278
Real estate secured by 1-4 and multi-family	117,464	651	228	-	878	119,221
Consumer	44,353	146	86	1	-	44,586
	$ 542,349	$ 921	$ 323	$ 42	$ 7,634	$ 551,269

The amortized cost basis of nonperforming loans, by classes of loans as of December 31, 2023 and 2022 are summarized as follows. (Amounts in Thousands of Dollars):

2023	Accruing Past Due 90 Days or More	Nonaccrual Loans with no allowance for credit losses	Nonaccrual Loans with allowance for credit losses	Toal Nonperforming Loans
CLASSES OF LOANS				
Commercial operating	$ -	$ 62	$ 4,959	$ 5,021
Commercial real estate	-	46	4,817	4,863
Agricultural operating	-	-	-	-
Agricultural real estate	-	254	-	254
Construction and land development	-	25	-	25
Real estate secured by 1-4 and multi-family	-	215	226	441
Consumer	-	-	-	-
	$ -	$ 602	$ 10,002	$ 10,604

2022	Accruing Past Due 90 Days or More	Nonaccrual Loans**	Troubled Debt Restructures-Accruing	Toal Nonperforming Loans
CLASSES OF LOANS				
Commercial operating	$ -	$ 84	$ -	$ 84
Commercial real estate	41	6,145	994	7,180
Agricultural operating	-	-	-	-
Agricultural real estate	-	-	-	-
Construction and land development	-	527	26	553
Real estate secured by 1-4 and multi-family	-	878	-	878
Consumer	1	-	-	1
	$ 42	$ 7,634	$ 1,020	$ 8,696

** Nonaccrual loans as of December 31 2022 include $5,403,000 of troubled debt restructures which are included in commercial real estate, real estate secured by 1-4 and multi-family, and commercial operating.

Changes in the allowance for credit losses, by portfolio segment, during the years ended December 31, 2023 and 2022 are summarized as follows. Allocation of a portion of the allowance to one category does not preclude its availability to absorb losses in other categories:(Amounts in Thousands of Dollars):

2023	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1-4 and Multi-Family	Consumer	Total
Balance, beginning, prior to adoption of ASC 326	$ 846	$ 6,298	$ 470	$ 995	$ 203	$ 1,329	$ 666	$ 10,807
Adoption of ASC 326	(461)	(941)	(263)	(545)	301	(96)	732	(1,273)
Credit loss expense (recovery)	1,563	(978)	(4)	80	455	(171)	(375)	570
Recoveries of loans charged off	-	-	5	-	-	21	20	46
	1,948	4,379	208	530	959	1,083	1,043	10,150
Loans charged off	-	(4)	-	-	-	(18)	(222)	(244)
Balance, ending	$ 1,948	$ 4,375	$ 208	$ 530	$ 959	$ 1,065	$ 821	$ 9,906

2022	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1-4 and Multi-Family	Consumer	Total
Balance, beginning	$ 1,010	$ 6,708	$ 397	$ 736	$ 629	$ 1,336	$ 633	$ 11,449
Provision for loan losses (recovery)	(173)	(415)	68	259	(426)	66	121	(500)
Recoveries of loans charged off	9	5	5	-	-	33	56	108
	846	6,298	470	995	203	1,435	810	11,057
Loans charged off	-	-	-	-	-	(106)	(144)	(250)
Balance, ending	$ 846	$ 6,298	$ 470	$ 995	$ 203	$ 1,329	$ 666	$ 10,807

The amortized cost basis of Collateral dependent loans by portfolio segment, as of December 31, 2023 is summarized as follows. (Amounts in Thousands of Dollars):

	As of December 31, 2023				
	Primary Type of Collateral				
	Real Estate	Equipment	Other	Total	Allowance For Credit Losses
Commercial					
Agricultural real estate	$ 254	$ -	$ -	$ 254	$ -
Commercial operating	8,120	62	10	8,192	1,636
Commercial real estate	5,538	-	-	5,538	898
Total commercial	$ 13,912	$ 62	$ 10	$ 13,984	$ 2,534
Consumer					
Real estate secured by 1-4 and multi-family	$ 569	$ -	$ -	$ 569	$ 190
Consumer	-	-	-	-	-
Total consumer	$ 569	$ -	$ -	$ 569	$ 190
Total loans	$ 14,481	$ 62	$ 10	$ 14,553	$ 2,724

The allowance for credit losses, by impairment evaluation and by portfolio segment, as of December 31 2022 is summarized as follows. (Amounts in Thousands of Dollars):

2022	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1-4 and Multi-Family	Consumer	Total
Allowance for loans individually evaluated for impairment	$ 14	$ 2,413	$ -	$ -	$ 118	$ 227	$ -	$ 2,772
Allowance for loans collectively evaluated for impairment	832	3,885	470	995	85	1,102	666	8,035
	$ 846	$ 6,298	$ 470	$ 995	$ 203	$ 1,329	$ 666	$ 10,807
Loans individually evaluated for impairment	$ 70	$ 7,139	$ -	$ -	$ 527	$ 878	$ -	$ 8,614
Loans collectively evaluated for impairment	71,358	188,718	32,963	74,936	11,751	118,343	44,586	542,655
	$ 71,428	$ 195,857	$ 32,963	$ 74,936	$ 12,278	$ 119,221	$ 44,586	$ 551,269

Management estimates the allowance balance using relevant available information from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for estimation of expected credit losses. The cumulative loss rate used as the basis for the estimate of credit losses is comprised of the Company's historical loss experience beginning in 2019. As of December 31, 2023, the Company expects the markets in which it operates to experience continued economic uncertainty around the levels of delinquencies over the next 12 months. Management adjusted the historical loss experience for these expectations with an immediate reversion to historical loss rate beyond this forecast period.

Loans by classes of loans, considered to be impaired as of December 31, 2022 is summarized as follows. (Amounts in the Thousands of Dollars):

2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
CLASSES OF LOANS				
Impaired loans with no specific allowance recorded:				
Commercial operating	$ 56	$ 56	$ -	$ 73
Commercial real estate	1,943	1,943	-	1,295
Agricultural operating	-	-	-	226
Agricultural real estate	-	-	-	224
Construction and land development	80	80	-	40
Real estate secured by 1-4 and multi-family	547	547	-	623
	$ 2,626	$ 2,626	$ -	$ 2,481
Impaired loans with specific allowance recorded:				
Commercial operating	$ 14	$ 14	$ 14	$ 15
Commercial real estate	5,196	5,196	2,413	5,300
Construction and land development	447	447	118	447
Real estate secured by 1-4 and multi-family	331	331	227	380
	$ 5,988	$ 5,988	$ 2,772	$ 6,142
Total impaired loans:				
Commercial operating	$ 70	$ 70	$ 14	$ 88
Commercial real estate	7,139	7,139	2,413	6,595
Agricultural operating	-	-	-	226
Agricultural real estate	-	-	-	224
Construction and land development	527	527	118	487
Real estate secured by 1-4 and multi-family	878	878	227	1,003
	$ 8,614	$ 8,614	$ 2,772	$ 8,623

Impaired loans, for which no allowance has been provided, as of December 31, 2022, have adequate collateral, based on management's current estimates.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows. (Amounts in Thousands of Dollars):

Term Loans Amortized Cost Basis by Origination Year

As of December 31, 2023	2023	2022	2021	2020	2019	Revolving Loans	Prior	Total
Commercial Operating								
Risk rating:								
Pass	$ 7,106	$ 8,792	$ 3,692	$ 4,981	$ 2,863	$ 12,127	$ 15,932	$ 55,494
Special mention	571	-	-	83	91	27	26	798
Substandard	91	191	43	15	8,099	-	926	9,365
	$ 7,768	$ 8,983	$ 3,735	$ 5,079	$ 11,053	$ 12,154	$ 16,884	$ 65,657
Commercial Real Estate								
Risk rating:								
Pass	$ 55,654	$ 56,240	$ 31,418	$ 14,443	$ 11,519	$ 9,999	$ 51,659	$ 230,933
Special mention	-	-	-	-	293	-	1,535	1,828
Substandard	-	-	5,214	-	-	-	1,015	6,229
	$ 55,654	$ 56,240	$ 36,632	$ 14,443	$ 11,812	$ 9,999	$ 54,209	$ 238,990
Agricultural Operating								
Risk rating:								
Pass	$ 2,834	$ 4,275	$ 2,129	$ 1,579	$ 262	$ 16,683	$ 4,846	$ 32,607
Special mention	-	-	-	2,189	-	-	-	2,189
	$ 2,834	$ 4,275	$ 2,129	$ 3,768	$ 262	$ 16,683	$ 4,846	$ 34,796
Agricultural Real Estate								
Risk rating:								
Pass	$ 16,476	$ 22,883	$ 14,371	$ 6,947	$ 4,323	$ 335	$ 18,846	$ 84,181
Special Mention	-	133	-	-	-	-	387	520
Substandard	-	185	-	72	-	-	-	257
	$ 16,476	$ 23,201	$ 14,371	$ 7,019	$ 4,323	$ 335	$ 19,233	$ 84,958
Construction and Land Development								
Risk rating:								
Pass	$ 13,701	$ 1,790	$ 681	$ 1,597	$ 766	$ 35	$ 209	$ 18,778
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	25	25
	$ 13,701	$ 1,790	$ 681	$ 1,597	$ 766	$ 35	$ 234	$ 18,803
Residential Real Estate								
Risk rating:								
Pass	$ 1,108	$ 12,705	$ 286	$ 6,479	$ 79	$ 2,073	$ 8,808	$ 31,538
	$ 1,108	$ 12,705	$ 286	$ 6,479	$ 79	$ 2,073	$ 8,808	$ 31,538
Totals By Risk Rating								
Risk rating:								
Pass	$ 96,880	$ 106,685	$ 52,577	$ 36,025	$ 19,812	$ 41,252	$ 100,300	$ 453,531
Watch	-	-	-	2,189	-	-	-	2,189
Special Mention	571	133	-	83	383	27	1,948	3,145
Substandard	91	376	5,257	87	8,099	-	1,966	15,876
	$ 97,541	$ 107,194	$ 57,834	$ 38,384	$ 28,295	$ 41,279	$ 104,214	$ 474,742

Multi Family Real Estate								
Delinquency status:*								
Performing	11,734	17,232	12,967	6,621	4,128	6,708	16,336	$ 75,726
Non-performing	$ 104	$ 112	$ 92	$ 372	$ 23	$ -	$ 800	1,503
	$ 11,838	$ 17,344	$ 13,059	$ 6,993	$ 4,151	$ 6,708	$ 17,136	$ 77,229
Consumer								
Delinquency status:*								
Performing	$ 20,941	$ 14,825	$ 6,975	$ 1,944	$ 1,139	$ -	$ 852	$ 46,676
Non-performing	-	-	-	-	-		-	-
	$ 20,941	$ 14,825	$ 6,975	$ 1,944	$ 1,139	$ -	$ 852	$ 46,676
Total By Performing/Non-Performing								
Delinquency status:*								
Performing	$ 32,675	$ 32,057	$ 19,942	$ 8,565	$ 5,267	$ 6,708	$ 17,188	$ 122,402
Non-performing	104	112	92	372	23	-	800	1,503
	$ 32,779	$ 32,169	$ 20,034	$ 8,937	$ 5,290	$ 6,708	$ 17,988	$ 123,905

For each class of loans, the following summarizes the recorded investment by credit quality indicator as of December 31, 2022. (Amounts in Thousands of Dollars):

2022	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1-4 and Multi-Family	Total
Internally assigned risk rating:							
Pass (ratings 1 through 4)	$ 61,011	$ 184,243	$ 30,662	$ 73,706	$ 11,725	$ 27,021	$ 388,368
Special mention (rating 5)	9,158	4,129	-	1,230	-	814	15,331
Substandard (rating 6)	1,259	7,485	2,301	-	106	1,033	12,184
Doubtful (rating 7)	-	-	-	-	447	-	447
	$ 71,428	$ 195,857	$ 32,963	$ 74,936	$ 12,278	$ 28,868	$ 416,330

	Construction and Land Development	Real Estate Secured by 1-4 and Multi-Family	Consumer	Total
Delinquency status:*				
Performing	$ -	$ 90,353	$ 44,586	$ 134,939
Nonperforming	-	-	-	-
	$ -	$ 90,353	$ 44,586	$ 134,939

*Performing loans are those which are accruing and less than 90 days past due. Nonperforming loans are those on nonaccrual and accruing loans that are greater than or equal to 90 days past due.

For commercial operating, commercial real estate, agricultural operating, agricultural real estate, real estate secured by multifamily and construction and land development loans, the Company's credit quality indicator is internally assigned risk ratings. Each of these loans is assigned a risk rating upon origination. The risk rating is reviewed every 12 months, at a minimum, and on an as needed basis depending on the specific circumstances of the loan. Some classes of loans contain loans that are risk rated and loans that are not, as loans of a more homogeneous nature are not risk rated. See Note 1 for further discussion on the Company's risk ratings.

For residential real estate loans, consumer loans and a portion of the construction and land development loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans totaled $192,306,000 and $197,820,000 as of December 31, 2023 and 2022, respectively.

In the ordinary course of business, the Bank has granted loans to directors, principal officers, and affiliated companies in which they are principal stockholders amounting to $10,509,000 and $10,478,000 as of December 31, 2023 and 2022, respectively.

4. Premises, Furniture and Equipment

The cost, accumulated depreciation and net book value of premises, furniture and equipment as of December 31, 2023 and 2022 is summarized as follows. (Amounts in Thousands of Dollars):

	2023	2022
Land	$ 4,101	$ 4,101
Building and improvements	14,893	14,834
Furniture and equipment	11,741	11,332
	30,735	30,267
Less accumulated depreciation	(19,545)	(18,793)
	$ 11,190	$ 11,474

5. Goodwill and Intangibles

Goodwill and intangible assets are summarized as follows. (Amounts in Thousands of Dollars):

As of December 31,	2023	2022
Goodwill	$ 3,050	$ 3,050
Other intangible assets:		
Core deposit intangible	1,380	1,380
Other intangible assets	1,855	1,855
	3,235	3,235
Less accumulated amortization on certain intangible assets	(3,201)	(3,197)
	34	38
Total goodwill and intangible assets	$ 3,084	$ 3,088

ESTIMATED FUTURE AMORTIZATION EXPENSE

For the years ending December 31	
2024	$ 12
2025	12
2026	10
	$ 34

6. Time Deposits

The aggregate amount of time deposits, each with a minimum denomination of $250,000, was approximately $71,112,000 and $53,806,000 as of December 31, 2023 and 2022, respectively.

Brokered deposits were $9,143,000 and $7,530,000 at December 31, 2023 and 2022, respectively.

A major customer is defined as one with deposits comprising greater than 5% of the Company's total deposits. As of December 31, 2023, there were two customers that held approximately $133,550,000 in deposits and, as of December 31, 2022, there were three customers that held approximately $173,293,000 in deposits.

At December 31, 2023, the scheduled maturities of time deposits are as follows. (Amounts in Thousands of Dollars):

2024	$ 188,609
2025	18,831
2026	968
2027	133
2028	179
Thereafter	33
	$ 208,753

7. Federal Home Loan Bank Advances and Letters of Credit

The Bank advances funds from and repays them to the Federal Home Loan Bank (FHLB) as considered necessary for liquidity purposes. Outstanding advances as of December 31, 2023 and 2022 were $30,000,000 and $45,000,000, respectively, and various interest rates ranging from 4.43%-4.75%.

Long-term FHLB advances are due as follows (Amounts in Thousands of Dollars):

2025	5,000
2026	10,000
2027	15,000
	$ 30,000

At December 31, 2023 and 2022, the Company had an available line of credit of approximately $161,000,000 and $143,000,000, respectively, with FHLB in excess of the amount that has been borrowed. The interest rates applied on any borrowing are determined on that date. The FHLB borrowings are collateralized by 1-4 family mortgages, commercial, commercial real estate and agricultural real estate loans of approximately $192,000,000 and $188,000,000 as of December 31, 2023 and 2022, respectively. The Company also had a letter of credit agreement with FHLB for approximately $845,000 and $0 as of December 31, 2023 and 2022, respectively. There were no borrowings against the letter of credit as of December 31, 2023 and 2022.

8. Junior Subordinated Debentures and Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Subordinated Debentures

Junior subordinated debentures are due to FBIL Statutory Trusts II and III, which are both 100% owned, non-consolidated subsidiaries of the Company. The debentures were issued in 2003 and 2004, respectively, in conjunction with each Trust's issuance of 5,000 shares of Company Obligated Mandatorily Redeemable (COMR) Preferred Securities. The debentures all bear the same interest rate and terms as the preferred securities, detailed following.

The debentures are included on the consolidated balance sheets as liabilities; however, in accordance with Federal Reserve Board regulations in effect at December 31, 2023 and 2022, the Company is allowed, for regulatory purposes, to include the entire $10,000,000 of the capital securities issued by the Trusts in Tier I capital.

During 2004, FBIL Statutory Trust III issued 5,000 shares of Company Obligated Mandatorily Redeemable (COMR) Preferred Securities. Distributions are paid quarterly. Cumulative cash distributions are calculated at a variable annual rate that is 265 basis points above the three month term SOFR rate (8.30% as of December 31, 2023) and 265 basis points above the three-month LIBOR rate (7.42% as of December 31, 2022). The Trust may, at one or more times, defer interest payments on the capital securities for up to 20 consecutive quarterly periods, but not beyond September 15, 2034. At the end of the deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on September 15, 2034 at par plus any accrued and unpaid distributions to the date of the redemption; however, the Trust has the option to redeem at any time at par. The redemption may be in whole or in part, but in all cases in a principal amount with integral multiples of $1,000.

During 2003 the Company issued 5,000 shares of (COMR) Preferred Securities of FBIL Statutory Trust II Holding Solely Subordinated Debentures. Distributions are paid quarterly. Cumulative cash distributions are calculated at a variable annual rate that is 295 basis points above the three-month term SOFR rate (8.59% as of December 31, 2023) and 295 basis points above the three-month LIBOR rate (7.69% as of December 31, 2022). The Company may, at one or more times, defer interest payments on the capital securities for up to 20 consecutive quarterly periods, but not beyond September 17, 2033. At the end of the deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on September 17, 2033 at par plus any accrued and unpaid distributions to the date of the redemption; however, the Company has the option to redeem at any time at par. The redemption may be in whole or in part, but in all cases in a principal amount with integral multiples of $1,000.

Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Trust's indebtedness and senior to the Trust's capital stock.

9. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Bank, in the normal course of business, is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include unused lines of credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and market risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for unused lines of credit and standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's commitments as of December 31, 2023 and 2022 is as follows. (Amounts in Thousands of Dollars):

	2023	2022
Commitments to extend credit:		
Unused lines of credit	$ 112,444	$ 105,111
Standby letters of credit	1,479	412

Unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The agreements generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the agreements are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based upon management's credit evaluation of the counter-party. Collateral varies but may include accounts receivable, inventory, property, equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral, as detailed above, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount shown in the previous summary. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. As of December 31, 2023 and 2022, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

The Company has executed contracts for the sale of mortgage loans in the secondary market in the amount of $379,000 and $838,000 as of December 31, 2023 and 2022, respectively. These amounts are included in loan commitments, included in the summary of this Note, as of December 31, 2023 and 2022.

A portion of residential mortgage loans sold to investors in the secondary market are sold with recourse. Specifically, certain loan sales agreements provide that if the borrower becomes 60 days or more delinquent during the first six months following the first payment due, and subsequently becomes 90 days or more delinquent during the first 12 months of the loan, the Bank must repurchase the loan from the subject investor. The Bank did not repurchase any loans from secondary market investors under the terms of these loan sales agreements during the years ended December 31, 2023 and 2022. In the opinion of management, the risk of recourse to the Bank is not significant and, accordingly, no liability has been established.

Concentration of Credit Risk

Aside from cash on hand and in-vault, the Company's cash is maintained at various correspondent banks. The total amount of cash on deposit and federal funds sold exceeded federal insurance limits at four institutions by a total of approximately $4,802,000 and $4,270,000 as of December 31, 2023 and 2022, respectively. In the opinion of management, no material risk of loss exists due to the financial condition of the institutions.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on these consolidated financial statements.

10. Benefits

The Company has a 401(k) plan, which is a tax qualified savings plan, to encourage its employees to save for retirement purposes or other contingencies. All employees, working over 1,000 hours per year, of the Company and its subsidiaries are eligible to participate in the Plan after completion of one year of service and attaining the age of 21. The employee may elect to contribute a percentage of their compensation before taxes in a traditional 401(k) and/or a percentage of their compensation after taxes using the subsidiaries' Roth 401(k) option. Based upon profits, as determined by the subsidiaries, a contribution may be made by the subsidiaries. Employees are 100% vested in the subsidiaries' contribution to the plan after five years of service. Employee contributions and vested subsidiaries contributions may be withdrawn only on termination of employment, retirement, death or hardship withdrawal.

Under the various Employee Incentive Compensation Plans, the Bank is authorized at its discretion, pursuant to the provisions of the plan, to establish on an annual basis, a bonus fund, which will be distributed to certain employees, based on their performance. The Employee Incentive Compensation Plan does not become effective unless the Bank exceeds established income levels and goals. For the years ended December 31, 2023 and 2022, the bank met those goals. One plan, a Deferred Incentive Compensation Plan, maintained by the Bank has been discontinued.

The financial statements include expense related to the 401(k) Plan of $626,000 and $570,000 for the years ended December 31, 2023 and 2022, respectively. The financial statements include expense related to the incentive compensation plans of $261,000 and $1,103,000 for the years ended December 31, 2023 and 2022, respectively.

11. Dividends and Regulatory Capital

The Company's stockholders are entitled to receive such dividends as are declared by the Board of Directors. The ability of the Company to pay dividends in the future is dependent upon its receipt of dividends from its subsidiaries. The subsidiaries' ability to pay dividends is regulated by financial regulatory statutes. The timing and amount of dividends will depend on earnings, capital requirements and financial condition of the Company and its subsidiaries as well as general economic conditions and other relevant factors affecting the Company and the subsidiary. Under the provisions of the National Bank Act, the Bank may not, without prior approval of the Comptroller of the Currency, declare dividends in excess of the total of the current and past two year's earnings less any dividends already paid from those earnings.

The Company and its subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional, discretionary action by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators and components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier I, and common equity Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). The Bank would be subject to limitations on certain activities including payment of dividends and discretionary bonuses to executive officers if its capital level is below the buffered ratio. Management believes, as of December 31, 2023, that the Company and Bank meet all capital adequacy requirements to which they are subject.

The most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately or well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's categories.

The Company and Bank's actual capital amounts and ratios are also presented in the table. (Amounts in Thousands of Dollars):

As of December 31, 2023	Actual		Minimum Regulatory Requirement		Minimum Regulatory Requirement With Capital Conservation Buffer		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)								
Company	$127,067	17.35%	$ 58,589	≥ 8.00%	$ 76,898	≥ 10.500%	N/A	N/A
Bank	$119,362	16.30%	$ 58,571	≥ 8.00%	$ 76,875	≥ 10.500%	$ 73,214	≥ 10.00%
Tier I Capital (to Risk-Weighted Assets)								
Company	$117,908	16.10%	$ 43,942	≥ 6.00%	$ 62,251	≥ 8.500%	N/A	N/A
Bank	$110,201	15.05%	$ 43,929	≥ 6.00%	$ 62,232	≥ 8.500%	$ 58,571	≥ 8.00%
Common Equity Tier I Capital (to Risk-Weighted Assets)								
Company	$107,908	14.73%	$ 32,956	≥ 4.50%	$ 51,265	≥ 7.000%	N/A	N/A
Bank	$110,201	15.05%	$ 32,946	≥ 4.50%	$ 51,250	≥ 7.000%	$ 47,589	≥ 6.50%
Tier I Capital (to Average Assets)								
Company	$117,908	10.13%	$ 46,542	≥ 4.00%	$46,542	≥ 4.000%	N/A	N/A
Bank	$110,201	9.47%	$ 46,545	≥ 4.00%	$ 46,545	≥ 4.000%	$ 58,181	≥ 5.00%

As of December 31, 2022	Actual		Minimum Regulatory Requirement		Minimum Regulatory Requirement With Capital Conservation Buffer		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)								
Company	$ 122,312	18.01%	$ 54,345	≥ 8.00%	$ 71,328	≥ 10.500%	N/A	N/A
Bank	$ 114,565	16.88%	$ 54,296	≥ 8.00%	$ 71,264	≥ 10.500%	$ 67,870	≥ 10.00%
Tier I Capital (to Risk-Weighted Assets)								
Company	$ 113,792	16.75%	$ 40,759	≥ 6.00%	$ 57,741	≥ 8.500%	N/A	N/A
Bank	$ 106,053	15.63%	$ 40,722	≥ 6.00%	$ 57,690	≥ 8.500%	$ 54,296	≥ 8.00%
Common Equity Tier I Capital (to Risk-Weighted Assets)								
Company	$ 103,792	15.28%	$ 30,569	≥ 4.50%	$ 47,552	≥ 7.000%	N/A	N/A
Bank	$ 106,053	15.63%	$ 30,542	≥ 4.50%	$ 47,509	≥ 7.000%	$ 44,116	≥ 6.50%
Tier I Capital (to Average Assets)								
Company	$ 113,792	9.89%	$ 46,042	≥ 4.00%	$ 46,042	≥ 4.000%	N/A	N/A
Bank	$ 106,053	9.23%	$ 45,953	≥ 4.00%	$ 45,953	≥ 4.000%	$ 57,442	≥ 5.00%

12. Income Tax Matters

The components of income tax expense are as follows for the years ended December 31, 2023 and 2022. (Amounts in Thousands of Dollars):

Year Ended December 31,	2023	2022
Current	$ 1,058	$ 2,215
Deferred	21	27
	$ 1,079	$ 2,242

A reconciliation between income tax expense in the statements of income and the amount computed by applying the statutory federal income tax rate to income before income taxes is as follows. (Amounts in Thousands of Dollars):

Year Ended December 31,	2023	% of Pretax Income	2022	% of Pretax Income
Federal income tax at statutory rate	$ 1,362	21.0%	$ 2,324	21.0%
Changes from statutory rate resulting from:				
State tax, net of federal benefit	135	2.1	418	3.8
Tax exempt interest income, net	(320)	(4.9)	(415)	(3.8)
Increase in cash surrender value	(102)	(1.6)	(97)	(0.9)
Other, net	4	0.0	12	0.1
Income tax expense	$ 1,079	16.6%	$ 2,242	20.2%

Net deferred tax assets (liabilities) consist of the following components as of December 31, 2023 and 2022. (Amounts in Thousands of Dollars):

Year Ended December 31,	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 2,676	$ 2,918
Accrued expenses	541	626
Unrealized losses on securities available for sale, net	18,849	20,030
Unrealized losses on derivatives, net	625	-
Other	4	4
	$22,695	$ 23,578
Deferred tax liabilities:		
Premises, furniture and equipment	$ (378)	$ (421)
Stock dividends	(12)	(12)
Prepaid expenses	(173)	(136)
Intangibles	(616)	(573)
	$ (1,179)	$ (1,142)
Net Deferred Tax Assets (Liabilities)	$21,516	$ 22,436

Net deferred tax assets as of December 31, 2023 and 2022 are included in other assets on the accompanying consolidated balance sheets.

The net change in deferred income taxes is reflected in the financial statements as follows. (Amounts in Thousands of Dollars):

Year Ended December 31,	2023	2022
Provision for income taxes	$ 21	$ 27
Statement of changes in stockholders' equity, accumulated other comprehensive income (loss), unrealized gains (losses) on securities available for sale and unrealized (losses) on fair value hedges, net	581	(21,073)
Adoption of ASC 326	318	-
	$ 920	$ (21,046)

13. Derivatives

The Company uses a variety of derivative instruments to mitigate exposure to both market and credit risks inherent in its business activities. The Company manages these risks as part of its overall asset and liability management process and through its policies and procedures. Derivatives represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based on a notional amount and underlying as specified in the contract.

Derivatives are often measured in terms of notional amount, but this amount is generally not exchanged, and it is not recorded on the Company's consolidated balance sheet. The notional amount is the basis to which the underlying is applied to determine required payments under the derivative contract. The underlying is referenced as interest rate, security price, credit spread, or other index. Residential and commercial real estate loan commitments associated with loans to be sold also qualify as derivative investments.

Derivatives Designated as Hedging Instruments

The Company uses derivative instruments to hedge its exposure to economic risks, including interest rate, liquidity and credit risk. Certain hedging relationships are formally designated and qualify for hedge accounting under GAAP. On the date the Company enters into a derivative contract designated as a hedging instrument, the derivative is designated as either a fair value hedge, cash flow hedge, or a net investment hedge. When a derivative is designated as a fair value, cash flow, or net investment hedge, the Company performs an assessment, at inception and, at a minimum, quarterly thereafter, to determine the effectiveness of the derivative in the offsetting changes in the value or cash flows of the hedged item(s). As of December 31, 2023 the Company only uses fair value hedges.

Fair value hedges: These derivatives are interest rate swaps the Company uses to hedge the change in fair value related to interest rate changes of its underlying mortgage-backed investment securities and mortgage loan pools. The interest rate swaps are carried on the Company's Consolidated Balance Sheet at their fair value in other assets (when the fair value is positive) or in other liabilities (when the fair value is negative). The changes in fair value of the interest rate swaps are recorded in interest income. The unrealized gains or losses due to changes in the fair value of the interest rate swaps due to changes in benchmark interest rates are recorded as an adjustment to the hedged instruments and offset in the same interest income line items.

The following table presents the total notional amounts and gross fair values of the Company's derivatives as of December 31, 2023 and 2022 (Amounts in Thousands of Dollars):

(dollars in thousands)	Consolidated Balance Sheet Location	Fair Value	Notional Amount
Designated as hedging instruments			
Fair value hedges:			
Interest rate swaps	Other Liabilities	$ (2,167)	$ 100,000

The following table presents the fair values hedge accounting of the Company's derivatives in the Consolidated Statements of Income for the year ended December 31, 2023 and 2022 (Amounts in Thousands of Dollars):

(dollars in thousands)	Consolidated Income Statement Location	Interest Income
Fair value hedges:		
Interest rate swaps	Interest Income - Securities	$ 550

There were no gains (losses) recognized in other comprehensive income (loss) reclassified into earnings as of December 31, 2023 and 2022.

The following table shows the notional amount, carrying amount and associated cumulative basis adjustments related to the application of hedge accounting that is included in the carrying amount of hedged assets and liabilities in fair value hedging relationships at December 31, 2023:

(dollars in thousands)	December 31, 2023		
	Notional Amounts	Carrying Amount of Hedged Assets/Liabilities	Cumulative Fair Value Hedging Adjustment in the Carrying Amount of Hedged Assets/Liabilities
Government Agency	$ 25,000	$ 470	$ 10
Mortgage-backed securities			
Residential Agency	$ 50,000	$ 1,098	$ 5
Municipals	$ 25,000	$ 599	$ 10
Total	$ 100,000	$ 2,167	$ 25

14. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value using a hierarchy system, and requires disclosure of fair value measurements. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs and includes three levels based upon the valuation techniques used. The three levels are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity 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 a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investment securities available for sale: Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of state and political subdivisions and certain corporate, asset based and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy.

Derivatives:
All of the Company's derivatives are traded in over-the-counter markets where quoted market prices are not readily available. For these derivatives, estimate fair value is measured using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities, and accordingly, classify as Level 2. Examples of Level 2 derivatives are basic interest rate swaps and forward contracts.

Individually evaluated and impaired loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered individually evaluated under ASC 326 or impaired and an allowance for credit losses is established. Once a loan is identified as individually evaluated or impaired, it may be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. Fair value is determined based upon appraisals by qualified licensed appraisers hired by the Company, and are, generally, considered level 2 measurements. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparable included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, the resulting fair value measurement has been categorized as a level 3 measurement.

Other real estate owned: Other real estate owned is carried at the estimated fair value of the property, less disposal costs at the time of acquisition. The fair value of the property is determined based upon appraisals or internal evaluations. Subsequent write-downs are bases on the lower of carrying value or fair value, less disposal costs.

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the years ended December 31, 2023 and 2022.

ASSETS AND LIABILITES RECORDED AT FAIR VALUE ON A RECURRING BASIS
The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value. (Amounts in Thousands of Dollars):

Fair Value Measurements as of December 31, 2023 Using:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investment securities available for sale:				
U.S. treasuries	$ 9,900	$ 9,900	$ -	$ -
U.S. government agency bonds	100,104	-	100,104	-
U.S. government agency mortgage backed securities	140,840	-	140,840	-
State and political subdivisions	26,398	-	26,398	-
Collateralized mortgage obligations	52,876	-	52,876	-
	$330,118	$ 9,900	$320,218	$ -
Liabilities:				
Derivatives	$ (2,167)	$ -	$ (2,167)	$ -

Fair Value Measurements as of December 31, 2022 Using:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investment securities available for sale:				
U.S. treasuries	$ 14,662	$ 14,662	$ -	$ -
U.S. government agency bonds	101,331	-	101,331	-
U.S. government agency mortgage backed securities	161,024	-	161,024	-
State and political subdivisions	28,635	-	28,635	-
Collateralized mortgage obligations	58,061	-	58,061	-
	$ 363,713	$ 14,662	$ 349,051	$ -

There were no transfers of assets or liabilities between levels 1, 2 and 3 of the fair value hierarchy during the years ended December 31, 2023 and 2022.

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS
The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis such as when there is evidence of impairment. Assets measured at fair value on a nonrecurring basis are included in the table below. (Amounts in Thousands of Dollars):

Fair Value Measurements as of December 31, 2023 Using:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Individually evaluated loans	$ 11,180	$ -	$ -	$ 11,180
Other real estate owned	$ 80	$ -	$ -	$ 80

Fair Value Measurements as of December 31, 2022 Using:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 3,441	$ -	$ -	$ 3,441

The Financial Instruments Topic of the FASB Accounting Standards Codification 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. Certain financial instruments and all non-financial instruments are excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and due from banks and federal funds sold: The carrying amounts reported in the balance sheets for cash and due from banks and federal funds sold equal their fair values.

Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans and loans held for sale: For variable rate loans, fair values are equal to carrying values. The fair values for all other types of loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of loans held for sale is based on quoted market prices of similar loans sold in the secondary market.

Individually Evaluated and Impaired loans, net: Individually Evaluated and Impaired loans fair value is equal to book value minus the related allowance plus estimated selling costs.

Accrued interest receivable and payable: The fair value of accrued interest receivable and payable is equal to its carrying value.

Deposits: The fair values for demand and savings deposits equal their carrying amounts, which represent the amount payable on demand. Fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities on time deposits.

Securities sold under agreements to repurchase: The fair value of securities sold under agreements to repurchase is considered to be equal to the carrying value due to the borrowings' short-term nature.

FHLB Advances: The fair value of FHLB Advances approximates the carrying value.

Junior subordinated debentures: It is not practicable to estimate the fair value of junior subordinated debentures as instruments with similar terms are not available in the market place.

Commitments to extend credit: The fair value of these commitments is not material.

Derivatives: Derivatives are carried at fair market value.

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2023 and 2022 are as follows. (Amounts in Thousands of Dollars):

	Fair Value Hierarchy Level	Carrying Value 2023	Carrying Value 2022	Fair Value 2023	Fair Value 2022
Financial assets:					
Cash and due from banks	1	$ 46,901	$ 27,357	$ 46,901	$ 27,357
Securities held to maturity	1	-	5,493	-	5,484
Securities held to maturity	2	115,131	114,105	110,277	108,148
Securities available for sale	1	9,900	14,662	9,900	14,662
Securities available for sale	2	320,218	349,051	320,218	349,051
Federal funds sold	1	775	697	775	697
Loans, net	2	578,482	537,457	513,202	477,796
Individually evaluated and impaired loans, net	3	10,448	3,216	11,180	3,441
Other real estate owned	3	80	-	80	-
Accrued interest receivable	1	5,989	4,622	5,989	4,622
Financial liabilities:					
Non-interest bearing demand deposits	1	$ 190,429	$ 160,010	$ 190,429	$ 160,010
Interest bearing demand deposits	1	482,979	500,843	482,979	500,843
Savings deposits	1	89,271	106,660	89,271	106,660
Time deposits	2	208,753	146,038	208,753	146,310
Securities sold under agreements to repurchase	1	64,917	85,478	64,917	85,478
FHLB Advances	2	30,000	45,000	30,000	45,000
Derivatives	2	2,167	-	2,167	-
Accrued interest payable	1	1,812	428	1,812	428

First Bankers Trustshares, Inc.

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Member, Harborstone Group, LLC

Allen W. Shafer
President/CEO

Carl W. Adams, Jr.
Chairman, Illinois Ayers Oil Company
Director, TI-Trust, Inc.

Scott A. Cisel
Strategic Adviser to Energy Internet Corporation
President, Cisel Consulting, Inc.

Charles M. Gnuse
President/CEO, United State Bank
Lewistown, Missouri

Arthur E. Greenbank
Former President/CEO
First Bankers Trustshares, Inc.

Mark E. Freiburg
Owner, Freiburg Insurance Agency; Freiburg Development; Diamond Construction; Maxamillion, Inc.; Wink Drinks Inc.

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Seth H. Runkle, Chief Financial Officer

Jason L. Duncan, Region President
David J. Rakers, EVP Growth Initiatives

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Melinda K. Boyer, Senior Vice President
Nathan J. Frese, Senior Vice President
Douglas R. Reed, Senior Vice President
Dominic M. Siepp, Market President
James D. Whitaker, Senior Vice President

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Jay Behrends, Officer
Alex L. Brown, Jr., Loan Officer
Megan M. Cheek, Loan Officer
W. Kay Divan, Retail Officer
Ronald W. Fairley, IT Officer
Kelly Freeman, Retail Officer
April C. Griffin, Collections Officer
Terry J. Hanks, IT Officer
Melisa G. Heimann, Operations Officer
Leigh A. Holstein, Retail Officer
Krystal N. Jackson, Retail Officer
Brian Johnson, Officer
Dalton R. Leebold, Digital Banking Officer
Michelle Matticks, Officer
Stephanie M. Miller, Retail Officer
Hannah L. Muegge, Credit Officer
Kim M. Neal, Operations Officer
Shannon M. Orris, Retail Officer
Lisa M. Palmer, Officer
Shawn P. Ryan, Loan Officer
Rachel E. Sisay, Retail Officer
Kristel E. Williams, Retail Officer
Matt Wyatt, Credit Officer