TRUXTON

WEALTH · FAMILY OFFICE · BANKING

Dear Shareholder:

We foreshadowed in our last letter that 2023 would be difficult and it was! The rapid rise in interest rates created asset liability management for all banks, and consequentially our net interest margin declined by 17 basis points compared with2022. Our loan portfolio grew by 6%, far below the 25% growth in 2022, and net income growth for 2023 was 5%, not what we were hoping for but still ranking Truxton among the top performing banks in the country.

In tough economic conditions, the core strengths of our business model remained very evident. Wealth management grew 8% compared with 2022 as equity markets rallied through the year and we attracted a significant number of new clients. Credit quality remained strong, and we finished the year with zero non-performing assets. Return on assets was 1.86%, an exceptional performance for any bank and the same as 2022. Return on Average Equity was again 22.3%, among the highest observed in our industry. This strong return to our equity capital allowed us to increase the total dividend (including a special dividend) by 7% yet still saw our equity to assets ratio grow from 8.0% at the end of 2022 to 9.2% as of December 31, 2023. Dividends since inception are now $13.80 per share (as of year-end 2023) and the last trade in our shares in 2023 was $65.00. For our long-time shareholders, the returns have been strong.

Truxton has always put profitability and soundness ahead of asset growth for its own sake. Our wealth management business involves minimal "on balance sheet" assets and can grow without taxing capital. Non-interest income as a percentage of total income remains extraordinary.

Looking ahead, we see 2024 as another challenging year. Cost of funds will likely continue to rise even with a stable yield environment. Loan growth is likely to remain moderate. Growth in our Wealth Management business will depend on attracting new relationships and the performance of equity and debt markets. Truxton will move to a new headquarters location in 2024, a change that will bring higher current expenses and higher continuing costs for rent and depreciation. Notwithstanding these limitations, we anticipate delivering returns on assets and equity that should continue to be the envy of our peers. Nashville, our principal market area, continues to exhibit strong job and population growth, bolstering credit quality and providing diverse avenues to grow our firm and its value to our clients and shareholders.

Truxton's shareholders and senior leadership owe a huge debt of gratitude to the people who make this place work. The bankers, wealth management professionals, treasury management and capital advisory teams are intensely focused on bringing a superior experience to our clients. Our colleagues are more responsive, more skillful, more knowledgeable, and more experienced than most people expect to encounter in a bank. Investors ask us how we compete so successfully against competitors who are hundreds of times our size. The answer is people. Ours are simply the best.

We wish everyone the best of luck in the year ahead.

Thomas S. Stumb   Derrick A. Jones

TRUXTON CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

TRUXTON CORPORATION
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

CONTENTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Truxton Corporation
Nashville, Tennessee

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Truxton Corporation as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Truxton Corporation 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective January 1, 2023, Truxton Corporation has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

(Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that 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 consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Truxton Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Truxton Corporation'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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or 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.

Crowe LLP

Crowe LLP

Franklin, Tennessee
January 24, 2024

TRUXTON CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(Dollars in thousands except share and per share amounts)

	2023	2022
ASSETS		
Cash and due from financial institutions	$ 4,272	$ 5,405
Restricted cash	1,550	-
Interest bearing deposits in other financial institutions	1,867	1,094
Federal funds sold	1,537	-
Cash and cash equivalents	9,226	6,499
Time deposits in other financial institutions	490	3,833
Securities available for sale	259,926	257,257
Gross loans	657,840	618,948
Allowance for credit losses on loans	(6,304)	(5,761)
Net loans	651,536	613,187
Bank owned life insurance	10,808	10,592
Restricted equity securities	1,858	3,227
Premises and equipment, net	189	209
Accrued interest receivable	4,388	3,512
Deferred tax asset, net	6,010	7,161
Other assets	10,839	11,803
Total assets	$ 955,270	$ 917,280
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 123,918	$ 153,870
Interest bearing	658,061	653,880
Total deposits	781,979	807,750
Federal funds purchased	-	4,933
Federal Home Loan Bank advances	4,500	4,500
Bank Term Funding Program advances	53,800	-
Subordinated debentures (less unamortized discount and debt issuance costs of $173 at December 31, 2023 and $273 at December 31, 2022)	14,327	14,727
Other liabilities	12,982	11,994
Total liabilities	867,588	843,904
Shareholders' equity		
Preferred stock, $0.10 par value; 5,000,000 shares authorized; no shares issued	-	-
Common stock, $0.10 par value; 40,000,000 shares authorized; 2,893,064 shares issued and outstanding in 2023 and 2,888,452 shares issued and outstanding in 2022	289	289
Additional paid-in capital	31,457	31,107
Retained earnings	69,215	59,492
Accumulated other comprehensive income (loss)	(13,279)	(17,512)
Total shareholders' equity	87,682	73,376
Total liabilities and shareholders' equity	$ 955,270	$ 917,280

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF NET INCOME
Years ended December 31, 2023 and 2022
(Dollars in thousands except share and per share amounts)

	2023	2022
Non-interest income		
Wealth management services	$ 17,657	$ 16,377
Service charges on deposit accounts	461	415
Bank owned life insurance income	216	203
Net losses on sales of securities	(376)	(636)
Other	298	253
Total non-interest income	18,256	16,612
Interest income		
Loans, including fees	37,804	25,125
Taxable securities	9,350	5,247
Tax-exempt securities	876	1,568
Interest bearing deposits	695	469
Federal funds sold	101	39
Other interest income	216	156
Total interest income	49,042	32,604
Interest expense		
Deposits	20,881	6,792
Subordinated debentures and other	771	776
Short-term borrowings	2,154	52
Long-term borrowings	490	141
Total interest expense	24,296	7,761
Net interest income	24,746	24,843
Provision for credit losses on loans	296	984
Net interest income after provision for credit losses	24,450	23,859
Total revenue, net	42,706	40,471
Non-interest expense		
Compensation and employee benefits	14,810	14,587
Occupancy	1,185	1,034
Furniture and equipment	76	112
Data processing	1,703	1,486
Wealth management processing fees	729	666
Advertising and public relations	248	162
Professional services	941	793
FDIC insurance assessments	460	246
Other	901	879
Total non-interest expense	21,053	19,965
Income before income taxes	21,653	20,506
Income tax expense	4,117	3,780
Net income	$ 17,536	$ 16,726
Earnings per share:		
Basic	$ 6.04	$ 5.78
Diluted	$ 6.02	$ 5.75

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2023 and 2022
(Dollars in thousands except share and per share amounts)

	2023	2022
Net income	$ 17,536	$ 16,726
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gain (loss) arising during the period	6,112	(31,604)
Reclassification adjustment for losses included in net income as net losses on sale of securities	376	636
Tax effect, income tax (expense) benefit included in net income related to reclassification adjustments ($98) and ($166), respectively	(1,696)	8,092
Unrealized gains/losses on cash flow hedging activities:		
Unrealized holding gain (loss) arising during the period	(521)	3,889
Reclassification adjustment for losses included in net income as loss (gain) in interest income	(237)	195
Tax effect, income tax (expense) benefit included in net income related to reclassification adjustments ($62) and ($51), respectively	199	(1,065)
Total other comprehensive (loss) income, net of tax	4,233	(19,857)
Comprehensive income (loss)	$ 21,769	$ (3,131)

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2023 and 2022
(Dollars in thousands except share and per share amounts)

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity
Balance at January 1, 2022	2,879,284	$ 288	$ 31,790	$ 49,628	$ 2,345	$ 84,051
Exercise of stock options	3,523	-	144	-	-	144
Proceeds from buy back shares of common stock, net	(32,000)	(3)	(2,199)	-	-	(2,202)
Issuance of restricted shares of common stock, net	37,645	4	(4)	-	-	-
Stock based compensation expense	-	-	1,376	-	-	1,376
Cash dividends ($2.20 per share)	-	-	-	(6,862)	-	(6,862)
Net income	-	-	-	16,726	-	16,726
Other comprehensive loss	-	-	-	-	(19,857)	(19,857)
Balance at December 31, 2022	2,888,452	$ 289	$ 31,107	$ 59,492	$ (17,512)	$ 73,376
Adjustment for Adoption of ASC 326	-	-	-	(488)	-	(488)
Exercise of stock options	5,780	-	127	-	-	127
Proceeds from buy back shares of common stock, net	(18,343)	(2)	(1,097)	-	-	(1,099)
Issuance of restricted shares of common stock, net	17,175	2	(2)	-	-	-
Stock based compensation expense	-	-	1,322	-	-	1,322
Cash dividends ($2.52 per share)	-	-	-	(7,325)	-	(7,325)
Net income	-	-	-	17,536	-	17,536
Other comprehensive income (loss)	-	-	-	-	4,233	4,233
Balance at December 31, 2023	2,893,064	$ 289	$ 31,457	$ 69,215	$ (13,279)	$ 87,682

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2023 and 2022
(Dollars in thousands except share and per share amounts)

	2023	2022
Cash flows from operating activities		
Net income	$ 17,536	$ 16,726
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	245	290
Net amortization of securities	915	2,019
Net loss on sale of securities	376	636
Deferred income tax benefit	(173)	(75)
Provision for credit losses	296	984
Gain on sale of loans held for sale	-	(15)
Loans originated and held for sale	-	(1,440)
Proceeds from sale of loans held for sale	-	1,455
Stock based compensation expense	1,322	1,376
Bank owned life insurance income	(216)	(203)
Net change in:		
Accrued interest receivable	(876)	(1,166)
Other assets	964	(5,693)
Other liabilities	(181)	9,473
Net cash from operating activities	20,208	24,367
Cash flows from investing activities		
Net decrease in time deposits in other financial institutions	3,343	(1,053)
Available for sale securities:		
Sales	16,648	27,965
Purchases	(44,697)	(56,539)
Maturities, calls and paydowns	30,577	40,197
Net increase in loans	(38,893)	(124,147)
Purchase of restricted equity securities	(43)	(38)
Purchase of Federal Home Loan Bank stock	(1,187)	(528)
Sales of Federal Home Loan Bank stock	2,598	581
Additions of premises and equipment, net	(126)	(84)
Net cash from investing activities	(31,780)	(113,646)
Cash flows from financing activities		
Proceeds from Federal Home Loan Bank advances	133,700	57,000
Repayments of Federal Home Loan Bank advances	(133,700)	(57,000)
Proceeds from Bank Term Funding Program advances	110,000	-
Repayments of Bank Term Funding Program advances	(56,200)	-
Proceeds from Federal Reserve Bank Discount Window advances	32,067	-
Repayments of Federal Reserve Bank Discount Window advances	(32,067)	-
Payments on subordinated debt	(500)	-
Net change in federal funds purchased	(4,933)	4,933
Net change in deposits	(25,771)	276
Proceeds from exercise of stock options	127	144
Purchase of common stock	(1,099)	(2,202)
Cash dividends paid	(7,325)	(6,862)
Net cash from financing activities	14,299	(3,711)
Net change in cash and cash equivalents	2,727	(92,990)
Cash and cash equivalents at beginning of year	6,499	99,489
Cash and cash equivalents at end of year	$ 9,226	$ 6,499

(Continued)

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2023 and 2022
(Dollars in thousands except share and per share amounts)

	2023	2022
Supplemental cash flow information:		
Cash paid during year for interest	$ 24,118	$ 7,580
Cash paid during year for income taxes	4,335	3,879
Supplemental non-cash information:		
Decrease to retained earnings for adoption of ASC 326	$ (488)	$ -

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Truxton Corporation and its wholly owned subsidiaries, Truxton Trust Company and Truxton Risk Management, together referred to as "the Corporation." Intercompany transactions and balances are eliminated in consolidation.

Truxton Risk Management is an insurance company regulated by the Tennessee Department of Insurance that provides protection from certain risks that are not typically covered by commercial insurance. Truxton Risk Management was dissolved effective September 30, 2023.

Truxton Trust Company, referred to as "the Bank", represents substantially all the operations in the consolidated financial statements and it provides a variety of banking, investment management and trust administration services to individuals, businesses, and charitable institutions. Its primary deposit products are demand, money market and certificates of deposit and its primary lending products are residential and commercial real estate mortgages, commercial loans, and loans to individuals.

Truxton Trust Company has two wholly owned subsidiaries, Insurgent Investments, Inc., which primarily manages an investment portfolio of municipal securities, and Truxton Capital Management, LLC, which primarily provides investment management and advisory services to businesses and their owners.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through January 24, 2024, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, premises and equipment, and time deposits in other financial institutions.

Time Deposits in Other Financial Institutions: Time deposits in other financial institutions are carried at cost. These accounts are maintained at several financial institutions, not all are within the insurance limits provided by the Federal Deposit Insurance Corporation "FDIC" and have maturities ranging from 2024 to 2025.

Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value with unrealized holding gains and losses reported in accumulated other comprehensive income (loss), net of tax.

Interest income includes net amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Allowance for Credit Losses – Available-For-Sale Securities: For available-for-sale debt securities in an unrealized loss position, the Corporation first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the criteria, the Corporation evaluates whether the decline in the fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectiblity of an available-for-sale security is confirmed or when either of the criteria regarding intent for requirement to sell is met.

Accrued interest receivable on available-for-sale debit securities totaled $1,561 at December 31, 2023 and is excluded from the estimate of credit losses.

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

The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right, if servicing is retained. As of December 31, 2023, the Company has not sold any loans with servicing retained. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

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

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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

Concentration of Credit Risk: Most of the Corporation's business activity is with customers located within Nashville, Tennessee. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economy in the Nashville, Tennessee metropolitan area.

Allowance for Credit Losses: The provision for credit losses represents the portion of the loan's amortized cost basis that the Corporation does not expect to collect due to credit losses over the loan's life, considering past events, current conditions, and reasonable and supportable forecasts of future economic conditions considering macroeconomic forecasts. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of January 1, 2023, the Corporation's policy for the provision for credit losses changed with the adoption of the Current Expected Credit Loss (CECL) model to calculate the allowance using a lifetime expected credit loss approach. The Corporation uses two methodologies allowed under the accounting guidance, Weighted Average Remaining Maturity (WARM) and Scaled CECL Allowance for Losses Estimator (SCALE). The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Corporation has identified the loan portfolio segments listed below. The two construction loan portfolios use the SCALE model to calculate the provision for credit losses. All of the other loan pools use the WARM methodology.

Residential construction loans. The Company provides construction financing for small residential developers of single-family homes. This category excludes single loan commitments funding the construction of five or more individual houses but does include all owner-occupied residential construction loans. These loans are in the construction and land development segment.

Commercial construction loans. The Company provides financing for commercial construction projects and vacant land (excluding agricultural property), This category includes single loan commitments funding the construction of five or more individual homes and both non-owner occupied and owner-occupied properties of all types. These loans are in the construction and land development segment.

Residential and commercial construction loans generally are made for relatively short terms. They generally are more vulnerable to changes in economic conditions. Furthermore, the nature of these loans is such that they are more difficult to evaluate and monitor. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost (including interest) of the project. Periodic site inspections are made on construction loans.

Residential line of credit loans. The Corporation's residential line of credit loans are revolving, open-end lines of credit secured by 1-4 family residential properties. These loans can be secured by owner-occupied property (primary or secondary residence) or by investment property and can be a primary or junior lien. These loans are in the residential real estate segment.

Residential real estate 1-4 family mortgage loans. The Corporation provides closed-end mortgages secured by 1-4 family residential mortgages. This category includes junior lien 1-4 family residential mortgages and both owner-occupied and non-owner occupied collateral. These loans are in the residential real estate segment.

Commercial real estate loans. The Corporation provides commercial real estate mortgages (including those secured by multifamily properties) combined into one pool regardless of property type. A portion of these loans are non-recourse but others have guarantors or, in the case with mortgages secured by owner-occupied properties, full commercial business interests supporting cash flow.

As it relates to all mortgages secured by real properties, adverse economic conditions in the Corporation's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.

Commercial and industrial loans. The Corporation provides a mix of variable rate and fixed rate loans to commercial operations. While these loans can be unsecured, they also include a variety of collateral such as accounts receivable, inventory, equipment, and vehicles. Most are guaranteed by the business principals and are typically made on the basis of the borrower's ability to repay from the cash flow of the business enterprise. Adverse economic conditions may affect the repayment ability of these loans. These loans are in the commercial segment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consumer loans. The Corporation's consumer loans include both open-end and closed-end loans to individuals for personal, family, or household purposes. These loans may be secured or unsecured but are never secured with real estate.

Loans that do not share risk characteristics are evaluated on an individual basis and not included in the loan pools highlighted above. The Corporation has determined the following circumstances in which a loan may require an individual evaluation: collateral dependent loans; loans for which foreclosure is probable; and loans with other unique risk characteristics. A loan is deemed collateral dependent when 1) the borrower is experiencing financial difficulty and 2) the repayment is expected to be primarily through sale or operation of the collateral. The allowance for credit losses for collateral dependent loans as well as loans where foreclosure is probable is calculated as the amount for which the loan's amortized cost basis exceeds fair value. Fair value is determined based on appraisals performed by qualified appraisers and reviewed by qualified personnel. In cases where repayment is to be provided substantially through the sale of collateral, the Corporation reduces the fair value by the estimated costs to sell.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Corporation estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Corporation. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of an estimate of expected credit losses on commitments expected to be funded over its estimated life.

As of December 31, 2023, the allowance for credit losses on unfunded commitments was $411 and included in other liabilities.

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

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Leasehold improvements are amortized using the straight-line method over the shorter of the lease terms or the useful lives. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to five years.

Restricted Equity Securities: The Bank is a member of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems. Members are required to own a certain amount of stock based on the level of borrowings and on their level of equity and may invest in additional amounts. FHLB and FRB stock are carried at cost, classified as restricted equity securities and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Long-term Compensation: The Corporation paid retention bonuses in cash to certain key employees. These cash bonuses are considered long-term compensation to be earned over a 24 to 120-month requisite service period. The amount of the contracts is earned pro rata by the employees and expensed pro rata by the Corporation over the contractual term of the agreements. In the event that the employee leaves during the life of the contract, the employee is obligated to repay the unearned amount. Prepaid long-term compensation amounts of $477 and $673 were included in other assets as of December 31, 2023 and 2022.

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Assets Under Management: Assets held in fiduciary or agency capacities are not included in the consolidated balance sheets since such items are not assets of the Corporation.

Wealth Management Services Income Recognition: Income from Wealth Management Services is calculated by multiplying each investment management account's market value, determined on a specific date each month, by a static or tiered percentage, according to the investment management agreement. The income resulting from Wealth Management Services accounts is recognized monthly.

Derivatives: The Corporation has entered into derivative contracts designated as a) a hedge of fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), and b) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earning as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction effects earnings. For both types of hedges, changes in the fair values of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking hedges to specific assets and liabilities on the balance sheet. The Corporation also formally assesses, both at the hedges inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or expected cash flows of hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in fair value of the hedged item, the derivative is settled or terminates, or the treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income.

The Corporation is exposed to losses if a counterparty fails to make its payments under a contract in which the Corporation is in the net receiving position. The Corporation anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All the contracts to which the Corporation is a party settle monthly or quarterly. In addition, the Corporation obtains collateral above certain thresholds of the fair value of its derivatives for each counterparty based upon their credit standing and the Corporation has netting agreements with the dealers with which it does business.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized, on a straight-line basis over the requisite service period for the entire award generally defined as the vesting period.

Retirement Plans: Employee 401(k) benefit plan expense is the amount of matching contributions for the period.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges, which are also recognized as separate components of shareholders' equity.

Income Taxes: Income tax expense or benefit is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Share: Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share include the dilutive effect of additional potential common shares issuable under stock options.

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

Restrictions on Cash: The Corporation has cash held with third-party provider as collateral on cash flow swap.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Off Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded as loans when funded.

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

(Dollars in thousands except share and per share amounts)

NOTE 2 - SECURITIES

The following table summarizes the amortized cost and fair value of the available for sale securities portfolio at December 31, 2023 and 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agency	496	-	(5)	491
U.S. government sponsored entities and agencies	6,413	11	(157)	6,267
Agency mortgage-backed securities: residential	21,524	1	(3,048)	18,477
Agency mortgage-backed securities: commercial	3,983	3	(222)	3,764
Agency collateralized mortgage obligations	26,888	47	(1,211)	25,724
State and political subdivisions	58,328	33	(6,435)	51,926
Non-agency mortgage securitizations	82,041	158	(7,636)	74,563
Asset backed securities	73,104	122	(2,278)	70,948
Corporate securities	8,498	1	(733)	7,766
Total available for sale	$ 281,275	$ 376	$ (21,725)	$ 259,926

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agency	491	-	(10)	481
U.S. government sponsored entities and agencies	8,723	17	(202)	8,538
Agency mortgage-backed securities: residential	23,960	-	(3,648)	20,312
Agency mortgage-backed securities: commercial	3,111	-	(276)	2,835
Agency collateralized mortgage obligations	27,197	30	(1,431)	25,796
State and political subdivisions	73,585	34	(9,458)	64,161
Non-agency mortgage securitizations	81,180	10	(8,273)	72,917
Asset backed securities	52,338	-	(3,567)	48,771
Corporate securities	14,509	-	(1,063)	13,446
Total available for sale	$ 285,094	$ 91	$ (27,928)	$ 257,257

(Dollars in thousands except share and per share amounts)

NOTE 2 - SECURITIES (Continued)

Sales of available for sale securities were as follows for the years ending December 31, 2023 and 2022:

	2023	2022
Proceeds	$ 16,648	$ 27,965
Gross gains	111	9
Gross losses	(487)	(645)

Securities pledged at year-end 2023 and 2022 had a carrying value of $85,013 and $31,863 and were pledged to secure public deposits, interest rate swaps, one of the bank's federal funds lines of credit, and other borrowings with Federal Reserve Bank through the Bank Term Funding Program (BTFP). The Corporation had no holdings of securities of any one issuer, other than the U.S. government sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

The amortized cost and fair value of the investment securities portfolio are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	December 31, 2023	
	Amortized Cost	Fair Value
Within one year	$ 250	$ 249
One to five years	6,461	6,055
Five to ten years	13,275	11,568
Beyond ten years	47,336	42,311
U.S. government sponsored entities and agencies	6,413	6,267
Agency mortgage-backed securities: residential	21,524	18,477
Agency mortgage-backed securities: commercial	3,983	3,764
Agency collateralized mortgage obligations	26,888	25,724
Non-agency mortgage securitizations	82,041	74,563
Asset backed securities	73,104	70,948
Total	$ 281,275	$ 259,926

(Dollars in thousands except share and per share amounts)

NOTE 2 - SECURITIES (Continued)

The following table summarizes the investment securities with unrealized losses at December 31, 2023 and 2022 aggregated by major security type and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
December 31, 2023	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
U.S. Treasury and federal agency	$ 491	$ (5)	$ -	$ -	$ 491	$ (5)
U.S. government sponsored entities and agencies	246	(1)	4,131	(156)	4,377	(157)
Agency Mortgage-backed securities: residential	5	-	18,452	(3,048)	18,457	(3,048)
Agency Mortgage-backed securities: commercial	-	-	2,824	(222)	2,824	(222)
Agency collateralized mortgage obligation	3,883	(147)	20,290	(1,064)	24,173	(1,211)
State and political subdivisions	-	-	48,611	(6,435)	48,611	(6,435)
Non-agency mortgage securitizations	10,871	(65)	54,222	(7,571)	65,093	(7,636)
Asset backed securities	8,211	(66)	36,661	(2,212)	44,872	(2,278)
Corporate bonds	-	-	6,762	(733)	6,762	(733)
Total available for sale	$ 23,707	$ (284)	$ 191,953	$ (21,441)	$ 215,660	$ (21,725)

	Less than 12 Months		12 Months or More		Total	
December 31, 2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
U.S. Treasury and federal agency	$ 481	$ (10)	$ -	$ -	$ 481	$ (10)
U.S. government sponsored entities and agencies	2,094	(179)	3,383	(23)	5,477	(202)
Agency Mortgage-backed securities: residential	1,872	(248)	18,422	(3,400)	20,294	(3,648)
Agency Mortgage-backed securities: commercial	1,944	(87)	890	(189)	2,834	(276)
Agency collateralized mortgage obligation	15,214	(890)	8,647	(541)	23,861	(1,431)
State and political subdivisions	53,198	(7,254)	8,193	(2,204)	61,391	(9,458)
Non-agency mortgage securitizations	23,113	(1,571)	44,987	(6,702)	68,100	(8,273)
Asset backed securities	11,354	(341)	33,020	(3,226)	44,374	(3,567)
Corporate bonds	7,655	(362)	5,791	(701)	13,446	(1,063)
Total available for sale	$ 116,925	$ (10,942)	$ 123,333	$ (16,986)	$ 240,258	$ (27,928)

(Dollars in thousands except share and per share amounts)

NOTE 2 - SECURITIES (Continued)

Unrealized losses on securities have not been recognized into income because the issuers are of high credit quality, management does not intend to sell and it is more likely than not that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates instead of credit quality. The fair value is expected to recover as the securities approach their maturity dates and/or market rates change. As a result, the Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2023.

Restricted equity securities consist of securities which are restricted as to transferability. These securities are recorded at cost. Restricted equity securities consist of the following at December 31, 2023 and 2022:

	2023	2022
Federal Home Loan Bank stock	$ 975	$ 2,387
Federal Reserve Bank stock	883	840
	$ 1,858	$ 3,227

NOTE 3 - LOANS

Loans at year end were as follows:

	2023	2022
Commercial	$ 62,441	$ 53,018
Commercial real estate	241,492	242,555
Residential real estate	255,827	228,814
Construction and land development	50,281	45,648
Consumer	48,662	49,791
Subtotal	658,703	619,826
Net deferred loan fees	(863)	(878)
Gross loans	$ 657,840	$ 618,948

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The following tables present the activity in the allowance for credit losses and the recorded investment in loans by portfolio segment for the years ending December 31, 2023 and 2022:

December 31, 2023	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for credit losses:							
Beginning balance, prior to adoption of ASC 326	$ 578	$ 2,691	$ 1,629	$ 498	$ 365	$ -	$ 5,761
Impact of adopting ASC 326	(88)	(707)	685	67	168		125
Provision for credit losses [1]	(1)	307	129	89	(104)	-	420
Loans charged-off	-	-	(13)	-	-	-	(13)
Recoveries collected	-	-	11	-	-	-	11
Total ending allowance balance	$ 489	$ 2,291	$ 2,441	$ 654	$ 429	$ -	$ 6,304

December 31, 2022	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 485	$ 2,398	$ 911	$ 556	$ 283	$ 142	$ 4,775
Provision for credit losses	93	293	716	(58)	82	(142)	984
Loans charged-off	-	-	(2)	-	-	-	(2)
Recoveries collected	-	-	4	-	-	-	4
Total ending allowance balance	$ 578	$ 2,691	$ 1,629	$ 498	$ 365	$ -	$ 5,761

(1) Provision for credit losses excludes $124 reduction due to unfunded commitments included in other liabilities.

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The ACL and the recorded investment in loans by portfolio segment as of December 31, 2023 and 2022 are as follows. The recorded investment amounts do not include accrued and unpaid interest or any net deferred loan fees or costs due to immateriality.

December 31, 2023	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	489	2,291	2,441	654	429	-	6,304
Total ending allowance balance	$ 489	$ 2,291	$ 2,441	$ 654	$ 429	$ -	$ 6,304
Loans:							
Individually evaluated for impairment	$ -	$ -	$ 36	$ -	$ -	$ -	$ 36
Collectively evaluated for impairment	62,441	241,492	255,791	50,281	48,662	-	658,667
Total ending loans balance	$ 62,441	$ 241,492	$ 255,827	$ 50,281	$ 48,662	$ -	$ 658,703
December 31, 2022							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	578	2,691	1,629	498	365	-	5,761
Total ending allowance balance	$ 578	$ 2,691	$ 1,629	$ 498	$ 365	$ -	$ 5,761
Loans:							
Individually evaluated for impairment	$ -	$ -	$ 305	$ -	$ -	$ -	$ 305
Collectively evaluated for impairment	53,018	242,555	228,509	45,648	49,791	-	619,521
Total ending loans balance	$ 53,018	$ 242,555	$ 228,814	$ 45,648	$ 49,791	$ -	$ 619,826

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

Loan Modifications to Borrowers Experiencing Financial Difficulties

The Corporation did not have new modifications to borrowers experiencing financial difficulties and no loan modifications that subsequently defaulted during the twelve months ended December 31, 2023.

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2022:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2022						
With no related allowance recorded:						
Residential real estate:						
Closed-end	$ 305	$ 305	$ -	$ 306	$ 16	$ 16
With no related allowance recorded:						
Commercial real estate	-	-	-	4,443	212	212
Total	$ 305	$ 305	$ -	$ 4,749	$ 228	$ 228

For the purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

There were $12 and $0 loans past due over 90 days and still accruing as of December 31, 2023, and 2022, respectively.

There were no loans on non-accrual as of December 31, 2023, and 2022, respectively.

The following table presents the aging of the amortized cost basis in past due loans as of December 31, 2023, and 2022 by class of loans:

December 31, 2023	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial	$ -	$ -	$ -	$ -	$ 62,441	$ 62,441
Commercial real estate	-	-	-	-	241,492	241,492
Residential real estate	35	13	12	60	255,767	255,827
Construction and land Development	-	-	-	-	50,281	50,281
Consumer	-	-	-	-	48,662	48,662
Total	$ 35	$ 13	$ 12	$ 60	$ 658,643	$ 658,703
December 31, 2022						
Commercial	$ -	$ -	$ -	$ -	$ 53,018	$ 53,018
Commercial real estate	-	-	-	-	242,555	242,555
Residential real estate	28	10	-	38	228,776	228,814
Construction and land Development	-	-	-	-	45,648	45,648
Consumer	-	-	-	-	49,791	49,791
Total	$ 28	$ 10	$ -	$ 38	$ 619,788	$ 619,826

Collateral-Dependent Loans

A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is expected to be provided substantially through the sale or operation of the collateral. There were no collateral dependent loans as of December 31, 2023, or 2022, respectfully.
.

NOTE 3 - LOANS (Continued)

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation periodically analyzes loans individually by classifying the loans as to credit risk. The Corporation uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

The table below is based on the most recent analysis performed loan balances classified within each risk category by primary loan type based on year of origination or most recent renewal as of December 31, 2023:

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

	Term Loans Amortized Cost Basis by Origination Year					
As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial:						
Risk Rating						
Pass	$ 21,309	$ 10,844	$ 5,684	$ 2,593	$ 22,011	$ 62,441
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total Commercial loans	$ 21,309	$ 10,844	$ 5,684	$ 2,593	$ 22,011	$ 62,441
Commercial real estate:						
Risk Rating						
Pass	$ 41,133	$ 66,211	$ 59,809	$ 65,763	$ 8,576	$ 241,492
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total Commercial real estate loans	$ 41,133	$ 66,211	$ 59,809	$ 65,763	$ 8,576	$ 241,492
Residential real estate:						
Risk Rating						
Pass	$ 48,081	$ 56,133	$ 62,591	$ 35,494	$ 53,502	$ 255,801
Special mention	-	-	-	-	-	-
Substandard	-	12	-	14	-	26
Doubtful	-	-	-	-	-	-
Total Residential real estate loans	$ 48,081	$ 56,145	$ 62,591	$ 35,508	$ 53,502	$ 255,827

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Construction and land development:						
Risk Rating						
Pass	$ 37,340	$ 11,858	$ -	$ 618	$ 465	$ 50,281
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total Construction and land development loans	$ 37,340	$ 11,858	$ -	$ 618	$ 465	$ 50,281
Consumer:						
Risk Rating						
Pass	$ 8,241	$ 3,207	$ 847	$ 1,480	$ 34,887	$ 48,662
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total Consumer loans	$ 8,241	$ 3,207	$ 847	$ 1,480	$ 34,887	$ 48,662
Total loans:						
Risk Rating						
Pass	$ 156,104	$ 148,253	$ 128,931	$ 105,948	$ 119,441	$ 658,677
Special mention	-	-	-	-	-	-
Substandard	-	12	-	14	-	26
Doubtful	-	-	-	-	-	-
Total loans	$ 156,104	$ 148,265	$ 128,931	$ 105,962	$ 119,441	$ 658,703

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass-rated loans.

The Corporation had charge offs totaling $13 and $2 for the years ending December 31, 2023 and 2022, respectfully.

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Total Loans
December 31, 2022					
Commercial	$ 53,018	$ -	$ -	$ -	$ 53,018
Commercial real estate	236,767	5,788	-	-	242,555
Residential real estate	228,800	-	14	-	228,814
Construction and land development:	45,648	-	-	-	45,648
Consumer	49,791	-	-	-	49,791
Total	$ 614,024	$ 5,788	$ 14	$ -	$ 619,826

(Dollars in thousands except share and per share amounts)

NOTE 4 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2023	2022
Leasehold improvements	$ 1,366	$ 1,366
Furniture, fixtures and equipment	1,052	926
Computer software	1,054	1,054
	3,472	3,346
Less: Accumulated depreciation and amortization	(3,283)	(3,137
Net premises and equipment	$ 189	$ 209

Depreciation and amortization expense totaled $146 and $191 for 2023 and 2022, respectively.

NOTE 5 - LEASES

The Corporation enters into leases in the normal course of business primarily for the Corporation's office space. The Corporation's main office facility is subject to a one-year lease extension, terminating June 1, 2024. Prior to that date, the Corporation will move its headquarters into a new space with a lease commencing January 1, 2024, and terminating February 1, 2034, with two 5-year renewal options. The Corporation's current leases have remaining terms ranging from 5 months, some of which include renewal options to extend the lease for up to 2 years. The Corporation's leases do not include residual value guarantees or covenants.

The Corporation has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Corporation has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Corporation's balance sheet.

The Corporation's leases are classified as operating leases at the lease commencement date. Lease expense for operating leases is recognized on a straight-time basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Corporation uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Corporation's incremental borrowing rate is based on FHLB amortizing advance rate, adjusted for the lease term and other factors.

Right-of-use assets and lease liabilities by lease type, and associated balance sheet classification, are as follows:

Balance Sheet Classification		2023	2022
Right-of-use assets:			
Operating leases	Other assets	$ 224	$ 235
Lease liabilities:			
Operating leases	Other liabilities	$ 224	$ 235

(Dollars in thousands except share and per share amounts)

NOTE 5 - LEASES (Continued)

Lease Obligations

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows:

	Operating Leases
2024	$ 212
Less: imputed interest	12
Net lease liabilities	$ 224

Supplemental lease Information

	2023	2022
Operating lease weighted average remaining lease term (years)	0.40	0.50
Operating lease weighted average discount rate	5.34%	2.88%

NOTE 6 - DEPOSITS

Scheduled maturities of time deposits, included in interest bearing deposits, for the next five years were as follows:

2024	$ 95,433
2025	29,227
2026	11,566
2027	4,626
2028	498

Time deposits that meet or exceed the FDIC Insurance limit of $250 at December 31, 2023 and 2022 were $111,775 and $94,722.

(Dollars in thousands except share and per share amounts)

NOTE 7 - BORROWINGS

Borrowings include Federal Home Loan Bank advances and subordinated debt.

Federal Home Loan Bank Advances

At December 31, 2023 and 2022, advances from the FHLB were as follows:

For 2023 and 2022, interest rates ranged from 1.02% to 2.90%, averaging 2.01% with maturities between January 12, 2024 and April 28, 2025.	$ 4,500

The advances are subject to penalties if repaid before scheduled payments are due. The Bank's outstanding borrowings from the FHLB are secured by a blanket pledge agreement of 150% of 1-4 family loans, first lien mortgage loans. The Bank has approximately $94,364 of 1-4 family, first mortgage loans and $30,538 of home equity mortgage loans available to pledge under the blanket pledge arrangement dated March 16, 2006. Based on the collateral and the Corporation's holdings of FHLB Stock, the Bank is eligible to borrow additional advances of approximately $75,067 as of December 31, 2023.

Payments over the next five years are as follows:

2024	$ 2,250
2025	2,250

Subordinated Debt

In 2020, the Corporation issued $15,000 of ten year fixed-to-floating rate subordinated notes maturing September 30, 2030. This subordinated note instrument pays interest semi-annually in arrears based on a 4.5% fixed annual interest rate for the first five years of the notes. For years six through ten, the interest rate resets on a quarterly basis, and will be based on the 3-month Secured Overnight Financing Rate plus a spread of 438 basis points. The Corporation is entitled to redeem the notes in whole or in part on any interest payment date on or after September 30, 2025.

The Company has recorded the issuance, net of unamortized issuance costs of $173 and $273 as of December 31, 2023, and 2022, respectively.

In 2023, the Corporation repurchased $500 of the debt and recognized a gain of $50.

Bank Term Funding Program Advances

The Federal Reserve Bank created the new Bank Term Funding Program (BTFP) on March 12, 2023, whereby banks with Discount Window access could receive 1-year fixed rate advances, prepayable without penalty, based on the par value of their eligible pledged collateral, at a rate equal to the 1-year overnight index swap rate plus 10 basis points, fixed each morning.

The bank advanced $40,000 in March 2023 and an additional $15,000 in April 2023. As of December 31, 2023, the bank has $53,800 outstanding BTFP advances at an average rate of 4.43%.

(Dollars in thousands except share and per share amounts)

NOTE 7 - BORROWINGS (Continued)

Federal Reserve Bank Discount Window Advances

The Corporation maintains access to the Federal Reserve Bank Discount Window primary credit by pledging securities. The Corporation utilized Discount Window Primary Credit advances for short-term funding throughout 2023 but had no outstanding advances at December 31, 2023. The Corporation had approximately $24,751 of availability at year-end based on the value of pledged securities.

NOTE 8 - INCOME TAXES

Income tax expense was as follows:

	2023	2022
Current expense		
Federal	$ 4,329	$ 3,895
State	(39)	(40)
Total current	4,290	3,855
Deferred benefit		
Federal	(193)	(72)
State	20	(3)
Total deferred	(173)	(75)
Total	$ 4,117	$ 3,780

Effective tax rates differ from federal statutory rate of 21% applied to income before income taxes due to the following:

	2023	2022
Federal statutory rate times financial statement income	$ 4,547	$ 4,306
Effect of:		
State taxes, net of federal benefit	(15)	(34)
Tax exempt interest income	(184)	(239)
Bank owned life insurance income	(45)	(43)
Captive insurance premiums and disallowances	(130)	(219)
Other, net	(56)	9
Total income tax expense	$ 4,117	$ 3,780

(Dollars in thousands except share and per share amounts)

NOTE 8 - INCOME TAXES (Continued)

Year-end deferred tax assets and liabilities were due to the following:

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 1,755	$ 1,502
Loan origination income	289	297
Net unrealized losses on available for sale securities	5,579	7,274
Depreciation	62	52
Other	67	78
Total deferred tax assets	7,752	9,203
Deferred tax liabilities:		
Prepaid expenses	(257)	(377)
Stock based compensation expense	(454)	(418)
Restricted equity stock dividends	(4)	(6)
Loan origination expenses	(64)	(67)
Net unrealized gain on cash flow hedges	(886)	(1,084)
Other	(77)	(90)
Total deferred tax liabilities	(1,742)	(2,042)
Deferred tax asset, net	$ 6,010	$ 7,161

The Corporation does not have any uncertain tax positions and has minimal interest and penalties recorded or accrued in the consolidated financial statements for the years ended December 31, 2023, and 2022. The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Georgia and Tennessee. The Corporation is no longer subject to examination by taxing authorities for years before 2019.

NOTE 9 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors and their affiliates at December 31, 2023 and 2022 totaled $11,918 and $7,554, respectively.

Deposits from principal officers, directors and their affiliates at December 31, 2023 and 2022 totaled $3,019 and $4,197, respectively.

Wealth management fees earned from assets under management for principal officers, directors and their affiliates at December 31, 2023 and 2022 totaled $1,662 and $1,057, respectively.

The Company recognized $20 and $4 from an unconsolidated related entity at December 31, 2023 and 2022, respectively.

Additionally, the Corporation has a director that is a member of the firm from which the Corporation receives legal services.

(Dollars in thousands except share and per share amounts)

NOTE 10 - REGULATORY CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is included in computing regulatory capital. Management believes as of December 31, 2023, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios for the Bank are presented below as of December 31, 2023 and 2022. The capital conservation buffer is not included in the required ratios of the table presented below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets	$ 108,919	15.45%	$ 56,383	8.00%	$ 70,478	10.00%
Tier 1 (Core) Capital to risk weighted assets	102,204	14.50%	42,287	6.00%	56,383	8.00%
Common Tier 1 (CET1)	102,204	14.50%	31,715	4.50%	45,811	6.50%
Tier 1 (Core) Capital to average assets	102,204	10.53%	38,809	4.00%	48,512	5.00%
2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets	$ 97,519	14.20%	$ 54,938	8.00%	$ 68,672	10.00%
Tier 1 (Core) Capital to risk weighted assets	91,758	13.36%	41,203	6.00%	54,938	8.00%
Common Tier 1 (CET1)	91,758	13.36%	30,902	4.50%	44,637	6.50%
Tier 1 (Core) Capital to average assets	91,758	9.78%	37,533	4.00%	46,916	5.00%

Dividend Restrictions - The Corporation's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2024, the Bank could, without prior approval, declare dividends of approximately $19,494 plus any 2024 net profits retained to date of declaration.

(Dollars in thousands except share and per share amounts)

NOTE 11 - OFF-BALANCE SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, and letters of credit, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others as long as conditions established in the contract are met. In addition, these agreements usually have expiration dates, and the commitments may expire without being used.

Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at the exercise of the commitment. The majority of the Corporation's commitments to extend credit have maturities of less than one year and reflect the prevailing market interest rates at the time of the commitment.

The contractual amount of financial instruments with off-balance sheet risk was as follows at December 31:

	2023	2022
Letters of Credit	$ 2,185	$ 3,311
Unused Lines of Credit	156,719	162,631

NOTE 12 - STOCK BASED COMPENSATION PLAN

Total stock-based compensation expense in 2023 and 2022 was $1,322 and $1,376, respectively. Related to the 2023 and 2022 restricted stock grants, some employees made an election, in accordance with Section 83(b) of the Internal Revenue Code, to have the fair value of the awards taxable immediately. In connection with the election, the Corporation allowed the employees to forfeit shares to cover the related personal tax obligation. During 2023 employees forfeited 877 shares with a total fair value of $61 in connection with the election. During 2022 employees forfeited 553 shares with a total fair value of $41 in connection with the election. These amounts were recorded in salaries and employee benefits on the Corporation's consolidated statements of income in 2023 and 2022.

The Corporation's 2008 Equity Incentive Plan as modified in 2015 provides for the grant of stock options, restricted stock and other equity-based incentives up to 900,000 shares. As of December 31, 2023, the Corporation had issued grants totaling 866,249 shares under the 2008 Equity Incentive Plan and its predecessor, the 2004 Employee Share Option Plan. The Corporation's 2021 Equity Incentive Plan, approved by shareholders on May 19, 2022, provides for the grant of stock options, restricted stock, and other equity-based incentives of 233,751 shares. This includes 200,000 shares newly authorized shares under the 2021 Equity Incentive Plan and 33,751 shares previously available under the 2008 Equity Incentive Plan. As of December 31, 2023, the Corporation has issued 64,372 of these shares under the 2021 Equity Incentive Plan.

Stock Option Grants

Option awards are granted with an exercise price equal to the market price of the Corporation's common stock at the date of grant. Option awards have vesting periods of one to six years and have 10-year contractual terms. The Corporation uses newly issued shares to satisfy share option exercises.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical trading of the shares of Truxton Corporation common stock for 2023 and 2022. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding taking into account that the options are not transferable.

(Dollars in thousands except share and per share amounts)

NOTE 12 - STOCK BASED COMPENSATION PLAN (Continued)

The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

During 2023 and 2022, the Corporation did not issue incentive stock options for the purchase of shares of common stock, respectively.

A summary of the stock option activity for 2023 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	22,465	$ 32.02	4.1	
Forfeited	(2,643)	37.00		
Exercised	(5,780)	36.98		
Outstanding at end of year	14,042	29.05	2.1	$ 505
Vested or expected to vest	14,042	39.05	2.1	505
Exercisable at end of year	14,042	29.05	2.1	505

Information related to stock options during each year follows:

	2023	2022
Intrinsic value of options exercised	$ 85	$ 82
Cash received from option exercises	126	144
Weighted average fair value of options granted	-	-

All stock options granted under the Plan are vested and exercisable as of December 31, 2023.

(Dollars in thousands except share and per share amounts)

NOTE 12 - STOCK BASED COMPENSATION PLAN (Continued)

Restricted Stock Grants

In 2023 and 2022, the Corporation issued 24,499 and 39,873 restricted shares of common stock, respectively. Compensation expense is recognized over the vesting period of the awards based on the value of the stock at issue date. The fair value of the stock was determined by current stock trade activity. These shares vest over a period of five to seven years.

A summary of the changes in the Corporation's non-vested shares for the year follows:

Non-vested shares	Shares	Weighted-Average Fair Value
Non-vested at January 1, 2023	79,356	$ 60.04
Granted	24,499	68.58
Vested	(23,447)	51.24
Forfeited or expired	(7,324)	65.45
Non-vested at December 31, 2023	73,084	$ 61.78

As of December 31, 2023, there was $3,424 of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.4 years.

NOTE 13 - DERIVATIVES

The Corporation utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Fair Value Hedge

The Corporation had swaps designated as Fair Value Hedges for Loans, totaling $21,921 and $22,634 in notional, respectively, as of December 31, 2023 and 2022, with the decline reflecting the amortization of the hedged loans. The Corporation had swaps designated as Fair Value Hedges for AFS Securities totaling $10,750 in notional as of December 31, 2023 and 2022. The hedges were determined to be effective during all periods presented. The Corporation expects the hedges to remain effective during the remaining terms of the swaps.
.

The following table reflects the fair value hedges included in the Consolidated Statements of Net Income as of December 31:

Interest rate contracts	Location	2023	2022
Change in fair value on interest rate swaps hedging loans and securities	Loan interest income	$ (50)	$ (14)

(Dollars in thousands except share and per share amounts)

NOTE 13 - DERIVATIVES (Continued)

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

	2023		2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Derivatives designated as hedges:				
Interest rate swaps	$ 32,671	$ 2,626	$ 33,384	$ 3,289
Included in other liabilities:				
Derivatives designated as hedges:				
Interest rate swaps	$ 32,671	$ 2,435	$ 33,384	$ 3,048

Cash Flow Hedge

Interest Rate Swaps Designated as Cash Flow Hedges: Interest rate swaps with notional amounts totaling $65,000 and $47,500, respectively, as of December 31, 2023 and 2022, were designated as cash flow hedges of certain deposit accounts and were determined to be fully effective during the periods presented. In February 2023 and November 2023, the Corporation entered into new cashflow hedges of $10,000 and $5,000, respectively, whereby the Corporation paid a fixed interest rate and receives a monthly average of the Effective Federal Funds rate, to which the hedged deposits' rates are indexed. In May 2023, the Corporation entered into two more cashflow hedges of $5,000 each, whereby the Corporation pays a fixed rate and receives a 3-month average of daily SOFR, which is highly correlated to the cost of 3-month wholesale borrowings (such as brokered CDs or FHLB advances). The Corporation had $40,000 notional cashflow hedges for Fed Funds Effective indexed deposits and $25,000 notional of cashflows hedges for 3-month wholesale funding. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of swaps is recorded in other liabilities with changes in fair value recorded in other comprehensive income (loss). The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

The following table presents the net losses recorded in accumulated other comprehensive income and the Consolidated Statements of Net Income relating to the cash flow derivative instruments for the year ended December 31:

	2023:		
	Amount of Gain (Loss) Recognized In OCI (Effective Portion)	Amount of Gain (Loss) Recognized from OCI to Interest Income	Amount of Gain (Loss) Recognized in Non-Interest Income (Ineffective Portion)
Interest rate swaps related to deposits	$ (758)	$ -	$ -

	2022:		
	Amount of Gain (Loss) Recognized In OCI (Effective Portion)	Amount of Gain (Loss) Recognized from OCI to Interest Income	Amount of Gain (Loss) Recognized in Non-Interest Income (Ineffective Portion)
Interest rate swaps related to deposits	$ 4,084	$ -	$ -

NOTE 13 - DERIVATIVES (Continued)

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

	2023		2022	
Included in other assets:	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps related to deposits	$ 65,000	$ 3,389	$ 47,500	$ 4,147

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Level 1 – 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 Corporation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available "Level 1". For securities where quoted prices are not available, fair values are calculated using a matrix pricing model, which is based on market prices of similar securities "Level 2". Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, which values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark securities.

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

(Dollars in thousands except share and per share amounts)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

December 31, 2023	Carrying Value	Fair Value Measurements at Using: Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
Financial assets:			
Investment securities available for sale			
U.S. Treasury and federal agency	$ 491	$ -	$ 491
U.S. government sponsored entities and agencies	6,267	-	6,267
Agency mortgage-backed securities: residential	18,477	-	18,477
Agency mortgage-backed securities: commercial	3,764	-	3,764
Agency collateralized mortgage obligations	25,724	-	25,724
State and political subdivisions	51,926	-	51,926
Non-agency mortgage securitizations	74,563	-	74,563
Asset backed securities	70,948	-	70,948
Corporate bonds	7,766	-	7,766
Total investment securities available for sale	$ 259,926	$ -	$ 259,926
Derivatives	$ 6,015	$ -	$ 6,015
Financial liabilities:			
Derivatives	$ 2,435	$ -	$ 2,435

December 31, 2022	Carrying Value	Fair Value Measurements at Using: Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
Financial assets:			
Investment securities available for sale			
U.S. Treasury and federal agency	$ 481	$ -	$ 481
U.S. government sponsored entities and agencies	8,538	-	8,538
Agency mortgage-backed securities: residential	20,312	-	20,312
Agency mortgage-backed securities: commercial	2,835	-	2,835
Agency collateralized mortgage obligations	25,796	-	25,796
State and political subdivisions	64,161	-	64,161
Non-agency mortgage securitizations	72,917	-	72,917
Asset backed securities	48,771	-	48,771
Corporate bonds	13,446	-	13,446
Total investment securities available for sale	$ 257,257	$ -	$ 257,257
Derivatives	$ 7,436	$ -	$ 7,436
Financial liabilities:			
Derivatives	$ 3,048	$ -	$ 3,048

There were no transfers between Level 1 and Level 2 during 2023 or 2022.

(Dollars in thousands except share and per share amounts)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of financial instruments, at December 31, 2023 and December 31, 2022 are as follows:

		Fair Value Measurements Using:			
December 31, 2023	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 9,226	$ 9,226	$ -	$ -	$ 9,226
Time deposits in other financial institutions	490	-	490	-	490
Securities available-for-sale	259,926	-	259,926	-	259,926
Restricted equity securities	1,858	NA	NA	NA	NA
Loans, net	651,536	-	-	631,892	631,892
Accrued interest receivable	4,388	-	1,880	2,508	4,388
Financial liabilities					
Deposits	$ 781,979	$ -	$ 780,547	$ -	$ 780,547
Federal Home Loan Bank advances	4,500	-	4,392	-	4,392
Bank Term Funding Program advances	53,800	-	53,641	-	53,641
Accrued interest payable	337	337	-	-	337
December 31, 2022					
Financial assets					
Cash and cash equivalents	$ 6,499	$ 6,499	$ -	$ -	$ 6,499
Time deposits in other financial institutions	3,833	-	3,833	-	3,833
Securities available-for-sale	257,257	-	257,257	-	257,257
Restricted equity securities	3,227	NA	NA	NA	NA
Loans, net	613,187	-	-	581,717	581,717
Accrued interest receivable	3,512	-	1,515	1,997	3,512
Financial liabilities					
Deposits	$ 807,750	$ -	$ 804,649	$ -	$ 804,649
Federal Home Loan Bank advances	4,500	-	4,282	-	4,282
Federal funds borrowings	4,933	-	4,933	-	4,933
Accrued interest payable	159	159	-	-	159

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

The carrying amount of cash and cash equivalents approximates fair values and are classified as Level 1. Time deposits in other financial institutions have infrequent repricing or repricing limits and their fair value is based on discounted cash flows using current market rates applied to the estimated life and are classified as Level 2. It is not practical to determine the fair value of restricted equity securities due to the restrictions placed on its transferability.

The fair value of loans is determined based on a discounted cash flow analysis (income approach). The discounted cash flow was based on contractual maturity of the loan and current market assumptions resulting in a level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously.

(Dollars in thousands except share and per share amounts)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The fair values disclosed for demand deposits are by definition, equal to the amount payable on demand at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification. The fair values of the Bank's Federal Home Loan Bank advances are estimated using discounted cash flows based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification. The carrying amounts of accrued interest approximate fair value resulting in Level 2 or 3 classifications.

NOTE 15 - OTHER BENEFIT PLANS

The Corporation has a 401(k) benefit plan that covers all employees who meet certain eligibility requirements and choose to participate in the plan. The plan allows employee contributions up to the federal limits, which are matched 100% for the first 3% of compensation contributed and then 50% of the next 2% of compensation contributed beginning on the first day of the calendar quarter following the employee's one-year anniversary. The 401(k) benefit plan expense for 2023 and 2022 was $358 and $337, respectively.

NOTE 16 - OTHER COMPREHENSIVE INCOME (LOSS)

The following is a summary of the accumulated other comprehensive income balances, net of tax:

	Balance at 12/31/2022	Current Period Change	Balance at 12/31/2023
Unrealized gains (losses) on securities available for sale	$ (20,575)	$ 4,793	$ (15,782)
Unrealized gains (losses) on cash flow hedge	3,063	(560)	2,503
Total	$ (17,512)	$ 4,233	$ (13,279)

(Dollars in thousands except share and per share amounts)

NOTE 17 - EARNINGS PER SHARE

Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share available to common shareholders reflects the potential dilution that could occur if stock options to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The factors used in the earnings per share computation follows:

	2023	2022
Basic		
Net income	$ 17,536	$ 16,726
Less: Undistributed income allocated to participating securities	469	448
Net earnings allocated to common stock	$ 17,067	$ 16,278
Weighted common shares outstanding including participating securities	2,904,153	2,895,888
Less: Participating securities	77,730	77,546
Weighted average shares	2,826,423	2,818,342
Basic earnings per share	$ 6.04	$ 5.78
Diluted earnings allocated to common stock	$ 17,067	$ 16,278
Weighted average shares	2,826,423	2,818,342
Add: Dilutive effects of assumed exercises of stock options and warrants	7,275	12,364
Average shares and dilutive potential common shares	2,833,698	2,830,706
Diluted earnings per share	$ 6.02	$ 5.75

At year-end 2023, there were no stock options that were not considered in computing diluted earnings per common share for 2023, because they were antidilutive. At year-end 2022, there were 3,077 stock options that were not considered in computing diluted earnings per common share for 2022, because they were antidilutive.