2022 ANNUAL REPORT

CITIZENS BANCORP

CITIZENS BANK

BANK OF CELINA • LIBERTY STATE BANK
SMITH COUNTY BANK • TRADERS BANK
AMERICAN BANK & TRUST

www.citizens-bank.org

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LETTER TO SHAREHOLDERS

To Our Shareholders, April 2023

For 2022, Citizens Bancorp Investment, Inc. recorded net income of $18.6 million, an increase of 11% from 2021, and **a new record for net income for your Company!** Fully diluted earnings per share were $3.11 for the year versus $2.80 for 2021. Our return on average equity was 15.82% for 2022, and our return on average assets was 1.26%. As a result of these excellent earnings, our Board of Directors **increased the quarterly dividend to $0.17** per share to shareholders payable on February 8, 2023. This represents a **6.25% increase** over the dividend paid in November 2022.

Earnings increased in 2022 compared to 2021 due to an aggressive loan growth strategy in early 2022 that took advantage of a strong economy and market fears of rising interest rates. Our officers and employees have done an excellent job growing loans by 20.7% in 2022 compared to 2021, and this effort contributed greatly to our earnings improvement.

Net interest income increased 4.1% in 2022 compared to 2021. Higher volumes of loans and securities produced higher interest income, and this more than offset higher interest costs and lower loan fee income. The expiration of the Paycheck Protection Program in 2021 led to a reduction in loan fees in 2022, and significantly higher market interest rates caused deposit rates and borrowed funding costs to rise rapidly in the fourth quarter of 2022.

Non-interest income for 2022 declined 7.9% compared to 2021 due to significantly reduced mortgage-related activity. However, increases in debit card income and overdraft income partially offset the reduction in mortgage refinancing gains. As of this writing, mortgage volume for purchases continues to be modest due to higher mortgage rates. Non-interest expense decreased 4.0% to $32.2 million due to the decline in data processing costs after the American Bank merger in 2021. Provision for loan losses increased 15.2% to $1.3 million, as the bank added to loan loss reserves due to the significantly larger loan portfolio. Net loan charge-offs in 2022 were 0.01% of average loans outstanding. We had a strong allowance for loan losses at 1.23% of loans at year-end 2022.

Total assets grew $5.9 million to $1.49 billion at December 31, 2022, compared to year-end 2021, a 0.4% increase. Total deposits were $1.28 billion at December 31, 2022, a 1.5% decrease versus 2021. Total loans were $976 million at December 31, 2022, a 20.7% increase versus 2021. The economic stimulus efforts by the federal government over the past three years caused a significant inflow of deposits, and thus, liquidity into our bank. Our bank, like most banks in the country, had a significant amount of excess liquidity on the balance sheet that Management and our loan officers worked to redeploy into loans to new and existing customers.

Citizens Bancorp ended the year 2022 with $117 million in capital, or 7.9% of total assets. Capital declined approximately 14.2% from December 2021 levels due to unrealized losses in investment portfolio values, net of retained earnings. Management expects to hold the securities, and thus, does not expect to realize those losses.

Increases in interest rates by the Federal Reserve Bank eliminated the refinance boom for secondary market mortgages. Current 30-year mortgage rates above 7% (as of this writing) reduced mortgage application volumes and current activity is driven by the home purchase market. However, our servicing portfolio of $243 million in secondary market loans continues to produce fee income and provide cross-selling opportunities.

The recent failures of Silicon Valley Bank (SVB) and Signature Bank have cast a pall over the banking industry. SVB was a large West Coast-based bank with a strong emphasis on banking and funding high-tech and venture capital start-up operations. As higher interest rates have made it harder for startups to raise capital or borrow money, some SVB clients started pulling money out of the bank to meet their liquidity needs. SVB had a significantly large investment portfolio (compared to the size of their loan portfolio) and to raise cash, SVB sold some of their investments to fund customer withdrawals, taking a $2.25 billion loss. SVB was then unable to sell its own stock to raise more capital, and the bank regulators shut them down. Signature Bank in New York also experienced a "run" on its deposits, partially caused by its exposure to cryptocurrency. Both banks have since been sold to other financial institutions.

Contrary to SVB and Signature, Citizens Bank finances and banks local families and businesses. Our capital is strong, and we enjoy good relations with our regulators. While higher interest rates have caused pressures on our deposit costs and competition for deposits is strong, we have been able to meet customers' needs. We have some of the best interest rates on deposits in our markets, allowing us to retain and attract new deposits. While our investment portfolio, like that of many banks, has declined in value, we intend to hold on to our investments until they mature at full value. We have multiple sources of liquidity to drawn upon to ensure we have the monies needed to support our customers' cash needs. Further, Citizens Bank owns no cryptocurrency assets, and we do not make loans on cryptocurrency.

Middle Tennessee continues to be a strong growth area with a diverse economy and employer base. The currently expected increase in the prime lending rate to near 8% will soften the growth in the area to some extent; however, Management and our Board of Directors remain bullish on the economic prospects for our communities and our bank. While the current banking market in our trade area is very competitive, our bankers enjoy excellent reputations in our markets. Management is focusing a renewed effort on our growth markets due to our solid loan base and excellent growth prospects. The bank expects to add experienced bankers to our team to take advantage of that growth.

Trading in our stock continues on OTCQX under the "ticker" symbol **CBTN**. As of the writing of this letter, the **most recent sale of CBTN occurred at $37 per share.** Please contact us if you have questions on how to take full advantage of our listing on OTCQX.

Our officers and staff have worked extremely hard to generate quality loan growth, and that loan growth should produce solid revenue for several years. However, the Federal Reserve Board's aggressive increases in interest rates have begun to put pressure on our deposit and borrowing costs, which will in turn put pressure on our net interest margin and earnings. As the economy begins to soften, your bank is in a good position to weather a downturn with excellent earnings, strong credit quality, and dedicated employees.

We appreciate your investment in and support for our company. Please refer your family and friends to us for their banking needs.

CITIZENS BANK
BANK OF CELINA • LIBERTY STATE BANK
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Peter G. Williston
Chairman and Chief Executive Officer
Citizens Bancorp Investment, Inc.

1909

Citizens Bank of Lafayette, Tennessee, opened for business with $12,000 in capital provided by local community investors.

1931

The bank survived the Great Depression in the 1930's and was strong enough to acquire the Farmers and Merchants Bank in Lafayette in 1931.

1973

Charles Darnell named President and CEO. Bank's total assets reach $14 million.

1974

Citizens Bank operated from a single location until 1974, when it opened its first branch.

2005

Charles Darnell retires as President and CEO. Joe Carter becomes President and Peter Williston becomes CEO. Bank's total assets reach $279 million.

2019

Joe Carter retires as President. Tommy Anderton becomes new President.

2022

The bank's total assets reach almost $1.5 billion with 22 locations in Middle Tennessee.

CITIZENS BANK CORE VALUES

COMMUNITY
We are the leaders in making our community a better place

INTEGRITY
We always do the right thing

LEADERSHIP
We have a "how can we" attitude

RESPECT
We contribute to a fun, safe, and respectful work environment

TEAMWORK
We own our results and our customers' experience

COMMUNICATION
We make timely, well-informed decisions

SERVICE
We find great joy in helping our customers succeed

GROWTH
We create significant value for shareholders

MEETING THE NEEDS OF OUR COMMMUNTY

Community banks can be instrumental in creating long-term positive changes for individuals, businesses, and the communities that we call home. Citizens Bank promotes social and economic development in our local communities by providing loans, savings vehicles, and non-financial services to individuals and businesses throughout our footprint.

As a cornerstone in the communities we serve, we are invested in building a legacy of prosperity for our customers, while enhancing the community we all call home. Citizens Bank has stepped into the shoes of every small business that has come to us for help. We don't just see a loan request; we see the lifeline for the future of the small business. We hold their future success and prosperity in high regard. Our team members are vested in the overall well-being of the schools, the local organizations and clubs, and the community.

LAYING A STRONG FINANCIAL LITERACY FOUNDATION IN OUR COMMUNITIES

Although financial education can't predict or prevent an economic crisis, it does help individuals, families, and communities weather difficult times with more resilience and less stress. Understanding money management can help anyone improve their economic situation and prepare for a brighter future regardless of their income level. That is why Citizens Bank puts so much effort in partnering with our local schools with financial literacy programs and other financial education resources that help to teach real-world skills in our communities. Personal financial education is more than dollars and cents. It's about establishing better spending habits, instilling confidence, and equipping the next generation with the skills to pursue big financial goals with minimal risk.

Citizens Bank's award winning LiFE Program (Literacy in Financial Education) is a web-based learning platform that brings critical financial concepts to life inside the classroom. This financial literacy program uses the latest technology, video, animations, 3D gaming, avatars, and social networking to bring complex financial concepts to life for today's digital generation. The curriculum offers topics such as banking, budgeting, savings, payment methods, investments, and financing higher education. It tracks the progress of every student and provides a Certification in Financial Literacy, all free of cost to our local schools.

BOARD OF DIRECTORS

Thomas E. Anderton
President, Citizens Bancorp Investment Inc., and Citizens Bank, Shelbyville, TN

Joe M. Carter
Banker (retired), Lafayette, TN

Eugene R. London, Jr.
Systems Integration/Modeling & Simulation, Inc. Tullahoma, TN

Jon Alan Long
Dentist, Carthage, TN

F. Tom McCall
D.T. McCall & Sons, Lafayette, TN

Cynthia A. McClard
Pharmacy Consultant/Store Owner, Brentwood, TN

Tony H. Polston
BD Polston Building Supply, Lafayette, TN

M. Todd Reese
Reese's Piggly Wiggly, Lafayette, TN

Michael W. Reese
Reese's Piggly Wiggly, Castalian Springs, TN

Peter G. Williston
Chairman and CEO, Citizens Bancorp Investment Inc., and Citizens Bank, Lafayette, TN

SENIOR MANAGEMENT

Thomas E. Anderton
President/Chief Lending Officer

A. Joseph Butaud, Jr.
SVP/Chief Credit Officer

Douglas L. Haehl
VP/Marketing

Jason L. Hall
SVP/Chief Retail Officer

Kevin L. Miller
EVP/Chief Information Officer

Ryan T. Smith
EVP/Regional President

Patty Snyder
AVP/Human Resources

Arthur O. Taylor, Jr.
EVP/Chief Financial Officer

Peter G. Williston
Chief Executive Officer

ADVISORY BOARD MEMBERS

CLAY COUNTY
Michael K. Bailey
Jay R. Cassetty
Richard N. Denton
Jason L. Hall
Mary Ann Hamilton
Linda S. Key
Allen W. West
Peter G. Williston

JACKSON COUNTY
Jay R. Cassetty
Wesley M. Cassetty
Richard Z. Chaffin
Jerry R. Driver
Donnie G. Elkins
Joe V. Halfacre
Jason L. Hall
James R. Montgomery
Peter G. Williston

SMITH COUNTY
Kenneth R. Frye
Jason L. Hall
Patrick L. Nixon
Thomas A. White
Peter G. Williston
Kevin S. Young

TRADERS BANK
Thomas E. Anderton
Russell K. Barrett
Mary W. Beard
Jeremy B. Bell
William A. Bobo
Robert M. Brainard
Max J. Christopher
Thomas H. Copeland
Chad J. Grimes
Tommy Hodges
David E. Johnson
John D. McCord
William J. Orr
Stephen L. Philpot
Benjamin J. Smith
Donna M. Stone
Peter G. Williston

CITIZENS BANK

LAFAYETTE MAIN OFFICE
400 Highway 52 West
Lafayette, TN 37083
(615) 666-2195

LAFAYETTE PUBLIC SQUARE BRANCH
201 West Locust Street
Lafayette, TN 37083
(615) 666-2196

LAFAYETTE SCOTTSVILLE RD. BRANCH
1108 Scottsville Road
Lafayette, TN 37083
(615) 666-4677

RED BOILING SPRINGS BRANCH
32 Carthage Road
Red Boiling Springs, TN 37150
(615) 699-2205

WESTMORELAND BRANCH
990 New Highway 52
Westmoreland, TN 37186
(615) 644-2119

GAINESBORO BRANCH
116 South Grundy Quarles Highway
Gainesboro, TN 38562
(931) 268-2141

BANK OF CELINA

CELINA BRANCH
101 East Lake Avenue
Celina, TN 38551
(931) 243-3161

SMITH COUNTY BANK

CARTHAGE BRANCH
50 North Main Street
Carthage, TN 37030
(615) 735-2800

GORDONSVILLE BRANCH
411 Gordonsville Highway
Gordonsville, TN 38563
(615) 683-1919

LIBERTY STATE BANK

LIBERTY BRANCH
311 East Main Street
Liberty, TN 37095
(615) 536-5101

ALEXANDRIA BRANCH
100 North Public Square
Alexandria, TN 37012
(615) 529-2375

SMITHVILLE BRANCH
735 South Congress Boulevard
Smithville, TN 37166
(615) 597-2265

LEBANON N. CUMBERLAND BRANCH
214 North Cumberland Street
Lebanon, TN 37087
(615) 449-4441

LEBANON W. MAIN BRANCH
1035 West Main Street
Lebanon, TN 37087
(615) 444-4166

TRADERS BANK

TULLAHOMA MAIN OFFICE
120 North Jackson Street
Tullahoma, TN 37388
(931) 455-3426

TULLAHOMA BRANCH
412 West Lincoln Street
Tullahoma, TN 37388
(931) 455-2391

MANCHESTER BRANCH
1207 Hillsboro Boulevard
Manchester, TN 37355
(931) 728-1474

SHELBYVILLE BRANCH
1602 North Main Street
Shelbyville, TN 37160
(931) 680-3500

WINCHESTER BRANCH
2695 Decherd Boulevard
Winchester, TN 37398
(931) 967-3755

AMERICAN Bank & Trust Of The Cumberlands

Where People Matter

LIVINGSTON MAIN OFFICE
808 West Main Street
Livingston, TN 38570
(931) 823-2265

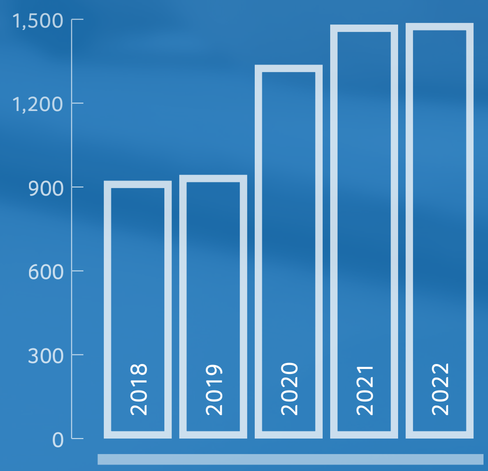
COOKEVILLE NEAL STREET BRANCH
1450 Neal Street
Cookeville, TN 38501
(931) 526-4800

COOKEVILLE WILLOW AVENUE BRANCH
123 North Willow Avenue
Cookeville, TN 38501
(931) 646-4950

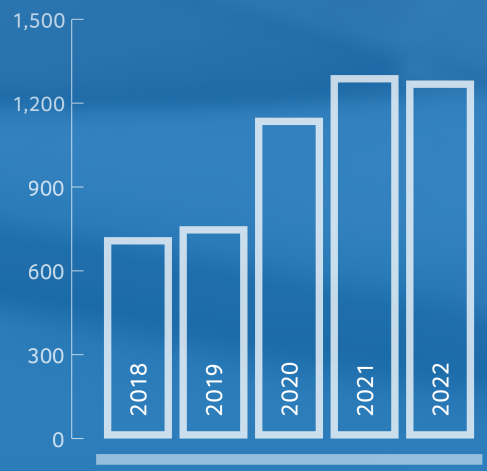
SUMMARY FINANCIAL RESULTS

HISTORICAL PERFORMANCE

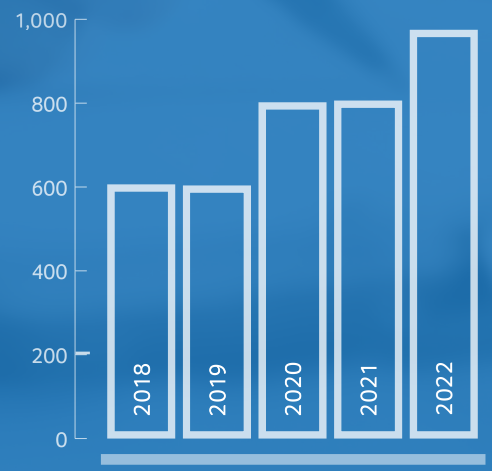
2022 TOTAL ASSETS
(MILLIONS) **$1,487.0**



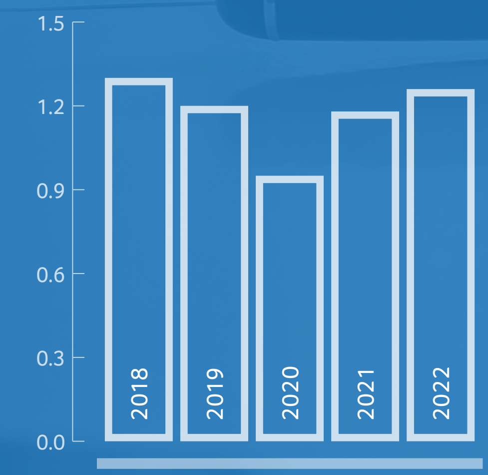
2022 TOTAL DEPOSITS
(MILLIONS) **$1,281.0**



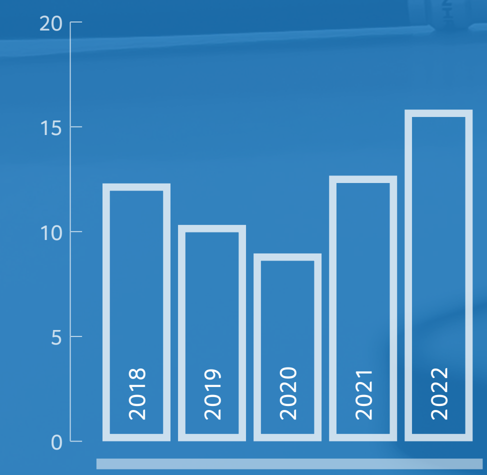
2022 GROSS LOANS
(MILLIONS) **$975.0**



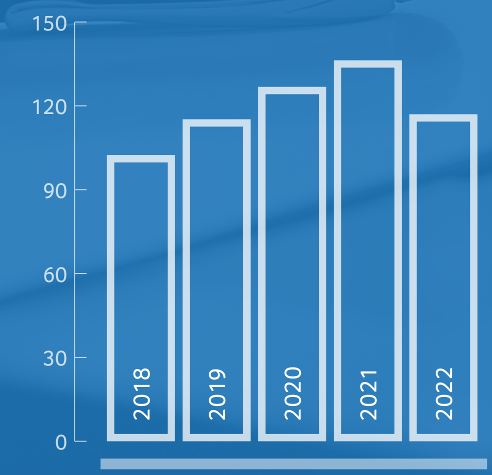
2022 RETURN ON AVERAGE ASSETS
(PERCENTAGE) **1.26%**



2022 RETURN ON AVERAGE EQUITY
(PERCENTAGE) **15.82%**



2022 STOCKHOLDERS' EQUITY
(MILLIONS) **$117.0**



FINANCIALS

CITIZENS BANCORP INVESTMENT, INC.
Lafayette, Tennessee

Consolidated Financial Statements

December 31, 2022 and 2021

(With Independent Auditor's Report Thereon)

MAGGART & ASSOCIATES, P.C.
CPAs & Advisors

Stephen M. Maggart, CPA, ABV, CFF
J. Mark Allen, CPA
Joshua K. Cundiff, CPA
Michael T. Holland, CPA, ABV, CFF
M. Todd Maggart, CPA, ABV, CFF
P. Jason Ricciardi, CPA, CGMA
David B. von Dohlen, CPA
T. Keith Wilson, CPA, CITP

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Citizens Bancorp Investment, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the financial statements of Citizens Bancorp Investment, Inc., which comprise the consolidated balance sheet as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive earnings, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Citizens Bancorp Investment, Inc. as of December 31, 2022 and 2021, 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.

We also have audited Citizens Bancorp Investment, Inc.'s internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for the Consolidated Reports of Condition and Income (call report instruction), as of December 31, 2022, based on criteria established in *Internal Control–Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Citizens Bancorp Investment, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control–Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Basis for Opinions

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 Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of Citizens Bancorp Investment, Inc. 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 opinions.

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www.maggartpc.com

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control over Financial Reporting.

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

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions. Internal control over financial reporting is not effective if a material weakness exists. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness 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 to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with Generally Accepted Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

To the Board of Directors of
Citizens Bancorp Investment, Inc.
Page Three

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting, Continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Citizens Bancorp Investment, Inc.'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 financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Citizens Bancorp Investment, Inc.'s internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and controls over the preparation of schedules equivalent to basic financial statements in accordance with Federal Financial Institution Examination Council instructions for the Consolidated Reports of Condition and Income (call report instruction). An institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the institution are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the institution's assets that could have a material effect on the financial statements.

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

Maggart & Associates, P.C.

Nashville, Tennessee
March 23, 2023

Consolidated Balance Sheets

December 31, 2022 and 2021

(In Thousands, except share data)	2022	2021
ASSETS		
Loans, net of allowance for loan losses of $11,970 and $10,716, respectively	**$ 963,592**	$ 795,492
Loans held for sale	**220**	1,940
Debt securities, available-for-sale, at market (amortized cost $448,734 and $367,688, respectively)	**404,344**	370,307
Marketable equity securities, at market (cost $39)	**69**	92
Restricted equity securities	**4,271**	4,124
Federal funds sold	**1,000**	1,000
Interest-bearing deposits in financial institutions (cash equivalent)	**2,337**	210,652
Total earning assets	**1,375,833**	1,383,607
Cash and due from banks	**22,819**	23,170
Premises and equipment, net	**20,098**	20,624
Accrued interest receivable	**6,162**	4,821
Cash surrender value of life insurance	**20,264**	19,823
Annuity investment	**3,686**	3,802
Refundable income taxes	**963**	459
Other real estate	**-**	40
Deferred income tax asset, net	**12,674**	871
Goodwill and intangible assets, net	**19,877**	20,171
Mortgage servicing rights	**2,567**	1,624
Other assets	**2,005**	2,063
Total assets	**$ 1,486,948**	$ 1,481,075
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing demand deposits	**$ 263,864**	$ 277,085
Interest-bearing demand deposits	**351,800**	348,264
Money market accounts	**58,547**	63,564
Savings accounts	**191,233**	185,664
Certificates of deposit	**342,782**	349,546
Individual retirement accounts	**73,239**	76,279
Total deposits	**1,281,465**	1,300,402
Notes payable	**12,170**	14,271
Advances from the Federal Home Loan Bank	**70,196**	22,900
Accrued interest payable	**1,135**	1,147
Other liabilities	**5,025**	6,056
Total liabilities	**1,369,991**	1,344,776
Stockholders' equity:		
Common stock, Class A, par value $0.05 per share, authorized 12,000,000 shares, 5,888,111 and 5,872,200 issued and outstanding, respectively	**294**	294
Additional paid-in capital	**8,399**	7,895
Retained earnings	**141,053**	126,176
Accumulated other comprehensive earnings (losses), net of taxes of $11,601 and $684, respectively	**(32,789)**	1,934
Total stockholders' equity	**116,957**	136,299
COMMITMENTS AND CONTINGENCIES		
Total liabilities and stockholders' equity	**$ 1,486,948**	$ 1,481,075

See accompanying notes to the consolidated financial statements

Consolidated Statements of Earnings

Years Ended December 31, 2022 and 2021

(In Thousands, except per share data)	2022	2021
Interest income:		
Loans, including fees	**$ 44,778**	$ 45,306
Securities:		
Taxable	**5,958**	3,015
Tax-exempt	**2,239**	2,514
Federal funds sold and other	**683**	311
Total interest income	**53,658**	51,146
Interest expense:		
Interest-bearing demand deposit accounts	**801**	542
Money market accounts and savings accounts	**482**	345
Certificates of deposit	**2,734**	2,400
Individual retirement accounts	**619**	794
Federal Home Loan Bank advances	**651**	670
Notes payable and other	**717**	608
Total interest expense	**6,004**	5,359
Net interest income before provision for loan losses	**47,654**	45,787
Provision for loan losses	**1,314**	1,141
Net interest income after provision for loan losses	**46,340**	44,646
Non-interest income	**8,924**	9,732
Non-interest expense	**(32,153)**	(33,491)
Earnings before income taxes and unrealized holding loss on marketable equity securities	**23,111**	20,887
Unrealized holding loss on marketable equity securities	**(23)**	(11)
Income tax expense	**4,447**	4,139
Net earnings	**$ 18,641**	$ 16,737
Earnings per share:		
Basic	**$ 3.17**	$ 2.85
Diluted	**$ 3.11**	$ 2.80

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Earnings (Losses)

Years Ended December 31, 2022 and 2021

(In Thousands)	**2022**	2021
Net earnings	**$ 18,641**	$ 16,737
Other comprehensive losses:		
Unrealized losses on available-for-sale securities:		
Unrealized holding losses arising during the year	**(47,008)**	(5,190)
Tax effect	**12,285**	1,356
Other comprehensive losses net of tax	**(34,723)**	(3,834)
Total comprehensive earnings (losses)	**$ (16,082)**	$ 12,903

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2022 and 2021

(In Thousands, except per share data)	Class A Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Losses)	Stockholders' Equity
Balance, January 1, 2021	$ 294	$ 7,742	$ 112,962	$ 5,768	$ 126,766
Net earnings for year	-	-	16,737	-	16,737
Stock option compensation	-	153	-	-	153
Net change in fair value of available-for-sale debt securities during the year, net of taxes of $(1,356)	-	-	-	(3,834)	(3,834)
Cash dividends declared on 5,872,200 shares at $0.60 per share	-	-	(3,523)	-	(3,523)
Balance, December 31, 2021	$ 294	$ 7,895	$ 126,176	$ 1,934	$ 136,299
Net earnings for year	**-**	**-**	**18,641**	**-**	**18,641**
Stock option compensation	**-**	**119**	**-**	**-**	**119**
Issuance of 7,111 of common stock	**-**	**313**	**-**	**-**	**313**
Exercise of 12,800 stock options net of repurchase of 4,000 shares	**-**	**72**	**-**	**-**	**72**
Net change in fair value of available-for-sale debt securities during the year, net of taxes of $12,285	**-**	**-**	**-**	**(34,723)**	**(34,723)**
Cash dividends declared on 5,877,800 shares at $0.16 per share	**-**	**-**	**(941)**		**(941)**
Cash dividends declared on 5,881,000 shares at $0.48 per share	**-**	**-**	**(2,823)**	**-**	**(2,823)**
Balance, December 31, 2022	**$ 294**	**$ 8,399**	**$ 141,053**	**$ (32,789)**	**$ 116,957**

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021
Increase (Decrease) in Cash and Cash Equivalents

(In Thousands)	**2022**	2021
Cash flows from operating activities:		
Interest received	**$ 52,544**	$ 52,943
Proceeds from sale of loans held for sale	**25,901**	104,942
Origination of loans held for sale	**(24,181)**	(101,906)
Fees and other income	**7,598**	7,767
Interest paid	**(5,608)**	(7,872)
Cash paid to suppliers and employees	**(31,453)**	(33,574)
Income taxes paid	**(4,469)**	(3,560)
Net cash provided by operating activities	**20,332**	18,740
Cash flows from investing activities:		
Loans made to customers, net of repayments	**(169,115)**	3,568
Proceeds from calls, paydowns and maturities of available-for-sale debt securities	**53,259**	83,749
Purchase of available-for-sale debt securities	**(134,972)**	(198,484)
Purchase of restricted equity securities	**(147)**	-
Proceeds from sale of premises and equipment and software	**18**	118
Purchase of premises and equipment and software	**(810)**	(716)
Proceeds from life insurance death benefits	**-**	1,451
Proceeds from annuity investment	**116**	58
Purchase of annuity investment	**-**	(250)
Proceeds from sale of other real estate	**182**	-
Proceeds from sale of repossessed assets	**-**	10
Net cash provided by (used in) investing activities	**(251,469)**	(110,496)
Cash flows from financing activities:		
Net increase (decrease) in interest-bearing and non-interest-bearing deposits	**(9,133)**	172,940
Net decrease in time deposits	**(10,212)**	(18,654)
Principal payments on notes payable	**(2,101)**	(1,835)
Repayment of advances from Federal Home Loan Bank	**(89,704)**	(16,214)
Advances from Federal Home Loan Bank	**137,000**	-
Proceeds from issuance of common stock	**385**	-
Cash dividends paid	**(3,764)**	(3,523)
Net cash provided by financing activities	**22,471**	132,714
Net increase (decrease) in cash and cash equivalents	**(208,666)**	40,958
Cash and cash equivalents at beginning of year	**234,822**	193,864
Cash and cash equivalents at end of year	**$ 26,156**	$ 234,822

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows, Continued

Years Ended December 31, 2022 and 2021
Increase (Decrease) in Cash and Cash Equivalents

(In Thousands)	**2022**	2021
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	**$ 18,641**	$ 16,737
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of premises and equipment and amortization of software	**1,318**	1,348
Provision for loan losses	**1,314**	1,141
Amortization and accretion of available-for-sale debt securities, net	**668**	1,600
Purchase accounting accretion and amortization, net	**261**	(2,524)
Stock option compensation expense	**119**	153
Net gain on disposal of premises and equipment	**-**	(47)
Provision for deferred income taxes	**482**	653
Unrealized holding loss on marketable equity securities	**23**	11
Decrease in loans held for sale, net	**1,720**	846
Decrease (increase) in accrued interest receivable	**(1,341)**	1,094
Life insurance policy income	**(441)**	(930)
Annuity investment loss, net	**-**	11
Increase in refundable income taxes	**(504)**	(74)
Increase in mortgage servicing rights, net	**(943)**	(490)
Decrease in other assets	**58**	206
Decrease in accrued interest payable	**(12)**	(593)
Decrease in accrued expenses and other liabilities	**(1,031)**	(402)
Total adjustments	**1,691**	2,003
Net cash provided by operating activities	**$ 20,332**	$ 18,740

Supplemental Schedule of Non-Cash Activities:

Change in unrealized gain on available-for-sale debt securities, net of taxes of $(12,285) and $(1,356), respectively	**$ (34,723)**	$ (3,834)
Loans transferred to other real estate	**$ 182**	$ -
Loans transferred to repossessed assets	**$ -**	$ 10
Other real estate transferred to loans	**$ 40**	$ -
Measurement period adjustments	**$ -**	$ 669

See accompanying notes to the consolidated financial statements

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Citizens Bancorp Investment, Inc. and Subsidiaries ("the Company") are in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to general practices within the banking industry. The following is a brief summary of the more significant policies.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Citizens Bank and Town & Country Finance Company, Inc. The consolidated financial statements also include the accounts of Citizens Bank's 100% owned subsidiary, Citizens Insurance Services, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

In 2020, the Company acquired all assets of American Bancshares Corp. and its 100% subsidiary, American Bank & Trust of the Cumberlands. Effective August 20, 2021, American Bank & Trust of the Cumberlands was merged into Citizens Bank. The merger was treated as a reorganization as both subsidiary banks were under the common control of the Company.

(b) Nature of Operations

The Company's subsidiary bank operates under a state bank charter and provides full banking services. As a state bank, the subsidiary bank is subject to regulation of the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation. The areas served by the subsidiary bank include Bedford, Clay, Coffee, DeKalb, Franklin, Jackson, Macon, Overton, Putnam, Smith, Sumner, Wilson and surrounding counties in Middle Tennessee. Services are provided at twenty-two banking offices.

(c) Estimates

In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to determination of the allowance for loan losses, the valuation of deferred tax assets and liabilities, other-than-temporary impairment of securities and the fair value of financial instruments.

(d) Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the principal amount outstanding. Purchase premiums and discounts, unearned discounts and the allowance for loan losses are shown as reductions of loans. Unearned discount represents the unamortized amount of finance charges, principally related to certain installment loans. Interest income on most loans is accrued based on the principal amount outstanding.

The Company follows the provisions of FASB ASC 310, *Receivables* in relation to impaired loans. These provisions apply to impaired loans except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment including residential mortgage and consumer loans.

A loan is impaired when it is probable that the Company will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the Company recognizes an impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

The Company's residential real estate mortgage loans and consumer loans are divided into various groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and, thus, are not subject to the provisions of FASB ASC 310. Substantially all other loans of the Company are evaluated for impairment under the provisions of FASB ASC 310.

The Company considers all loans subject to the provisions of FASB ASC 310 that are on nonaccrual status to be impaired. Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection, with the exception of residential real estate loans. Residential real estate loans are placed on nonaccrual status when principal or interest are past due 120 days or more if it is deemed the Company is not at risk for loss. Delays or shortfalls in loan payments are evaluated along with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to pay.

Generally, at the time a loan is placed on nonaccrual status, all interest accrued and uncollected on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectibility of outstanding principal is doubtful, such cash received is applied as a reduction of principal. A nonaccrual loan may be restored to an accruing status when principal and interest are no longer past due and unpaid, and future collection of principal and interest on a timely basis is not in doubt.

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Loans not on nonaccrual status are classified as impaired in certain cases when there is inadequate protection by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. In those cases, such loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Company will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Company's criteria for nonaccrual status.

Generally, the Company also classifies as impaired any loans the terms of which have been modified in a troubled debt restructuring. Interest is generally accrued on such loans that continue to meet the modified terms of their loan agreements.

The Company's charge-off policy for impaired loans is similar to its charge-off policy for all loans in that loans are charged off in the month when they are considered uncollectible.

(e) Allowance for Loan Losses

The provision for loan losses represents a charge to earnings necessary, after loan charge-offs and recoveries, to maintain the allowance for loan losses at an appropriate level which is adequate to absorb estimated losses inherent in the loan portfolio. Such estimated losses arise primarily from the loan portfolio but may also be derived from other sources, including commitments to extend credit and standby letters of credit. The level of the allowance is determined on a quarterly basis using procedures which include: (1) categorizing loans into risk categories to estimate loss probabilities based primarily on the historical loss experience of those risk categories and current economic conditions; (2) analyzing significant credits and calculating specific reserves as necessary; (3) assessing various homogeneous loan categories to estimate loss probabilities based primarily on historical loss experience; and (4) considering various other factors, such as changes in credit concentrations, loan mix, and economic conditions which may not be specifically quantified in the loan analysis process.

The allowance for loan losses consists of an allocated portion and an unallocated, or general portion. The allocated portion is maintained to cover estimated losses applicable to specific segments of the loan portfolio. The unallocated portion is maintained to absorb losses which probably exist as of the evaluation date but are not identified by the more objective processes used for the allocated portion of the allowance due to risk of errors or imprecision. While the total allowance consists of an allocated portion and an unallocated portion, these terms are primarily used to describe a process. Both portions of the allowance are available to provide for inherent loss in the entire portfolio.

The allowance for loan losses is increased by provisions for loan losses charged to expense and is reduced by loans charged off net of recoveries on loans previously charged off. The provision is based on management's determination of the amount of the allowance necessary to provide for estimated loan losses based on its evaluation of the loan portfolio. Determining the appropriate level of the allowance and the amount of the provision involves uncertainties and matters of judgment and therefore cannot be determined with precision.

(f) Loans Held-For-Sale

Mortgage loans held for sale are reported at the lower of cost or fair value, determined by outstanding commitments from investors at the balance sheet date. These loans are valued on an aggregate basis. Gains and losses on sales of mortgage loans is based on the difference between the selling price and the carrying value of the related loan sold.

(g) Debt and Equity Securities

The Company accounts for debt securities under the provisions of FASB ASC 320, *"Investments - Debt Securities"*. Under these provisions debt securities are classified in three categories and accounted for as follows:

- ***Securities Held-to-Maturity***

  Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Amortization of premiums and accretion of discounts are recognized by the interest method. No debt securities have been classified as held-to-maturity.

- ***Trading Securities***

  Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

- ***Securities Available-for-Sale***

  Debt securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity in accumulated other comprehensive income. Amortization of premiums and discounts are recognized by the straight line method. The Company has classified essentially all its debt securities as available-for-sale.

When the fair value of a debt security has declined below the amortized cost at the measurement date, if an entity intends to sell a security or is more likely than not to sell the security before the recovery of the security's cost basis, the entity must recognize an other-than-temporary impairment (OTTI) in earnings. For a debt security with a fair value below the amortized cost at the measurement date where it is more likely than not that an entity will not sell the security before the recovery of its cost basis, but an entity does not expect to recover the entire cost basis of the security, the security is classified as OTTI. The related OTTI loss on the debt security will be recognized in earnings to the extent of the credit losses, with the remaining impairment loss recognized in accumulated other comprehensive income. In estimating OTTI losses, management considers: the length of time and extent that fair value of the security has been less than the cost of the security, the financial condition and near term prospects of the issuer, cash flow, stress testing analysis on securities, when applicable, and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

For equity securities, when the Company has decided to sell an impaired security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made.

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

The Company accounts for equity securities under the provisions of FASB ASC 321, "Investments - Equity Securities". Under the provisions of the guidance, equity securities not using the equity method are carried at estimated fair value based on information provided by a third party pricing service with changes in fair value and realized gains or losses reported in earnings. If fair value is not readily determinable, the equity securities are carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. All equity securities are evaluated at least annually for impairment. The Company's equity securities have readily determinable fair values. Because changes in fair value are recorded as they occur, there is no expectation of a gain or loss on the sale of equity securities.

Realized gains or losses from securities are determined on the specific-identification method. Purchase premiums and discounts are recognized in interest income using the straight line method over the terms of the securities.

(h) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits in financial institutions and federal funds sold. Generally, federal funds sold are purchased and sold for one-day periods. The subsidiary bank maintains deposits with other financial institutions in excess of the federal insurance amounts. Management makes deposits only with financial institutions it considers to be financially sound.

(i) Interest-Bearing Deposits in Financial Institutions

Interest-bearing deposits in financial institutions typically mature within one year and are carried at cost.

(j) Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the related assets. Gain or loss on items retired and otherwise disposed of is credited or charged to operations and cost and related accumulated depreciation are removed from the asset and accumulated depreciation accounts.

Expenditures for major renewals and improvements of premises and equipment are capitalized and those for maintenance and repairs are charged to earnings as incurred.

These assets are reviewed for impairment when events indicate their carrying value may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

(k) Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sale of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with mortgage servicing income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported within non-interest income on the consolidated statements of earnings as mortgage loan servicing fee income, is recorded for fees earned for servicing loans, including late fees and ancillary fees. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. Late fees and ancillary fees related to loan servicing are not material.

(l) Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs relating to the development and improvement of the property are capitalized, while holding costs of the property are charged to expense in the period incurred.

(m) Goodwill and Intangible Assets

Goodwill arises from business combinations and is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected September 30 as the date to perform the annual impairment test. Intangible assets with finite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the consolidated balance sheets.

Other intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions and are amortized on a straight-line basis over their estimated useful lives.

(n) Life Insurance Policies and Annuity Investments

The Company owns life insurance policies insuring the lives of certain officers and directors and annuity investments to fund the cost of certain employee benefits. Bank-owned life insurance policies and annuity investments are initially recorded at the amount of premiums paid and are periodically adjusted to current cash surrender values. Changes in cash surrender values are recorded in non-interest income and are based on premiums paid less expenses plus accrued interest income.

(o) Advertising Costs

Advertising costs are expensed as incurred and totaled $484,000 and $355,000 in 2022 and 2021, respectively.

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(p) Income Taxes

The Company accounts for income taxes in accordance with Income Tax Accounting Guidance ("FASB ASC 740"). The Company has adopted the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is "more-likely-than-not", based on the technical merits, that the tax position will be realized or sustained upon examination. The term "more-likely-than-not" means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the "more-likely-than-not" recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the "more-likely-than-not" recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is "more-likely-than-not" that some portion or all of a deferred tax asset will not be realized.

It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company and its subsidiaries file a consolidated Federal income tax return. Each member of the consolidated group provides for income taxes on a separate-return basis.

Notes to Consolidated Financial Statements
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(q) Equity-Based Incentives

Stock compensation accounting guidance (FASB ASC 718, *Compensation - Stock Compensation")* requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, cash-settled stock appreciation rights (SARs), and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee's service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. It is the Company's policy to recognize forfeitures as they occur. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock option and cash-settled SARs at the date of grant.

(r) Off-Balance-Sheet Financial Instruments

In the ordinary course of business the subsidiary bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

(s) Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 19 to the consolidated financial statements. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

(t) Subsequent Events

The Company has evaluated all subsequent events or transactions for recognition or disclosure through March 23, 2023, the date the consolidated financial statements were available to be issued.

On January 18, 2023, the Company declared a $0.17 per share dividend for shareholders of record on February 1, 2023 payable February 8, 2023.

The Federal Reserve Bank continues to raise interest rates as part of their efforts to reduce inflation. In a rising rate environment, deposits have historically repriced faster than loans resulting in a decrease in the Bank's net interest margin percentage. The Company is experiencing a compression in their net interest margin percentage which could affect profitability prospectively.

Recent events in the banking environment have raised concerns over liquidity and uninsured deposits of financial institutions. See Note 8 to the consolidated financial statements for additional information related to the Bank's deposits. Management considers the events to be isolated to specific institutions and does not anticipate any significant or unusual withdrawals of uninsured deposits. In addition, the Company's risk management framework includes active monitoring of it liquidity position and detailed contingency funding plans to protect the Company in the event of a significant change in liquidity

(u) Revenue from Contracts with Customers

The Company has adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU Collectively, ("ASC 606"), which is (i) creates a single framework for recognizing revenue from contracts that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as repossessed assets. The majority of the Company's revenues are derived from interest income and other sources related to financial assets such as loans and securities, which are outside the scope of the ASC 606.

Services within the scope of ASC 606 include the following:

Service charges and overdraft fees on deposit accounts: The Company earns fees on its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM usage fees, stop payment charges, statement rendering, and ACH fees are recognized at the time the transaction is executed and the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Account maintenance fees are recognized in the same month the Company earns and satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Debit and ATM card income: The Company earns interchange fees from debit and ATM cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Brokers fee income: The Company earns fees from investment brokerage services provided to its customers by a third-party service provider. The Company receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The fees are recognized monthly when the Company satisfies the performance obligation. Because the Company (*1*) acts as an agent in arranging the relationship between the customer and third-party service provider and (*2*) does not control the services rendered to the customer, investment brokerage fees are presented net of related servicing and administration costs.

Insurance commissions: The Company earns commissions on various insurance products it sells to customers. The Company acts an intermediary between the Company's customer and the insurance carrier. The Company's performance obligation is generally satisfied upon the issuance of the insurance policy. Shortly after the policy is issued, the respective carrier remits the commission payment to the Company, and the Company recognizes the revenue, which is included in other fees and commissions.

The Company's services that fall within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer. See detail of non-interest income within Note 11 to the consolidated financial statements.

(v) Adoption of New Accounting Standards

On January 1, 2021, the Company adopted Accounting Standards Update ("ASU") No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases in the consolidated balance sheet. The standard was implemented under a modified retrospective approach as of the date of adoption and several of the available practical expedients were applied including: 1) carryover of historical lease determination and lease classification conclusions; 2) carryover of historical initial direct cost balances for existing leases; and 3) accounting for lease and non-lease components in the contracts in which the Company has a lease as a single lease component. Adoption of the leasing standard resulted in the recognition of operating lease liabilities and corresponding right of use assets based on the present value of the remaining minimum rental payment for existing operating leases as of January 1, 2021. There was no material impact to the timing of expense or income recognition in the Company's Statements of Earnings. Disclosures about the Company's leasing activities are presented in Note 13.

(w) ***Newly Issued, Not Yet Effective Accounting Standards***

In June 2016, FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326)" to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss ("CECL") model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively. For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For calendar year-end public business entities ("PBE") that are not SEC filers, it is effective for March 31, 2023 interim financial statements. The Company is currently implementing this new accounting standard and the impact on the consolidated financial statements is not presently estimated to be material.

(2) LOANS AND ALLOWANCE FOR LOAN LOSSES

The Company uses four loan categories for financial reporting a summary of which is as follows:

Commercial and Agricultural **-** These are generally loans to businesses and agricultural enterprises the proceeds of which are used for commercial, industrial, agricultural and professional purposes. Repayment of such loans is generally dependent on the successful operations of the business or agricultural enterprise.

Real Estate - Commercial, Farming, Residential and Multifamily - This category includes primarily loans secured by 1-4 family residential, commercial or agricultural property. Repayment is primarily dependent on the cash flow of the underlying individual or business, but could also be dependent upon the operation, refinance or sale of the underlying real estate.

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Real Estate - Construction and Land Development - Loans in this category generally include land development, 1-4 family construction and commercial construction projects such as office and retail space, warehouses, apartments and land development loans. Repayment of these loans is dependent upon the successful operations or sale of the completed projects.

Consumer and Other - This category includes all loans issued to individuals not included in the real estate classification. These loans generally include vehicle, education and other consumer loans. Repayment is subject to the individual's underlying ability to service their loan payments.

Loans and allowance for loan losses at December 31, 2022 and 2021 are summarized as follows:

(In Thousands)	**2022**	2021
Commercial and agriculture	**$ 73,766**	$ 71,933
Real estate:		
Commercial	**279,205**	226,144
Farming	**63,204**	60,739
Residential	**357,991**	274,935
Construction and land development	**105,189**	83,638
Multifamily	**42,236**	34,009
Consumer and other	**54,029**	54,908
	975,620	806,306
Less unearned interest	**(58)**	(98)
Less allowance for loan losses	**(11,970)**	(10,716)
Total	**$ 963,592**	$ 795,492

Deferred loan fees totaling $753,000 and $394,000 are included in the above loan balances as of December 31, 2022 and 2021, respectively.

The Company's principal customers are primarily in the Middle Tennessee area with a concentration in Bedford, Clay, Coffee, DeKalb, Franklin, Jackson, Macon, Overton, Putnam, Smith, Sumner, Wilson and surrounding counties in Middle Tennessee. Credit is extended to businesses and individuals and is evidenced by promissory notes. The terms and conditions of the loans including collateral varies depending upon the purpose of the credit and the borrower's financial condition.

At December 31, 2022, variable rate and fixed rate loans totaled $359,995,000 and $615,625,000, respectively. At December 31, 2021, variable rate and fixed rate loans totaled $298,843,000 and $507,463,000, respectively.

In the normal course of business, the Company's subsidiaries have made loans at prevailing interest rates and terms to directors and executive officers of the Company and their affiliates. At December 31, 2022 and at December 31, 2021, the aggregate amount of these loans was $638,000 and $624,000, respectively. None of these loans were restructured, charged-off or involved more than the normal risk of collectability or presented other unfavorable features.

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An analysis of the activity with respect to such loans to related parties is as follows:

(In Thousands)		**2022**		2021
Balance, January 1	**$**	**624**	$	1,876
New loans, advances, and renewals during the year		**6,557**		624
Repayment (including loans paid by renewal) during the year		**(6,543)**		(1,876)
Total	**$**	**638**	$	624

The CARES Act provides for emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the Small Business Administration ("SBA") to administer new loan programs including, but not limited to, the guarantee of loans under a new loan program called the Paycheck Protection Program ("PPP"). The Company originated a total of $26,109,000 in PPP loans during 2021. At December 31, 2022 and 2021, the Company had 2 and 74 PPP loans outstanding with principal balances totaling $6,000 and $2,868,000, respectively, which are included in Commercial and Agricultural loans. PPP loans do not have a corresponding allowance as they are 100% guaranteed by the SBA and are expected to be fully forgiven by the SBA. Fees range from 1% to 5% and are amortized over the life of the loan. As PPP loans are forgiven, any deferred loan fee and cost is recognized related to each individual loan. The Company recognized $124,000 and $3,704,000 of net fee income on the PPP loan originations during 2022 and 2021, respectively.

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Transactions in the allowance for loan losses for the years ended December 31, 2022 and 2021 are summarized as follows:

(In Thousands)	Commercial and Agricultural	Commercial Real Estate	Farming Real Estate	Residential Real Estate	Construction and Land Development	Multifamily Real Estate	Consumer and Other	Total
December 31, 2022								
Beginning balance	**$ 918**	**$ 2,589**	**$ 1,283**	**$ 2,896**	**$ 1,053**	**$ 361**	**$ 1,616**	**$ 10,716**
Provision	**54**	**709**	**(524)**	**1,184**	**199**	**68**	**(376)**	**1,314**
Charge-offs	**(66)**	**-**	**-**	**(1)**	**(4)**	**-**	**(415)**	**(486)**
Recoveries	**53**	**79**	**19**	**21**	**-**	**-**	**254**	**426**
Total	**$ 959**	**$ 3,377**	**$ 778**	**$ 4,100**	**$ 1,248**	**$ 429**	**$ 1,079**	**$ 11,970**
Allowances:								
Impaired loans	**$ -**	**$ -**	**$ 59**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 59**
Acquired with credit impairment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Pooled	**959**	**3,377**	**719**	**4,100**	**1,248**	**429**	**1,079**	**11,911**
Total	**$ 959**	**$ 3,377**	**$ 778**	**$ 4,100**	**$ 1,248**	**$ 429**	**$ 1,079**	**$ 11,970**
Loans:								
Loans individually evaluated for impairment	**$ 448**	**$ 5,492**	**$ 6,228**	**$ 2,073**	**$ 715**	**$ -**	**$ -**	**$ 14,956**
Acquired with credit impairment	**-**	**8**	**-**	**38**	**-**	**-**	**-**	**46**
Loans collectively evaluated for impairment	**73,318**	**273,705**	**56,976**	**355,880**	**104,474**	**42,236**	**54,029**	**960,618**
Total	**$ 73,766**	**$ 279,205**	**$ 63,204**	**$ 357,991**	**$ 105,189**	**$ 42,236**	**$ 54,029**	**$ 975,620**
December 31, 2021								
Beginning balance	$ 859	$ 2,256	$ 1,560	$ 3,019	$ 832	$ 218	$ 1,108	$ 9,852
Provision	193	294	(277)	(91)	221	143	658	1,141
Charge-offs	(157)	-	-	(58)	-	-	(433)	(648)
Recoveries	23	39	-	26	-	-	283	371
Total	$ 918	$ 2,589	$ 1,283	$ 2,896	$ 1,053	$ 361	$ 1,616	$ 10,716
Allowances:								
Impaired loans	$ -	$ -	$ 593	$ -	$ -	$ -	$ 39	$ 632
Acquired with credit impairment	-	-	-	-	-	-	-	-
Pooled	918	2,589	690	2,896	1,053	361	1,577	10,084
Total	$ 918	$ 2,589	$ 1,283	$ 2,896	$ 1,053	$ 361	$ 1,616	$ 10,716
Loans:								
Loans individually evaluated for impairment	$ 1,308	$ 8,173	$ 7,821	$ 3,158	$ 790	$ -	$ 65	$ 21,315
Acquired with credit impairment	-	32	-	42	149	-	-	223
Loans collectively evaluated		-						
for impairment	70,625	217,939	52,918	271,735	82,699	34,009	54,843	784,768
Total	$ 71,933	$ 226,144	$ 60,739	$ 274,935	$ 83,638	$ 34,009	$ 54,908	$ 806,306

Notes to Consolidated Financial Statements
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Impaired loans and related allowance for loan loss allocation amounts at December 31, 2022 and 2021 were as follows:

	Impaired Loans With Allowance			Impaired Loans With No Allowance	
(In Thousands)	Principal Balance	Recorded Investment	Allocated Allowance for Loan Losses	Principal Balance	Recorded Investment
December 31, 2022					
Commercial and agriculture	**$ -**	**$ -**	**$ -**	**$ 448**	**$ 454**
Real estate:					
Commercial	**-**	**-**	**-**	**5,492**	**5,663**
Farming	**959**	**985**	**59**	**5,269**	**5,359**
Residential	**-**	**-**	**-**	**2,073**	**2,088**
Construction and land development	**-**	**-**	**-**	**715**	**718**
Multifamily	**-**	**-**	**-**	**-**	**-**
Consumer and other	**-**	**-**	**-**	**-**	**-**
Total	**$ 959**	**$ 985**	**$ 59**	**$ 13,997**	**$ 14,282**
December 31, 2021					
Commercial and agriculture	$ -	$ -	$ -	$ 1,308	$ 1,331
Real estate:					
Commercial	-	-	-	8,173	8,489
Farming	1,354	1,416	593	6,467	6,622
Residential	-	-	-	3,158	3,170
Construction and land development	-	-	-	790	792
Multifamily	-	-	-	-	-
Consumer and other	65	66	39	-	-
Total	$ 1,419	$ 1,482	$ 632	$ 19,896	$ 20,404

The average recorded investment in impaired loans for the years ended December 31, 2022 and 2021 was $17,077,000 and $24,211,000, respectively. The related total amount of interest income recognized for the period that such loans were impaired was $852,000 and $968,000 for 2022 and 2021, respectively.

The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

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The following table summarizes the carrying balances of TDRs at December 31, 2022 and 2021:

(Dollars In Thousands)	**2022**	2021
Performing TDRs	**$ 644**	$ 804
Nonperforming TDRs	**1,597**	1,794
Total TDRs	**$ 2,241**	$ 2,598

The following table outlines the amount of each troubled debt restructuring categorized by loan classification during the years ended 2022 and 2021 (dollars in thousands):

	December 31, 2022			December 31, 2021		
	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance	Number of Contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, Net of Related Allowance
Commercial and agricultural	**2**	**$ 7**	**$ 7**	-	$ -	$ -
Real estate:						
Commercial	**-**	**-**	**-**	-	-	-
Farming	**-**	**-**	**-**	-	-	-
Residential	**8**	**398**	**398**	1	88	88
Construction and land development	**-**	**-**	**-**	-	-	-
Multifamily	**-**	**-**	**-**	-	-	-
Consumer and other	**8**	**93**	**93**	1	149	149
Total	**18**	**$ 498**	**$ 498**	2	$ 237	$ 237

During the years ended 2022 and 2021, there were no loans modified as a troubled debt restructuring that had default payments for the 12 months following the loan being modified.

The Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferrals or full principal and interest payment deferrals. The majority of those modifications were for a period of up to three months. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulations. At December 31, 2022, the Company had 200 loans with outstanding principal balances totaling $41,420,000 making payments according to modified payment terms as a result of the COVID-19 pandemic.

Credit Quality Indicators

The Company 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 Company analyzes loans individually by classifying the loans as to credit risk. Loans greater than $250,000 classified as substandard are reviewed regularly by the Company to determine if appropriately classified and to determine if the loan is impaired. The Company's loan portfolio is reviewed for credit quality on a quarterly basis, with samples being selected based on loan size, credit grades, etc. to ensure that the Company's management is properly applying credit risk management processes.

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Loans excluded from the scope of the annual review process are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the creditworthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to special mention, substandard or doubtful, or could even be considered for charge-off. The Company uses the following definitions for risk ratings at December 31, 2022 and 2021:

- ***Special Mention*** - The loan does not currently expose the Bank to a sufficient degree of risk to warrant an adverse classification. These loans are considered sound with no apparent loss anticipated. Further deterioration of the loan may expose the Company to increased risk of loss and applicable downgrade in classification.

  Examples of loans may include:

  a) Financial condition remains adequate but shows signs of being strained.
  b) Serious documentation deficiencies or any other deviation from prudent lending practices.
  c) Marginal net worth or cash flow problems.
  d) Collateral under-margined or has limited marketability.
  e) Loans with major loan policy inconsistencies.
  f) Loans classified special mention in the latest regulatory report of examination.

- ***Substandard*** - Some weakness is evident where more than normal risk is prevalent and requires immediate management attention. Includes loans to borrowers with erratic earnings and unstable financial condition, loans where the primary source of repayment has not been adhered to and alternate sources of repayment must be considered and loans where financial information is inadequate. Includes all loans which are on non-accrual status and all assets carried on Bank's books as other real estate or other assets. Includes loans classified Substandard at latest regulatory examination. Minor losses may occur on some of these loans.

- ***Doubtful*** - Loans inaccurately supported by current sound net worth and/or collateral. Workout situation exists, or may occur, requiring detailed servicing and the closest attention. Reliance on alternative source of repayment is likely and immediate steps should be taken to strengthen our positon. Includes loans classified doubtful at latest regulatory examination. The possibility of loss exists.

- ***Loss*** - Loans graded "Loss" may be considered uncollectible either for the short-term or at all and of such little value that their continuance as a bookable asset is no longer warranted. The amount of loss is to be clearly identifiable and will be charged to the Allowance for Loan and Lease Losses. Although collateral securing this loan may retain some liquidation value, the amount and timing of any recovery is highly uncertain. Loans so rated could include borrowers, endorsers, and guarantors that exhibit an unwillingness to liquidate the debt. Losses are to be taken in the period in which they surface as uncollectible.

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The following tables break down the Company's credit quality indicators by type of loan as of December 31, 2022 and 2021:

(In Thousands)	Commercial and Agricultural	Commercial Real Estate	Farming Real Estate	Residential Real Estate	Construction and Land Development	Multifamily Real Estate	Consumer and Other	Total
December 31, 2022								
Grade								
Pass	**$ 69,282**	**$ 261,798**	**$ 50,527**	**$ 349,005**	**$ 102,825**	**$ 42,236**	**$ 53,676**	**$ 929,349**
Special Mention	**3,534**	**11,513**	**5,329**	**1,018**	**1,338**	**-**	**121**	**22,853**
Substandard	**950**	**5,894**	**7,348**	**7,968**	**656**	**-**	**232**	**23,048**
Doubtful	**-**	**-**	**-**	**-**	**370**	**-**	**-**	**370**
Loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 73,766**	**$ 279,205**	**$ 63,204**	**$ 357,991**	**$ 105,189**	**$ 42,236**	**$ 54,029**	**$ 975,620**
December 31, 2021								
Grade								
Pass	$ 66,222	$ 191,199	$ 45,585	$ 257,804	$ 76,537	$ 34,009	$ 54,338	$ 725,694
Special Mention	3,740	26,359	6,112	6,764	5,650	-	169	48,794
Substandard	1,971	8,586	9,042	10,367	1,451	-	401	31,818
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 71,933	$ 226,144	$ 60,739	$ 274,935	$ 83,638	$ 34,009	$ 54,908	$ 806,306

The following tables provide an aging analysis of the Company's past due loans as of December 31, 2022 and 2021:

(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days or Non-Accrual	Total Past Due and Non-Accrual Loans	Total Current Loans	Total Loans	Recorded Investment Past Due > 90 Days and Still Accruing
December 31, 2022							
Commercial and agricultural	**$ 184**	**$ -**	**$ 51**	**$ 235**	**$ 73,532**	**$ 73,766**	**$ -**
Real estate:							
Commercial	**420**	**74**	**880**	**1,374**	**277,831**	**279,205**	**19**
Farming	**225**	**-**	**2,455**	**2,680**	**60,524**	**63,204**	**-**
Residential	**2,966**	**535**	**2,405**	**5,906**	**352,085**	**357,991**	**-**
Construction and land development	**467**	**-**	**117**	**584**	**104,605**	**105,189**	**-**
Multifamily	**-**	**-**	**-**	**-**	**42,236**	**42,236**	**-**
Consumer and other	**865**	**104**	**868**	**1,837**	**52,192**	**54,029**	**617**
Total	**$ 5,127**	**$ 713**	**$ 6,776**	**$ 12,616**	**$ 963,005**	**$ 975,620**	**$ 636**
December 31, 2021							
Commercial and agricultural	$ 95	$ 42	$ 158	$ 295	$ 71,638	$ 71,933	$ -
Real estate:							
Commercial	152	-	1,764	1,916	224,228	226,144	-
Farming	191	-	2,912	3,103	57,636	60,739	-
Residential	1,723	148	2,597	4,468	270,467	274,935	485
Construction and land development	514	-	490	1,004	82,634	83,638	-
Multifamily	-	-	-	-	34,009	34,009	-
Consumer and other	451	344	1,082	1,877	53,031	54,908	786
Total	$ 3,126	$ 534	$ 9,003	$ 12,663	$ 793,643	$ 806,306	$ 1,271

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Nonaccrual loans by type of loan as of December 31, 2022 and 2021:

(In Thousands)	**2022**	2021
Commercial and agricultural	**$ 51**	$ 158
Real estate:		
Commercial	**860**	1,755
Farming	**2,455**	2,912
Residential	**2,405**	2,114
Construction and land development	**117**	489
Multifamily	**-**	-
Consumer and other	**251**	296
Total	**$ 6,139**	$ 7,724

Had interest income been recognized on nonaccrual loans in 2022 and 2021, income would have increased by approximately $388,000 and $511,000, respectively.

At December 31, 2022 and 2021, the category of "Greater than 90 Days or Nonaccrual" loans of $6,776,000 and $9,003,000 includes $602,000 and $764,000, respectively, of student loans purchased which are guaranteed at approximately 98%. The Company typically continues recognizing interest on such loans due to the guarantees. At December 31, 2022, there was $5,180,000 of nonaccrual loans with no allocation of the allowance for loan loss.

The Company has acquired loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding balances and carrying amounts of the loans were as follows at December 31, 2022 and 2021:

(In Thousands)	**2022**	2021
Commercial and agricultural	**$ -**	$ -
Real estate:		
Construction and land development	**-**	190
Commercial real estate	**21**	47
Residential real estate	**45**	50
Total outstanding balance	**66**	287
Less remaining purchase discount	**20**	64
	46	223
Allowance for loan losses	**-**	-
Carrying amount, net of allowance	**$ 46**	$ 223

Activity related to the accretable portion of the purchase discount on loans acquired with deteriorated credit quality were as follows for the years ended December 31, 2022 and 2021:

(In Thousands)	**2022**	2021
Balance as of January 1,	**$ 58**	$ 68
Accretion income	**(45)**	(20)
Reclassification from nonaccretable	**7**	10
Balance at December 31,	**$ 20**	$ 58

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(3) SECURITIES

Debt securities have been classified in the balance sheet according to management's intent. The amortized cost and the estimated market values of debt securities which are classified as available for sale at December 31, 2022 and 2021 were as follows:

(In Thousands)	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Market Value*
December 31, 2022				
U.S. Treasury and other U.S. government agencies and corporations	**$ 114,150**	**$ 38**	**$ 9,852**	**$ 104,336**
Obligations of state and political subdivisions	**104,730**	**19**	**8,784**	**95,965**
Residential mortgage-backed securities	**219,716**	**3**	**25,516**	**194,203**
Commercial mortgage-backed securities	**9,906**	**-**	**274**	**9,632**
Collateralized mortgage obligations	**232**	**-**	**24**	**208**
	$ 448,734	**$ 60**	**$ 44,450**	**$ 404,344**
December 31, 2021				
U.S. Treasury and other U.S. government agencies and corporations	$ 66,208	$ 276	$ 620	$ 65,864
Obligations of state and political subdivisions	107,382	2,863	169	110,076
Residential mortgage-backed securities	178,740	1,533	1,324	178,949
Commercial mortgage-backed securities	14,985	95	36	15,044
Corporate and other securities	373	1	-	374
	$ 367,688	$ 4,768	$ 2,149	$ 370,307

The amortized cost and estimated market value of debt securities at December 31, 2022 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	Amortized Cost	Estimated Market Value
Due in one year or less	**$ 5,154**	**$ 5,132**
Due after one year through five years	**128,963**	**120,840**
Due after five years through ten years	**40,746**	**37,308**
Due after ten years	**44,017**	**37,021**
Residential and commercial mortgage-backed securities	**229,622**	**203,835**
Collateralized mortgage obligations	**232**	**208**
	$ 448,734	**$ 404,344**

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There were no sales of debt securities available for sale or marketable equity securities during 2022 or 2021.

Investment securities carried in the balance sheet at $152,721,000 and $128,974,000, respectively (amortized cost $167,752,000 and $127,484,000), as of December 31, 2022 and 2021, respectively, were pledged to secure public and trust deposits and for other purposes as required or permitted by law.

The following tables shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022 and 2021:

	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
December 31, 2022								
U.S. Treasury and other U.S. Government agencies and corporations	**$ 47,251**	**$ 2,848**	**33**	**$ 54,603**	**$ 7,004**	**24**	**$ 101,854**	**$ 9,852**
Obligations of states and political subdivisions	**76,662**	**4,227**	**183**	**14,252**	**4,557**	**19**	**90,914**	**8,784**
Residential mortgage-backed securities	**84,921**	**6,215**	**190**	**108,958**	**19,301**	**32**	**193,879**	**25,516**
Commercial mortgage-backed securities	**1,199**	**87**	**1**	**8,433**	**187**	**3**	**9,632**	**274**
Collateralized mortgage obligations	**3**	**1**	**3**	**205**	**23**	**1**	**208**	**24**
Total temporarily impaired securities	**$ 210,036**	**$ 13,378**	**410**	**$ 186,451**	**$ 31,072**	**79**	**$ 396,487**	**$ 44,450**
December 31, 2021								
U.S. Treasury and other U.S. Government agencies and corporations	$ 41,267	$ 362	$ 14	$ 9,665	$ 258	$ 9	$ 50,932	$ 620
Obligations of states and political subdivisions	8,804	142	9	995	27	1	9,799	169
Residential mortgage-backed securities	126,347	1,324	29	-	-	-	126,347	1,324
Commercial mortgage-backed securities	11,916	36	3	-	-	-	11,916	36
Total temporarily impaired securities	$ 188,334	$ 1,864	55	$ 10,660	$ 285	10	$ 198,994	$ 2,149

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The securities with unrealized losses included in the above table are considered high quality investments in line with normal industry investing practices. The unrealized losses are primarily the result of changes in the interest rate and sector environments consistent with the classification as available-for-sale. The Company intends and has the ability to hold the above securities until the value is realized.

The Company may sell the above or other securities in the ordinary course of business in response to unexpected and significant changes in liquidity needs, unexpected and significant increases in interest rates and/or sector spreads that significantly extend the security's holding period, or conducting a small volume of security transactions.

(4) RESTRICTED EQUITY SECURITIES

Restricted equity securities consist of stock of the Federal Home Loan Bank and Westport Life Insurance. The FHLB stock totaled $4,266,000 and $4,119,000 at December 31, 2022 and 2021, respectively. Previously the Company purchased an initial investment of $5,000 of Westport Life Insurance stock. Both stocks can be sold back only at par or a value as determined by the issuing entity and only to the respective entity or to another member entity. These securities are recorded at cost.

(5) PREMISES AND EQUIPMENT

The detail of premises and equipment at December 31, 2022 and 2021 is as follows:

	2022	2021
Land	**$ 3,404**	$ 3,404
Buildings and improvements	**23,903**	23,689
Furniture, fixtures and equipment	**13,992**	13,684
Vehicles	**407**	431
	41,706	41,208
Less accumulated depreciation	**(21,608)**	(20,584)
	$ 20,098	$ 20,624

Depreciation and amortization expense totaled $1,261,000 and $1,244,000 for the years ended December 31, 2022 and 2021, respectively.

(6) MORTGAGE SERVICING RIGHTS

Mortgage loans serviced for others are not reported as assets. The principal balance of these loans was $243,349,000 at December 31, 2022 and $246,166,000 at December 31, 2021.

The related mortgage servicing rights activity for the years ended December 31, 2022 and 2021 is as follows:

(In Thousands)	**2022**	2021
Beginning of year	**$ 1,624**	$ 1,134
Additions	**263**	597
Disposals	**(138)**	(183)
Change in fair value due to changes in valuation model inputs or assumptions	**818**	76
End of year	**$ 2,567**	$ 1,624

Fair value at December 31, 2022 was determined by using weighted average discount rates ranging from 9.75% to 19.68% and prepayment speeds ranging from 4.91% to 33.40%, depending on the stratification of the specific right.

Fair value at December 31, 2021 was determined by using weighted average discount rates ranging from 6.17% to 10.05% and prepayment speeds ranging from 14.10% to 48.52%, depending on the stratification of the specific right.

(7) GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill during the years ended December 31, 2022 and 2021 were as follows:

Goodwill

(In Thousands)	**2022**	2021
Balance at January 1,	**$ 18,339**	$ 17,670
Measurement period adjustments	**-**	669
Balance at December 31,	**$ 18,339**	$ 18,339

During 2021, the Company determined insignificant adjustments in fair value were appropriate to increase the fair value of deferred compensation liabilities and income taxes payable by $896,000 and $66,000, respectively, and reduce deferred income tax liabilities by $293,000 effective as of the acquisition date. The adjustments result in an increase in goodwill of $669,000.

Acquired Intangible Assets

Acquired intangible assets for the years ended December 31, 2022 and 2021 were as follows:

(In Thousands)	**2022**		2021	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	**$ 4,402**	**$ 2,864**	$ 4,402	$ 2,570
Amortization expense		**$ 294**		$ 293

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The core deposits intangible assets are amortized on a straight-line basis over their estimated useful life. Estimated future amortization expense for the five years ending after December 31, 2022 and then thereafter is as follows:

(In Thousands)		
2023	$	293
2024		279
2025		126
2026		126
2027		126
Thereafter		588
	$	1,538

(8) DEPOSITS

Principal maturities of certificates of deposit and individual retirement accounts at December 31, 2022 are as follows:

(In Thousands)		
2023	$	225,388
2024		131,247
2025		41,292
2026		9,493
2027		8,601
	$	416,021

At December 31, 2022 and 2021, certificates of deposit and individual retirement accounts in denominations of $250,000 or more amounted to $153,016,000 and $130,456,000, respectively.

The aggregate amount of overdrafts reclassified as loans receivable was $361,000 and $429,000 at December 31, 2022 and 2021, respectively.

Deposits from principal officers, directors, and their affiliates at December 31, 2022 and 2021 totaled $16,824,000 and $21,074,000, respectively.

The subsidiary bank may be required to maintain cash balances or balances with the Federal Reserve Bank or other correspondent banks based on certain percentages of deposit types. No amounts were required at December 31, 2022 or 2021.

(9) NOTES PAYABLE

To supplement capital needs, the Company has issued debt at the parent company level. Notes payable at December 31, 2022 and 2021 consist of the following:

(In Thousands)	**2022**	2021
4.10% note due in quarterly installments of principal and interest totaling $213 with a maturity date of March 5, 2025	**$ 1,395**	$ 2,171
4.00% note due in quarterly installments of $113 plus interest with a maturity date of December 1, 2025	**3,600**	4,050
Variable rate note (*The Wall Street Journal* prime rate plus 0.50%) with interest payable quarterly and principal due at maturity, December 1, 2023	**3,575**	4,000
Variable rate note (*The Wall Street Journal* prime rate plus 0.50%) due in quarterly installments of $113 plus interest and a maturity date of December 1, 2025	**3,600**	4,050
	$ 12,170	$ 14,271

Estimated principal maturities of the notes payable at December 31, 2022 are as follows:

(In Thousands)	
2023	**$ 5,283**
2024	**1,487**
2025	**5,400**
	$ 12,170

All notes payable are secured by 21,930 shares of common stock of the Company's subsidiary bank. This constitutes 51% of the issued and outstanding common stock shares of Citizens Bank.

Under the terms of the loan agreement, the lender has right of set-off against funds deposited with the lender's institution. The loan agreement also contains various financial and non-financial covenants. Among other items outlined in the loan agreement, the covenants place limits on the subsidiary bank's borrowing, limits on pledging securities, and the maintenance of certain regulatory capital and other ratios. As of the date of this report, the Company was in compliance with all covenants.

Notes to Consolidated Financial Statements
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(10) ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank maintains a line of credit with the Federal Home Loan Bank in the amount of $211,320,000. As of December 31, 2022 and 2021, advances under this line of credit consist of the following:

(In Thousands)	**2022** Amount	**2022** Weighted Average Rate	2021 Amount	2021 Weighted Average Rate
Fixed rate advances	**$ 70,196**	**3.98%**	$ 22,900	2.24%
Variable rate advances	**$ -**	-%	$ -	-%

Required future principal payments on FHLB advances are as follows:

(In Thousands)	
2023	**$ 58,319**
2024	**3,205**
2025	**2,039**
2026	**1,955**
2027	**1,307**
Thereafter	**3,371**
	$ 70,196

First mortgage residential real estate loans, commercial real estate loans, multifamily loans and loans secured by farmland totaling $637,709,000 are pledged to the FHLB as collateral for these advances at December 31, 2022.

Notes to Consolidated Financial Statements
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(11) NON-INTEREST INCOME AND NON-INTEREST EXPENSE

The significant components of non-interest income and non-interest expense for the years ended December 31, 2022 and 2021 are presented below. Items outside the scope of ASC 606 are noted as such.

(In Thousands)		**2022**		2021
Non-interest income:				
Service charges and overdraft fees on deposits	**$**	**3,580**	$	2,883
Debit and ATM card income, net		**2,326**		2,108
Change in fair value of mortgage servicing rights[1]		**943**		490
Mortgage servicing fee income[1]		**637**		578
Gain on sale of loans held for sale[1]		**509**		2,190
Earnings on bank owned life insurance and annuity contracts, net[1]		**441**		919
Brokers fee income		**42**		45
Net gain on disposal of premises and equipment[1]		**-**		47
Other fees and commissions[2]		**446**		472
	$	**8,924**	$	9,732
Non-interest expense:				
Employee salaries and benefits	**$**	**20,453**	$	20,054
Occupancy expenses		**1,997**		1,900
Data processing		**1,664**		3,689
Furniture and equipment expenses		**1,337**		1,309
Professional fees		**1,134**		915
FDIC insurance and state banking fees		**593**		715
Telephone and communications		**555**		551
Advertising		**484**		355
Supplies		**423**		446
Director and committee fees		**396**		450
Postage		**320**		341
Amortization of core deposit intangibles		**294**		293
Other operating expenses		**2,503**		2,473
	$	**32,153**		33,491

[1] Not within the scope of ASC 606.
[2] Other fees and commissions includes insurance commissions income totaling $69,000 and $90,000, respectively, which is within the scope of ASC 606; the remaining $377,000 and $382,000, respectively, represents various one time transaction fees and miscellaneous income, which are outside the scope of ASC 606

Notes to Consolidated Financial Statements
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(12) INCOME TAXES

The components of the net deferred tax asset (liability) at December 31, 2022 and 2021 are as follows:

(In Thousands)	**2022**	2021
Deferred tax asset:		
Federal	**$ 11,541**	$ 2,972
State	**3,732**	894
	15,273	3,866
Deferred tax liability:		
Federal	**(2,020)**	(2,316)
State	**(579)**	(679)
	(2,599)	(2,995)
Net deferred tax asset	**$ 12,674**	$ 871

The tax effects of each type of significant item that gave rise to deferred taxes at December 31, 2022 and 2021 are as follows:

(In Thousands)	**2022**	2021
Financial statement allowance for loan losses in excess of tax allowance	**$ 3,063**	$ 2,735
Financial statement deduction for deferred compensation in excess of deduction for tax purposes	**434**	772
Stock options compensation expense not recognized for tax purposes	**133**	108
Excess of depreciation deducted for tax purposes over amounts deducted in the financial statements	**(1,060)**	(1,085)
Income on FHLB stock dividends not recognized for tax purposes	**(83)**	(83)
Amortization of core deposit intangibles	**(169)**	(174)
Income on mortgage servicing rights not recognized for tax purposes	**(671)**	(425)
Acquisition fair value adjustments not recognized for tax purposes	**42**	251
Purchased goodwill amortized for tax purposes	**(608)**	(530)
Unrealized loss (gain) on debt securities available-for-sale	**11,601**	(684)
Unrealized gain on marketable equity securities	**(8)**	(14)
	$ 12,674	$ 871

Notes to Consolidated Financial Statements
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The components of income tax expense (benefit) for the years ended December 31, 2022 and 2021 are summarized as follows:

(In Thousands)	**2022**	2021
Current:		
Federal	**$ 3,686**	$ 3,148
State	**279**	338
	3,965	3,486
Deferred:		
Federal	**362**	494
State	**120**	159
	482	653
	$ 4,447	$ 4,139

A reconciliation of actual income taxes in the consolidated statements of earnings for the years ended December 31, 2022 and 2021 with the "expected" tax expense (computed by applying the statutory federal income tax of 21% to earnings before income taxes) is as follows:

(In Thousands)	**2022**	2021
Computed “expected” federal tax expense	**$ 4,848**	$ 4,384
State income taxes, net of benefit of state tax deduction for federal tax purposes	**315**	393
Benefit of tax exempt interest, net of interest expense exclusion	**(487)**	(553)
Tax benefit of earnings on cash surrender value of officers life insurance not taxable	**(86)**	(105)
Exercise of stock options	**(62)**	-
Other	**(81)**	20
	$ 4,447	$ 4,139

As of December 31, 2022 and 2021, the Company has not accrued or recognized interest or penalties related to uncertain tax positions. It is the Company’s policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company does not expect that unrecognized tax benefits will significantly increase or decrease within the next 12 months. Included in the balance at December 31, 2022 were approximately $15,273,000 of tax positions (deferred tax assets) for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company and its subsidiaries file income tax returns in the United States (“U.S.”), as well as in the State of Tennessee. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2019 which would include audits of acquired entities. The Company’s Federal tax returns have not been audited for several years and there have been no changes in the returns in prior audits.

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(13) COMMITMENTS AND CONTINGENCIES

The Company is party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the consolidated financial position.

The values of the Company's assets as reported in the consolidated financial statements are subject to the volatility in the financial markets; and accordingly, the ultimate realization may be subject to the condition of the U.S. economy and banking system in general.

The Company's subsidiary bank has lines of credit with other financial institutions. The lines of credit with other financial institutions totaled $55,000,000 at December 31, 2022 and 2021. At December 31, 2022 and 2021, there were no amounts outstanding under these lines of credit.

The Company leases branch and ATM space in Smith County, Tennessee, under operating leases with terms extending through 2023. Right-of-use ("ROU") assets and lease liabilities are recognized based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the remaining lease term to determine the present value of future lease payments when the rate implicit in the lease is not known.

At December 31, 2022 and 2021, lease expense totaled $40,000 and $10,000, respectively. At December 31, 2022, the weighted average remaining lease term was .28 years, and the weighted average discount rate was 5.80%.

ROU assets and lease liabilities for operating leases recognized on the Company's consolidated balance sheets included in other assets and other liabilities, respectively, were as follows at December 31, 2022 and 2021:

(In Thousands)	**2022**	2021
ROU	**$ 2**	$ 12
Lease liabilities	**$ 3**	$ 13

As of December 31, 2022, the lease liabilities of $3,000 will mature in 2023 and the remaining imputed interest is insignificant.

(14) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Notes to Consolidated Financial Statements
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The following table presents the Company's outstanding unfunded contractual financial instruments that represent credit risk at December 31, 2022 and 2021:

(In Thousands)	**Contract or Notional Amount 2022**	Contract or Notional Amount 2021
Financial instruments whose contract amounts represent credit risk:		
Unused commitments to extend credit	**$ 247,807**	$ 221,197
Standby letters of credit	**3,597**	5,996
Total	**$ 251,404**	$ 227,193

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees extend from one to two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

(15) CONCENTRATION OF CREDIT RISK

Substantially all of the Company's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Company's market area. Most all such customers are depositors of the subsidiary bank. Investment in state and municipal securities also include governmental entities within the Company's market area. Additional information regarding concentrations in securities are included in Note 3 to the consolidated financial statements. The concentrations of credit by type of loan are set forth in Note 2 to the consolidated financial statements.

At December 31, 2022 and 2021, the Company's cash and due from banks included commercial bank deposit accounts aggregating $12,119,000 and $11,985,000, respectively, in excess of the Federal Deposit Insurance Corporation limit of $250,000 per institution. Interest bearing deposits in financial institutions at December 31, 2022 and 2021 consist of the following:

(In Thousands)	**2022**	2021
Federal Reserve Bank	**$ 2,333**	$ 203,550
Federal Home Loan Bank	**4**	5,857
Certificates of deposit with other banks	**-**	1,245
	$ 2,337	$ 210,652

Deposits held at the Federal Reserve Bank and Federal Home Loan Bank are not insured by the Federal Deposit Insurance Corporation. All holdings of certificates of deposit with other banks are insured by the Federal Deposit Insurance Corporation up to the limit of $250,000 per institution.

(16) REGULATORY MATTERS AND RESTRICTIONS ON DIVIDENDS

The Company and its bank subsidiary are subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require the Company and its bank subsidiaries to maintain minimum amounts and ratios of total common equity Tier 1 and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined).

Management believes, as of December 31, 2022 and 2021, that the Company and the Bank subsidiary meet all capital adequacy requirements to which they are subject. The actual ratios of the Company and the Bank subsidiaries with the minimum capital requirements including the conservation buffer are as follows:

(In Thousands)	2022	2021	Minimum Requirement
Citizens Bancorp Investment, Inc.:			
Common Equity Tier 1 ratio	**12.54%**	12.76%	7.00%
Tier 1 ratio	**12.54%**	12.76%	8.50%
Total capital ratio	**13.69%**	13.96%	10.50%
Leverage ratio	**8.65%**	7.96%	4.00%
Citizens Bank:			
Common Equity Tier 1 ratio	**13.69%**	14.48%	7.00%
Tier 1 ratio	**13.69%**	14.48%	8.50%
Total capital ratio	**14.83%**	15.67%	10.50%
Leverage ratio	**9.47%**	8.93%	4.00%

As of December 31, 2022, the most recent notification from the banking regulators categorized the Company and its bank subsidiary as “well capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed such category for the Company or subsidiary bank.

The dividends paid by the Company are generally funded by dividends received by the Company from its bank subsidiary. The Company and its bank subsidiary are limited by law, regulation and prudence as to the amount of dividends it can pay. At December 31, 2022, the subsidiary bank is required to receive prior approval of the applicable regulatory agency prior to paying cash dividends in excess of $29,128,000. Actual dividends paid could be limited by restrictions by required debt service payments on notes payable as described in Note 9.

On October 1, 2022, the Company opened a targeted offering to issues shares as a price of $44. The offering resulted in the issuance of 7,111 shares for proceeds net of offering cost of $313,000. The offering was closed effective December 6, 2022.

(17) BANK OWNED LIFE INSURANCE AND DEFERRED COMPENSATION PLAN

The Company maintains bank-owned life insurance policies on the lives of several key employees for the purposes of financing the cost of employee benefits. The Company has committed a portion of the policy death benefits to be paid to the estate of each participant upon their death. The cash surrender value of these policies as of December 31, 2022 and 2021 was $20,264,000 and $19,823,000, respectively. The net non-cash income which is included in the above asset values was $441,000 and $472,000, respectively.

The Company has established various deferred compensation plans, which provide death and disability benefits for members of the Company's Board of Directors and select members of the Company's management team. Terms of the benefits vary based on the underlying agreements. The plans are not qualified under Section 401 of the Internal Revenue Code. At December 31, 2022 and 2021, deferred compensation liabilities related to these plans totaled $1,658,000 and $2,953,000, respectively, and are included in other liabilities on the consolidated balance sheets. Related expenses for the years ended December 31, 2022 and 2021 totaled $260,000 and $631,000, respectively. Total amount of benefits paid related to the plans totaled $1,555,000 and $701,000 for each of the years ended December 31, 2022 and 2021, respectively. The total amount of benefits paid related to the plans for the year ended December 31, 2022 included benefit payments of $1,513,000 related to a terminated plan. A similar plan was established during 2022 for certain officers paid out under the terminated plan.

The Company has purchased various deferred annuity investment contracts to fund the benefits under certain deferred compensation plan agreements. At December 31, 2022 and 2021, the outstanding investments in the annuity contracts totaled $3,686,000 and $3,802,000, respectively.

(18) EQUITY INCENTIVE PLAN

In February, 2018, the Board of Directors of the Company approved the Citizens Bancorp Investment, Inc. 2018 Incentive Plan (the "Plan"). The Plan provided for the granting of stock options, and authorized the issuance of common stock upon the exercise of such options, for up to 500,000 shares of common stock to employees, officers, directors and consultants of the Company and its affiliates.

Under the Plan, the stock option awards may be granted in the form of nonstatutory stock options, stock appreciation rights, restricted stock units, deferred stock units, performance awards and other stock-based awards. The stock option awards are exercisable for up to ten years following the date such option awards are granted. Exercise prices of stock option awards must be equal to or greater than the fair market value of the common stock on the grant date. As of December 31, 2022, the Company had 168,000 shares remaining available for issuance under the Plan.

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 volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The fair value of options granted was determined using the following weighted-average assumptions as of the grant date.

	2022	2021
Risk-free interest rate	**2.47%**	0.81%
Expected term	**7 years**	7 years
Expected stock price volatility	**10.00%**	10.00%
Dividend yield	**2.00%**	2.00%

A summary of the stock option activity for the years ended December 31, 2022 and 2021 is as follows:

	2022			2021		
	Shares	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price	
Outstanding at beginning of year	**348,400**	**$**	**18.80**	221,000	$	18.80
Granted	**20,000**		**44.00**	127,400		23
Exercised	**(12,800)**		**19.81**	-		-
Forfeited or expired	**(32,400)**		**22.16**	-		-
Outstanding at end of year	**323,200**	**$**	**21.64**	348,400	$	20.34
Options exercisable at year end	**181,480**	**$**	**19.20**	89,400	$	18.80

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The intrinsic value of options exercised and vested during the years ended December 31, 2022 and 2021 follows:

(In Thousands)	**2022**	2021
Intrinsic value of options exercised, net	**$ 217**	$ -
Intinsic value of vested options	**$ 1,205**	$ 1,153

The following tables summarize information about stock options for the year ended December 31, 2022:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding at December 31, 2022	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Number Exercisable at December 31, 2022	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
$18.75 - $45.00	**323,200**	**$ 21.64**	**6.27**	**181,480**	**$ 19.20**	**5.06**
Aggregate intrinsic value (in thousands)			**$ 6,014**			**$ 3,775**

Stock based compensation expense for the years ended December 31, 2022 and 2021 totaled $119,000 and $153,000, respectively. As of December 31, 2022, there was $177,000 of total unrecognized cost related to non-vested share-based compensation agreements granted under the Company's stock option plans. The cost is expected to be recognized over a weighted-average period of 2.37 years.

(19) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

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Valuation Hierarchy

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Assets

Securities available-for-sale and marketable equity securities - Where quoted prices are available for identical securities in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other financial products. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation and more complex pricing models or discounted cash flows are used, securities are classified within Level 3 of the valuation hierarchy.

Impaired loans - A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses or the expense is recognized as a charge-off. Impaired loans are classified within Level 3 of the hierarchy due to the unobservable inputs used in determining their fair value such as collateral values and the borrower's underlying financial condition.

Mortgage servicing rights – At each reporting date, mortgage servicing rights are reported at the fair value. Fair value is determined at a tranche level based on a market prices for comparable mortgage servicing contracts (Level 2), when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes interest rate, prepayment speeds, discount rate assumptions, cost to service, float earnings and ancillary income and late fees that market participants would use in estimating future net servicing income and can be validated against available market data.

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Other real estate owned - Other real estate owned "OREO" represents real estate foreclosed upon by the Company through loan defaults by customers or acquired in lieu of foreclosure. Substantially all of these amounts relate to lots, homes and development projects that are either completed or are in various stages of construction for which the Company believes it has adequate collateral. Upon foreclosure, the property is recorded at the lower of cost or fair value, based on appraised value, less selling costs estimated as of the date acquired with any loss recognized as a charge-off through the allowance for loan losses. Additional OREO losses for subsequent valuation downward adjustments are determined on a specific property basis and are included as a component of noninterest expense along with holding costs. Any gains or losses realized at the time of disposal are also reflected in noninterest expense, as applicable. OREO is included in Level 3 of the valuation hierarchy due to the lack of observable market inputs into the determination of fair value. Appraisal values are property-specific and sensitive to the changes in the overall economic environment.

The following tables present the financial instruments carried at fair value as of December 31, 2022 and 2021, by caption on the consolidated balance sheets and by FASB ASC 820 valuation hierarchy (as described above) (in thousands):

	Measured on a Recurring Basis			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Price in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2022				
Debt securities available-for-sale	**$ 404,344**	**$ -**	**$ 404,344**	**$ -**
Marketable equity securities	**69**	**69**	**-**	**-**
Mortgage servicing rights	**2,567**	**-**	**2,567**	**-**
Total	**$ 406,980**	**$ 69**	**$ 406,911**	**$ -**
December 31, 2021				
Debt securities available-for-sale	$ 370,307	$ -	$ 370,307	$ -
Marketable equity securities	92	92	-	-
Mortgage servicing rights	1,624	-	1,624	-
Total	$ 372,023	$ 92	$ 371,931	$ -

	Measured on a Non-Recurring Basis			
	Total Carrying Value in the Consolidated Balance Sheet	Quoted Market Price in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2022				
Impaired loans, net [(1)]	**$ 15,208**	**$ -**	**$ -**	**$ 15,208**
Total	**$ 15,208**	**$ -**	**$ -**	**$ 15,208**
December 31, 2021				
Other real estate owned	$ 40	$ -	$ -	$ 40
Impaired loans, net [(1)]	21,254	-	-	21,254
Total	$ 21,294	$ -	$ -	$ 21,294

[(1)] Amount is net of a valuation allowance of $59,000 and $632,000 at December 31, 2022 and 2021, respectively, as required by ASC 310-10 "*Accounting by Creditors for Impairment of a Loan*".

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

In the case of the bond portfolio, the Company monitors the valuation technique utilized by various pricing agencies to ascertain when transfers between levels have been affected. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the years ended December 31, 2022 and 2021, there were no transfers between Levels 1, 2 or 3.

The following table presents quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value at December 31, 2022 and 2021:

	Valuation Techniques (2)	Significant Unobservable Inputs	Range (Weighted Average)
Impaired loans	Appraisal	Estimated costs to sell	10%
Other real estate	Appraisal	Estimated costs to sell	10%

(2) Fair value is generally determined through independent appraisals of the underlying collateral, which may include Level 3 inputs that are not identifiable, or by using the discounted cash flow method if the loan is not collateral dependent.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows and borrower creditworthiness. The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2022 and 2021. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Loans - The fair value of our loan portfolio includes a credit risk factor in the determination of the fair value of our loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. Our loan portfolio is initially fair valued using a segmented approach. We divide our loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk to determine the exit price.

Deposits and Federal Home Loan Bank Advances - The carrying amounts of demand deposits and savings deposits approximate their fair values. Fair values for certificates of deposit and Federal Home Loan Bank advances are estimated using discounted cash flow models, using current market interest rates offered on certificates and advances with similar remaining maturities.

Off-Balance Sheet Instruments - The fair values of the Company's off-balance-sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value to the Company until such commitments are funded.

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

The following tables present the carrying amounts, estimated fair value and placement in the fair value hierarchy of the Company's financial instruments at December 31, 2022 and 2021. This tables exclude financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as noninterest bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

(In Thousands)	Carrying or Notional Amount	Estimated Fair Value [1]	Quoted Market Prices in an Active Market (Level 1)	Models with Significant Observable Market Parameters (Level 2)	Models with Significant Unobservable Market Parameters (Level 3)
December 31, 2022					
Financial assets:					
Loans, net	**$ 963,592**	**$ 850,559**	**$ -**	**$ -**	**$ 850,559**
Loans held for sale	**220**	**220**	**-**	**-**	**220**
Financial liabilities:					
Deposits	**1,281,465**	**1,282,782**	**-**	**-**	**1,282,782**
Notes payable	**12,170**	**11,715**	**-**	**-**	**11,715**
Advances from Federal Home Loan Bank	**70,196**	**68,109**	**-**	**-**	**68,109**
Off-balance sheet instruments:					
Commitments to extend credit	**-**	**-**	**-**	**-**	**-**
Standby letters of credit	**-**	**-**	**-**	**-**	**-**
December 31, 2021					
Financial assets:					
Loans, net	795,492	795,267	-	-	795,267
Loans held for sale	1,940	1,940	-	-	1,940
Financial liabilities:					
Deposits	1,300,402	1,302,138	-	-	1,302,138
Notes payable	14,271	14,277	-	-	14,277
Advances from Federal Home Loan Bank	22,900	23,501	-	-	23,501
Off-balance sheet instruments:					
Commitments to extend credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-

[1] Estimated fair values are consistent with an exit-price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would realize in a hypothetical orderly transaction.

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

(20) EARNINGS PER SHARE

Basic earnings per share is computed based upon the weighted average common shares outstanding during the year. Diluted earnings per share is computed using the weighted average common shares and all potential dilutive common shares outstanding during the year. Dilutive common shares consist entirely of stock options granted to employees, officers, and directors of the Company as further discussed in Note 18.

The factors used in the earnings per share computation are as follow:

(In Thousands, except share data)		**2022**		2021
Basic:				
Net earnings available to common shareholders	**$**	**18,641**	$	16,737
Weighted average common shares outstanding		**5,880,459**		5,872,200
Basic earnings per common share	**$**	**3.17**	$	2.85
Diluted:				
Net earnings available to common shareholders	**$**	**18,641**	$	16,737
Weighted average common shares outstanding		**5,880,459**		5,872,200
Dilutive effects of assumed exercises of stock options		**122,437**		94,780
Weighted average shares and dilutive potential common shares		**6,002,896**		5,966,980
Diluted earnings per common share	**$**	**3.11**	$	2.80

(21) PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Citizens Bancorp Investment, Inc. follows:

CONDENSED BALANCE SHEETS
DECEMBER 31,

(In Thousands)	2022	2021
ASSETS		
Cash and due from banks	$ **56**	$ 67
Investment in banking subsidiaries	**126,477**	147,890
Investment in other subsidiary	**101**	147
Goodwill	**2,366**	2,366
Deferred income taxes	**133**	109
Total assets	$ **129,133**	$ 150,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable	$ **12,170**	$ 14,271
Payable to subsidiary	**-**	8
Other liabilities	**6**	1
Total liabilities	**12,176**	14,280
Stockholders' equity	**116,957**	136,299
Total liabilities and stockholders' equity	$ **129,133**	$ 150,579

CONDENSED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31,

(In Thousands)	2022	2021
Income		
Dividends from subsidiaries	$ **6,050**	$ 5,300
Total income	**6,050**	5,300
Expenses		
Interest expense	**658**	608
Merger expense	**-**	18
Other expense	**358**	357
Total expenses	**1,016**	983
Earnings before income taxes and equity in undistributed earnings of subsidiaries	**5,034**	4,317
Income tax benefit	**343**	252

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,

(In Thousands)	**2022**	2021
Cash flows from operating activities:		
Fees and other income	**$ 6,050**	$ 5,300
Interest paid	**(657)**	(650)
Cash paid to suppliers and employees	**(243)**	(224)
Income taxes received (paid)	**319**	185
Net cash provided by operating activities	**5,469**	4,611
Cash flows from financing activities:		
Principal payments on notes payable	**(2,101)**	(1,835)
Issuance of 7,111 of common stock	**313**	-
Exercise of 12,800 stock options net of repurchase of 4,000 shares	**72**	-
Cash dividends paid	**(3,764)**	(3,523)
Net cash used in financing activities	**(5,480)**	(5,358)
Net decrease in cash and cash equivalents	**(11)**	(747)
Cash and cash equivalents at beginning of year	**67**	814
Cash and cash equivalents at end of year	**$ 56**	$ 67
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	**$ 18,641**	$ 16,737
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	**(13,264)**	(12,168)
Stock option compensation expense	**119**	153
Provision for deferred income taxes	**(24)**	(41)
Increase (decrease) in payable to subsidiary	**(8)**	(26)
Increase (decrease) in accrued expenses and other liabilities	**5**	(44)
Total adjustments	**(13,172)**	(12,126)
Net cash provided by operating activities	**$ 5,469**	$ 4,611

CORPORATE INFORMATION

Stock Listing
OTCQX
Ticker Symbol: CBTN

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