

CITIZENS BANCORP

# 2021

ANNUAL REPORT



**CITIZENS BANK**

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



[www.citizens-bank.org](http://www.citizens-bank.org)

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# LETTER TO SHAREHOLDERS

To Our Shareholders,

April 2022

For 2021, Citizens Bancorp Investment, Inc. recorded net income of \$16.7 million, an increase of 54% from 2020, and **a record for net income for your Company!** Earnings increased in 2021 compared to 2020 due to the addition of American Bank & Trust in late 2020, the recognition of the Paycheck Protection Program (PPP) loan fee income and \$2.2 million in gains on sale of secondary market mortgage loans. These income gains were offset somewhat as the Company incurred \$1.38 million in data processing costs in the third quarter of 2021 resulting from the merger of American Bank into Citizens Bank in August 2021.

Our return on average equity was 12.73% for 2021, and our return on average assets was 1.18%. Net interest income before loan loss provision increased 37% to \$45.8 million, non-interest income grew 53% to \$11.4 million, non-interest expense increased 34% to \$35.1 million and provision for loan losses decreased 16% to \$1.1 million. Net loan charge-offs in 2021 were 0.03% of average loans outstanding. We ended the year 2021 with \$136.3 million in capital, or 9.2% of total assets. We also had a strong allowance for loan losses at 1.32% of loans.

As mentioned above, the Company merged its subsidiary, American Bank & Trust (AB&T) into Citizens Bank in August 2021. AB&T added three offices in Cookeville and Livingston, Tennessee adding gross loans of approximately \$181 million and deposits of \$294 million to Citizens Bank. On December 31, 2021, Citizens Bancorp had assets of \$1.48 billion, an increase of 10.7% from 2020. Loans decreased 0.4% to \$809 million, and deposits increased 13.3% to \$1.3 billion. The economic stimulus efforts by the federal government over the past two years have continued to cause an inflow of deposits, and thus, liquidity into our bank. Our bank, like most banks in the country, has a significant amount of excess liquidity on the balance sheet that Management and our loan officers are working to redeploy into loans to new and existing customers.

The year 2022 presents a transition year for the Company. While the Bank originated \$57 million in Paycheck Protection Program (PPP) loans in 2020 and 2021, yielding almost \$4.7 million in future fee income, the program has now been discontinued by the U.S. Small Business Administration (SBA). Much of the fee income has now been recognized in earnings as the vast majority of the loans have been forgiven by the SBA. Our secondary market mortgage origination business generated \$2.2 million in gains on sale of mortgages to FNMA in 2021; however, recent and expected increases in interest rates by the Federal Reserve Bank have slowed the refinance boom. Current 30-year mortgage rates near 5% (as of this writing) have reduced mortgage application volumes; Management expects mortgage volume in 2022 will be driven by the purchase market. Consequently, Management has refocused our lending efforts on core loan growth.



We see new and renewed opportunities in the Putnam and Overton County markets with our acquisition of American Bank. While the banking market is very competitive there, our lenders enjoy an excellent reputation in those markets. Management is also focusing a renewed effort on Wilson County due to our solid loan base there and excellent growth prospects. Wilson County is one of the fastest growing counties in Tennessee, and Management expects to add experienced bankers to our team to take advantage of that growth. Middle Tennessee as a whole 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 5% by the end of 2022 may soften the growth in our trade area to some extent; however, Management and our Board of Directors remain bullish on the economic prospects for our communities and our bank.

Trading in our stock on OTCQX became a reality in the third quarter of 2021, and investors began to take advantage of the OTCQX stock listing service using the “ticker” symbol **CBTN**. Shareholders may now easily hold their shares in a brokerage account, buy and sell CBTN stock through their brokerage account and receive direct deposit of their dividends. As of the writing of this letter, the **most recent sale of CBTN occurred at \$44 per share**. Please contact us if you have questions on how to take full advantage of these services.

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



Peter G. Williston  
Chairman and Chief Executive Officer  
Citizens Bancorp Investment, Inc.



**CITIZENS BANK**

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

# ABOUT US



Citizens Bank of Lafayette, Tennessee, opened for business in 1909 with \$12,000 in capital provided by local investors. 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.

Citizens Bank operated from a single location until 1974 when it opened its first branch. The bank opened additional branches in 1977, 1987 and 2016. Along the way, we acquired the Bank of Celina, Tennessee in 1987; two branches in Carthage, Tennessee in 1993; and purchased a majority interest in Liberty State Bank in 1999. In 2009, Citizens Bank acquired another branch in Gainesboro, Tennessee, and in 2013, Citizens Bancorp merged Liberty into Citizens Bank. Subsequent acquisitions included Traders Bank, in Tullahoma, Tennessee in 2015, and American Bank & Trust of the Cumberlandands in Livingston, Tennessee in 2020.

In 2005, the bank had assets of \$279 million when long-time CEO Charlie Darnell retired. Joe Carter was named President and Peter Williston became CEO. Carter retired in 2019 and Tommy Anderton became President.

Recent efforts to transform our culture by creating a great working environment for our employees, instilling an attitude of service for our customers and establishing a community first culture have proven very successful. These efforts have created an even greater bank with almost \$1.5 billion in assets!



### COMMUNITY

We are the leaders in making our community a better place



### INTEGRITY

We always do the right thing



### RESPECT

We contribute to a fun, safe and respectful work environment



### LEADERSHIP

We have a "how can we" attitude

# OUR CORE VALUES



### TEAMWORK

We own our results and our customers' experience



### COMMUNICATION

We make timely, well-informed decisions



### GROWTH

We create significant value for shareholders



### SERVICE

We find great joy in helping our customers succeed





# MEETING THE NEEDS OF OUR COMMUNITY

Our role as bankers is to empower our community with resources – whether that’s capital, education, advice or simply safeguarding and managing one’s finances.

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.

While COVID-19 may have wreaked havoc on our nation’s economy, Citizens Bank has been here to help pick up the pieces and support our customers, small businesses and others who needed a champion in their corner.



# LAYING A STRONG FINANCIAL LITERACY FOUNDATION IN OUR COMMUNITIES

Citizens Bank's financial literacy programs and other financial education resources 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.

Our 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, 3-D 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*

## EXECUTIVE MANAGEMENT

Thomas E. Anderton  
*President/Chief Lending Officer*

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

Michael A. Edwards  
*EVP/Regional President – Wilson County Market*

Douglas L. Haehl  
*VP/Marketing*

Kevin L. Miller  
*EVP/Chief Information Officer*

Ryan T. Smith  
*EVP/Chief Retail Officer*

Susan F. Rogers  
*SVP/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  
Mary Ann Hamilton  
Linda S. Key  
Ryan T. Smith  
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  
James R. Montgomery  
Ryan T. Smith  
Peter G. Williston

### SMITH COUNTY

Kenneth R. Frye  
Jason L. Hall  
John E. McCall  
Patrick L. Nixon  
Ryan T. Smith  
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



### LIVINGSTON MAIN OFFICE

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

### COOKEVILLE NEAL STREET BRANCH

1450 Neal Street  
Cookeville, TN 38501  
(931) 526-48009

### COOKEVILLE WILLOW AVENUE BRANCH

123 North Willow Avenue  
Cookeville, TN 38501  
(931) 526-4800



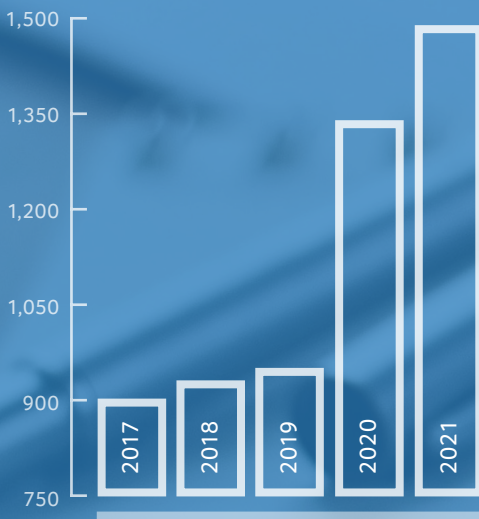
# SUMMARY FINANCIAL RESULTS

## HISTORICAL PERFORMANCE

### 2021 TOTAL ASSETS

(MILLIONS)

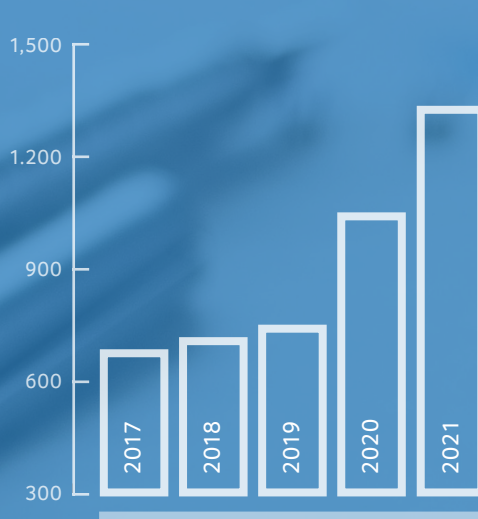
**\$1,481.1**



### 2021 TOTAL DEPOSITS

(MILLIONS)

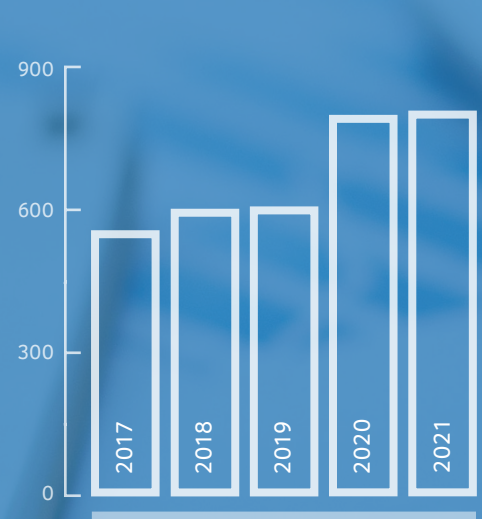
**\$1,300.4**



### 2021 GROSS LOANS

(MILLIONS)

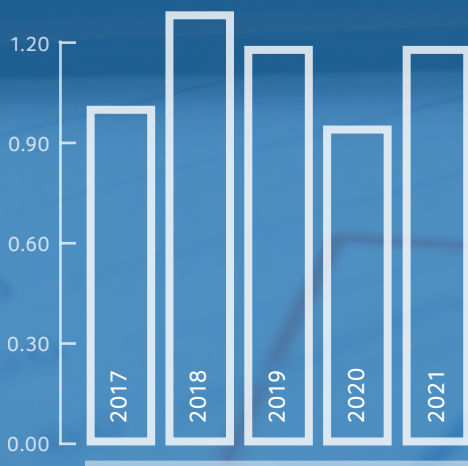
**\$806.2**



### 2021 RETURN ON AVERAGE ASSETS

(PERCENTAGE)

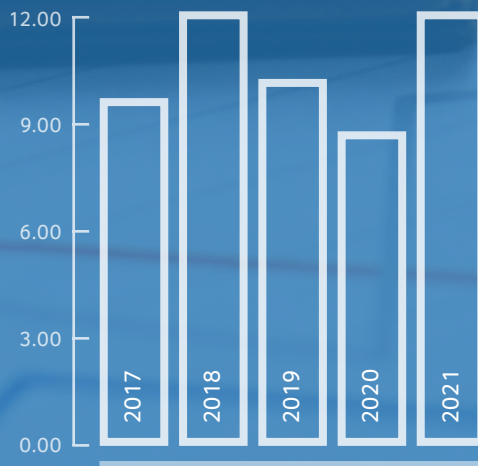
**1.18%**



### 2021 RETURN ON AVERAGE EQUITY

(PERCENTAGE)

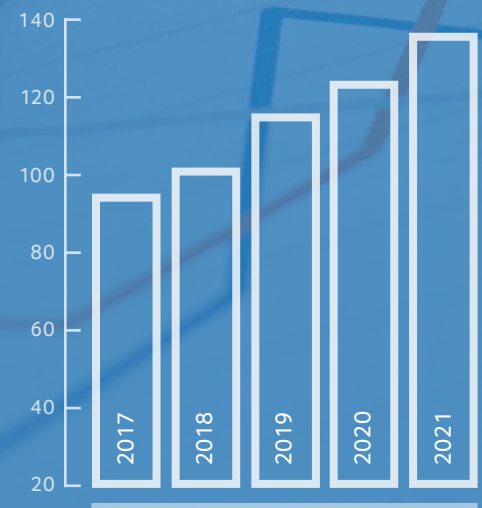
**12.67%**



### 2021 STOCKHOLDERS' EQUITY

(MILLIONS)

**\$136.3**





# FINANCIALS

**CITIZENS BANCORP INVESTMENT, INC.**  
**Lafayette, Tennessee**

*Consolidated Financial Statements*

**December 31, 2021 and 2020**

**(With Independent Auditor's Report Thereon)**



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  
 James M. Moorehead, CPA  
 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.:*

### ***Opinion***

We have audited the accompanying consolidated financial statements of Citizens Bancorp Investment, Inc. and its Subsidiaries (“the Company”), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of earnings, comprehensive earnings, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Consolidated Financial Statements***

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’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 Audit of the Consolidated Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

**Other Information Included in the Company's Annual Report**

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

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

**Other Information Included in the Company's Annual Report**

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

*Mazzari & Associates, P.C.*

Nashville, TN  
April 13, 2022



Consolidated Balance Sheets  
December 31, 2021 and 2020

<i>(In Thousands, except share data)</i>	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Loans, net of allowance for loan losses of \$10,716 and \$9,852, respectively	\$ 795,492	\$ 799,314
Loans held for sale	1,940	2,786
Debt securities, available-for-sale, at market (amortized cost \$367,689 and \$254,554, respectively)	370,307	262,363
Marketable equity securities, at market (cost \$39)	92	103
Restricted equity securities	4,124	4,124
Federal funds sold	1,000	1,000
Interest-bearing deposits in financial institutions	<u>210,652</u>	<u>170,785</u>
<i>Total earning assets</i>	<u>1,383,607</u>	<u>1,240,475</u>
Cash and due from banks	23,170	22,079
Premises and equipment, net	20,624	21,228
Accrued interest receivable	4,821	5,915
Cash surrender value of life insurance	19,823	20,344
Annuity investment	3,802	3,596
Refundable income taxes	459	451
Other real estate	40	40
Deferred income tax asset, net	871	-
Goodwill and intangible assets, net	20,171	19,795
Mortgage servicing rights	1,624	1,134
Other assets	<u>2,063</u>	<u>2,368</u>
<i>Total assets</i>	<u>\$ 1,481,075</u>	<u>\$ 1,337,425</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Non-interest-bearing demand deposits	\$ 277,085	\$ 209,011
Interest-bearing demand deposits	348,264	288,368
Money market accounts	63,564	58,630
Savings accounts	185,664	145,628
Certificates of deposit	349,546	367,213
Individual retirement accounts	<u>76,279</u>	<u>79,186</u>
<i>Total deposits</i>	<u>1,300,402</u>	<u>1,148,036</u>
Notes payable	14,271	16,106
Advances from the Federal Home Loan Bank	22,900	39,114
Accrued interest payable	1,147	1,740
Deferred income tax liability, net	-	125
Other liabilities	<u>6,056</u>	<u>5,538</u>
<i>Total liabilities</i>	<u>1,344,776</u>	<u>1,210,659</u>
Stockholders' equity:		
Common stock, Class A, par value \$0.05 per share, authorized 12,000,000 shares, 5,872,200 issued and outstanding	294	294
Additional paid-in capital	7,895	7,742
Retained earnings	126,176	112,962
Accumulated other comprehensive earnings, net of taxes of \$684 and \$2,041, respectively	<u>1,934</u>	<u>5,768</u>
<i>Total stockholders' equity</i>	<u>136,299</u>	<u>126,766</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<i>Total liabilities and stockholders' equity</i>	<u>\$ 1,481,075</u>	<u>\$ 1,337,425</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Earnings

Years Ended December 31, 2021 and 2020

<i>(In Thousands, except per share data)</i>	<u>2021</u>	<u>2020</u>
Interest income:		
Loans, including fees	\$ 45,306	\$ 35,512
Securities:		
Taxable	3,015	2,627
Tax-exempt	2,514	2,781
Federal funds sold and other	<u>311</u>	<u>214</u>
<i>Total interest income</i>	<b>51,146</b>	41,134
Interest expense:		
Interest-bearing demand deposit accounts	542	554
Money market accounts and savings accounts	345	329
Certificates of deposit	2,400	4,542
Individual retirement accounts	794	1,044
Federal Home Loan Bank advances	670	1,064
Notes payable and other	<u>608</u>	<u>228</u>
<i>Total interest expense</i>	<b>5,359</b>	7,761
Net interest income before provision for loan losses	45,787	33,373
Provision for loan losses	<u>1,141</u>	<u>1,358</u>
Net interest income after provision for loan losses	<b>44,646</b>	32,015
Non-interest income	11,366	7,329
Net gain on sales on available for sale securities	-	28
Non-interest expense	<u>(35,125)</u>	<u>(26,172)</u>
<i>Earnings before income taxes and unrealized holding loss     on marketable equity securities</i>	<b>20,887</b>	13,200
Unrealized holding loss on marketable equity securities	<b>(11)</b>	(4)
Income tax expense	<u>4,139</u>	<u>2,358</u>
<i>Net earnings</i>	<b>\$ 16,737</b>	<b>\$ 10,838</b>
Earnings per share:		
Basic	\$ 2.85	\$ 1.85
Diluted	\$ 2.80	\$ 1.84

See accompanying notes to consolidated financial statements.

*Consolidated Statements of Comprehensive Earnings*  
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<i>(In Thousands)</i>		
Net earnings	\$ 16,737	\$ 10,838
Other comprehensive earnings:		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) arising during the year	(5,190)	5,432
Reclassification adjustment for gains realized in net earnings	-	(28)
Net unrealized gains (losses)	<u>(5,190)</u>	<u>5,404</u>
Tax effect	<u>1,356</u>	<u>(1,413)</u>
<i>Other comprehensive earnings (loss) net of tax</i>	<u>(3,834)</u>	<u>3,991</u>
<i>Total comprehensive earnings</i>	<u>\$ 12,903</u>	<u>\$ 14,829</u>

See accompanying notes to consolidated financial statements.

*Consolidated Statements of Changes in Stockholders' Equity*  
Years Ended December 31, 2021 and 2020

<i>(In Thousands, except per share data)</i>	Class A Common Stock	Additional Paid- In Capital	Retained Earnings	Net Unrealized Gain (Loss) on Available-For- Sale Debt Securities	Stockholders' Equity
Balance, January 1, 2020	\$ 294	\$ 7,678	\$ 105,412	\$ 1,777	\$ 115,161
Net earnings for year	-	-	10,838	-	10,838
Stock option compensation	-	64	-	-	64
Net change in fair value of available-for-sale debt securities during the year, net of taxes of \$1,413	-	-	-	3,991	3,991
Cash dividends declared on 5,872,200 shares at \$0.56 per share	-	-	(3,288)	-	(3,288)
Balance, December 31, 2020	\$ 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 \$(1,357)	-	-	-	(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	<u>\$ 294</u>	<u>\$ 7,895</u>	<u>\$ 126,176</u>	<u>\$ 1,934</u>	<u>\$ 136,299</u>

See accompanying notes to consolidated financial statements.



*Consolidated Statements of Cash Flows*  
Years Ended December 31, 2021 and 2020  
Increase (Decrease) in Cash and Cash Equivalents

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Interest received	\$ 52,943	\$ 42,674
Proceeds from sale of loans held for sale	104,942	14,261
Origination of loans held for sale	(101,906)	(9,934)
Fees and other income	7,767	6,553
Interest paid	(7,872)	(8,500)
Cash paid to suppliers and employees	(33,574)	(24,364)
Income taxes paid	(3,560)	(2,884)
<i>Net cash provided by operating activities</i>	<u>18,740</u>	<u>17,806</u>
Cash flows from investing activities:		
Loans made to customers, net of repayments	3,568	(5,009)
Proceeds from sale of available-for-sale debt securities	-	7,229
Proceeds from calls, paydowns and maturities of available-for-sale debt securities	83,749	70,064
Purchase of available-for-sale debt securities	(198,484)	(90,819)
Cash received from acquisition, net of consideration	-	36,786
Proceeds from sale of premises and equipment and software	118	6
Purchase of premises and equipment and software	(716)	(1,249)
Proceeds from life insurance death benefits	1,451	-
Proceeds from annuity investment	58	42
Purchase of annuity investment	(250)	-
Proceeds from sale of other real estate	-	89
Proceeds from sale of repossessed assets	10	9
<i>Net cash provided by (used in ) investing activities</i>	<u>(110,496)</u>	<u>17,148</u>
Cash flows from financing activities:		
Net increase in interest-bearing and non-interest-bearing deposits	172,940	144,424
Net decrease in time deposits	(18,654)	(17,569)
Proceeds from advance of notes payable	-	13,000
Principal payments on notes payable	(1,835)	(734)
Repayment of advances from Federal Home Loan Bank	(16,214)	(20,860)
Cash dividends paid	(3,523)	(3,288)
<i>Net cash provided by financing activities</i>	<u>132,714</u>	<u>114,973</u>
Net increase in cash and cash equivalents	40,958	149,927
Cash and cash equivalents at beginning of year	<u>193,864</u>	<u>43,937</u>
Cash and cash equivalents at end of year	<u>\$ 234,822</u>	<u>\$ 193,864</u>

See accompanying notes to consolidated financial statements.

*Consolidated Statements of Cash Flows, Continued*  
**Years Ended December 31, 2021 and 2020**  
**Increase (Decrease) in Cash and Cash Equivalents**

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	\$ 16,737	\$ 10,838
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of premises and equipment and amortization of software	1,348	1,080
Provision for loan losses	1,141	1,358
Amortization and accretion of available-for-sale debt securities, net	1,600	1,867
Purchase accounting accretion and amortization, net	(2,524)	(16)
Stock option compensation expense	153	64
Net gain on sale of available-for-sale debt securities	-	(28)
Net loss (gain) on disposal of premises and equipment	(47)	17
Net loss on sale of other real estate owned	-	29
Net loss on sale of repossessed assets	-	1
Provision for deferred income taxes	653	(54)
Unrealized holding loss on marketable equity securities	11	4
Decrease in loans held for sale, net	846	3,964
Decrease (increase) in accrued interest receivable	1,094	(236)
Life insurance policy income	(930)	(336)
Annuity investment loss, net	11	2
Increase in refundable income taxes	(74)	(472)
Increase in mortgage servicing rights, net	(490)	(79)
Decrease (increase) in other assets	206	(499)
Decrease in accrued interest payable	(593)	(571)
Increase (decrease) in accrued expenses and other liabilities	(402)	873
<i>Total adjustments</i>	<u>2,003</u>	<u>6,968</u>
 <i>Net cash provided by operating activities</i>	 <u>\$ 18,740</u>	 <u>\$ 17,806</u>

**Supplemental Schedule of Non-Cash Activities:**

Change in unrealized gain on available-for-sale debt securities, net of taxes of \$(1,357) and \$1,413, respectively	\$ (3,834)	\$ 3,991
Loans transferred to other real estate	\$ -	\$ 164
Loans transferred to repossessed assets	\$ 10	\$ 2
Other real estate transferred to loans	\$ -	\$ 28
Measurement period adjustments	\$ 669	\$ -

*See accompanying notes to consolidated financial statements.*

*Notes to Consolidated Financial Statements*  
December 31, 2021 and 2020**(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, American Bank & Trust of the Cumberland 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.

On December 1, 2020, the Company acquired all assets of American Bancshares Corp. and its 100% subsidiary, American Bank & Trust of the Cumberland (see Note 20 to the consolidated financial statements for a description of the transaction). Effective August 20, 2021, American Bank & Trust of the Cumberland 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.

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020**(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, Continued*  
December 31, 2021 and 2020

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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.

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**(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.

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**(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.

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*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

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(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, Continued*  
December 31, 2021 and 2020

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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.

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**(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.

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**(i) Interest-Bearing Deposits in Financial Institutions**

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

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**(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.

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**(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.

Prior to 2021, the Company measured its mortgage servicing rights using the amortization method, whereby servicing rights were amortized in proportion to and over the period of estimated net servicing

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

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income. The amortized assets were assessed for impairment or increased obligation based on fair value at each reporting period. Beginning January 1, 2021, the Company adopted the fair value measurement method. No adjustment was made due to the change in accounting method as the mortgage servicing rights were recorded at fair value at December 31, 2020.

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.

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**(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.

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**(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 December 31 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.

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**(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.

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*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

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**(o) Advertising Costs**

Advertising costs are expensed as incurred and totaled \$355,000 and \$294,000 in 2021 and 2020, respectively.

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**(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.

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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

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

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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.

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**(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.

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**(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.

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**(t)** *Subsequent Events*

The Company has evaluated all subsequent events or transactions for recognition or disclosure through April 13, 2022, the date the consolidated financial statements were available to be issued.

On January 19, 2022, the Company declared a \$0.16 per share dividend for shareholders of record on January 26, 2022 payable February 2, 2022.

Subsequent to December 31, 2021, the Company's available-for-sale debt securities portfolio has recorded an unrealized loss of approximately \$17,474,000, net of taxes of \$6,183,000. The Company has the ability and intent to hold these securities for a period sufficient to allow for a recovery in fair value and does not anticipate realizing any losses on these securities.

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**(u)** *Reclassifications*

Certain reclassifications have been made to the 2020 figures to conform to the presentation for 2021.

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**(v)** *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.

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

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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.

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**(w) 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. Prior periods have not and will not be restated and continue to be presented under



*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

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legacy generally accepted accounting principles. Disclosures about the Company's leasing activities are presented in Note 13.

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(x) *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 evaluating the impact of this new accounting standard on the consolidated financial statements.

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(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.

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.

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

Loans and allowance for loan losses at December 31, 2021 and 2020 are summarized as follows:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Commercial and agriculture	\$ 71,933	\$ 92,053
Real estate:		
Commercial	226,144	192,635
Farming	60,739	70,885
Residential	274,935	281,210
Construction and land development	83,638	82,199
Multifamily	34,009	24,878
Consumer and other	<u>54,908</u>	<u>65,438</u>
	806,306	809,298
Less unearned interest	(98)	(132)
Less allowance for loan losses	<u>(10,716)</u>	<u>(9,852)</u>
Total	<u>\$ 795,492</u>	<u>\$ 799,314</u>

Deferred loan fees totaling \$394,000 and \$740,000 are included in the above loan balances as of December 31, 2021 and 2020, 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, 2021, variable rate and fixed rate loans totaled \$298,843,000 and \$507,463,000, respectively. At December 31, 2020, variable rate and fixed rate loans totaled \$290,943,000 and \$518,355,000, 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, 2021 and 2020, the aggregate amount of these loans was \$624,000 and \$1,876,000, respectively. None of these loans were restructured, charged-off or involved more than the normal risk of collectability or presented other unfavorable features.

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

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Balance, January 1	\$ 1,876	\$ 2,280
New loans, advances, and renewals during the year	624	6,596
Repayment (including loans paid by renewal) during the year	<u>(1,876)</u>	<u>(7,000)</u>
Total	<u>\$ 624</u>	<u>\$ 1,876</u>

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

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 and \$31,093,000 in PPP loans during 2021 and 2020, respectively. At December 31, 2021 and 2020, the Company had 74 and 472 PPP loans outstanding with principal balances totaling \$2,868,000 and \$17,713,000, respectively, that 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 \$3,704,000 and \$842,000 of net fee income on the PPP loan originations during 2021 and 2020, respectively.

Transactions in the allowance for loan losses for the years ended December 31, 2021 and 2020 are summarized as follows:

<i>(In Thousands)</i>	Commercial and Agricultural	Commercial Real Estate	Farming Real Estate	Residential Real Estate	Construction and Land Development	Multifamily Real Estate	Consumer and Other	Total
<b>December 31, 2021:</b>								
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	<u>\$ 918</u>	<u>\$ 2,589</u>	<u>\$ 1,283</u>	<u>\$ 2,896</u>	<u>\$ 1,053</u>	<u>\$ 361</u>	<u>\$ 1,616</u>	<u>\$ 10,716</u>
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	<u>\$ 918</u>	<u>\$ 2,589</u>	<u>\$ 1,283</u>	<u>\$ 2,896</u>	<u>\$ 1,053</u>	<u>\$ 361</u>	<u>\$ 1,616</u>	<u>\$ 10,716</u>
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	<u>\$ 71,933</u>	<u>\$ 226,144</u>	<u>\$ 60,739</u>	<u>\$ 274,935</u>	<u>\$ 83,638</u>	<u>\$ 34,009</u>	<u>\$ 54,908</u>	<u>\$ 806,306</u>
<b>December 31, 2020:</b>								
Beginning balance	\$ 795	\$ 1,477	\$ 1,814	\$ 2,452	\$ 659	\$ 126	\$ 1,641	\$ 8,964
Provision	122	809	(254)	604	173	92	(188)	1,358
Charge-offs	(105)	(35)	-	(52)	-	-	(692)	(884)
Recoveries	47	5	-	15	-	-	347	414
Total	<u>\$ 859</u>	<u>\$ 2,256</u>	<u>\$ 1,560</u>	<u>\$ 3,019</u>	<u>\$ 832</u>	<u>\$ 218</u>	<u>\$ 1,108</u>	<u>\$ 9,852</u>
Allowances:								
Impaired loans	\$ 42	\$ -	\$ 808	\$ -	\$ -	\$ -	\$ -	\$ 850
Acquired with credit impairment	-	-	-	-	-	-	-	-
Pooled	817	2,256	752	3,019	832	218	1,108	9,002
Total	<u>\$ 859</u>	<u>\$ 2,256</u>	<u>\$ 1,560</u>	<u>\$ 3,019</u>	<u>\$ 832</u>	<u>\$ 218</u>	<u>\$ 1,108</u>	<u>\$ 9,852</u>
Loans:								
Loans individually evaluated for impairment	\$ 1,747	\$ 6,567	\$ 17,457	\$ 4,316	\$ 343	\$ -	\$ 34	\$ 30,464
Acquired with credit impairment	-	49	-	70	165	-	-	284
Loans collectively evaluated for impairment	90,306	186,019	53,428	276,824	81,691	24,878	65,404	778,550
Total	<u>\$ 92,053</u>	<u>\$ 192,635</u>	<u>\$ 70,885</u>	<u>\$ 281,210</u>	<u>\$ 82,199</u>	<u>\$ 24,878</u>	<u>\$ 65,438</u>	<u>\$ 809,298</u>

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

Impaired loans and related allowance for loan loss allocation amounts at December 31, 2021 and 2020 were as follows:

(In Thousands)	Impaired Loans With Allowance			Impaired Loans With No Allowance	
	Principal Balance	Recorded Investment	Allocated Allowance for Loan Losses	Principal Balance	Recorded Investment
<b>December 31, 2021:</b>					
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	<u>\$ 1,419</u>	<u>\$ 1,482</u>	<u>\$ 632</u>	<u>\$ 19,896</u>	<u>\$ 20,404</u>
<b>December 31, 2020:</b>					
Commercial and agriculture	\$ 498	\$ 511	\$ 42	\$ 1,249	\$ 1,292
Real estate:					
Commercial	-	-	-	6,567	6,591
Farming	2,297	2,297	808	15,160	15,401
Residential	-	-	-	4,316	4,352
Construction and land development	-	-	-	343	345
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	34	35
Total	<u>\$ 2,795</u>	<u>\$ 2,808</u>	<u>\$ 850</u>	<u>\$ 27,669</u>	<u>\$ 28,016</u>

The average recorded investment in impaired loans for the years ended December 31, 2021 and 2020 was \$24,211,000 and \$30,258,000, respectively. The related total amount of interest income recognized for the period that such loans were impaired was \$968,000 and \$1,344,000 for 2021 and 2020, 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.

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

The following table summarizes the carrying balances of TDRs at December 31, 2021 and 2020:

<i>(Dollars In Thousands)</i>	<u>2021</u>	<u>2020</u>
Performing TDRs	\$ 804	\$ 633
Nonperforming TDRs	<u>1,794</u>	<u>3,636</u>
Total TDRs	<u>\$ 2,598</u>	<u>\$ 4,269</u>

The following table outlines the amount of each troubled debt restructuring categorized by loan classification during the years ended 2021 and 2020 (dollars in thousands):

	<u>December 31, 2021</u>			December 31, 2020		
	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	Number of Contracts
Commercial and agricultural	-	-	-	-	-	-
Real estate:						
Commercial	-	-	-	1	4,251	3,560
Farming	-	-	-	-	-	-
Residential	<b>1</b>	<b>88</b>	<b>88</b>	3	17	16
Construction and land development	-	-	-	1	5	5
Multifamily	-	-	-	-	-	-
Consumer and other	<u>1</u>	<u>149</u>	<u>149</u>	<u>6</u>	<u>32</u>	<u>30</u>
Total	<u>2</u>	<u>\$ 237</u>	<u>\$ 237</u>	<u>11</u>	<u>\$ 4,305</u>	<u>\$ 3,611</u>

During the years ended 2021 and 2020, 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, 2021, the Company had 447 loans with outstanding principal balances totaling \$70,015,000 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.



*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

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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, 2021 and 2020:

- **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 position. 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.

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

The following tables break down the Company's credit quality indicators by type of loan as of December 31, 2021 and 2020:

<i>(In Thousands)</i>	Commercial and Agricultural	Commercial Real Estate	Farming Real Estate	Residential Real Estate	Construction and Land Development	Multifamily Real Estate	Consumer and Other	Total
<b>December 31, 2021</b>								
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	<u>\$ 71,933</u>	<u>\$ 226,144</u>	<u>\$ 60,739</u>	<u>\$ 274,935</u>	<u>\$ 83,638</u>	<u>\$ 34,009</u>	<u>\$ 54,908</u>	<u>\$ 806,306</u>
<b>December 31, 2020</b>								
Grade								
Pass	\$ 88,330	\$ 162,209	\$ 48,011	\$ 257,698	\$ 77,579	\$ 21,436	\$ 64,144	\$ 719,407
Special Mention	1,085	23,064	5,392	9,875	3,498	3,442	480	46,836
Substandard	2,638	7,362	17,482	13,637	1,122	-	814	43,055
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	<u>\$ 92,053</u>	<u>\$ 192,635</u>	<u>\$ 70,885</u>	<u>\$ 281,210</u>	<u>\$ 82,199</u>	<u>\$ 24,878</u>	<u>\$ 65,438</u>	<u>\$ 809,298</u>

The following tables provide an aging analysis of the Company's past due loans as of December 31, 2021 and 2020:

<i>(In Thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days or Non-Accrual	Total Past Due and Non-Accrual	Total Current Loans	Total Current Loans	Total Current Loans	Recorded Investment Past Due > 90 Days and Still Accruing
<b>December 31, 2021</b>								
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	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	786
Total	<u>\$ 3,126</u>	<u>\$ 534</u>	<u>\$ 9,003</u>	<u>\$ 12,663</u>	<u>\$ 793,643</u>	<u>\$ 806,306</u>	<u>\$ 1,271</u>	<u>\$ 1,271</u>
<b>December 31, 2020</b>								
Commercial and agricultural	\$ 572	\$ 10	\$ 305	\$ 887	\$ 91,166	\$ 92,053	\$ 12	\$ 12
Real estate:								
Commercial	689	60	3,681	4,430	188,205	192,635	-	-
Farming	718	-	4,208	4,926	65,959	70,885	-	-
Residential	2,254	673	2,280	5,207	276,003	281,210	85	85
Construction and land development	707	-	534	1,241	80,958	82,199	-	-
Multifamily	75	-	-	75	24,803	24,878	-	-
Consumer and other	1,153	639	846	2,638	62,800	65,438	514	514
Total	<u>\$ 6,168</u>	<u>\$ 1,382</u>	<u>\$ 11,854</u>	<u>\$ 19,404</u>	<u>\$ 789,894</u>	<u>\$ 809,298</u>	<u>\$ 611</u>	<u>\$ 611</u>

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

Nonaccrual loans by type of loan as of December 31, 2021 and 2020:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Commercial and agricultural	\$ 158	\$ 293
Real estate:		
Commercial	1,755	3,681
Farming	2,912	4,208
Residential	2,114	2,197
Construction and land development	489	534
Multifamily	-	-
Consumer and other	<u>296</u>	<u>349</u>
Total	<u>\$ 7,724</u>	<u>\$ 11,262</u>

Had interest income been recognized on nonaccrual loans in 2021 and 2020, net earnings would have increased by approximately \$511,000 and \$551,000, respectively.

At December 31, 2021, the category of “Greater than 90 Days or Nonaccrual” loans of \$9,003,000 includes \$764,000 of student loans purchased which are guaranteed at approximately 98%. The Company typically continues recognizing interest on such loans due to the guarantees.

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, 2021 and 2020:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Commercial and agricultural	\$ -	\$ -
Real estate:		
Construction and land development	190	214
Commercial real estate	47	65
Residential real estate	<u>50</u>	<u>89</u>
Total outstanding balance	287	368
Less remaining purchase discount	<u>64</u>	<u>84</u>
	223	284
Allowance for loan losses	-	-
Carrying amount, net of allowance	<u>\$ 223</u>	<u>\$ 284</u>

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, 2021 and 2020:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Balance as of January 1,	\$ 68	\$ 84
Accretion income	(20)	(65)
Reclassification from nonaccretable	<u>10</u>	<u>49</u>
Balance at December 31,	<u>\$ 58</u>	<u>\$ 68</u>

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

## (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, 2021 and 2020 were as follows:

<i>(In Thousands)</i>	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Estimated Market Value</i>
<b>December 31, 2021</b>				
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
Collateralized mortgage obligations	373	1	-	374
	<u>\$ 367,688</u>	<u>\$ 4,768</u>	<u>\$ 2,149</u>	<u>\$ 370,307</u>
<b>December 31, 2020</b>				
U.S. Treasury and other U.S. government agencies and corporations	\$ 45,200	\$ 732	\$ 161	\$ 45,771
Obligations of state and political subdivisions	119,368	4,158	16	123,510
Residential mortgage-backed securities	86,627	2,884	2	89,509
Commercial mortgage-backed securities	3,108	212	-	3,320
Corporate and other securities	251	2	-	253
	<u>\$ 254,554</u>	<u>\$ 7,988</u>	<u>\$ 179</u>	<u>\$ 262,363</u>

The amortized cost and estimated market value of debt securities at December 31, 2021 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.

<i>(In Thousands)</i>	<i>Amortized Cost</i>	<i>Estimated Market Value</i>
Due in one year or less	\$ 1,744	\$ 1,762
Due after one year through five years	58,648	59,171
Due after five years through ten years	58,370	59,061
Due after ten years	54,828	55,946
Residential and commercial mortgage-backed securities	193,725	193,993
Collateralized mortgage obligations	373	374
	<u>\$ 367,688</u>	<u>\$ 370,307</u>

The results of sales of available-for-sale debt securities for the years ended December 31, 2021 and 2020 are as follows:

<i>(In Thousands)</i>	<b>2021</b>	<b>2020</b>
Proceeds	\$ -	\$ 7,229
Gross gains	-	32
Gross losses	-	(4)
Net gain	<u>\$ -</u>	<u>\$ 28</u>

There were no sales of marketable equity securities during 2021 or 2020.

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

Investment securities carried in the balance sheet at \$128,974,000 and \$83,459,000, respectively (amortized cost \$127,484,000 and \$80,642,000), as of December 31, 2021 and 2020, 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, 2021 and 2020:

	<i>In Thousands, Except Number of Securities</i>						Total	
	Less than 12 Months			12 Months or More				
	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
<b>December 31, 2021</b>								
U.S. Treasury and other U.S. Government 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-securities	126,347	1,324	29	-	-	-	126,347	1,324
Commercial mortgage-backed securities	11,916	36	3	-	-	-	11,916	36
Collateralized mortgage obligations	-	-	-	-	-	-	-	-
Total temporarily impaired securities	<u>\$ 188,334</u>	<u>\$ 1,864</u>	<u>55</u>	<u>\$ 10,660</u>	<u>\$ 285</u>	<u>10</u>	<u>\$ 198,994</u>	<u>\$ 2,149</u>
<b>December 31, 2020</b>								
U.S. Treasury and other U.S. Government and corporations	\$ 10,956	\$ 133	8	\$ 2,560	\$ 28	7	\$ 13,516	161
Obligations of states and political subdivisions	1,016	10	1	346	6	1	1,362	16
Residential mortgage-securities	-	-	-	521	2	2	521	2
Commercial mortgage-backed securities	-	-	-	-	-	-	-	-
Corporate and other securities	-	-	-	-	-	-	-	-
Total temporarily impaired securities	<u>\$ 11,972</u>	<u>\$ 143</u>	<u>9</u>	<u>\$ 3,427</u>	<u>\$ 36</u>	<u>10</u>	<u>\$ 15,399</u>	<u>\$ 179</u>

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.

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020**(4) RESTRICTED EQUITY SECURITIES**

Restricted equity securities consist of stock of the Federal Home Loan Bank and Westport Life Insurance. The FHLB stock totaled \$4,119,000 at December 31, 2021 and 2020. 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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 3,404	\$ 3,415
Buildings and improvements	23,689	23,740
Furniture, fixtures and equipment	13,684	13,226
Vehicles	431	355
	<u>41,208</u>	<u>40,736</u>
Less accumulated depreciation	<u>(20,584)</u>	<u>(19,508)</u>
	<u>\$ 20,624</u>	<u>\$ 21,228</u>

Depreciation and amortization expense totaled \$1,244,000 and \$974,000 for the years ended December 31, 2021 and 2020, respectively.

**(6) MORTGAGE SERVICING RIGHTS**

Mortgage loans serviced for others are not reported as assets. The principal balance of these loans was \$246,166,000 at December 31, 2021 and \$208,067,000 at December 31, 2020.

The related mortgage servicing rights activity for the years ended December 31, 2021 and 2020 is as follows:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Beginning of year	\$ 1,134	\$ -
Acquired December 1, 2020	-	1,055
Additions	597	193
Disposals	(183)	(60)
Change in fair value due to changes in valuation model inputs or assumptions	<u>76</u>	<u>(54)</u>
End of year	<u>\$ 1,624</u>	<u>\$ 1,134</u>

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.

Fair value at December 31, 2020 was determined by using weighted average discount rates ranging from 4.21% to 7.75% and prepayment speeds ranging from 9.80% to 44.15%, depending on the stratification of the specific right.



Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

(7) GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill during the years ended December 31, 2021 and 2020 were as follows:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Balance at January 1,	\$ 17,670	\$ 6,820
Goodwill acquired during the year	-	10,850
Measurement period adjustments	669	-
Impairment loss	-	-
Balance at December 31,	<u>\$ 18,339</u>	<u>\$ 17,670</u>

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 and are reflected in Note 20.

*Acquired Intangible Assets:*

Acquired intangible assets for the years ended December 31, 2021 and 2020 were as follows:

<i>(In Thousands)</i>	<u>2021</u>		<u>2020</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:				
Core deposit intangibles	\$ 4,402	\$ 2,570	\$ 4,402	\$ 2,277
Amortization expense		\$ 293		\$ 243

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, 2021 and then thereafter is as follows:

<i>(In Thousands)</i>	
2022	\$ 293
2023	293
2024	279
2025	126
2026	126
Thereafter	715
	<u>\$ 1,832</u>

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020**(8) DEPOSITS**

Principal maturities of certificates of deposit and individual retirement accounts at December 31, 2021 are as follows:

(In Thousands)

2022	\$	289,571
2023		67,897
2024		30,002
2025		21,054
2026		17,301
	\$	<u>425,825</u>

At December 31, 2021 and 2020, certificates of deposit and individual retirement accounts in denominations of \$250,000 or more amounted to \$117,705,000 and \$106,400,000, respectively.

The aggregate amount of overdrafts reclassified as loans receivable was \$429,000 and \$396,000 at December 31, 2021 and 2020, respectively.

Deposits from principal officers, directors, and their affiliates at December 31, 2021 and 2020 totaled \$21,074,000 and \$20,422,000, 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, 2021 or 2020.

**(9) NOTES PAYABLE**

To supplement capital needs, the Company has issued debt at the parent company level. Notes payable at December 31, 2021 and 2020 consist of the following:

(In Thousands)

	<u>2021</u>	<u>2020</u>
4.10% note due in quarterly installments of principal and interest totaling \$213 with a maturity date of March 5, 2025	\$ 2,171	\$ 3,106
4.00% note due in quarterly installments of \$113 plus interest with a maturity date of December 1, 2025	4,050	4,500
Variable rate note ( <i>The Wall Street Journal</i> prime rate plus 0.50%) with interest payable quarterly and principal due at maturity, December 1, 2022	4,000	4,000
Variable rate note ( <i>The Wall Street Journal</i> prime rate plus 0.50%) due in quarterly installments of \$113 plus interest and a maturity date of December 1, 2025	4,050	4,500
	<u>\$ 14,271</u>	<u>\$ 16,106</u>

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

Estimated principal maturities of the notes payable at December 31, 2021 are as follows:

<i>(In Thousands)</i>	
2022	\$ 5,676
2023	1,709
2024	1,486
2025	5,400
	<u>\$ 14,271</u>

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.

(10) ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank maintains a line of credit with the Federal Home Loan Bank in the amount of \$136,014,000. As of December 31, 2021 and 2020, advances under this line of credit consist of the following:

<i>(In Thousands)</i>	<u>2021</u>		<u>2020</u>	
	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
Fixed rate advances	\$ 22,900	2.24%	\$ 39,114	2.19%
Variable rate advances	\$ -	-%	-	-%

Required future principal payments on FHLB advances are as follows:

<i>(In Thousands)</i>	
2022	\$ 6,692
2023	3,267
2024	3,570
2025	2,178
2026	2,127
Thereafter	5,066
	<u>\$ 22,900</u>

First and junior mortgage residential real estate loans, HELOC, commercial real estate loans, multifamily loans and loans secured by farmland totaling \$597,602,000 are pledged to the FHLB as collateral for these advances at December 31, 2021.

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020**(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, 2021 and 2020 are presented below. Items outside the scope of ASC 606 are noted as such.

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Non-interest income:		
Debit and ATM card income	\$ 3,742	\$ 2,811
Service charges and overdraft fees on deposits	2,883	2,978
Gain on sale of loans held for sale <sup>(1)</sup>	2,190	646
Earnings on bank owned life insurance and annuity contracts, net <sup>(1)</sup>	919	334
Mortgage servicing fee income <sup>(1)</sup>	578	44
Change in fair value of mortgage servicing rights <sup>(1)</sup>	490	79
Net gain on disposal of premises and equipment <sup>(1)</sup>	47	-
Brokers fee income	45	88
Other fees and commissions <sup>(2)</sup>	472	349
	<u>\$ 11,366</u>	<u>\$ 7,329</u>
Non-interest expense:		
Employee salaries and benefits	\$ 20,054	\$ 15,030
Data processing	3,689	1,221
Occupancy expenses	1,900	1,479
Debit card and ATM expense	1,634	1,268
Furniture and equipment expenses	1,309	1,118
Professional fees	915	1,681
FDIC insurance and state banking fees	715	420
Telephone and communications	551	466
Director and committee fees	450	418
Supplies	446	383
Advertising	355	294
Postage	341	240
Amortization of core deposit intangibles	293	243
Net loss on sale of other real estate	-	29
Net loss on disposal of premises and equipment	-	17
Other real estate expense	-	4
Net loss on sale of repossessed assets	-	1
Other operating expenses	2,473	1,860
	<u>\$ 35,125</u>	<u>\$ 26,172</u>

<sup>(1)</sup> Not within the scope of ASC 606.

<sup>(2)</sup> Other fees and commissions includes insurance commissions income totaling \$90,000 and \$50,000, respectively, which is within the scope of ASC 606; the remaining \$382,000 and \$299,000, respectively, represents various one time transaction fees and miscellaneous income, which are outside the scope of ASC 606

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

(12) INCOME TAXES

The components of the net deferred tax asset (liability) at December 31, 2021 and 2020 are as follows:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Deferred tax asset:		
Federal	\$ 2,972	\$ 3,153
State	894	953
	<u>3,866</u>	<u>4,106</u>
Deferred tax liability:		
Federal	(2,316)	(3,240)
State	(679)	(991)
	<u>(2,995)</u>	<u>(4,231)</u>
Net deferred tax asset (liability)	<u>\$ 871</u>	<u>\$ (125)</u>

The tax effects of each type of significant item that gave rise to deferred taxes at December 31, 2021 and 2020 are as follows:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Financial statement allowance for loan losses in excess of tax allowance	\$ 2,735	\$ 2,509
Financial statement deduction for deferred compensation in excess of deduction for tax purposes	772	556
Stock options compensation expense not recognized for tax purposes	108	69
Excess of depreciation deducted for tax purposes over amounts deducted in the financial statements	(1,085)	(1,102)
Income on FHLB stock dividends not recognized for tax purposes	(83)	(83)
Amortization of core deposit intangibles	(174)	(180)
Income on mortgage servicing rights not recognized for tax purposes	(425)	(355)
Acquisition fair value adjustments not recognized for tax purposes	251	972
Purchased goodwill amortized for tax purposes	(530)	(453)
Unrealized gain on debt securities available-for-sale	(684)	(2,041)
Unrealized gain on marketable equity securities	(14)	(17)
	<u>\$ 871</u>	<u>\$ (125)</u>



*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

The components of income tax expense (benefit) for the years ended December 31, 2021 and 2020 are summarized as follows:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Current:		
Federal	\$ 3,148	\$ 2,210
State	<u>338</u>	<u>202</u>
	<u>3,486</u>	<u>2,412</u>
Deferred:		
Federal	494	(12)
State	<u>159</u>	<u>(42)</u>
	<u>653</u>	<u>(54)</u>
	<u>\$ 4,139</u>	<u>\$ 2,358</u>

A reconciliation of actual income taxes in the consolidated statements of earnings with the "expected" tax expense (computed by applying the statutory federal income tax of 21% to earnings before income taxes) is as follows:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Computed "expected" federal tax expense	\$ 4,384	\$ 2,771
State income taxes, net of benefit of state tax deduction for federal tax purposes	393	136
Benefit of tax exempt interest, net of interest expense exclusion	(553)	(584)
Tax benefit of earnings on cash surrender value of officers life insurance not taxable	(105)	(71)
Merger related expenses not deductible for tax purposes	4	91
Other	<u>16</u>	<u>15</u>
	<u>\$ 4,139</u>	<u>\$ 2,358</u>

As of December 31, 2021 and 2020, 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, 2021 were approximately \$3,866,000 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 2018 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.

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

**(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.

A preliminary complaint has been filed against the Company that purports to represent a class. Management disagrees with the allegations and has and will vigorously defend the Company's 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 and \$60,600,000 at December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, 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. As of December 31, 2021, ROU assets and lease liabilities for operating leases recognized on the Company's consolidated balance sheets totaled \$12,000 and \$13,000, respectively, and are included in other assets and other liabilities, respectively.

As of December 31, 2021, maturities of remaining lease liabilities are as follows:

*(In Thousands)*

2022	\$	11
2023		<u>2</u>
Total payments		13
Less: imputed interest		<u>-</u>
Present value of lease liabilities	\$	<u>13</u>

At December 31, 2021, lease expense totaled \$10,000, the weighted average remaining lease term was 1.28 years, and the weighted average discount rate was 5.80%.

**(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, Continued  
December 31, 2021 and 2020

<i>(In Thousands)</i>	<b>Contract or Notional Amount 2021</b>	<b>Contract or Notional Amount 2020</b>
Financial instruments whose contract amounts represent credit risk:		
Unused commitments to extend credit	\$ 221,197	\$ 169,992
Standby letters of credit	<u>5,996</u>	<u>6,514</u>
<i>Total</i>	<u>\$ 227,193</u>	<u>\$ 176,506</u>

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. The maximum potential amount of future payments that the Company could be required to make under the guarantees totaled \$5,996,000 and \$6,514,000 at December 31, 2021 and 2020, respectively.

**(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. Virtually all such customers are depositors of the subsidiary banks. 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, 2021 and 2020, the Company's cash and due from banks included commercial bank deposit accounts aggregating \$11,985,000 and \$10,648,000, respectively, in excess of the Federal Deposit Insurance Corporation limit of \$250,000 per institution. Interest bearing deposits in financial institutions at December 31, 2021 and 2020 consist of the following:

<i>(In Thousands)</i>	<b>2021</b>	<b>2020</b>
Federal Reserve Bank	\$ 203,550	\$ 156,177
Federal Home Loan Bank	5,857	13,363
Certificates of deposit with other banks	<u>1,245</u>	<u>1,245</u>
	<u>\$ 210,652</u>	<u>\$ 170,785</u>

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.

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

(16) REGULATORY MATTERS AND RESTRICTIONS ON DIVIDENDS

The Company and its bank subsidiaries 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, 2021 and 2020, that the Company and the bank subsidiary for 2021 and bank subsidiaries for 2020 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:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>	<u>Minimum Requirement</u>
Citizens Bancorp Investment, Inc.:			
Common Equity Tier 1 ratio	12.76%	11.52%	7.00%
Tier 1 ratio	12.76%	11.52%	8.50%
Total capital ratio	13.96%	12.77%	10.50%
Leverage ratio	7.96%	8.80%	4.00%
Citizens Bank:			
Common Equity Tier 1 ratio	14.48%	13.97%	7.00%
Tier 1 ratio	14.48%	13.97%	8.50%
Total capital ratio	15.67%	15.22%	10.50%
Leverage ratio	8.93%	9.07%	4.00%
American Bank & Trust of the Cumberlands:			
Common Equity Tier 1 ratio		18.81%	7.00%
Tier 1 ratio		18.81%	8.50%
Total capital ratio		18.81%	10.50%
Leverage ratio		10.81%	4.00%

As of December 31, 2021, 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, 2021, the subsidiary bank is required to receive prior approval of the applicable regulatory agency prior to paying cash dividends. Actual dividends paid could be further limited by restrictions by required debt service payments on notes payable as described in Note 9.

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

**(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, 2021 and 2020 was \$19,823,000 and \$20,344,000, respectively. The net non-cash income which is included in the above asset values was \$472,000 and \$344,000, 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, 2021 and 2020, deferred compensation liabilities related to these plans totaled \$2,953,000 and \$2,130,000, respectively, and are included in other liabilities on the consolidated balance sheets. Related expenses for the years ended December 31, 2021 and 2020 totaled \$631,000 and \$385,000, respectively. Total amount of benefits paid related to the plans totaled \$701,000 and \$64,000 for each of the years ended December 31, 2021 and 2020, respectively.

The Company has purchased various deferred annuity investment contracts to fund the benefits under certain deferred compensation plan agreements. At December 31, 2021 and 2020, the outstanding investments in the annuity contracts totaled \$3,802,000 and \$3,596,000, 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, 2021, the Company had 151,600 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.

	<b><u>2021</u></b>
Risk-free interest rate	<b>0.81%</b>
Expected term	<b>7 years</b>
Expected stock price volatility	<b>10.00%</b>
Dividend yield	<b>2.00%</b>



*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

A summary of the stock option activity for the years ended December 31, 2021 and 2020 is as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	221,000	\$ 18.80	231,000	\$ 18.80
Granted	127,400	23.00	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	(10,000)	18.75
Outstanding at end of year	<u>348,400</u>	<u>\$ 20.34</u>	<u>221,000</u>	<u>\$ 18.80</u>
Options exercisable at year end	<u>133,400</u>	<u>\$ 18.80</u>	<u>89,400</u>	<u>\$ 18.80</u>

The following tables summarize information about stock options for the year ended December 31, 2021:

<u>Options Outstanding</u>				<u>Options Exercisable</u>		
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
<u>Range of Exercise Prices</u>	<u>Outstanding at December 31, 2021</u>	<u>Price</u>	<u>Term</u>	<u>Exercisable at December 31, 2021</u>	<u>Price</u>	<u>Term</u>
\$18.75 - \$23.00	348,400	\$ 20.34	7.19 years	133,400	\$ 18.80	6.14 years
<u>Aggregate intrinsic value (in thousands)</u>		<u>\$ 8,593</u>				<u>\$ 3,495</u>

Stock based compensation expense for the years ended December 31, 2021 and 2020 totaled \$153,000 and \$64,000, respectively. As of December 31, 2021, there was \$388,000 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 3.19 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.

**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:

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

- 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.

*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.

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

The following tables present the financial instruments carried at fair value as of December 31, 2021 and 2020, 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)
<b>December 31, 2021</b>				
Debt securities available-for-sale	\$ 370,307	\$ -	\$ 370,307	\$ -
Marketable equity securities	92	92	-	-
Mortgage servicing rights	1,624	-	1,624	-
Total	<u>\$ 372,023</u>	<u>\$ 92</u>	<u>\$ 371,931</u>	<u>\$ -</u>
<b>December 31, 2020</b>				
Debt securities available-for-sale	\$ 262,363	\$ -	\$ 262,363	\$ -
Marketable equity securities	103	103	-	-
Mortgage servicing rights	1,134	-	1,134	-
Total	<u>\$ 263,600</u>	<u>\$ 103</u>	<u>\$ 263,497</u>	<u>\$ -</u>

	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)
<b>December 31, 2021</b>				
Other real estate owned	\$ 40	\$ -	\$ -	\$ 40
Impaired loans, net <sup>(1)</sup>	21,254	-	-	21,254
Total	<u>\$ 21,294</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,294</u>
<b>December 31, 2020</b>				
Other real estate owned	\$ 40	\$ -	\$ -	\$ 40
Impaired loans, net <sup>(1)</sup>	29,898	-	-	29,898
Total	<u>\$ 29,938</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,938</u>

<sup>(1)</sup> Amount is net of a valuation allowance of \$632,000 and \$850,000 at December 31, 2021 and 2020, respectively, as required by ASC 310-10 "Accounting by Creditors for Impairment of a Loan".

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, 2021 and 2020, there were no transfers between Levels 1, 2 or 3.

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020

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, 2021 and 2020:

	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, 2021 and 2020. 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, Continued  
December 31, 2021 and 2020

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, 2021 and 2020. 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.

<i>(In Thousands)</i>	Carrying or Notional Amount	Estimated Fair Value <sup>(1)</sup>	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)
<b>December 31, 2021</b>					
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	-	-	-	-	-
<b>December 31, 2020</b>					
Financial assets:					
Loans, net	799,314	811,069	-	-	811,069
Loans held for sale	2,786	2,861	-	-	2,861
Financial liabilities:					
Deposits	1,148,036	1,151,986	-	-	1,151,986
Notes payable	16,106	16,115	-	-	16,115
Advances from Federal Home Loan Bank	39,114	40,243	-	-	40,743
Off-balance sheet instruments:					
Commitments to extend credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-

<sup>(1)</sup> 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, Continued*  
December 31, 2021 and 2020

**(20) BUSINESS COMBINATION**

On December 1, 2020, the Company acquired all of the outstanding stock of American Bancshares Corp. and its wholly-owned subsidiary, American Bank & Trust of the Cumberland, for cash consideration of approximately \$36,000,000. This business combination results in an expanded and more diversified market area for the Company. The consideration for the stock acquisition was funded partially with cash on hand and with long-term financing obtained in the amount of \$13,000,000.

The following table details the financial impact of the merger, including the calculation of the purchase price, the allocation of the purchase price to the fair value of net assets acquired and goodwill recognized:

*(In Thousands)*

*Allocation of Purchase Price*

Cash consideration		\$	36,000
<i>Fair value of assets acquired and liabilities assumed</i>			
Assets acquired:			
Loans	\$	191,985	
Debt securities, available-for-sale		3,258	
Restricted equity securities		407	
Interest-bearing deposits in financial institutions		68,824	
Loans held for sale		6,750	
Cash and cash equivalents		3,962	
Premises and equipment		7,388	
Accrued interest receivable		690	
Cash surrender value of life insurance		3,792	
Mortgage servicing rights		1,055	
Deferred income taxes		271	
Core deposit intangibles		822	
Other assets		49	
Total assets acquired		<u>289,253</u>	
Liabilities assumed:			
Deposits		261,568	
Accrued interest payable		1,237	
Income taxes payable		226	
Other liabilities		1,741	
Total liabilities acquired		<u>264,772</u>	
Total fair value of net assets acquired			<u>24,481</u>
Goodwill		\$	<u>11,519</u>

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

As part of the purchase accounting, loans and deposits were marked to fair market value with the resulting discount/premium being accreted to income over time. The following table summarizes the loan discount and deposit premium adjustments for the years ended December 31, 2021 and 2020:

	<u>2021</u>		<u>2020</u>	
	<u>Loans</u>	<u>Deposits</u>	<u>Loans</u>	<u>Deposits</u>
<i>(In Thousands)</i>				
Balance at beginning of year	\$ 1,379	\$ 2,339	\$ -	\$ -
Original loan discount/deposit premium adjustments	-	-	1,470	2,507
Accreted during year	<u>(833)</u>	<u>(1,920)</u>	<u>(91)</u>	<u>(168)</u>
Remaining loan discount/deposit premium adjustments	\$ <u>546</u>	\$ <u>419</u>	\$ <u>1,379</u>	\$ <u>2,339</u>
Weighted average remaining accretion period	<b>16.60 months</b>	<b>7.94 months</b>	22.01 months	15.12 months

Accretion of the loan discount is reported as an increase in interest income and accretion of the deposit premium is reported as a decrease in interest expense in the consolidated statements of earnings.

The following table presents supplemental pro forma information as if the acquisition had occurred at the beginning of 2020. The unaudited pro forma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits acquired, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed dates.

	<u>2020</u>
Net interest income	\$ 41,929
Net earnings	\$ 14,247
Basic earnings per common share	\$ 2.43
Diluted earnings per common share	\$ 2.42

Transaction costs totaling \$436,000 have been excluded from the pro forma net earnings reported above.

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2021 and 2020**(21) 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)*

	<u>2021</u>	<u>2020</u>
Basic:		
Net earnings available to common shareholders	\$ 16,737	\$ 10,838
Weighted average common shares outstanding	<u>5,872,200</u>	<u>5,872,200</u>
Basic earnings per common share	<u>\$ 2.85</u>	<u>\$ 1.85</u>
Diluted:		
Net earnings available to common shareholders	\$ 16,737	\$ 10,838
Weighted average common shares outstanding	5,872,200	5,872,200
Add: Dilutive effects of assumed exercises of stock options	<u>94,780</u>	<u>24,801</u>
Average shares and dilutive potential common shares	<u>5,966,980</u>	<u>5,897,001</u>
Diluted earnings per common share	<u>\$ 2.80</u>	<u>\$ 1.84</u>

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020

(22) PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS  
DECEMBER 31,

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 67	\$ 814
Investment in banking subsidiaries	147,890	139,466
Investment in other subsidiary	147	237
Goodwill	2,366	2,366
Deferred income taxes	109	68
<i>Total assets</i>	<u>\$ 150,579</u>	<u>\$ 142,951</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Notes payable	\$ 14,271	\$ 16,106
Payable to subsidiary	8	34
Other liabilities	1	45
<i>Total liabilities</i>	<u>14,280</u>	<u>16,185</u>
Stockholders' equity	<u>136,299</u>	<u>126,766</u>
<i>Total liabilities and stockholders' equity</i>	<u>\$ 150,579</u>	<u>\$ 142,951</u>

CONDENSED STATEMENTS OF EARNINGS  
FOR THE YEARS ENDED DECEMBER 31,

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
<b>Income</b>		
Dividends from subsidiaries	\$ 5,300	\$ 28,500
<i>Total income</i>	<u>5,300</u>	<u>28,500</u>
<b>Expenses</b>		
Interest expense	608	229
Merger expense	18	436
Other expense	357	447
<i>Total expenses</i>	<u>983</u>	<u>1,112</u>
<i>Earnings before income taxes and equity in undistributed earnings of subsidiaries</i>	<u>4,317</u>	<u>27,388</u>
Income tax benefit	252	177
Equity in undistributed earnings (losses) of subsidiaries	<u>12,168</u>	<u>(16,727)</u>
<i>Net earnings</i>	<u>\$ 16,737</u>	<u>\$ 10,838</u>
Comprehensive earnings	<u>\$ 12,903</u>	<u>\$ 14,829</u>

Notes to Consolidated Financial Statements, Continued  
December 31, 2021 and 2020CONDENSED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31,

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Fees and other income	\$ 5,300	\$ 28,500
Interest paid	(650)	(188)
Cash paid to suppliers and employees	(224)	(797)
Income taxes received (paid)	185	189
<i>Net cash provided by operating activities</i>	<u>4,611</u>	<u>27,704</u>
Cash flows from investing activities:		
Cash paid for acquisition	-	(36,000)
<i>Net cash used in investing activities</i>	<u>-</u>	<u>(36,000)</u>
Cash flows from financing activities:		
Proceeds from advance of notes payable	-	13,000
Principal payments on notes payable	(1,835)	(734)
Cash dividends paid	(3,523)	(3,288)
<i>Net cash provided by (used in) financing activities</i>	<u>(5,358)</u>	<u>8,978</u>
Net increase (decrease) in cash and cash equivalents	(747)	682
Cash and cash equivalents at beginning of year	814	132
Cash and cash equivalents at end of year	<u>\$ 67</u>	<u>\$ 814</u>

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	\$ 16,737	\$ 10,838
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in undistributed (earnings) losses of subsidiaries	(12,168)	16,727
Stock option compensation expense	153	64
Provision for deferred income taxes	(41)	(21)
Increase (decrease) in payable to subsidiary	(26)	33
Increase (decrease) in accrued expenses and other liabilities	(44)	63
<i>Total adjustments</i>	<u>(12,126)</u>	<u>16,866</u>
<i>Net cash provided by operating activities</i>	<u>\$ 4,611</u>	<u>\$ 27,704</u>



# CORPORATE INFORMATION

## **Stock Listing**

OTCQX  
Ticker Symbol: CBTN

## **Stock Registrar & Transfer Agent**

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Edgewood, NY 11717-8309

## **Outside Counsel**

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