2023

ANNUAL REPORT

BANKFIRST
CAPITAL

CONTENTS

BANKFIRST CAPITAL

BFCC TRADED ON OTCQX | BEST 50 OTCQX 2023

BFCC Stock Information

as of 12/31/2023

Stock Price	$33.25
Market Cap	$172.8 million
P/E (FY22)	6.37
Price/Tangible Book	1.7 ×
52 Week Range	$26.65–$43.75
2023 Dividend	$0.90
Dividend Yield	2.71%
Shares Outstanding	5,399,972

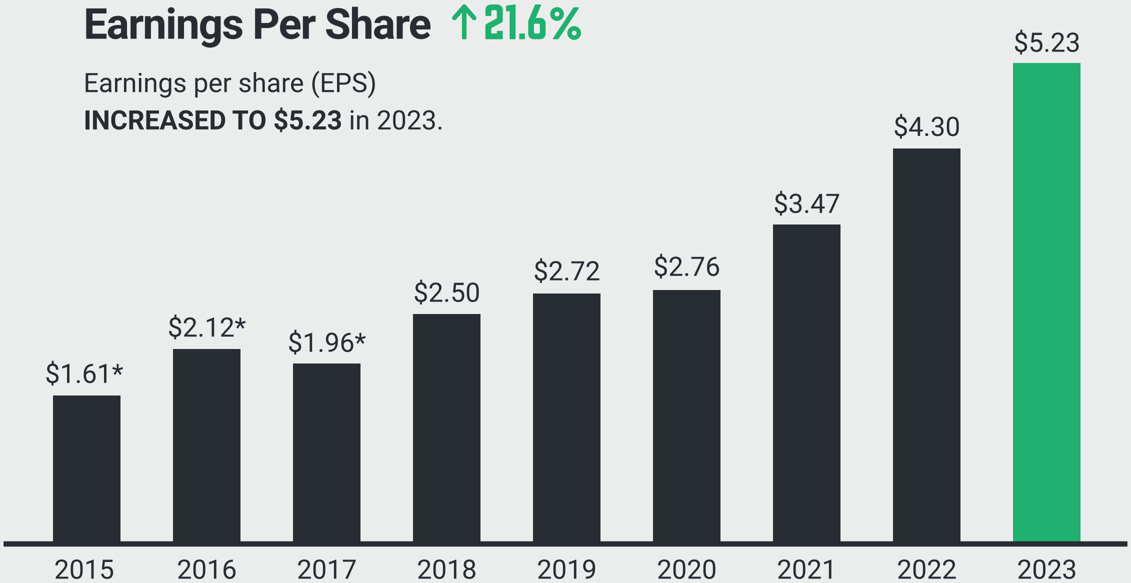
FINANCIAL HIGHLIGHTS

$2.725 BILLION ↑10.9%

in assets

Earnings Per Share ↑21.6%

Earnings per share (EPS)
INCREASED TO $5.23 in 2023.

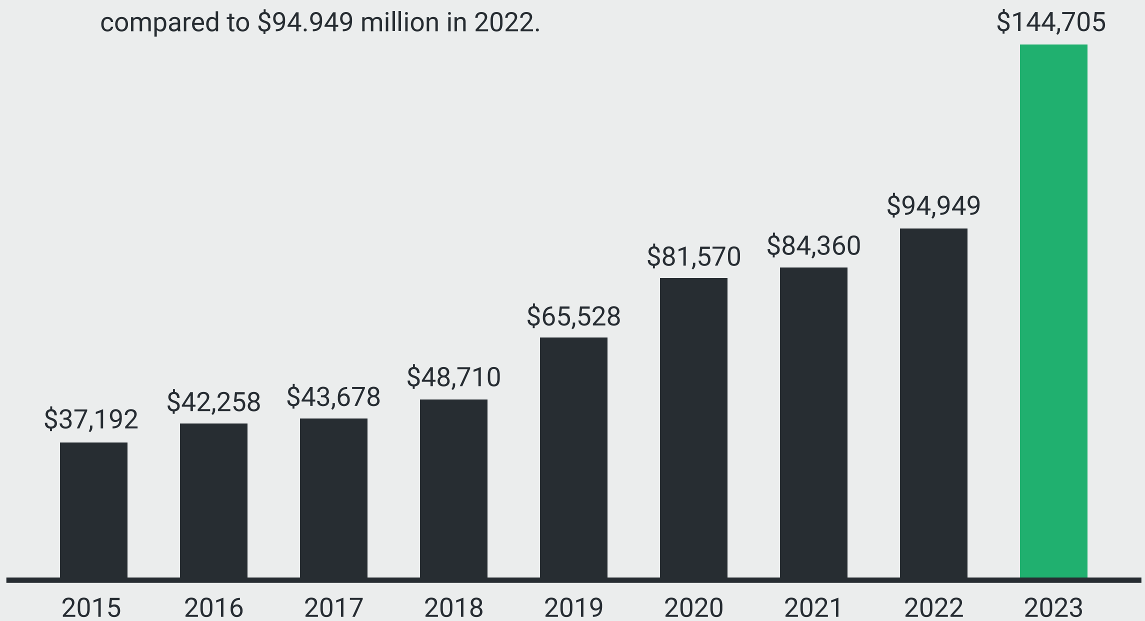


* After adjustment for stock split in 2017

FINANCIAL HIGHLIGHTS

REVENUE IN 2023 ↑ 52.4%

Experienced **RECORD REVENUE** with a **52.4% INCREASE** in revenue to $144.7 million in 2023 compared to $94.949 million in 2022.



Revenue net of PPP fees (in thousands)

Deposits

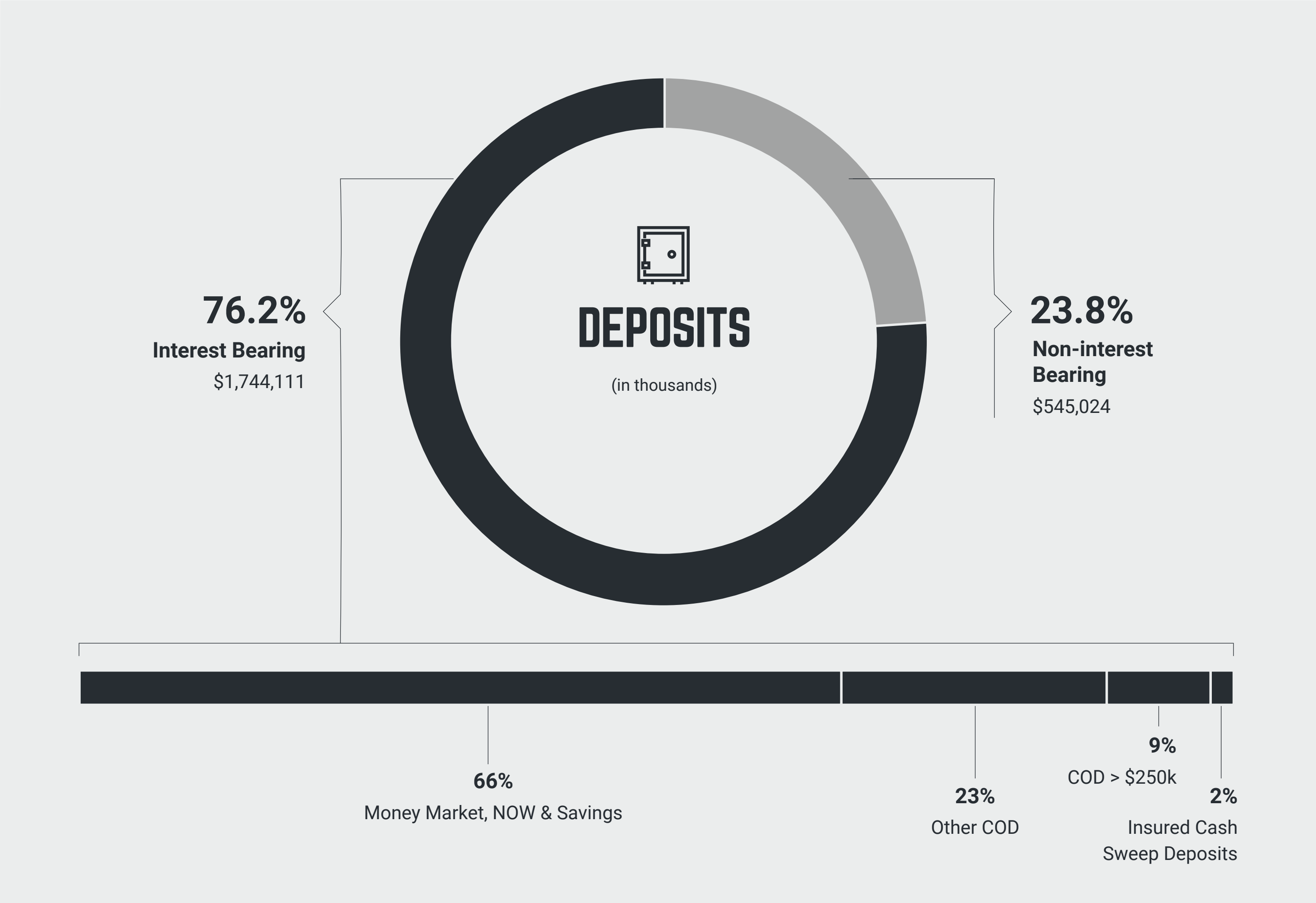
Compared to 2022

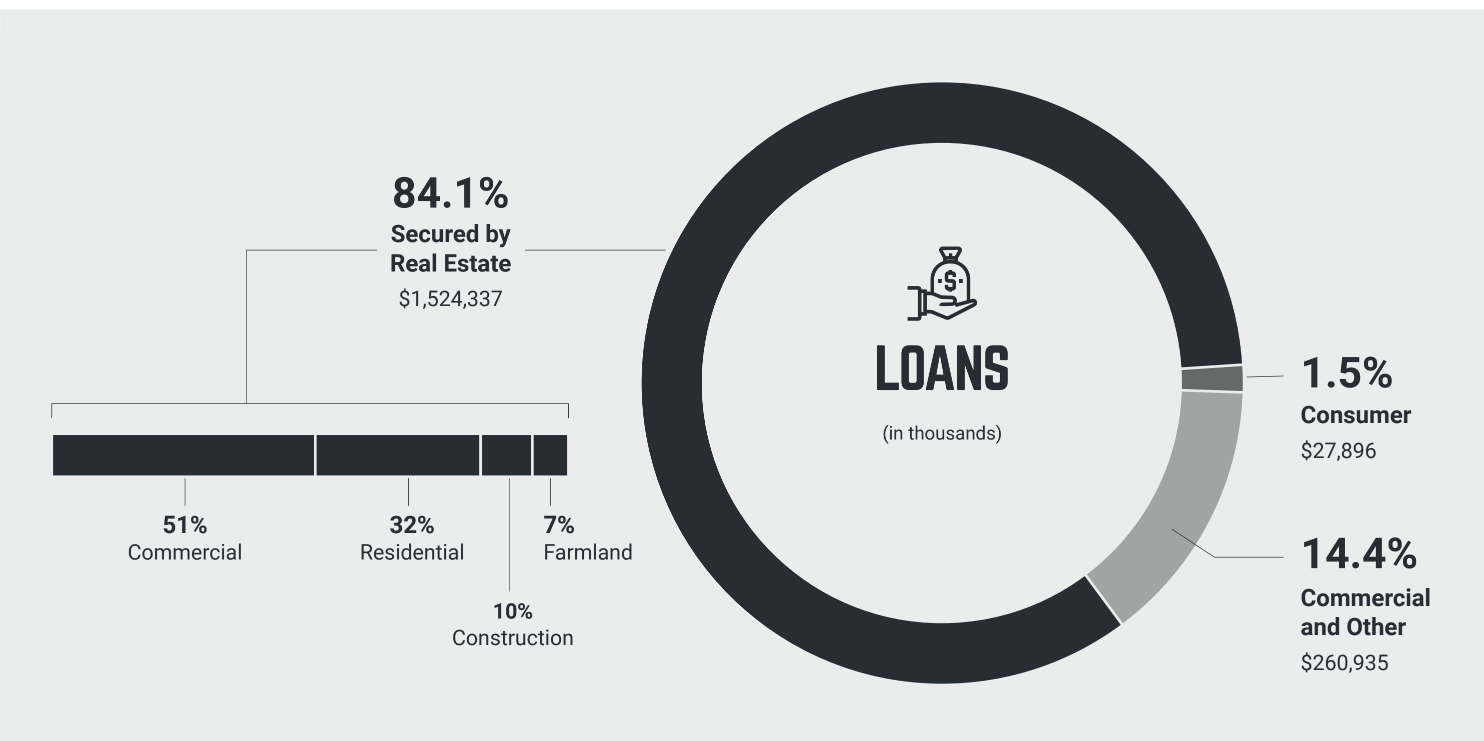
↑ 11%

Loans

Compared to 2022

↑ 19%


DEPOSITS
(in thousands)
76.2%
Interest Bearing
$1,744,111
23.8%
Non-interest Bearing
$545,024
66%
Money Market, NOW & Savings
23%
Other COD
9%
COD > $250k
2%
Insured Cash Sweep Deposits


LOANS
(in thousands)
84.1%
Secured by Real Estate
$1,524,337
51%
Commercial
32%
Residential
10%
Construction
7%
Farmland
1.5%
Consumer
$27,896
14.4%
Commercial and Other
$260,935

LEADERSHIP

The leadership team has significant years of experience in the financial services industry and the Board of Directors and Advisory Boards compliment management through their diverse expertise and extensive knowledge of the communities we serve.

Management Team

Moak Griffin
President & CEO

Luke Yeatman
Chief Financial Officer

Jim McAlexander
Chief Experience Officer

Lee Seago
Chief Operating Officer

Marcus Mallory
Chief Banking Officer

Greg Moore
Mississippi Regional President

Heyward Gould
Alabama Regional President

Ron Allen
Chief Lending Officer

Board of Directors

David Barge**
Macon, MS

Haley Fisackerly*
Jackson, MS

Bill Freeman
Newton, MS

Moak Griffin*
Columbus, MS

Joe Hollis*
Columbus, MS

Frank Hopper*
West Point, MS

Eddie Mauck*
Columbus, MS

Rickey McCreless*
Haleyville, AL

Phillip McGuire*
Macon, MS

Melinda Pilkinton*
Columbus, MS

Gregory Rader*
Columbus, MS

Bob Shearer*
Starkville, MS

George Sherman*
Starkville, MS

William Walker
Haleyville, AL

Brett Whiteside
Haleyville, AL

Camille Young*
Jackson, MS

* Holding Company Board Member
** Chairman of the Board

To Our Shareholders

We are delighted to present our annual report for the year 2023, a year marked by remarkable achievements and significant milestones for BankFirst Capital. It gives us immense pleasure to announce that once again, we have surpassed expectations and recorded another record-breaking year in numerous aspects.

BankFirst officially acquired Mechanics Banc Holding Company and Mechanics Bank on January 1, 2023. In October, the bank completed the systems conversion and introduced our presence as BankFirst in the Water Valley and Oxford markets of North Mississippi. This seamless integration into the BankFirst family underscores our commitment to strategic expansion and enhanced service delivery to our valued customers.

We are particularly proud to share that BankFirst Capital was named to the 2023 OTCQX® Best 50 list, recognizing our exceptional performance as one of the top companies traded on the OTCQX Best Market in the preceding year. This recognition serves as a testament to the dedication and hard work of our team members across all levels of the organization.

In 2023, we embarked on a significant technological transformation by transitioning our core system platform from Jack Henry 20/20 to Jack Henry SilverLake. Despite the inherent challenges associated with such endeavors, our team rose to the occasion, demonstrating resilience and adaptability. This transition not only positions us for future growth but also strengthens our operational efficiency and ability to better serve our customers.

Furthermore, our commitment to community engagement remained steadfast throughout the year. Through initiatives such as the ACT Program and our partnership with Lowndes County for the development of "BankFirst Yards," a state-of-the-art sports complex, we continued to make meaningful contributions to the communities we serve. These initiatives highlight our commitment to corporate citizenship and our dedication to fostering positive change.

The bank spent the greater part of Q4 of 2023 preparing the team and online and mobile banking customers for a digital banking platform conversion which concluded in early February of 2024, further enhancing the convenience and accessibility of our services for our valued customers. This achievement reflects our ongoing commitment to innovation and continuous improvement in response to evolving customer needs and technological advancements.

With 135 years of rich history, BankFirst has stood the test of time, embodying resilience, integrity, and commitment to excellence. As we look to the future, we remain steadfast in our resolve to provide innovative financial solutions and unparalleled service to our customers while creating long-term value for our shareholders.

We extend our deepest gratitude to our shareholders, customers, and dedicated team members for their unwavering support and contributions to our continued success. Together, we have achieved remarkable milestones, and we are confident that the best is yet to come for BankFirst Capital.

Thank you for your trust and confidence in us.

Warm regards,

Moak Griffin
President & CEO

David Barge
Board Chairman

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
BankFirst Capital Corporation

Opinion

We have audited the accompanying consolidated financial statements of BankFirst Capital Corporation and its Subsidiary (the Company) (a Mississippi Corporation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to consolidated financial statements.

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

We also have audited, in accordance with auditing standards generally accepted in the United States of America, BankFirst Capital Corporation and its Subsidiary's internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 1, 2024, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

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

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of BankFirst Capital Corporation and its Subsidiary, 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 BankFirst Capital Corporation and its Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statement

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 auditors' 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 judgement 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 judgement 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.

- Evaluate the appropriateness of accounting 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about BankFirst Capital Corporation and its Subsidiary'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 the Corporate Profile, Financial Highlights, Leadership, and Letter to Shareholders, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

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.

T.E. Lott & Company

Columbus, Mississippi
March 1, 2024

BankFirst Capital Corporation

Consolidated Balance Sheets

December 31, 2023 and 2022

(In Thousands, Except Per Share Data)

	2023	2022
Assets		
Cash and due from banks	$ 51,829	$ 107,215
Interest bearing bank balances	61,264	5,347
Federal funds sold	14,500	12,625
Securities available for sale, at fair value	235,473	278,315
Securities held to maturity (fair value 2023 - $279,116, 2022 - $290,381)	328,013	347,995
Loans receivable	1,813,168	1,511,312
Allowance for credit losses	(24,084)	(14,132)
Loans receivable, net of allowance for credit losses	1,789,084	1,497,180
Premises and equipment, net	66,217	52,602
Interest receivable	11,286	10,070
Goodwill	66,966	66,966
Other intangible assets, net	11,290	8,393
Other	89,375	71,624
Total assets	$ 2,725,297	$ 2,458,332
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 2,289,135	$ 2,061,230
Short-term borrowings	-	3,475
Notes payable	7,405	9,555
Subordinated debentures	29,635	26,235
Interest payable	6,086	825
Other	20,599	19,677
Total liabilities	2,352,860	2,120,997
Stockholders' Equity		
Preferred stock, no par value, 300,000 shares authorized, 218,585 and 175,000 shares issued and outstanding	188,680	175,000
Common stock, $0.30 par value, 15,000,000 shares authorized, 5,399,972 and 5,353,906 shares issued and outstanding	1,620	1,606
Additional paid-in capital - common stock	62,065	61,164
Retained earnings	130,557	113,633
Accumulated other comprehensive income (loss)	(10,485)	(14,068)
Total stockholders' equity	372,437	337,335
Total liabilities and stockholders' equity	$ 2,725,297	$ 2,458,332

BankFirst Capital Corporation

Consolidated Statements of Income

Years Ended December 31, 2023 and 2022

(In Thousands, Except Per Share Data)

	2023	2022
Interest Income		
Interest and fees on loans	$ 97,754	$ 61,970
Taxable securities	14,525	10,284
Tax-exempt securities	2,187	2,559
Federal funds sold	921	202
Interest bearing bank balances	1,681	42
Total interest income	117,068	75,057
Interest Expense		
Deposits	24,840	4,005
Short-term borrowings	141	115
Federal Home Loan Bank advances	358	-
Other borrowings	2,264	2,012
Total interest expense	27,603	6,132
Net Interest Income	89,465	68,925
Provision for Credit Losses	1,985	1,050
Net Interest Income After Provision for Credit Losses	87,480	67,875
Noninterest Income		
Service charges on deposit accounts	9,549	8,601
Mortgage income	2,516	2,423
Interchange income	5,634	4,342
Government awards/grants	6,634	872
Net realized gains (losses) on available-for-sale securities	(1,291)	(252)
Other	4,595	3,906
Total noninterest income	27,637	19,892
Noninterest Expense		
Salaries and employee benefits	41,956	31,709
Net occupancy expenses	5,197	3,564
Equipment and data processing expenses	9,464	6,550
Other	22,441	17,202
Total noninterest expense	79,058	59,025
Income Before Income Taxes	36,059	28,742
Provision for Income Taxes	7,858	5,787
Net Income	$ 28,201	$ 22,955
Basic Earnings Per Common Share	$ 5.23	$ 4.30

BankFirst Capital Corporation

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2023 and 2022

(In Thousands, Except Per Share Data)

	2023	2022
Net Income	$ 28,201	$ 22,955
Other Comprehensive Income		
Available-for-sale securities		
Net unrealized (losses) gains, net of taxes of $987 and $4,512	2,734	(13,570)
Less: reclassification adjustment for net realized losses(gains) included in net income, net of taxes of $326 and $64	968	188
Total other comprehensive income (loss) for available-for-sale securities	3,702	(13,382)
Net (accretion) amortization of unrealized (gains) losses of available-for-sale securities transferred to held to maturity, net of taxes of $40 and $43	(119)	(126)
Total other comprehensive income (loss)	3,583	(13,508)
Comprehensive Income	$ 31,784	$ 9,447

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2022

(In Thousands, Except Per Share Data)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2022	$ -	5,284,629	$ 1,585	$ 60,545	$ 95,228	$ (560)	$ 156,798
Net income	-	-	-	-	22,955	-	22,955
Other comprehensive income (loss)	-	-	-	-	-	(13,508)	(13,508)
Preferred stock issued	175,000	-	-	-	-	-	175,000
Restricted stock plan	-	73,573	22	(22)	-	-	-
Stock based compensation	-	-	-	767	-	-	767
Common stock redeemed	-	(4,296)	(1)	(126)	-	-	(127)
Dividends on common stock ($.85 per share)	-	-	-	-	(4,550)	-	(4,550)
Balance, December 31, 2022	$ 175,000	5,353,906	$ 1,606	$ 61,164	$ 113,633	$ (14,068)	$ 337,335

BankFirst Financial Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2023

(In Thousands, Except Per Share Data)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2023	$ 175,000	5,353,906	$ 1,606	$ 61,164	$ 113,633	$ (14,068)	$ 337,335
Cummulative effect of change in accounting principle	-	-	-	-	(6,416)	-	(6,416)
Balance at January 1, 2023, as adjusted	175,000	5,353,906	1,606	61,164	107,217	(14,068)	330,919
Net income	-	-	-	-	28,201	-	28,201
Other comprehensive income (loss)	-	-	-	-	-	3,583	3,583
Preferred stock assumed in acquisition	13,680	-	-	-	-	-	13,680
Restricted stock plan	-	53,658	16	(16)	-	-	-
Stock based compensation	-	-	-	1,124	-	-	1,124
Common stock redeemed	-	(7,592)	(2)	(207)	-	-	(209)
Dividends on common stock ($.90 per share)	-	-	-	-	(4,861)	-	(4,861)
Balance, December 31, 2023	$ 188,680	5,399,972	$ 1,620	$ 62,065	$ 130,557	$ (10,485)	$ 372,437

BankFirst Capital Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

(In Thousands, Except Per Share Data)

	2023	2022
Operating Activities		
Net income	$ 28,201	$ 22,955
Items not requiring (providing) cash		
Provision for credit losses	1,985	1,050
Depreciation	2,908	2,064
Net (accretion)/amortization on available for sale securities	(224)	2,263
Net amortization on held to maturity securities	2,590	2,430
Net amortization on intangible assets	1,621	793
Net accretion of purchase accounting adjustments	(806)	(921)
Net realized losses on sales of available-for-sale securities	1,291	252
Stock-based compensation expense	1,124	767
Deferred income taxes	2,499	1,418
Changes in		
Interest receivable	25	(67)
Interest payable	5,084	(143)
Other	(5,058)	1,960
Net cash provided by operating activities	41,240	34,821
Investing Activities		
Purchases of available-for-sale securities	(2,597)	(77,436)
Proceeds from maturities of available-for-sale securities	22,747	36,868
Proceeds from the sales of available-for-sale securities	59,585	24,640
Purchases of securities held for maturity	-	(8,793)
Proceeds from maturities of securities held to maturity	17,392	24,485
Net changes to premises and equipment	(7,270)	(6,590)
Net (increase) decrease in		
Interest bearing bank balances	(9,179)	50,256
Federal funds sold	673	58,025
Loans	(97,286)	(136,698)
Investment in life insurance	(10,125)	-
Federal Reserve Bank and Federal Home Loan Bank stock transactions	1,036	(1,976)
Proceeds from the sale of foreclosed assets held for sale	1,682	839
Payment for acquisitions, net of cash acquired	(44,747)	(60,647)
Net cash used in investing activities	(68,089)	(97,027)

BankFirst Capital Corporation

Consolidated Statements of Cash Flows - Continued

Years Ended December 31, 2023 and 2022

(In Thousands, Except Per Share Data)

	2023	2022
Financing Activities		
Net increase (decrease) in		
Noninterest bearing deposits	$ (36,653)	$ (83,263)
Money market, NOW and savings accounts	(98,759)	152,191
Certificates of deposit	117,570	(78,028)
Short-term borrowings	(3,475)	3,475
Repayment of notes payable	(2,150)	(31,900)
Preferred stock issued	-	175,000
Common stock redeemed	(209)	(127)
Dividends paid on common stock	(4,861)	(4,550)
Net cash provided (used in) by financing activities	(28,537)	132,798
Change in Cash and Due From Banks	(55,386)	70,592
Cash and Due From Banks, Beginning of Year	107,215	36,623
Cash and Due From Banks, End of Year	$ 51,829	$ 107,215
Supplemental Cash Flows Information		
Interest paid	$ 22,519	$ 6,957
Income taxes paid, net of taxes refunded	4,650	2,320
Foreclosed assets acquired in settlement of loans	570	592
Fixed assets transferred to other real estate	-	352
Fair value of assets assumed	322,476	530,319
Fair value of liabilities assumed	253,796	496,721

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

BankFirst Capital Corporation (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, BankFirst Financial Services (the Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Mississippi and northwest and west Alabama. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. As discussed in Note 9, the Company owns 100% of the common trust securities of various statutory trusts. The trusts are VIEs for which the Company is not the primary beneficiary and, accordingly, the trusts have not been consolidated into the Company's consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, acquisition accounting, intangible assets, deferred tax assets, and fair value of financial instruments.

Cash Equivalents

The Company has defined cash equivalents as those amounts included in the consolidated balance sheets caption "cash and due from banks."

The Company had deposits with correspondent banks that exceeded federally insured limits by $765 at December 31, 2023.

Interest Bearing Bank Balances

Interest bearing bank balances mature within one year and are carried at cost.

Debt Securities

Debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and are carried at amortized cost. Debt securities held primarily for the purpose of selling in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in income. Debt securities not classified as held-to-maturity or trading are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net income taxes, as a separate component of other comprehensive income (loss). The Company does not have any debt securities classified as trading securities. When the Company acquires another entity, it records the debt securities at fair value.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Allowance for Credit Losses – Held-to-Maturity Debt Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. For pools of such with similar risk characteristics, the historical lifetime probability of default and severity of loss in the event of default is derived or obtained from external sources and adjusted for the expected effects of reasonable and supportable forecasts over the expected lives of the securities on those historical credit losses. Expected credit loss on securities in the held-to-maturity portfolio that do not share similar risk characteristics with any of the pools of debt securities are individually measured on a net realizable value, or the difference between the discounted value of the expected future cash flows, based on the original effective interest rate, and the recorded amortized cost basis of the securities.

Allowance for Credit Losses – Available-for-Sale Debt Securities

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

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, less any impairment, and are reported in other assets on the consolidated balance sheets.

Loans Held for Sale

The Company originates fixed rate single family, residential first mortgage loans on a presold basis. Rate lock commitments are issued to customers and concurrently "lock in" with a secondary market investor under a best efforts delivery mechanism. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are sold without the servicing rights retained by the Company. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold. The Company recognizes certain origination fees and service release fees upon the sale.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for credit losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

Interest income is accrued based on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Credit Losses ("ACL")

As described below under Accounting Policies Recently Adopted, the Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL")* Accounting Standard Codification ("ASC") 326 effective January 1, 2023.

The allowance for credit losses represents management's estimate of credit losses over the expected contractual life of the loan portfolio. The estimate is determined based on the amortized cost of the loan portfolio including loan balance adjusted for charge-offs, recoveries, deferred fees and costs, and loan discount and premiums. Recoveries are included only to the extent that such amounts were previously charged-off. The Company has elected to exclude accrued interest from the estimate of credit losses for loans. The allowance is increased for estimated credit losses which are recorded as expense. The portion of loans and overdraft balances determined by management to be uncollectible are charged-off as a reduction to the allowance and recoveries of amounts previously charged-off increase the allowance.

The expected credit loss estimate process involves procedures to consider the unique characteristics of each of the Company's loan portfolio segments which consist of loans secured by real estate which includes the following: construction, farmland, residential real estate, commercial real estate, and consumer and other commercial loans. When computing the allowance levels, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. The Company has determined that four consecutive quarters forecasting period is a reasonable and supportable period. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as unemployment rates, property values, and other relevant factors. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation.

Credit quality is assessed and monitored by evaluating various attributes and the results of those evaluations are utilized in the underwriting of new loans and the process for estimating the expected credit losses.

The allowance is impacted by loan volumes, delinquency status, credit ratings, historical loss experiences, estimated prepayment speeds, weighted average lives and other conditions influencing loss expectations, such as reasonable and supportable forecasts of economic conditions. The methodology for estimating the amount of expected credit loss reported in the allowance has two basic components: 1) the expected credit losses for pools of loans that share similar risk characteristics and 2) individual loans that do not share similar risk characteristics with other loans and the measurement of expected credit losses for such individual loans.

Loans with similar risk characteristics are evaluated in pools and, depending on the nature of each identified pool, the Company utilizes a weighted average remaining maturity method. The historical loss experience estimate by pool is then adjusted by forecast factors that are quantitatively related to the Company's historical credit loss experience, such as unemployment rates and gross domestic product. Losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable period losses revert to long-term historical averages. The reasonable and supportable period and reversion period are re-evaluated each quarter by the Company and are dependent on the current economic environment and other factors.

The estimated credit losses for each loan pool are then adjusted for changes in qualitative factors not inherently considered in the quantitative analysis. The qualitative adjustments either increase or decrease the quantitative model estimation. The Company considers factors that are relevant within the qualitative framework which include the following: lending policy, changes in nature and volume of loans, staff experience, changes in volume and trends of problem loans, concentration risk, trends in underlying collateral values, external factors, quality of loan review system and other economic conditions.

Loans that no longer share similar risk characteristics with the collectively evaluated pools are excluded from the collective evaluation and estimated on an individual basis. Individual evaluations are performed for nonaccrual loans, loans rated substandard, and modified loans classified as troubled debt restructurings. Specific allowances were estimated based on several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of the expected cash flows.

Allowance for Credit Losses – Unfunded Loan Commitments

The allowance for credit losses for unfunded commitments is a liability account representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. The allowance for credit loss is reported as a component of other liabilities within the Consolidated Balance Sheets. Adjustments to the allowance for credit loss for unfunded commitments are reported in the Consolidated Income Statements as a component of other operating expense.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	15 - 50 years
Furniture, fixtures and equipment	3 - 10 years

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2023 or 2022.

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a purchase business combination is 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. A qualitative assessment is performed on an annual basis to determine whether it is considered more likely than not the fair value is less than the carrying amount, including goodwill. If it is determined that it is more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment.

Intangible Assets

Intangible assets with finite lives are amortized over their estimated useful lives. The Company's core deposit intangibles acquired in business combinations are being amortized on the straight-line basis over a period of 10 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Federal Reserve Bank and Federal Home Loan Bank Stock

Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) stock are required investments for institutions that are members of the FRB and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost, classified as a restricted security, and periodically evaluated for impairment. Both cash and stock dividends are reported as income.

Foreclosed Assets Held for Sale

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. Revenue and expenses from operations and changes in the valuation allowance are included in income or expense from foreclosed assets.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when, or as, the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in Non-Interest Income on the Consolidated Statements of Income was not material. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are fixed. The Company has made no significant judgments in applying the revenue guidance prescribed in Topic 606 that affect the determination of the amount and timing of revenue from contracts with customers.

Stock-based Compensation Plans

The Company has a share-based employee compensation plan which is described more fully in Note 17. Compensation cost is recognized for restricted stock awards to employees based on the fair value of these awards at the grant date and is recognized over the required service period, generally defined as the vesting period.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The two components of income tax expense are current and deferred income tax expense. 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 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.

Tax positions 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%; 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% 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. The Company and the Bank file consolidated U.S. federal and state income tax returns.

Earnings Per Common Share

Net income available to common shareholders is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Earnings and dividends per share are restated for all stock splits through the date of issuance of the financial statements.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains (losses) on available-for-sale debt securities and unrealized (gains) losses of available-for-sale securities transferred to held to maturity.

Accounting Policies Recently Adopted

ASU 2022-02, ***Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.*** The update eliminates the TDR recognition and measurement guidance and, instead, requires that an entity evaluate whether all modifications represent a new loan or a continuation of an existing loan. The amendments also enhance existing disclosure requirements and introduce new requirements related to certain modifications of loans made to borrowers experiencing financial difficulty. These amendments also require disclosure of current-period gross write-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. The update is effective for entities that have adopted ASU No. 2016-13 (the CECL model) for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. These amendments should be applied prospectively, except that an entity has the option to apply a modified retrospective transition method to the recognition and measurement of TDRs. Early adoption is permitted if an entity has adopted ASU No. 2016-13, including adoption in an interim period as of the beginning of the fiscal year that includes the interim period. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Company adopted on January 1, 2023.

ASU 2016-13 "*Financial Instruments - Credit Losses (Topic 326)*" Update No. 2016-13, as amended. On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. It also applies to off balance sheet credit exposure not accounting for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believe that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recognized a cumulative net decrease to retained earnings of $6,416, net of tax, attributable to an increase in the allowance for credit losses of $8,880 and an increase in off-balance sheet credit exposures of $1,843, and an increase of deferred tax assets of $2,137 as January 1, 2023.

ASU 2020-04, "*Reference Rate Reform (Topic 848: Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" Issued in March 2020, the update provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the LIBOR or other interbank offered rate on financial reporting. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The main provisions include: a change in a contract's reference interest rate would be accounted for as a continuation of that contract rather than as the creation of a new one for contracts, including loans, debt, leases, and other arrangements, that meet specific criteria and when updating its hedging strategies in response to reference rate reform, an entity would be allowed to preserve its hedge accounting.

The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued. Because the guidance is meant to help entities through the transition period, it will be in effect for a limited time and will not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, for which an entity has elected certain optional expedients that are retained through the end of the hedging relationship. The amendments in this ASU are effective March 12, 2020 through December 31, 2022. ASU 2020-04 permits relief solely for reference rate reform actions and permits different elections over the effective date for legacy and new activity. The adoption of this guidance on activities subsequent to December 31, 2020 through December 31, 2022 did not have a material impact on the consolidated financial statements.

Pending Accounting Pronouncements

ASU 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The FASB issued this update in June 2022. The amendments in this ASU affect all entities that have investments in equity securities measured at fair value that are subject to a contractual sale restriction. These amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments in this ASU are effective for fiscal years, beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The adoption of this ASU is not expected to have a material impact in the Company's consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2022 consolidated financial statements to conform to the 2023 consolidated financial statement presentation. These reclassifications had no effect on net income.

Subsequent Events

Subsequent events have been evaluated through March 1, 2024, the date of the Independent Auditors' Report, which is the date the consolidated financial statements were available to be issued.

(In Thousands, Except Per Share Data)

Note 2: Available-for-Sale Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows. Mortgage-backed securities consist of residential and commercial mortgage-backed securities issued by U.S. government-sponsored enterprises (GSEs).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Securities Available For Sale				
U.S. Treasury	$ 18,161	$ -	$ 623	$ 17,538
U.S. GSEs	68,406	238	6,679	61,965
Commercial mortgage-backed securities	23,029	4	2,281	20,752
Residential mortgage-backed securities	66,664	177	2,298	64,543
Tax-exempt state and political subdivisions	26,002	624	292	26,334
Taxable state and political subdivisions	36,340	230	1,716	34,854
Corporate debt securities	7,759	-	880	6,879
Collateralized debt obligations	2,610	11	13	2,608
Total available for sale	$ 248,971	$ 1,284	$ 14,782	$ 235,473
Securities Held to Maturity				
Residential mortgage-backed securities	$ 183,565	$ -	$ 26,736	$ 156,829
Tax-exempt state and political subdivisions	60,750	1	4,907	55,844
Taxable state and political subdivisions	83,698	-	17,255	66,443
Total held to maturity	$ 328,013	$ 1	$ 48,898	$ 279,116
December 31, 2022				
Securities Available For Sale				
U.S. Treasury	$ 46,844	$ -	$ 1,789	$ 45,055
U.S. GSEs	76,488	316	8,171	68,633
Commercial mortgage-backed securities	22,501	8	2,463	20,046
Residential mortgage-backed securities	67,513	170	2,638	65,045
Tax-exempt state and political subdivisions	32,553	743	662	32,634
Taxable state and political subdivisions	38,828	10	3,137	35,701
Corporate debt securities	9,327	-	789	8,538
Collateralized debt obligations	2,693	-	30	2,663
Total available for sale	$ 296,747	$ 1,247	$ 19,679	$ 278,315
Securities Held to Maturity				
Residential mortgage-backed securities	$ 202,307	$ -	$ 29,701	$ 172,606
Tax-exempt state and political subdivisions	61,801	1	6,938	54,864
Taxable state and political subdivisions	83,887	-	20,976	62,911
Total held to maturity	$ 347,995	$ 1	$ 57,615	$ 290,381

(In Thousands, Except Per Share Data)

The Company reassessed the classification of certain investments and effective January 1, 2022, the Company transferred the securities with a fair value of $366,277 on the date of the transfer, from available for sale to held to maturity. The transfer occurred at fair value. The related unrealized loss of $146 included in accumulated other comprehensive income remained in accumulated other comprehensive income, to be amortized out of accumulated other comprehensive income with an offsetting entry to interest income as a yield adjustment through earnings over the remaining term of the securities. No realized gain or loss was recorded at the time of the transfer.

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $294,319 at December 31, 2023, and $286,118 at December 31, 2022.

Gross gains of $564 and $70 and gross losses of $1,855 and $322 resulting from sales of available-for-sale securities were realized for 2023 and 2022, respectively.

The amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Securities Available For Sale		
Within one year	$ 5,842	$ 5,815
One to five years	62,144	59,068
Five to ten years	65,219	59,030
After ten years	26,073	26,265
	159,278	150,178
Mortgage-backed securities	89,693	85,295
Total available for sale	$ 248,971	$ 235,473
Securities Held to Maturity		
Within one year	$ -	$ -
One to five years	111	110
Five to ten years	50,923	45,274
After ten years	93,414	76,903
	144,448	122,287
Mortgage-backed securities	183,565	156,829
Total held to maturity	$ 328,013	$ 279,116

(In Thousands, Except Per Share Data)

The following table identifies the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous loss position for 12 or more months, as of December 31, 2023 and 2022.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
Securities Available For Sale						
U.S. Treasury	$ -	$ -	$ 17,538	$ 623	$ 17,538	$ 623
U.S. GSEs	2,579	44	41,581	6,635	44,160	6,679
Mortgage-backed securities						
Commercial	1,678	26	17,798	2,255	19,476	2,281
Residential	6,402	42	42,451	2,256	48,853	2,298
State and political						
Tax-exempt	2,852	25	5,691	267	8,543	292
Taxable	1,360	3	20,364	1,713	21,724	1,716
Corporate debt securities			6,879	880	6,879	880
Collateralized debt	499	4	1,637	9	2,136	13
	$ 15,370	$ 144	$ 153,939	$ 14,638	$ 169,309	$ 14,782

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
Securities Held to Maturity						
Mortgage-backed securities						
Residential	$ -	$ -	$ 156,829	$ 26,736	$ 156,829	$ 26,736
State and political subdivisions						
Tax-exempt	755	15	53,989	4,892	54,744	4,907
Taxable	-	-	66,444	17,255	66,444	17,255
	$ 755	$ 15	$ 277,262	$ 48,883	$ 278,017	$ 48,898

(In Thousands, Except Per Share Data)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
Securities Available For Sale						
U.S. Treasury	$ 43,144	$ 1,521	$ 1,911	$ 268	$ 45,055	$ 1,789
U.S. GSEs	9,212	515	33,622	7,656	42,834	8,171
Mortgage-backed securities						
Commercial	11,087	776	7,477	1,687	18,564	2,463
Residential	38,113	1,844	10,689	794	48,802	2,638
State and political subdivisions						
Tax-exempt	2,395	72	9,150	590	11,545	662
Taxable	19,953	1,438	14,271	1,699	34,224	3,137
Corporate debt securities	4,238	320	4,300	469	8,538	789
Collateralized debt obligations	2,053	26	610	4	2,663	30
	$ 130,195	$ 6,512	$ 82,030	$ 13,167	$ 212,225	$ 19,679

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
Securities Held to Maturity						
Mortgage-backed securities						
Residential	$ 172,606	$ 29,701	$ -	$ -	$ 172,606	$ 29,701
State and political subdivisions						
Tax-exempt	54,054	6,938	-	-	54,054	6,938
Taxable	62,911	20,976	-	-	62,911	20,976
	$ 289,571	$ 57,615	$ -	$ -	$ 289,571	$ 57,615

At December 31, 2023 and 2022, no allowance for credit losses has been recognized on available for sale debt securities in the unrealized loss position as the Company does not believe any of the debt securities are credit impaired. This is based on the Company's analysis of the risk characteristics, including credit ratings, and other qualitative factors related to available for sale debt securities. The issuers of the debt securities continue to make timely principal and interest payments under the contractual terms of the securities. The Company does not intend to sell these debt securities and it is more likely than not that the Company will not be required to sell the debt securities before recovery of their amortized cost, which may be at maturity. The unrealized losses are due to increases in market interest rates over the yields available at the time the debt securities were purchased.

(In Thousands, Except Per Share Data)

Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecast. With regards to U.S. Treasury and residential mortgage-backed securities issued by the U.S. government, or agencies thereof, it is expected that the securities will not be settled at prices less than the amortized cost bases of the securities as such securities are backed by the full faith and credit of and /or guaranteed by the U.S. government. Accordingly, no allowance for credit losses has been recorded for these securities. With regard to securities issued by States and political subdivisions and other held-to-maturity securities, management considers (i) issuers bond ratings, (ii) historical loss rates for given bond ratings, (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, and (iv) internal forecasts. Historical loss rates associated with securities having similar grades as those in our portfolio have generally not been significant. There were no past due principal or interest payments associated with these securities as of December 31, 2023 and 2022. Based upon (i) issuer's strong bond ratings and (ii) a zero historical loss rate, no allowance for credit losses has been recorded for held-to-maturity State and Municipal Securities as such amount is not material at December 31, 2023 and 2022. All debt securities in unrealized positions as of December 31, 2023 continue to perform as scheduled and the Company does not believe there is a possible credit loss or that an allowance for credit loss on these debt securities is necessary.

Note 3: Loans and Allowance for Credit Losses

The loan portfolio is classified based on the underlying collateral utilized to secure each loan for financial reporting purposes. This classification is consistent with the Quarterly Report of Condition and Income filed by the bank for regulatory reporting purposes.

Classes of loans at December 31 include:

	2023	2022
Secured by real estate		
Construction	$ 149,090	$ 116,448
Farmland	103,088	91,397
Residential real estate	489,244	382,156
Commercial real estate	782,915	659,250
Consumer	27,896	25,902
Commercial and other	260,935	236,159
	1,813,168	1,511,312
Allowance for credit losses	(24,084)	(14,132)
Loans receivable, net	$ 1,789,084	$ 1,497,180

As described in Note 1, "*Summary of Significant Accounting Policies*," the Company adopted ASU 2016-13 on January 1, 2023, which introduced the CECL methodology for estimating all expected losses over the life of a financial asset. Under the CECL methodology, the allowance for credit losses ("ACL") is measured on a collective basis for pools with similar risk characteristics. For loans that do not share similar risk characteristics with the collectively evaluated pools, evaluations are performed on an individual basis. For all loan segments collectively evaluated, losses are predicted over a period of time determined to be reasonable and supportable, and at the end of a reasonable and supportable forecast period losses are reverted to long-term historical averages. The estimated credit losses for all loan segments are adjusted for changes in qualitative factors not inherently considered in the quantitative analysis.

The Company uses a weighted average remaining maturity (WARM) method which will annualize the loss rate by defined segments and converts it to a life of loan CECL application. The remaining contractual life is adjusted by scheduled payments and prepayments. A historical quarterly loss rate is calculated using the Company's historical loss data. The quarterly loss rate is multiplied by the expected outstanding balance for each period. The sum of the estimated loss for all quarters is the total calculated reserve for the pool.

Each loan pool is adjusted for qualitative factors not inherently considered in the quantitative analysis. The qualitative adjustments either increase or decrease the quantitative estimation. The Company considers factors that are relevant with in the qualitative framework which include the following: lending policy, changes in nature and volume of loans, staff experience, changes in volume and trends of problem loans, concentration risk, trends in underlying collateral values, external factors, quality of loan review system and other economic conditions.

Inherent risk in the loan portfolio will differ based on type of loan. Specific risk characteristics by loan portfolio segments are listed below:

Construction Real Estate: Construction loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Farmland: Loans secured by farmland are generally made for the purpose of acquiring land devoted to crop production, cattle or poultry, the growth and management of timber or the operation of a similar type of business on the secured property. Sources of repayment for these loans generally include income generated from operations of a business on the property, rental income or sales of the property. Credit risk in these loans may be impacted by crop and commodity prices, the creditworthiness of a borrower, changes in economic conditions which might affect underlying property values and the local economies in the Company's market areas.

Residential Real Estate: The residential real estate loan portfolio consists of residential loans for single and multifamily properties. Residential loans are generally secured by owner occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

(In Thousands, Except Per Share Data)

Commercial and other: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line-of-credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

Changes in the allowance for credit losses, segregated by loan type, during the year ended December 31, 2023 are as follows:

	Beginning Balance	Impact of adopting ASC 326	Charge-offs	Recoveries	Provision for Credit Losses	Ending Balance
Year Ended December 31, 2023						
Secured by real estate						
Construction	$ 1,127	$ 2,528	$ -	$ 381	$ (214)	$ 3,822
Farmland	617	6	(12)	12	26	649
Residential real estate	2,839	2,875	(168)	28	84	5,658
Commercial real estate	6,446	1,042	(105)	263	250	7,896
Consumer	838	343	(1,246)	427	712	1,074
Commercial and other	1,781	2,551	(720)	227	252	4,091
Unallocated	484	(465)	-	-	875	894
	$ 14,132	$ 8,880	$ (2,251)	$ 1,338	$ 1,985	$ 24,084

Changes in the allowance for loan losses, segregated by loan type, during the year ended December 31, 2022 are as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance
Year Ended December 31, 2022					
Secured by real estate					
Construction	$ 1,545	$ (13)	$ 45	$ (450)	$ 1,127
Farmland	652	(18)	-	(17)	617
Residential real estate	3,313	(84)	329	(719)	2,839
Commercial real estate	6,596	(2,032)	38	1,844	6,446
Consumer	700	(1,042)	438	742	838
Commercial and other	2,367	(326)	28	(288)	1,781
Unallocated	546	-	-	(62)	484
	$ 15,719	$ (3,515)	$ 878	$ 1,050	$ 14,132

The Company maintains an ACL for credit losses on unfunded commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is calculated using a methodology similar to that used to determine the ACL for loans, modified to take into account the probability of a drawdown on the commitment. The ACL on unfunded loan commitments is classified as liability account on the Consolidated Balance Sheets within the other liabilities, while the corresponding provision for these credit losses is recorded as a component of other expense for financial reporting purposes. The allowance for credit losses on unfunded commitments was $1.8 million at December 31, 2023. The provision expense for unfunded commitments was $40 for the year ended December 31, 2023.

(In Thousands, Except Per Share Data)

The following table presents the recorded investment in loans individually and collectively evaluated for impairment by loan class as of December 31, 2022:

	December 31, 2022 Loans Evaluated for Impairment		
	Individually	Collectively	Total
Secured by real estate			
Construction	$ 3,476	$ 112,972	$ 116,448
Farmland	-	91,397	91,397
Residential real estate	1,087	381,069	382,156
Commercial real estate	5,744	653,506	659,250
Consumer	-	25,902	25,902
Commercial and other	1,559	234,600	236,159
	$ 11,866	$ 1,499,446	$ 1,511,312

	December 31, 2022 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment		
	Individually	Collectively	Total
Secured by real estate			
Construction	$ 29	$ 1,098	$ 1,127
Farmland	-	617	617
Residential real estate	58	2,781	2,839
Commercial real estate	555	5,891	6,446
Consumer	-	838	838
Commercial and other	509	1,272	1,781
Unallocated	-	484	484
	$ 1,151	$ 12,981	$ 14,132

The Company utilizes a risk grading system to assign a grade to each of its loans when originated. This grade is updated as factors related to quality of a loan change. A description of the current risk grades follows:

Pass (1-5) These ratings represent loans that are acceptable, good or excellent quality with very limited to no risk. Loans are well protected by the current net worth and paying capacity of the obligor (or obligors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral.

Special Mention (6): These loans are currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Company's position at some future date. The weakness or issue could include a policy, credit or collateral exception. These loans may be impacted by economic conditions, that develop subsequent to the loan origination, that don't jeopardize liquidation of the debt but do substantially increase the level of risk.

Substandard (7): These loans are inadequately protected by the current sound net worth or paying capacity of the obligor or pledged collateral. Substandard loans will generally be dependent upon collateral for repayment. These loans have well-defined weaknesses jeopardizing orderly liquidation. Substandard loans may or may not be impaired.

Doubtful (8): These are loans with weaknesses inherent in the substandard classification and where collection in full is highly questionable based on currently existing facts. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful loans will have some recognizable impairment.

The Company evaluates the risk grading system and allowance for credit loss methodology on an ongoing basis. No significant changes were made to either in 2023, other than the adoption of CECL methodology effective January 1, 2023.

(In Thousands, Except Per Share Data)

The table below presents loan balances classified by credit quality indicator, loan type and based on year of origination as of December 31, 2023:

	2023	2022	2021	Prior	Revolving Loans	Total Loans
December 31, 2023						
Secured by real estate						
Construction						
Pass	$ 66,397	$ 40,067	$ 24,270	$ 9,089	$ 4,499	$ 144,322
Watch	108	-	7	2,452	-	2,567
Substandard	376	1,640	16	169	-	2,201
Total Construction	$ 66,881	$ 41,707	$ 24,293	$ 11,710	$ 4,499	$ 149,090
Farmland						
Pass	$ 18,924	$ 18,920	$ 27,268	$ 25,906	$ 10,254	$ 101,272
Watch	20	115	230	387	-	752
Substandard	-	-	-	1,064	-	1,064
Total Farmland	$ 18,944	$ 19,035	$ 27,498	$ 27,357	$ 10,254	$ 103,088
Residential real estate						
Pass	$ 109,917	$ 108,508	$ 89,999	$ 111,812	$ 54,140	$ 474,376
Watch	312	1,657	858	2,051	340	5,218
Substandard	1,165	2,722	1,766	3,441	556	9,650
Total Residential real estate	$ 111,394	$ 112,887	$ 92,623	$ 117,304	$ 55,036	$ 489,244
Commercial real estate						
Pass	$ 105,467	$ 189,961	$ 219,982	$ 244,798	$ 14,554	$ 774,762
Watch	12	-	606	678	96	1,392
Substandard	-	77	1,210	5,474	-	6,761
Total Commercial real estate	$ 105,479	$ 190,038	$ 221,798	$ 250,950	$ 14,650	$ 782,915
Consumer						
Pass	$ 8,754	$ 7,818	$ 3,468	$ 6,978	$ 286	$ 27,304
Watch	10	58	73	63	-	204
Substandard	73	122	74	119	-	388
Total Consumer	$ 8,837	$ 7,998	$ 3,615	$ 7,160	$ 286	$ 27,896
Commercial and other						
Pass	$ 60,997	$ 56,051	$ 38,597	$ 36,683	$ 64,460	$ 256,788
Watch	40	337	74	354	-	805
Substandard	240	954	405	1,511	232	3,342
Total Commercial and other	$ 61,277	$ 57,342	$ 39,076	$ 38,548	$ 64,692	$ 260,935
Total Loans						
Pass	$ 370,456	$ 421,325	$ 403,584	$ 435,266	$ 148,193	$ 1,778,824
Watch	502	2,167	1,848	5,985	436	10,938
Substandard	1,854	5,515	3,471	11,778	788	23,406
Total Loans	$ 372,812	$ 429,007	$ 408,903	$ 453,029	$ 149,417	$ 1,813,168

(In Thousands, Except Per Share Data)

The following table details the amount of loans by grade and loan class as of December 22, 2022:

	Grades (1 - 5)	Watch (6)	Substandard (7)	Doubtful (8)	Total Loans
December 31, 2022					
Secured by real estate					
Construction	$ 113,359	$ 81	$ 3,008	$ -	$ 116,448
Farmland	90,117	796	484	-	91,397
Residential real estate	374,812	3,793	3,551	-	382,156
Commercial real estate	651,625	908	6,717	-	659,250
Consumer	25,546	107	249	-	25,902
Commercial and other	232,612	976	2,571	-	236,159
	$ 1,488,071	$ 6,661	$ 16,580	$ -	$ 1,511,312

Nonperforming loans include nonaccrual loans and loans 90 days or more days past due and still accruing. Loans by performing status as of December 31, 2023 are as follows:

December 31, 2023	Performing	Nonperforming	Total
Secured by real estate			
Construction	$ 148,968	$ 122	$ 149,090
Farmland	103,007	81	103,088
Residential real estate	485,652	3,592	489,244
Commercial real estate	778,827	4,088	782,915
Consumer	27,623	273	27,896
Commercial and other	258,953	1,982	260,935
	$ 1,803,030	$ 10,138	$ 1,813,168

The following table presents loans evaluated for impairment by loan class as of December 31, 2022.

		Recorded Loan Balance				
	Unpaid Principal Balance	With No Specific Allowance	With a Specific Allowance	Total	Specific Allowance	Average Recorded Loan Balance
December 31, 2022						
Secured by real estate						
Construction	$ 3,476	$ 2,390	$ -	$ 2,390	$ 29	$ 3,996
Residential real estate	1,087	870	217	1,087	58	767
Commercial real estate	5,744	3,898	1,846	5,744	555	6,554
Consumer	-	-	-	-	-	-
Commercial and other	1,559	-	1,559	1,559	509	1,571
	$ 11,866	$ 7,158	$ 3,622	$ 10,780	$ 1,151	$ 12,888

(In Thousands, Except Per Share Data)

Loans by past due status as of December 31, 2023 and 2022, are as follows:

	Accruing Loans Past Due		Nonaccrual	Nonaccrual	Total		
	30 - 89 Days	90 Days or More	With No ACL	With ACL	Past Due and Nonaccrual	Current Loans	Total Loans
December 31, 2023							
Secured by real estate							
Construction	$ 426	$ -	$ 122	$ -	$ 548	$ 148,542	$ 149,090
Farmland	307	-	81	-	388	102,700	103,088
Residential real estate	5,408	326	3,054	212	9,000	480,244	489,244
Commercial real estate	127	194	349	3,545	4,215	778,700	782,915
Consumer	341	-	273	-	614	27,282	27,896
Commercial and other	871	-	652	1,330	2,853	258,082	260,935
	$ 7,480	$ 520	$ 4,531	$ 5,087	$ 17,618	$ 1,795,550	$ 1,813,168

	Accruing Loans Past Due			Total		
	30 - 89 Days	90 Days or More	Non-accrual	Past Due and Nonaccrual	Current Loans	Total Loans
December 31, 2022						
Secured by real estate						
Construction	$ 273	$ -	$ 2,713	$ 2,986	$ 113,462	$ 116,448
Farmland	340	-	177	517	90,880	91,397
Residential real estate	2,658	-	2,143	4,801	377,355	382,156
Commercial real estate	94	-	3,999	4,093	655,157	659,250
Consumer	162	-	185	347	25,555	25,902
Commercial and other	751	-	2,142	2,893	233,266	236,159
	$ 4,278	$ -	$ 11,359	$ 15,637	$ 1,495,675	$ 1,511,312

The Company would have recognized $492 of interest income on nonaccrual loans during the year ended December 31, 2023.

Loans that no longer share similar risk characteristics with the collectively evaluated pools are estimated on an individual basis. A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The following table summarizes collateral-dependent gross loans held for investment by collateral type as of December 31, 2023.

(In Thousands, Except Per Share Data)

	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
December 31, 2023						
Secured by real estate						
Construction	$ 1,915	$ -	$ -	$ -	$ 1,915	$ 1,300
Farmland	629	-	-	-	629	9
Residential real estate	4,503	-	-	-	4,503	451
Commercial real estate	7,972	-	-	-	7,972	853
Consumer	-	-	-	-	-	-
Commercial and other	-	232	202	1,533	1,967	775
	$ 15,019	$ 232	$ 202	$ 1,533	$ 16,986	$ 3,388

For borrowers that are in financial distress the Company may occasionally provide modifications which may include principal forgiveness, term extension, and other-than-significant payment delay, or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charge-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concession on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

As of December 31, 2023 the Company modified the payment terms of interest only commercial real estate loans with an outstanding balance of $3,545. The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. There were no loans modified in 2023 that were past due greater than 30 days as of December 31, 2023.

The Company has purchased 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 carrying amount of those loans is as follows:

	2023	2022
Commercial	$ 1,240	$ 2,974
Consumer	175	2,003
Carrying amount, net of allowance $1,912 and $4,500	$ 1,415	$ 4,977

For those purchased credit impaired loans disclosed above, the Company increased the allowance for credit losses by $2,169 and $3,206 during 2023 and 2022, respectively. No allowances for loan losses were reversed during 2023 and 2022.

(In Thousands, Except Per Share Data)

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, follow:

	2023	2022
Land	$ 14,678	$ 11,502
Buildings and improvements	58,832	47,878
Furniture, fixtures and equipment	13,904	12,169
	87,414	71,549
Less accumulated depreciation	(21,197)	(18,947)
Net premises and equipment	$ 66,217	$ 52,602

Note 5: Other Intangible Assets

The carrying basis and accumulated amortization of recognized core deposit intangible assets follow:

	2023			2022		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Beginning balance	$ 11,695	$ (3,302)	$ 8,393	$ 6,404	$ (2,509)	$ 3,895
Additions	4,518	-	4,518	5,291	-	5,291
Amortization expense	-	(1,621)	(1,621)	-	(793)	(793)
Ending balance	$ 16,213	$ (4,923)	$ 11,290	$ 11,695	$ (3,302)	$ 8,393

Estimated amortization expense for each of the following five years, based on current intangible assets, is as follows:

2024	$ 1,621
2025	1,544
2026	1,389
2027	1,389
2028	1,389
	$ 7,332

(In Thousands, Except Per Share Data)

Note 6: Other Assets

A summary of other assets at December 31 follows:

	2023	2022
Cash surrender value of life insurance	$ 65,639	$ 48,836
Foreclosed assets held for sale, net	7	875
Other	23,729	21,913
	$ 89,375	$ 71,624

Note 7: Deposits

Categories of deposits at December 31 follow:

	2023	2022
Noninterest bearing deposits	$ 545,024	$ 524,951
Interest bearing deposits		
Money market, NOW and savings accounts	1,191,953	1,210,466
Certificates of deposit of $250 thousand or more	149,611	64,165
Other certificates of deposit	402,547	261,648
Total interest bearing deposits	1,744,111	1,536,279
Total deposits	$ 2,289,135	$ 2,061,230

At December 31, 2023, the scheduled maturities of certificates of deposit follow:

2024	$ 471,566
2025	36,821
2026	16,507
2027	17,748
2028	9,516
	$ 552,158

(In Thousands, Except Per Share Data)

Note 8: Notes Payable

Categories of notes payable at December 31 follow:

	2023	2022
Note payable to a bank, bearing interest at a fixed rate of 3.02%, until maturity at September 4, 2025. This note requires monthly principal payments of $117 plus accrued interest.	$ 2,468	$ 3,867
Note payable to a bank, bearing interest at a fixed rate of 3.02%, until maturity at June 29, 2027. This note requires monthly principal payments of $63 plus accrued interest.	4,937	5,688
	$ 7,405	$ 9,555

The Company entered into a credit agreement (the Agreement) with a commercial bank consisting of a $10,000 revolving line of credit. This line of credit and term loans are secured by 53,264 shares of the Bank's common stock. The Company's line of credit requires monthly interest payments and bears interest at SOFR rate plus 2.50%, which was 7.88% at December 31, 2023. As of December 31, 2023 there were no amounts borrowed under the line of credit.

As of December 31, 2023, the scheduled maturities of notes payable are as follows:

	Company's Term Loans
2024	$ 2,150
2025	1,818
2026	750
2027	2,687
	$ 7,405

(In Thousands, Except Per Share Data)

Note 9: Subordinated Debentures

The following is a summary of subordinated debentures at December 31:

	2023	2022
Subordinated debentures	$ 14,979	$ 14,894
Subordinated debentures payable to statutory trusts	14,656	11,341
	$ 29,635	$ 26,235

Subordinated Debentures

The Company issued $15,000 subordinated debentures to institutional lenders on April 1, 2019. Net proceeds received by the Company from these debentures amounted to $14,700. These debentures bear interest, payable semi-annually at a rate of 6.375%. These debentures mature on April 1, 2029, and the principal may be repaid by the Company in whole or in part, beginning on April 1, 2024.

The following is a summary of subordinated debentures payable to institutional lenders at December 31:

	2023	2022
Principal balance	$ 15,000	$ 15,000
Unamortized debt issuance costs	(21)	(106)
	$ 14,979	$ 14,894

Subordinated Debentures Payable to Statutory Trusts

The Company owns the outstanding common stock of business trusts that have issued preferred capital securities to third parties. These preferred capital securities qualify as Tier I capital for the Company, subject to regulatory rules and limits. These trusts used the proceeds from the issuance of the common stock and the preferred capital securities to purchase debentures issued by the Company. These debentures are these trusts' only assets, and quarterly interest payments on these debentures are the sole source of cash for these trusts to pay quarterly distributions on the common stock and preferred capital securities. The Company has fully and unconditionally guaranteed the trusts' obligation with respect to the preferred capital securities.

Although the Company has not elected to do so, the Company has the right to defer the payment of interest on the subordinated debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on the subordinated debentures are deferred, the distributions on the preferred capital securities are also deferred. Interest on the subordinated debentures and distributions on the preferred capital securities are cumulative.

The Company has the right to redeem the debentures prior to maturity. Upon redemption of the subordinated debentures payable to a statutory trust, the trust will also liquidate its common stock and preferred capital securities. The subordinated debentures payable to Trust II have been eligible for redemption by the Company since September 15, 2008. The subordinated debentures payable to Trust III have been eligible for redemption by the Company since December 15, 2010. The subordinated debentures payable to First National Bancshares of Central Alabama Statutory Trust I have been eligible for redemption since March 15, 2010. The subordinated debentures payable to Mechanics Capital Trust I have been eligible for redemption since April 23, 2009.

(In Thousands, Except Per Share Data)

The following is a summary of debentures payable to statutory trusts as of December 31, 2023 and 2022. Interest rates adjust quarterly for the debentures whose rates are indexed with SOFR.

	Year of Maturity	Interest Rate	2023	2022
BankFirst Capital Statutory Trust II	2033	3-month SOFR, plus 2.95% 8.59% (2023) and 7.69% (2022)	$ 3,093	$ 3,093
BankFirst Capital Statutory Trust III	2035	3-month SOFR, plus 1.45% 7.10% (2023) and 6.22% (2022)	3,093	3,093
Mechanics Capital Trust I	2034	3-month SOFR plus 2.8% 8.47% (2023)	3,315	-
First National Bancshares of Central Alabama Statutory Trust I	2036	3-month SOFR, plus 1.60% 7.25% (2023) and 6.37% (2022)	5,155	5,155
			$ 14,656	$ 11,341

(In Thousands, Except Per Share Data)

Note 10: Other Expenses

A summary of other expenses at December 31 follows:

	2023	2022
Legal and professional expenses	$ 4,025	$ 2,696
Interchange expense	2,401	4,187
Advertising and promotions	2,102	1,714
Amortization of intangible assets	1,621	793
Other	12,292	7,812
	$ 22,441	$ 17,202

Note 11: Income Taxes

The provision (credit) for income taxes includes these components:

	2023	2022
Taxes currently payable	$ 5,359	$ 4,369
Deferred income taxes	2,499	1,418
	$ 7,858	$ 5,787

A reconciliation of income tax expense at the statutory rate of 21% to the Company's actual income tax expense is shown below:

	2023	2022
Computed at the statutory rate	$ 7,572	$ 6,036
Increase (decrease) resulting from		
Tax-exempt interest	(572)	(441)
Life insurance income	(250)	(163)
State income taxes	1,190	834
Other	(82)	(479)
	$ 7,858	$ 5,787

(In Thousands, Except Per Share Data)

The tax effects of temporary differences related to deferred taxes shown at December 31 follow:

	2023	2022
Deferred tax assets		
Allowance for credit losses	$ 6,455	$ 3,136
Foreclosed assets held for sale	5	37
Stock based compensation	518	368
Deferred compensation	2,427	2,072
Accrued expenses	168	770
Purchase accounting adjustments	4,600	3,847
Income tax credits	217	434
Accumulated other comprehensive loss	3,487	4,678
Other	390	220
	18,267	15,562
Deferred tax liabilities		
Depreciation and amortization	(4,830)	(3,728)
Prepaid expenses	(441)	(304)
Goodwill and other intangible assets	(3,148)	(2,190)
Other	(723)	(218)
	(9,142)	(6,440)
Net deferred tax asset	$ 9,125	$ 9,122

Management believes it is more likely than not that all the deferred tax assets will be realized. The Company's net deferred tax assets are included in other assets in the consolidated balance sheets.

(In Thousands, Except Per Share Data)

Note 12: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity follow:

	Unrealized Gains (Losses) on		
	AFS Securities	AFS Securities Transferred To HTM	Total
Balance, January 1, 2022			
Amount	$ (746)	$ -	$ (746)
Tax effect	186	-	186
Net of Tax	(560)	-	(560)
Unrealized loss transferred from AFS to HTM			
Amount	146	(146)	-
Tax effect	(36)	36	-
Net of Tax	110	(110)	-
Other comprehensive income for 2022			
Amount	(17,831)	(169)	(18,000)
Tax effect	4,449	43	4,492
Net of Tax	(13,382)	(126)	(13,508)
Balance, December 31, 2022			
Amount	(18,431)	(315)	(18,746)
Tax effect	4,599	79	4,678
Net of Tax	(13,832)	(236)	(14,068)
Other comprehensive income for 2023			
Amount	4,933	(159)	4,774
Tax effect	(1,231)	40	(1,191)
Net of Tax	3,702	(119)	3,583
Balance, December 31, 2023			
Amount	(13,498)	(474)	(13,972)
Tax effect	3,368	119	3,487
Net of Tax	$ (10,130)	$ (355)	$ (10,485)

Note 13: Stockholders' Equity

Preferred Stock

The Company is authorized to issue 300,000 shares of preferred stock at no par value per share. The Board of Directors is authorized to set dividend rates, redemption terms and conversion terms.

Emergency Capital Investment Program

Established by the Consolidated Appropriations Act, 2021, the Emergency Capital Investment Program (ECIP) was created to encourage Community Development Financial Institutions, such as the Bank, and minority depository institutions to augment their efforts to support small and minority-owned businesses and consumers in low-income and underserved communities. The Company issued $175 million (175,000 shares) of Senior Preferred Stock to the U.S Department of the Treasury (Treasury) pursuant to ECIP on April 26, 2022. As a result of the acquisition of Mechanics Bancorp, the Company assumed 43,585 shares of Senior Preferred Stock having a redemption value of $43.585 million. As discussed in Note 21, the Senior Preferred Stock assumed in this acquisition was recorded at $13.68 million. The ECIP investment from the Treasury is intended to qualify as Tier 1 capital of the Company for regulatory capital purposes.

The Senior Preferred issued to the Treasury will pay non-cumulative dividends, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year beginning on the first dividend payment date after the two- year anniversary of the date of issuance. The dividend rate to be paid on the Senior Preferred is 2% but may adjust annually based on certain measurements of the Company's extensions of credit to minority, rural, and urban low-income and underserved communities and low- and moderate-income borrowers. The Company is entitled to redeem the Senior Preferred on or after the fifth anniversary of the issuance of Senior Preferred, subject to approval by the Federal Reserve and in accordance with applicable regulatory capital regulations.

Note 14: Regulatory Matters

The Bank may be required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. At December 31, 2023, no such reserve was required.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

(In Thousands, Except Per Share Data)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined).

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020. The Bank elected the CBLR framework as of June 30, 2022. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The CBLR framework removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the CBLR framework minimum requirement is 8.5% as of December 31, 2021 and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the requirement amount, provided the bank maintains a leverage ratio greater than 8% thereafter.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert to the risk-weighting without restriction. As of December 31, 2023, the Bank is a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework on June 30, 2022.The following table presents actual and required capital ratios as of December 31, 2023 and 2022, for the Bank under the capital regulatory rules then in effect:

	Actual		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions (CBLR Framework)	
	Amount	**Ratio**	**Amount**	**Ratio**
December 31, 2023				
Tier 1 (Core) Capital to average total assets	277,004	10.5%	238,561	9.0%
December 31, 2022				
Tier 1 (Core) Capital to average total assets	224,672	9.6%	210,587	9.0%

(In Thousands, Except Per Share Data)

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to its stockholders and for other cash needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the Bank. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items, and, as a result, capital adequacy considerations could further limit the availability of dividends from the Bank. These restrictions are not anticipated to have a material effect on the ability of the Bank to pay dividends to the Company.

Note 15: Related Party Transactions

The Company had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) at December 31, 2023 and 2022. In addition to these loans, the Company has commitments to extend credit to these related parties which amounted to $3,232 and $3,010 at 2023 and 2022. The following is a summary of activity in related party loans:

	2023	2022
Balance, beginning of year	$ 2,231	$ 544
Advances	1,264	3,920
Repayments	(339)	(2,233)
Balance, end of year	$ 3,156	$ 2,231

Deposits from related parties held by the Company totaled $33,745 and $35,203 at December 31, 2023 and 2022.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Note 16: Employee Benefits

401(k) Plan

The Company has a 401(k) plan covering substantially all full time employees of the Company and the Bank. Participants may make contributions to the plan in accordance with applicable regulations and the plan's provisions. The Company makes discretionary matching contributions and additional employer contributions at the discretion of the Board of Directors. The Company contributed $1,189 and $970 to the plan in 2023 and 2022.

Split-dollar Life Insurance Arrangements

For endorsement split-dollar life insurance arrangements, an employer must recognize the liability for future benefits based on the substantive agreement with the employee. The total accrued liability amounted to $817 and $781 at December 31, 2023 and 2022, and is included in other liabilities in the consolidated balance sheets.

(In Thousands, Except Per Share Data)

Deferred Compensation Plan

The Company has deferred retirement arrangements for the benefit of certain directors, which generally provide for the payment of monthly benefits to participants at age 70 for a specified period of years. The Company is accruing the present value of the projected benefits to the date of retirement of the respective participants using a discount rate range of 3.75% - 5.50%. The deferred compensation liability is included in other liabilities in the consolidated balance sheets.

The following is a summary of the deferred compensation liability:

	2023	2022
Beginning balance	$ 8,265	$ 6,504
Acquisition	1,401	1,606
Expense accrued	423	753
Payments	(481)	(598)
Ending balance	$ 9,608	$ 8,265

Note 17: Stock-based Compensation

The Company has a restricted stock plan providing for the issuance of common shares to certain officers. Restricted shares that have not vested are included in the Company's outstanding shares. Compensation expense is recognized over the respective vesting periods of the stock grants based on the fair value of the stock at the grant date. In addition, restricted shares become fully vested in the event of death of a participant or upon a change in control. Participants are entitled to receive dividends as compensation and to vote the restricted shares that have not vested. Restricted shares that have not vested may not be transferred by the participants.

Of the outstanding non-vested shares at December 31, 2023, approximately 17,400 shares vest at 10% per year from their respective grant dates, approximately 91,900 shares vest at the end of 5 years from their respective grant dates, and approximately 82,000 shares vest at the end of a three years from their respective grant dates. The following is a summary of changes in the Company's non-vested shares for 2023:

	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of year	158,073	$ 27.02
Granted	53,658	37.75
Vested	(20,400)	25.57
Forfeited	(2,000)	37.75
Nonvested, end of year	189,331	$ 30.14

(In Thousands, Except Per Share Data)

The Company recognized compensation expense of $1,124 and $767 related to these restricted shares during 2023 and 2022. The total fair value of shares vested in 2023 was $522. At December 31, 2023, there was $3,704 of total unrecognized compensation cost related to non-vested shares.

Note 18: Earnings Per Common Share

Earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation.

Earnings per common share were computed as follows:

	2023	2022
Net income available to common stockholders	$ 28,201	$ 22,955
Weighted-average common shares outstanding	5,388,998	5,328,313
Earnings per common share	$ 5.23	$ 4.30

Note 19: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

(In Thousands, Except Per Share Data)

Recurring Measurements

The following table presents the fair value measurement of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023 and 2022:

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
December 31, 2023				
Available-for-sale debt securities				
U.S. Treasury	$ 17,538	$ 17,538	$ -	$ -
U.S. GSEs	61,965	-	61,965	-
Mortgage-backed securities	85,295	-	85,295	-
State and political subdivisions	61,188	-	61,188	-
Corporate debt securities	6,879	-	6,879	-
Collateralized debt obligations	2,608	-	2,608	-
	$ 235,473	$ 17,538	$ 217,935	$ -
December 31, 2022				
Available-for-sale debt securities				
U.S. Treasury	$ 45,055	$ 45,055	$ -	$ -
U.S. GSEs	68,633	-	68,633	-
Mortgage-backed securities	85,091	-	85,091	-
State and political subdivisions	68,335	-	68,335	-
Corporate debt securities	8,538	-	8,538	-
Collateralized debt obligations	2,633	-	2,633	-
	$ 278,285	$ 45,055	$ 233,230	$ -

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2023 or 2022.

Available for Sale Debt Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include the remainder of the Company's available-for-sale securities. For these securities the Company obtains fair value measurements from an independent pricing service that considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, valuation matrices, credit information and the bond's terms and conditions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities.

(In Thousands, Except Per Share Data)

Nonrecurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023 and 2022:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2023				
Loans individually evaluated	$ 13,598	$ -	$ -	$ 13,598
Foreclosed assets held for sale	7	-	-	7
December 31, 2022				
Loans individually evaluated	$ 10,755	$ -	$ -	$ 10,755
Foreclosed assets held for sale	875	-	-	875

Following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2023 and 2022.

Loans Individually Evaluated

Loans individually evaluated are measured and reported at fair value using the exit price approach as described in ASC 820-10. The estimated fair value of collateral less cost to sell is generally determined based on certified appraisals adjusted for estimated costs to sell. Management modifies the appraised values, if needed, to take into account recent economic developments in the market or other factors. Estimated costs to sell are based on current amounts of disposal costs for similar assets. These measurements are classified as Level 3 within the valuation hierarchy. Loans individually evaluated are subject to nonrecurring fair value adjustment upon initial recognition or subsequent individual evaluation.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value is determined on the basis of appraisals and evaluations. The Company's foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals are obtained when the real estate is acquired and subsequently as deemed necessary by management. Appraisers are selected from the list of approved appraisers maintained by management.

(In Thousands, Except Per Share Data)

Estimated costs to sell are an unobservable input used in the fair value measurement of collateral for collateral dependent individually evaluated loans and foreclosed assets held for sale relates to the discounting criteria used to consider lack of marketability and estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results. During 2023 and 2022, collateral discounts ranged from 0% to 100%, with an average discount of approximately 20% per property.

Fair Value of Financial Instruments

The following table presents carrying amounts and estimated fair values of financial instruments not carried at fair value at December 31, 2023 and 2022.

	December 31, 2023		December 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 2 Inputs:				
Cash and due from banks	$ 51,829	$ 51,829	$ 107,215	$ 107,215
Interest bearing bank balances	61,264	61,264	5,347	5,347
Federal funds sold	14,500	14,500	12,625	12,625
Securities held to maturity	328,013	279,116	347,995	290,381
Interest receivable	11,286	11,286	10,070	10,070
FRB stock	-	-	-	-
FHLB stock	-	-	-	-
Level 3 Inputs:				
Loans, net	1,789,084	1,695,873	1,497,180	1,191,558
Financial liabilities				
Level 2 Inputs:				
Deposits	2,289,135	2,280,466	2,061,230	2,024,871
Short-term borrowings	-	-	3,475	3,475
Notes payable	7,405	7,301	9,555	9,555
Subordinated debentures	29,635	29,978	26,235	26,944
Interest payable	6,086	6,086	825	825

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on either a recurring basis or non-recurring basis. In cases where quoted market prices are not available, fair values are generally based on estimates using present value techniques. The Company's premise in present value techniques is to represent the fair values on a basis of replacement value of the existing instrument given observed market rates on the measurement date. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates for those assets or liabilities cannot be necessarily substantiated by comparison to independent markets and, in many cases, may not be realizable in immediate settlement of the instruments. The estimated fair value of financial instruments with immediate and shorter-term maturities (generally 90 days or less) is assumed to be the same as the recorded book value. All nonfinancial instruments, by definition, have been excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The methodology and significant assumptions used in estimating the fair values presented above are as follows:

Cash and Due from Banks, Interest Bearing Bank Balances, Federal Funds Sold, FRB Stock, FHLB Stock, Interest Receivable and Interest Payable

The carrying amount approximates fair value.

Held to Maturity Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include the remainder of the Company's held to maturity securities. For these securities the Company obtains fair value measurements from an independent pricing service that considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, valuation matrices, credit information and the bond's terms and conditions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Company would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity and the structure and term of the loans along with local economic and market conditions. Loans with similar characteristics were aggregated for purposes of the calculations. This process for estimating the fair value of net loans does not represent an exit price under FASB ASC Topic 820 and such an exit price could potentially produce a different fair value estimate at December 31, 2023 and 2022.

Deposits

Deposits include demand deposits, money market, NOW and savings accounts. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Notes Payable and Subordinated Debentures

The fair values of the Company's FHLB advances and subordinated debentures are based on the discounted value of contractual cash flows using current rates for debt with similar terms and remaining maturities for discounting purposes. The carrying amount of subordinated debentures approximates fair value, since the majority of these instruments have variable interest rates.

Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for credit losses and loan concentrations are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. In management's opinion, the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Commitments and Credit Risk

The Company's loan portfolio includes commercial, agricultural and real estate loans to borrowers primarily in its market areas in Mississippi and Alabama. Although the Company has a diversified loan portfolio, the Company has concentrations of credit risks related to the real estate market, the agricultural economy and general economic conditions in the Company's market area. Categories of loans are disclosed in Note 3.

As disclosed in Note 3, at December 31, 2023, the Company held $782,915 in loans collateralized by commercial real estate and $149,090 in loans collateralized by construction real estate primarily in the Company's geographic area.

Commitments to Originate Loans

Commitments to originate loans 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 a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

The Company had total outstanding standby letters of credit of approximately \$3,599 and \$3,054, unused lines of credit to residential borrowers of approximately \$58,702 and \$37,989, and other unused lines of credit and commitments to originate loans of approximately \$201,694 and \$283,700, at December 31, 2023 and 2022.

(In Thousands, Except Per Share Data)

Note 21: Business Combinations

Tate Financial Corporation and Sycamore Bank

On October 1, 2022, the Company completed its acquisition of Tate Financial Corporation ("Tate") and Sycamore Bank, Senatobia, Mississippi ("Sycamore Bank") for all cash consideration. The primary reasons for the acquisition were to realize cost synergies and to expand the Company's footprint by acquiring a financial institution with operations in North Mississippi. Sycamore's results of operations were included in the Company's results beginning October 1, 2022. Acquisition related costs of $620 are included in other noninterest expense in the Company's Consolidated Statement of Income.

In connection with the acquisition, the Company recorded $23,282 in goodwill, none of which will be deductible for tax purposes. The Company also recorded $5,020 of core deposit intangibles which will be amortized over 10 years for financial statement purposes, but is not deductible for income tax purposes. The following table summarizes the amounts of assets acquired and liabilities assumed at the acquisition date.

Fair Value of Consideration Transferred:	
Cash	$ 40,000
Identifiable assets:	
Cash and due from banks	10,760
Federal funds sold	70,650
Available-for-sale securities	76,232
Loans	144,102
Premises and equipment	4,637
Core deposit intangible	5,020
Other assets	12,408
Total assets	323,809
Identifiable liabilities:	
Deposits	301,663
Other liabilities	5,428
Total liabilities	307,091
Identifiable net assets acquired	16,718
Goodwill resulting from acquisition	$ 23,282

The Company acquired a loan portfolio with gross amounts receivable of $151,547 and an estimated fair value of $144,102. This fair value discount of $4,148 represents adjustments to market interest rates and liquidity adjustments net of the expected credit losses which includes a credit mark discount of $3,297.

(In Thousands, Except Per Share Data)

Mechanics Banc Holding Company and Mechanics Bank

On January 1, 2023, the Company completed its acquisition of Mechanics Banc Holding Company ("Mechanics"), the parent company of Mechanics Bank, Water Valley, Mississippi ("Mechanics Bank") for all cash consideration. The primary reasons for the acquisition were to realize cost synergies and to expand the Company's footprint by acquiring a financial institution with operations in North Mississippi. Mechanics Bank's operations were included in the Company's results beginning January 1, 2023. Acquisition related costs of $194 and $351 are included in other noninterest expense in the Company's Consolidated Statement of Income.

In connection with this acquisition the value of the identifiable net assets acquired is greater than the consideration transferred which results in a potential bargain purchase gain on this transaction. This resulted in a bargain purchase gain which is primarily the result of Mechanics $43.585 million ECIP preferred stock having an estimated fair value of $9.23 million. The Company recorded this bargain purchase gain by increasing the amount of the ECIP preferred stock recorded in this transaction to $13.68 million. The Company also recorded $4,518 of core deposit intangibles which will be amortized over 10 years for financial statement purposes but is not deductible for income tax purposes.

The following table summarizes the amounts of assets acquired and liabilities assumed at the acquisition date.

Fair Value of Consideration Transferred:	
Cash	$ 55,000
Identifiable assets:	
Cash and due from banks	56,991
Federal funds sold	2,548
Available-for-sale securities	32,430
Loans	203,814
Premises and equipment	9,744
Core deposit intangible	4,518
Other assets	12,431
Total assets	322,476
Identifiable liabilities:	
Deposits	246,460
Subordinated debentures	3,334
Other liabilities	4,002
Total liabilities	253,796
ECIP preferred stock assumed	9,230
Identifiable net assets acquired	59,450
Identifiable nets assets acquired in excess of consideration transferred	$ (4,450)

(In Thousands, Except Per Share Data)

The Company acquired a loan portfolio with gross amounts receivable of $211,401 and an estimated fair value of $203,814. This fair value discount of $5,494 represents adjustments to market interest rates and liquidity adjustments net of the expected credit losses which includes a credit mark discount of $2,093.

Note 22: Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 1, 2024, which is the date the financial statements were available to be issued.

Note 23: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company.

Condensed Balance Sheets

	December 31, 2023	December 31, 2022
Assets		
Cash	$ 66,596	$ 89,263
Investment in subsidiary	341,181	283,477
Investment in statutory trusts	503	341
Other assets	1,595	1,303
Total assets	$ 409,875	$ 374,384
Liabilities		
Subordinated debentures	$ 29,635	$ 26,235
Notes payable	7,405	9,555
Other liabilities	398	1,259
Total liabilities	37,438	37,049
Stockholders' Equity	372,437	337,335
Total liabilities and stockholders' equity	$ 409,875	$ 374,384

(In Thousands, Except Per Share Data)

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31, 2023	2022
Income		
Other income	$ 45	$ 13
Total income	45	13
Expenses		
Interest expense	2,264	2,012
Other	1,492	790
Total expenses	3,756	2,802
Loss Before Income Tax and Equity in Net Income of Subsidiary	(3,711)	(2,789)
Income Tax Benefit	1,111	723
Loss Before Equity in Net Income of Subsidiary	(2,600)	(2,066)
Equity in Net Income of Subsidiary	30,801	25,021
Net Income	28,201	22,955
Other Comprehensive Income (Loss)	3,583	(13,508)
Comprehensive Income	$ 31,784	$ 9,447

(In Thousands, Except Per Share Data)

Condensed Statements of Cash Flows

	Years Ended December 31, 2023	2022
Operating Activities		
Net income	$ 28,201	$ 22,955
Items not requiring (providing) cash		
Equity in net income of subsidiary	(30,801)	(25,021)
Other, net	(1,432)	485
Net cash used in operating activities	(4,032)	(1,581)
Investing Activities		
Dividends received from subsidiary	-	-
Capital injected into subsidiary	-	(10,000)
Cash used in acquisition, net of cash acquired	(11,415)	(65,907)
Net cash provided by used in investing activities	(11,415)	(75,907)
Financing Activities		
Repayment of notes payable	(2,150)	(31,900)
Preferred stock issued	-	175,000
Common stock redeemed	(209)	(127)
Dividends paid on common stock	(4,861)	(4,550)
Net cash provided by (used in) financing activities	(7,220)	138,423
Change in Cash	(22,667)	60,935
Cash, Beginning of Year	89,263	28,328
Cash, End of Year	$ 66,596	$ 89,263

BANKFIRST CAPITAL

BFCC TRADED ON OTCQX

Corporate Offices

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Stock Listing

BankFirst Capital Corporation is listed on the OTCQX® Best Market under the symbol "BFCC."

Transfer Agent & Registrar

Shareholders who wish to change the name, address, or ownership of stock, report lost stock certificates, inquire about the Dividend Reinvestment Plan or consolidate stock accounts should contact:

Issuer Direct
One Glenwood Ave, Suite 101
Raleigh, NC 27603
transfer@issuerdirect.com

2024 Annual Meeting of Shareholders

Thursday, April 25, 2024, 10:00 a.m.
903 College Street, Columbus, Mississippi 39701