COMMERCIAL NATIONAL FINANCIAL CORPORATION

CELEBRATING 130 YEARS OF COMMUNITY BANKING

ANNUAL REPORT 2023

CONTENTS

COMMERCIAL BANK

Locally Owned. Locally Operated.

ALMA | GRAND RAPIDS | GREENVILLE | HASTINGS | ITHACA | MASON | MIDDLETON | OKEMOS | ST. LOUIS

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To Our Shareholders,

As we reflect on 2023, it gives me great pleasure to share with you the remarkable achievements and milestones we have accomplished at Commercial National Financial Corporation (the Corporation). In the face of a rapidly increasing interest rate environment, I am pleased to report that 2023 was indeed a very good year for us. Despite the challenges posed by the prevailing economic conditions, the Corporation demonstrated resilience and adaptability, emerging with success on multiple fronts.

Financially, our performance not only met our budgetary expectations, but also marked the third best year in our Corporation's history. Consolidated earnings were $6,172,641 or $1.56 per share, compared to $8,081,338 or $2.04 per share in 2022. Return on Equity (ROE) was 14.40% for 2023, compared to 19.20% for 2022. The notable variance in consolidated earnings and Return on Equity (ROE) between 2023 and 2022 can be attributed to the absence of Paycheck Protection Program (PPP) income.

Book value saw a positive shift to $11.80 per share in 2023, up from $9.91 per share in 2022. This improvement coincided with the stabilization of interest rates in the second half of 2023. The Accumulated Other Comprehensive Income (AOCI) category, a component of equity reflecting unrealized losses on the securities portfolio, has decreased from 2022 levels. The rapid increase in interest rates in 2022 and early 2023 led to this unrealized loss, which was the primary factor behind the reduction in book value per share for 2022.

We anticipate continued recovery of the unrealized loss on the securities portfolio as securities mature, or even sooner if we see continued interest rate stabilization or declines, ultimately restoring book value. Our steadfast commitment to maintaining capital levels that surpass regulatory requirements remain a top priority, and we successfully exceeded these standards in 2023. This accomplishment can be attributed to our strategic focus on targeted loan growth and a dedicated effort to reduce dependency on borrowing through treasury initiatives and the growth of core deposits.

The quality of the loan portfolio remains strong. The decrease in assets year over year was due to the repayment of wholesale borrowings with excess liquidity and lower overall deposit balances.

Celebrating our 130th year in business was a momentous occasion for us, a true testament to our enduring commitment to excellence and longevity in the banking industry. Moreover, our stock, though initially impacted by the increasing interest rates, has stabilized with the recent positive news on rate stabilization. Our stock continues to be actively traded, reflecting investor confidence in our Corporation's future prospects. The Corporation stock continues to be actively traded on the open market with a total of 189,487 shares traded in 2023 at an average price of $8.93 per share. The December 31, 2023 closing stock price of $9.26 equates to a dividend yield of 6.05%.

I am also pleased to announce the completion of the renovations at our Middleton office. These renovations aim to enhance the overall customer experience and are part of our ongoing efforts to provide top-notch service to our valued customers and continued enhancements of our physical assets.

Additionally, I am excited to share that construction is currently underway for our new Grand Rapids office. We have a seasoned team in place to serve our new customers and grow this new office. The office is located at O-240 Lake Michigan Drive, just west of Standale. We anticipate the office to be completed by May 2024. This expansion represents our dedication to growth and ensuring an even greater reach in serving our communities throughout Central Michigan.

Technology advancements remain a focal point for us, and we are proud to report the continued success of our digital platform. Customer utilization has increased significantly, and we anticipate even more positive developments in 2024. Notably, our revamped website that was introduced in January 2024, reflects our commitment to staying at the forefront of technology to better serve our customers.

None of these achievements would be possible without the unwavering support of our Board of Directors. Their guidance and vision have been instrumental in steering the bank through various challenges and ensuring a path of sustained growth.

Equally essential to our success is our dedicated team of employees who consistently provide exceptional customer service. Their hard work and commitment are the driving force behind our accomplishments, and we are immensely grateful for their contributions.

Community engagement remains a core value for us, and our team members actively volunteer to make our communities more viable. We believe in giving back to the communities that have played a crucial role in our success, and our team's efforts reflect our commitment to being a socially responsible corporate citizen.

As we look ahead to the future, we are optimistic about the opportunities that lie ahead and are confident that, with the continued support of our stakeholders, we will build on our successes and overcome any challenges that may arise.

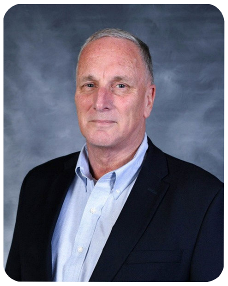
On behalf of our Board of Directors and our team members, we sincerely thank you for your continued confidence in the Corporation.

The annual shareholder meeting is scheduled for Wednesday, May 8, 2024 at 5:00 p.m. The meeting will be held in person at the Pine River County Club, 1400 W. Superior St. in Alma, Michigan. We look forward to seeing you at the meeting.

Sincerely,

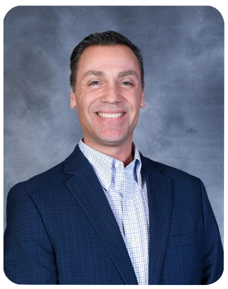
Kevin D. Collison
President and CEO
Phone: (989) 875-5516

Board of Directors



Richard S. Prestage
Chair of the Board
Partner of NexCare
Wellbridge Senior Living

Aaron L. Davis
President & CEO of
Craig Frames



Jeffrey A. Stahl
Vice Chair of the Board
President of Jer-Den Plastics

Christopher E. Goggin
General practice attorney
in Alma, Michigan

Kevin D. Collison
President & CEO of the
Corporation and Bank

Brent J. Hardman
CEO of Powell
in St. Louis, Michigan

Heather M. Cook Fisette
Owner, Heather M. Cook
CPA, PLC

Loren R. Roslund
Chairman, Roslund Farms
LLC, and Roslund Precision
Machine, LLC

Timothy J. Coscarelly
Commercial real estate
management and development

Daniel C. Walcutt
President, CEO, and Owner
of Nielsen Commercial
Construction, Inc.

Commercial National Financial Corporation
Financial Summary

(in thousands, except financial ratios and per share data)

For the Year	2023	2022	2021	2020	2019
Net interest income	**$ 18,366**	$ 20,417	$ 16,976	$ 15,520	$ 14,690
(Provision for) recovery of credit losses	**165**	-	500	(1,450)	-
Noninterest income	**1,999**	2,208	2,323	2,217	2,511
Noninterest expense	**(13,005)**	(12,748)	(12,023)	(11,064)	(11,112)
Income before income tax expense	**7,525**	9,877	7,776	5,223	6,089
Income tax expense	**(1,352)**	(1,796)	(1,410)	(859)	(1,070)
Net income	**$ 6,173**	$ 8,081	$ 6,366	$ 4,364	$ 5,019
At Year End					
Total assets	**$ 579,161**	$ 613,754	$ 610,802	$ 547,780	$ 504,713
Gross loans	**417,404**	411,294	451,572	409,107	385,692
Total deposits	**501,647**	538,732	515,059	450,901	390,064
FHLB advances	**14,000**	19,000	34,400	39,480	52,105
Shareholders' equity	**46,810**	39,313	44,894	41,337	38,754
Financial Ratios					
Return on average assets	**1.04** %	1.29 %	1.09 %	0.81 %	0.97 %
Return on average shareholders' equity	**14.40**	19.20	14.63	10.82	13.51
Average shareholders' equity to average assets	**7.21**	6.74	7.44	7.48	7.17
Allowance for credit losses to gross loans	**0.86**	1.01	0.85	1.03	0.71
Tier 1 capital ratio (for Commercial Bank)	**9.63**	8.68	8.63	8.99	9.26
Total capital ratio (for Commercial Bank)	**15.58**	15.18	15.17	15.50	14.18
Dividend pay-out	**35.90**	27.45	34.78	50.91	40.94
Per Share Data					
Basic earnings	**$ 1.56**	$ 2.04	$ 1.61	$ 1.10	$ 1.27
Diluted earnings	**1.56**	2.04	1.61	1.10	1.27
Dividends declared	**0.56**	0.56	0.56	0.56	0.52
Book value, end of year	**11.80**	9.91	11.32	10.42	9.77

"These ladies are amazing, they can help you with any of your banking needs. Not to mention they are all so nice and courteous! I prefer to use this branch for all our shop needs."
- Marge C. (St. Louis)

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Commercial National Financial Corporation's (Corporation) consolidated financial statements and related information appearing in this Annual Report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and reasonably present Commercial National Financial Corporation's financial position and results of operations and were prepared in conformity with accounting principles generally accepted in the United States of America. Management has also included in the Corporation's consolidated financial statements, amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

Commercial National Financial Corporation maintains a system of internal controls designed to provide reasonable assurance that all assets are safeguarded and financial records are reliable for preparing the consolidated financial statements. The Corporation complies with laws and regulations relating to safety and soundness which are designated by the FDIC and other appropriate federal banking agencies. The selection and training of qualified personnel and the establishment and communication of accounting and administrative policies and procedures are elements of this control system. The effectiveness of internal controls is monitored by a program of internal audit. Management recognizes that the cost of internal controls should not exceed the benefits derived and that there are inherent limitations to be considered. Management believes that Commercial National Financial Corporation provides the appropriate balance between the costs of controls and the related benefits.

The independent auditors have audited the Corporation's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and provided an objective, independent review of the fairness of the reported operating results and financial position. The Board of Directors of Commercial National Financial Corporation has an Audit Committee composed of six non-management Directors. The Committee meets periodically with the internal auditors and the independent auditors.

Kevin D. Collison
President and CEO

Richard S. Prestage
Chair of the Board

ANDREWS HOOPER PAVLIK PLC
5300 GRATIOT ROAD | SAGINAW, MI 48638

Report of Independent Auditors

Board of Directors and Shareholders
Commercial National Financial Corporation
Ithaca, Michigan

Opinion

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

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

Basis for Opinion

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

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 Commercial National Financial Corporation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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In performing an audit in accordance with GAAS, we:

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

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

Andrews Hooper Pavlik PLC

Saginaw, Michigan
March 13, 2024

CONSOLIDATED BALANCE SHEETS

	December 31, 2023	2022
ASSETS		
Cash and due from banks	**$ 7,782,418**	$ 9,053,111
Other interest-bearing deposits	**25,160,539**	52,018,675
Total cash and cash equivalents	**32,942,957**	61,071,786
Time deposits in banks	**3,735,000**	8,960,000
Securities available for sale (amortized cost of $100,671,952 as of December 31, 2023 and $112,176,264 as of December 31, 2022)	**90,580,670**	97,979,329
Federal Home Loan Bank stock, at cost	**3,726,100**	3,726,100
Gross loans receivable	**417,403,567**	411,293,661
Allowance for credit losses	**(3,570,271)**	(4,154,073)
Net loans receivable	**413,833,296**	407,139,588
Bank-owned life insurance	**14,126,788**	13,670,597
Premises and equipment, net	**9,252,193**	8,795,376
Goodwill	**3,100,262**	3,100,262
Core deposit intangible	**228,168**	304,224
Accrued interest receivable and other assets	**7,635,415**	9,007,132
Total assets	**$ 579,160,849**	$ 613,754,394
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand	**$ 113,608,030**	$ 133,007,922
Interest-bearing demand	**208,167,873**	210,948,921
Savings	**97,989,298**	120,979,644
Time	**81,881,382**	73,795,835
Total deposits	**501,646,583**	538,732,322
Federal Home Loan Bank advances	**14,000,000**	19,000,000
Subordinated debentures	**13,403,000**	13,403,000
Accrued expenses and other liabilities	**3,301,371**	3,305,797
Total liabilities	**532,350,954**	574,441,119
Shareholders' equity		
Common stock and paid–in-capital, no par value, 5,000,000 shares authorized; shares issued and outstanding 2023 and 2022 – 3,965,303	**20,517,672**	20,517,672
Retained earnings	**34,264,336**	30,011,182
Accumulated other comprehensive loss, net of tax	**(7,972,113)**	(11,215,579)
Total shareholders' equity	**46,809,895**	39,313,275
Total liabilities and shareholders' equity	**$ 579,160,849**	$ 613,754,394

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2023	2022
Interest and dividend income		
Loans, including fees	**$ 21,047,470**	$ 20,101,271
Taxable securities	**1,577,229**	1,412,014
Nontaxable securities	**558,867**	536,564
Federal funds sold	**-**	2,681
Federal Home Loan Bank stock dividends	**144,744**	80,361
Interest on deposits in banks	**2,063,909**	1,289,437
Total interest and dividend income	**25,392,219**	23,422,328
Interest expense		
Deposits	**5,764,151**	2,084,566
Federal Home Loan Bank advances	**320,473**	442,314
Subordinated debentures	**941,345**	478,023
Other	**31**	316
Total interest expense	**7,026,000**	3,005,219
Net interest income	**18,366,219**	20,417,109
Recovery of credit losses	**(165,494)**	-
Net interest income after credit to loan losses	**18,531,713**	20,417,109
Noninterest income		
Service charges and fees	**1,105,797**	1,081,336
Earnings on bank-owned life insurance	**456,191**	549,284
Net gains on securities available for sale	**14,564**	-
Other	**422,446**	577,175
Total noninterest income	**1,998,998**	2,207,795
Noninterest expense		
Salaries and employee benefits	**7,949,691**	7,916,890
Occupancy and equipment	**2,420,636**	2,279,894
Printing, postage, and supplies	**266,196**	284,177
Professional and outside services	**503,675**	492,363
Collection	**25,647**	(20,035)
Other	**1,839,562**	1,794,277
Total noninterest expense	**13,005,407**	12,747,566
Income before income tax expense	**7,525,304**	9,877,338
Income tax expense	**1,352,663**	1,796,000
Net income	**$ 6,172,641**	$ 8,081,338
Per share information		
Basic earnings	**$ 1.56**	$ 2.04
Diluted earnings	**1.56**	2.04
Dividends declared	**0.56**	0.56

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31, 2023	2022
Net income	**$ 6,172,641**	$ 8,081,338
Other comprehensive loss, net of tax:		
Net unrealized holding gains (losses) arising during the period	**3,243,466**	(11,441,096)
Reclassification adjustment for gains included in earnings	**(11,505)**	-
Total other comprehensive income (loss), net of tax	**3,231,961**	(11,441,096)
Comprehensive income (loss)	**$ 9,404,602**	$ (3,359,758)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2023 and 2022

	Shares Issued and Outstanding	Common Stock and Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Shareholders' Equity
Balance at January 1, 2022	3,965,303	$ 20,517,672	$ 24,150,413	$ 225,517	$ 44,893,602
Net income	-	-	8,081,338	-	8,081,338
Other comprehensive loss	-	-	-	(11,441,096)	(11,441,096)
Cash dividends declared, $0.56 per share	-	-	(2,220,569)	-	(2,220,569)
Balance at December 31, 2022	3,965,303	20,517,672	30,011,182	(11,215,579)	39,313,275
Adoption of new accounting standard	**-**	**-**	**301,082**	**-**	**301,082**
Balance at January 1, 2023 (as adjusted for adoption of new accounting standard)	**3,965,303**	**20,517,672**	**30,312,264**	**(11,215,579)**	**39,614,357**
Net income	**-**	**-**	**6,172,641**	**-**	**6,172,641**
Other comprehensive income	**-**	**-**	**-**	**3,243,466**	**3,243,466**
Cash dividends declared, $0.56 per share	**-**	**-**	**(2,220,569)**	**-**	**(2,220,569)**
Balance at December 31, 2023	**3,965,303**	**$ 20,517,672**	**$ 34,264,336**	**$ (7,972,113)**	**$ 46,809,895**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2023	2022
Cash flows from operating activities		
Net income	**$ 6,172,641**	$ 8,081,338
Adjustments to reconcile net income to net cash from operating activities		
Recovery of credit losses	**(165,494)**	-
Depreciation, amortization, and accretion	**1,046,820**	995,111
Net gain on securities available for sale	**(14,564)**	-
Loss on disposal of premises and equipment	**393**	5,274
Increase in value of bank-owned life insurance	**(456,191)**	(549,284)
Accrued interest receivable and other assets	**102,831**	46,328
Accrued expenses and other liabilities	**16,408**	269,591
Net cash from operating activities	**6,702,844**	8,848,358
Cash flows from investing activities		
Net change in time deposits in banks	**5,225,000**	11,894,000
Purchases of securities available for sale	**(8,605,757)**	(42,892,986)
Proceeds from sales of securities available for sale	**7,975,469**	-
Proceeds from maturities and calls of securities available for sale	**11,753,742**	7,794,695
Net change in loans	**(6,147,097)**	40,611,309
Net change in premises and equipment	**(1,032,551)**	(854,849)
Net change in low income housing tax credit investment	**305,829**	445,165
Net cash from investing activities	**9,474,635**	16,997,334
Cash flows from financing activities		
Net change in deposits	**(37,085,739)**	23,673,631
Proceeds from Federal Home Loan Bank advances	**100,000**	100,000
Repayment of Federal Home Loan Bank advances	**(5,100,000)**	(15,500,000)
Redemption of Federal Home Loan Bank stock	**-**	459,200
Dividends paid	**(2,220,569)**	(2,220,569)
Net cash from financing activities	**(44,306,308)**	6,512,262
Net change in cash and cash equivalents	**(28,128,829)**	32,357,954
Cash and cash equivalents at beginning of year	**61,071,786**	28,713,832
Cash and cash equivalents at end of year	**$ 32,942,957**	$ 61,071,786
Supplemental disclosure of cash flow information:		
Interest paid	**$ 6,892,274**	$ 2,979,026
Income taxes paid	**1,105,000**	551,000

See accompanying notes

Note 1 – Summary of Significant Accounting Polices

The accounting and reporting policies of Commercial National Financial Corporation (CNFC) and its wholly-owned subsidiary, Commercial Bank (Bank) (together referred to as Corporation), conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following describes the significant accounting and reporting policies which are employed in the preparation of the consolidated financial statements.

Principles of Consolidation: The consolidated financial statements include the accounts of CNFC, the Bank, and CNFC Financial Services, Inc., a wholly-owned subsidiary of the Bank. Intercompany accounts and transactions are eliminated in consolidation.

Nature of Operations, Business Segments, and Concentrations of Credit Risk: CNFC is a one-bank holding company which conducts limited business activities. The Bank performs the majority of business activities.

The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses and light industries located in its service area. It maintains a diversified loan portfolio, including loans to individuals for home mortgages, automobiles and personal expenditures, and loans to business enterprises for current operations and expansion. The Bank generally requires collateral for all loans. The Bank offers a variety of deposit products, including checking, savings, certificates of deposit, and individual retirement accounts.

The principal markets for the Bank's financial services are the Michigan communities in which the Bank is located and the areas immediately surrounding these communities. The Bank serves these markets through 11 offices located in Barry, Gratiot, Ingham, Montcalm and Ottawa Counties in Michigan.

Use of Estimates: To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for credit losses, the fair values of securities and other financial instruments, and foreclosed assets are particularly subject to change.

Cash Flow Reporting: Cash and cash equivalents include cash on hand and demand deposits with other financial institutions. Cash flows are reported, net, for customer loan and deposit transactions.

New Accounting Standard: Financial Instruments - Credit Losses: On January 1, 2023, the Corporation adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL 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 if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Corporation adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment for the adoption of CECL included a decrease in the allowance for credit losses on loans of $381,117, which is presented as an increase to net loans outstanding. There was no transition adjustment of the adoption of CECL related to the allowance for credit losses on unfunded loan commitments. The Corporation recorded a net increase to retained earnings of $301,082 as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustment noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

The Corporation adopted ASC 326 using the prospective transition approach for purchased credit deteriorated ("PCD") assets that were previously classified as purchased credit impaired ("PCI") under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. The Corporation elected to disaggregate the former PCI pools and no longer considers these pools to be the unit of account. Contractually delinquent PCD loans will be reported as nonaccrual loans using the same criteria as other loans. On January 1, 2023, the Corporation did not have any PCD assets.

The Corporation elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Corporation believes the collection of interest is doubtful. The Corporation has concluded that this policy results in the timely reversal of uncollectible interest.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Other securities such as Federal Home Loan Bank Stock are carried at cost.

Fair value is based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Interest and dividend income include amortization of purchase premiums and discounts. 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 determined using the amortized cost of the specific security sold.

Allowance for Credit Losses – Available-For-Sale Securities: For available-for-sale securities in an unrealized loss position that management intends to sell or it is more likely than not that the Corporation will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. For securities available for sale that do not meet the aforementioned criteria, management evaluates whether the decline in fair value is the result of credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no allowance for credit loss related to the available-for-sale securities portfolio. Accrued interest receivable on available-for-sale securities was excluded from the estimate of credit losses.

Loans Held for Sale: Loans held for sale are reported at the lower of cost or market value in the aggregate. Net unrealized losses are recorded in a valuation allowance by charges to income. Mortgage loans held for sale are generally sold with servicing rights retained.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of unearned interest and deferred loan fees and costs. Accrued interest receivable related to loans was reported in accrued interest receivable and other assets on the consolidated balance sheets. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term.

Interest income is not reported when full loan repayment is in doubt, typically when payments are past due over 90 days, unless the loan is both well secured and in the process of collection. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on nonaccrual, all accrued interest is reversed against interest income. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Past due status on loans is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

Allowance for Credit Losses - Loans: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Management has identified product-based call codes as the pooling choice for measuring the allowance for credit losses. The loan portfolio segments as of December 31, 2023 were as follows:

- Construction - 1-4 Family: This segment includes loans for the construction of owner-occupied residential real estate. Repayment of these loans are dependent on credit quality of the individual borrower. Risks relating to this segment include the weakening of the overall health of the economy, including unemployment rates and housing prices, which effects the credit quality of this segment. In addition, construction cost overruns also pose a risk to this segment.

- Construction - Other: This segment primarily includes commercial construction loans for purposes other than constructing 1-4 family residential properties. Repayment of these loans are dependent on the operations of the business and are secured by the properties that are being constructed. Risks related to this segment include cost overruns of the project, a decrease in collateral value, and a downturn in the economy.

- Farmland: This segment includes land that is used or usable for agricultural purposes. Repayment is generally dependent on the income produced from the farming operations of the land. Agriculture production, commodity prices and weather conditions all present risks associated with this segment.

- 1-4 Family - Revolving: Loans in this segment are open-end lines of credit that are secured by residential real estate. Repayment of these loans are dependent on credit quality of the individual borrower. Risks relating to this segment include the weakening of the overall health of the economy, including unemployment rates and housing prices, which effects the credit quality of this segment.

- 1-4 Family - Closed-End: Loans in this segment are collateralized by owner-occupied residential real estate. Repayment of these loans are dependent on credit quality of the individual borrower. Risks relating to this segment include the weakening of the overall health of the economy, including unemployment rates and housing prices, which effects the credit quality of this segment.

- Multifamily Residential: Loans in this segment are collateralized by properties with five or more dwelling units, which generally consist of apartment buildings. Repayment is primarily dependent on the tenants who occupy the units and also from the general operations of the business who owns the property. Risks associated with this segment include declining property values and vacancy rates, which are affected by increased supply of similar properties and changes in market rents.

- Commercial Real Estate (CRE) - Owner Occupied: Loans in this segment are loans secured by owner-occupied commercial real estate, where income from the ongoing operations of the business that occupies the property is used to repay the loan. Repayment is dependent on the successful operation and management of the business. The underlying cash flows generated from the operations of the business are adversely impacted by a downturn in the economy. Declining property values also pose a risk to this segment.

- Commercial Real Estate (CRE) - Non-Owner Occupied: Loans in this segment are primarily income-producing properties that are secured by commercial real estate, where the primary source of repayment is from rental income. Repayment is dependent on the operations of the lessees who occupy the properties, as well as from the successful management of the businesses who own the properties. The underlying cash flows generated from the operations of the lessees are adversely impacted by a downturn in the economy. Declining property values, vacancy rates and increases in the availability of similar properties also pose a risk to this segment.

- Agriculture: Loans in this segment include financing for agricultural production and other loans to farmers. Repayment is generally dependent on the income produced from farming operations. Similar to the risks related to farmland loans, agriculture production, commodity prices and weather conditions all present risks associated with this segment. Furthermore, there is also a higher risk of declining or obsolete collateral values, as equipment and other business assets is the primary collateral for this segment.

- Commercial & Industrial: Loans in this segment are made to businesses and include loans for commercial and industrial purposes. Repayment is dependent on the successful operation and management of the business and the loans are generally secured by the assets of the business. A weakened economy, resulting in decreased consumer spending, will affect the credit quality of this segment. There is also the risk of declining or obsolete collateral value, as equipment, inventory, and other business assets is the primary collateral for this segment.

- Consumer - Revolving: Loans in this segment include revolving loans, such as overdraft lines of credit and other revolving credit plans. Repayment is dependent on the credit quality of the individual borrower and their intent and ability to repay. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay obligations may be deteriorating. There is also the inability to monitor collateral in this segment.

- Consumer - Auto: Loans to extend credit to consumers for the purchase of vehicles are included in this segment. Repayment is dependent on the credit quality of the individual borrower and their intent and ability to repay. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay obligations may be deteriorating. There is also an inability to adequately monitor collateral, as it mainly consists of personal vehicles.

- Consumer - Other: Loans in this segment include all other loans to individuals for household, family, and other personal expenditures. Repayment is dependent on the credit quality of the individual borrower and their intent and ability to repay. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay obligations may be deteriorating. There is also the inability to monitor collateral in this segment.

- State & Political Subdivisions: Loans to states and political subdivisions are included in this segment. Repayment is generally generated through tax revenues. General economic conditions, such as decreased taxable values of real estate, poses a risk to this segment.

- Other Loans: Loans in this segment generally consist of unplanned deposit account overdrafts. Economic trends, such as unemployment and other key economic indicators, pose a risk to this segment.

For loans that are collectively evaluated, the total allowance for credit losses calculation is comprised of the weighted average remaining maturity (WARM) method, plus the economic forecast factor, plus the total qualitative factor. Historical credit loss experience provides the basis for the estimation of expected credit losses by applying the WARM method, which utilizes the historical annual loss rate, as well as a weighted average life of pool factor that is derived by the expected scheduled payments and prepayments. The economic forecast factor is an attempt to compute an additional expected credit loss based on establishing a correlation between the loss experience and the national unemployment economic statistic. The economic statistic that is used is a Bloomberg Financial consensus forecast of U.S. unemployment two years into the future. The total qualitative factor includes subjective adjustments for qualitative and environmental risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include the following:

- Changes in economic and business conditions specific to the Corporation’s business activities
- Changes in the volume and severity of past due, nonaccrual, and classified loans
- Changes in the value of the underlying collateral of loans
- Changes in the nature and volume of the loan portfolio
- The existence, effect, and change of any concentrations of credit
- Changes in lending policies and procedures
- Changes in the experience, ability, and depth of lending management and other relevant staff
- Changes in the quality of the Corporation’s loan review system
- The effect of other external factors such as competition, legal, and regulatory requirements

Loans that do not share similar risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective assessment of expected credit losses and instead, a separate allowance for credit losses is determined for each loan. Loans on nonaccrual or internally classified as substandard collateral dependent or worse are separately analyzed. When the underlying collateral is expected to be a substantial source of repayment, the loan is deemed collateral dependent. Management has elected the practical expedient for its collateral-dependent loans, whereby expected credit losses are based on the fair value of the collateral, adjusted for selling costs as appropriate.

The loan portfolio segments as of December 31, 2022 were as follows:

- Consumer: Loans in this segment primarily include home equity line of credit loans secured by residential real estate; other secured loans, such as loans secured by recreational vehicles, all-terrain vehicles, boats and snowmobiles; secured and unsecured personal loans; and overdraft protection related loans. Repayment is dependent on the credit quality of the individual borrower and their intent and ability to repay. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers’ capacity to repay their obligations may be deteriorating.

- Business real estate: Loans in this segment are primarily income-producing properties and are secured by real estate. Repayment is dependent upon the successful operation and management of a business; therefore, these loans are considered to be of greater risk than other types of loans. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy. Management continually monitors the cash flows of these loans.

- Business: Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is dependent upon the successful operation and management of a business; therefore, these loans are considered to be of greater risk than other types of loans. A weakened economy and the resulting decreased consumer spending will have an effect on the credit quality of this segment.

- Residential real estate: Loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Allowance for Credit Losses – Unfunded Commitments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Corporation records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Corporation's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in accrued expenses and other liabilities on the Corporation's consolidated balance sheets.

Goodwill: Goodwill arises from business combinations and is generally determined as the excess of fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a business combination is determined to have an indefinite useful life and is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed.

Core Deposit Intangible: Core deposit intangible represents the value of acquired relationships with core deposit customers. The fair value of core deposit intangibles is estimated based on a discounted cash flow methodology that gives appropriate consideration to expected customer attrition rates, cost of the deposit base compared to alternative funding sources, reserve requirements and the net maintenance cost attributable to customer deposits. Core deposit intangibles are amortized over the estimated life of 10 years.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using a combination of straight-line and accelerated methods with useful lives ranging from 5 to 40 years for buildings and improvements, and 3 to 7 years for furniture and equipment. These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Major improvements are capitalized.

Servicing Rights: Servicing rights represent the allocated value of servicing rights retained on loans sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using the underlying loans' interest rates and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment is reported as a valuation allowance.

Servicing fee income is recorded for fees earned for servicing loans. The fees, which are based on a contractual percentage of the outstanding principal or a fixed amount for a loan, are recorded as income when earned. The amortization of the servicing rights is netted against the servicing fee income on the consolidated statements of income.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Bank-Owned Life Insurance: The Bank purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at its cash surrender value, the amount that can be realized.

Employee Benefits**:** A benefit plan with 401(k) features covers substantially all employees. The plan allows participant compensation deferrals. The amount of any matching contribution is based solely on the discretion of the Board of Directors.

Federal Income Taxes: Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between book and tax bases of the various balance sheet assets and liabilities. Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. The Corporation records interest and penalties related to tax positions as interest expense or other expense, respectively, in the consolidated statements of income.

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

Earnings and Dividends Per Share: Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share shows the dilutive effect of any additional potential common shares.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes the unrealized holding gains or losses arising during the period, less a reclassification adjustment for gains or losses included in net income.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed separately. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or values of assets and liabilities not considered financial instruments.

Fair Value Measurements: Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Corporation uses various methods including market, income and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the years ended December 31, 2023 and 2022, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Federal Home Loan Bank Stock: The Corporation is a member of the Federal Home Loan Bank (FHLB) System and is required to invest in capital stock of the FHLB of Indianapolis. The amount of the required investment is determined and adjusted by the FHLB.

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

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

Time Deposits in Banks: Time deposits in banks consist of certificates of deposit (CDs) purchased from other financial institutions and are held in the Bank's name. The CDs range in maturities and interest rates and are purchased in amounts to stay within FDIC insurance limits.

Revenue Recognition: The Corporation follows the revenue recognition principles in ASU 2014-09, Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, ASC 606). ASC 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as Other Real Estate Owned (OREO). The majority of the Corporation's revenues come from interest income and other sources, including loans and securities that are outside the scope of ASC 606. The Corporation's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Corporation satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposits, interchange income, and the gain or loss on the sale of foreclosed assets.

Service Charges and Fees on Deposit Accounts: The Corporation earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point that the overdraft occurs. Service charges and fees on deposits are withdrawn from the customer's account balance and approximated $425,000 for 2023 and $403,000 for 2022.

Interchange Income: The Corporation earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Interchange income approximated $681,000 in 2023 and $678,000 in 2022.

Gain or Loss on Sales of Foreclosed Assets: The Corporation records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of a foreclosed asset to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. There were no gains or losses on the sale of foreclosed assets in 2023 or 2022.

Subsequent Events: Subsequent events have been evaluated for recognition and disclosure through March 13, 2024, which is the date the financial statements were available to be issued.

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

Note 2 - Securities

The amortized cost and estimated fair value of securities available for sale along with gross unrealized gains and losses are summarized below. There was no allowance for credit losses on available-for-sale securities as of December 31, 2023.

Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	December 31, 2023			
U.S. treasury and government agencies	**$ 38,018,631**	**$ 528**	**$ (1,166,489)**	**$ 36,852,670**
State and municipals	**51,115,310**	**12,418**	**(8,352,979)**	**42,774,749**
Time deposits with other banks	**1,731,000**	**-**	**(7,426)**	**1,723,574**
Mortgage-backed securities	**9,307,011**	**45,710**	**(623,044)**	**8,729,677**
Trust preferred securities	**500,000**	**-**	**-**	**500,000**
Total	**$ 100,671,952**	**$ 58,656**	**$ (10,149,938)**	**$ 90,580,670**
	December 31, 2022			
U.S. treasury and government agencies	$ 49,335,373	$ 9,999	$ (2,437,436)	$ 46,907,936
State and municipals	54,178,093	8,464	(10,984,202)	43,202,355
Time deposits with other banks	2,476,000	-	(50,664)	2,425,336
Mortgage-backed securities	5,686,798	-	(743,096)	4,943,702
Trust preferred securities	500,000	-	-	500,000
Total	$ 112,176,264	$ 18,463	$ (14,215,398)	$ 97,979,329

The fair value of securities available for sale at December 31, 2023 by contractual maturity is shown below:

	Available for Sale Fair Value
Due in one year or less	**$ 23,696,075**
Due from one to five years	**18,136,794**
Due from five to ten years	**6,331,518**
Due from ten years plus	**42,416,283**
Total	**$ 90,580,670**

Realized gains on securities available for sale were $14,564 during 2023. There were no realized gains or losses on securities available for sale during 2022.

The following table summarizes securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded, aggregated by major security type and length of time in a continuous unrealized loss position:

2023	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. treasury and government agencies	**$ 1,540,751**	**$ 6,475**	**$ 34,541,542**	**$ 1,160,014**	**$ 36,082,293**	**$ 1,166,489**
State and municipals	**55,880**	**120**	**42,081,451**	**8,352,859**	**42,137,331**	**8,352,979**
Time deposits with other banks	**-**	**-**	**739,574**	**7,426**	**739,574**	**7,426**
Mortgage-backed securities	**1,227,707**	**14,381**	**4,675,399**	**608,663**	**5,903,106**	**623,044**
Total temporarily impaired	**$ 2,824,338**	**$ 20,976**	**$ 82,037,966**	**$ 10,128,962**	**$ 84,862,304**	**$ 10,149,938**

2022	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. treasury and government agencies	$ 15,558,596	$ 414,337	$ 28,365,512	$ 2,023,099	$ 43,924,108	$ 2,437,436
State and municipals	24,818,549	5,417,338	18,225,343	5,566,864	43,043,892	10,984,202
Time deposits with other banks	1,953,227	24,773	472,109	25,891	2,425,336	50,664
Mortgage-backed securities	2,310,728	238,408	2,632,974	504,688	4,943,702	743,096
Total temporarily impaired	$ 44,641,100	$ 6,094,856	$ 49,695,938	$ 8,120,542	$ 94,337,038	$ 14,215,398

At December 31, 2023, a total of 114 securities had unrealized losses; 89 of the securities were state and municipals, 14 of the securities were U.S. treasury and government agency securities, 8 of the securities were mortgage-backed securities, and 3 of the securities were time deposits with other banks. At December 31, 2022, a total of 134 securities had unrealized losses; 98 of the securities were state and municipals, 19 of the securities were U.S. treasury and government agency securities, 7 of the securities were mortgage-backed securities, and 10 of the securities were time deposits with other banks. The unrealized losses have not been realized into income because the securities were not deemed to be of low investment grade and management has the ability to hold the securities for the foreseeable future. The decline in market value is primarily due to changes in interest rates and general economic conditions.

At December 31, 2023, all of the mortgage-backed securities held by the Corporation were issued by U.S. government-sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Corporation does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Corporation has not recognized the unrealized losses into income as of December 31, 2023.

Securities having a fair value of approximately $21,905,000 at December 31, 2023 and $12,015,000 at December 31, 2022, were pledged to certain deposit customers. The carrying amount of securities issued by the State of Michigan and all its political subdivisions totaled approximately $11,632,000 at December 31, 2023 and $14,748,000 at December 31, 2022 with an approximate fair value of $10,438,000 in 2023 and $12,844,000 in 2022.

Note 3 - Loans and Allowance for Credit Losses

Loans by Segment

Loans receivable by loan segment at December 31 are as follows:

	2023	2022
Construction - 1-4 Family	**$ 1,408,352**	$ 1,817,179
Construction - Other	**1,933,755**	10,786,596
Farmland	**17,344,759**	14,537,079
1-4 Family - Revolving	**10,634,819**	9,685,656
1-4 Family - Closed-End	**156,012,456**	161,466,168
Multifamily Residential	**22,492,441**	21,055,225
CRE - Owner Occupied	**66,429,635**	59,118,382
CRE - Non-Owner Occupied	**89,561,996**	89,615,680
Agriculture	**4,093,457**	3,482,805
Commercial & Industrial	**36,801,468**	29,928,743
Consumer - Revolving	**1,218,873**	1,732,224
Consumer - Auto	**2,281,519**	2,403,514
Consumer - Other	**3,428,121**	3,444,575
State & Political Subdivisions	**3,750,447**	2,212,699
Other Loans	**11,469**	7,136
Gross loans receivable	**417,403,567**	411,293,661
Allowance for credit losses	**(3,570,271)**	(4,154,073)
Net loans receivable	**$ 413,833,296**	$ 407,139,588

At year-end 2023 and 2022, there were no loans held for sale.

The Corporation's method for segmenting loans changed with the adoption of ASC 326. The prior year loan segment totals presented in the table above have been reclassified to conform with the current year presentation for comparative purposes.

Loans to employees, principal officers, directors and their affiliates at December 31 approximated $2,222,000 in 2023 and $2,832,000 in 2022. Activity for these loans was not deemed significant during 2023 and 2022.

The disclosures for the Corporation's allowance for credit losses on loans for the year ended December 31, 2023 are presented under ASC 326. The disclosures for the Corporation's allowance for loan losses for the year ended December 31, 2022 are presented under the incurred loss impairment model. Certain tables pertaining to the prior year have been reclassified to conform with the current year presentation for comparative purposes. Refer to Note 1 for more information.

Delinquent Loans

The following table presents an analysis of past due loans as of December 31, 2023:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Current	Total
Construction - 1-4 Family	**$ -**	**$ -**	**$ -**	**$ 1,408,352**	**$ 1,408,352**
Construction - Other	**-**	**-**	**-**	**1,933,755**	**1,933,755**
Farmland	**-**	**-**	**-**	**17,344,759**	**17,344,759**
1-4 Family - Revolving	**17,899**	**-**	**-**	**10,616,920**	**10,634,819**
1-4 Family - Closed-End	**572,122**	**45,360**	**94,351**	**155,300,623**	**156,012,456**
Multifamily Residential	**-**	**-**	**-**	**22,492,441**	**22,492,441**
CRE - Owner Occupied	**1,110,920**	**-**	**-**	**65,318,715**	**66,429,635**
CRE - Non-Owner Occupied	**-**	**-**	**-**	**89,561,996**	**89,561,996**
Agriculture	**-**	**-**	**-**	**4,093,457**	**4,093,457**
Commercial & Industrial	**298,754**	**35,814**	**-**	**36,466,900**	**36,801,468**
Consumer - Revolving	**4,519**	**-**	**-**	**1,214,354**	**1,218,873**
Consumer - Auto	**-**	**-**	**-**	**2,281,519**	**2,281,519**
Consumer - Other	**47,553**	**-**	**-**	**3,380,568**	**3,428,121**
State & Political Subdivisions	**-**	**-**	**-**	**3,750,447**	**3,750,447**
Other Loans	**-**	**-**	**-**	**11,469**	**11,469**
Total	**$ 2,051,767**	**$ 81,174**	**$ 94,351**	**$ 415,176,275**	**$ 417,403,567**

The following table presents an analysis of past due loans as of December 31, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Current	Total
Construction - 1-4 Family	$ -	$ -	$ -	$ 1,817,179	$ 1,817,179
Construction - Other	-	-	-	10,786,596	10,786,596
Farmland	-	-	-	14,537,079	14,537,079
1-4 Family - Revolving	-	-	-	9,685,656	9,685,656
1-4 Family - Closed-End	384,617	-	243,144	160,838,407	161,466,168
Multifamily Residential	-	-	-	21,055,225	21,055,225
CRE - Owner Occupied	-	-	-	59,118,382	59,118,382
CRE - Non-Owner Occupied	-	-	-	89,615,680	89,615,680
Agriculture	-	-	-	3,482,805	3,482,805
Commercial & Industrial	105,845	61,616	-	29,761,282	29,928,743
Consumer - Revolving	-	-	-	1,732,224	1,732,224
Consumer - Auto	2,011	-	-	2,401,503	2,403,514
Consumer - Other	-	-	-	3,444,575	3,444,575
State & Political Subdivisions	-	-	-	2,212,699	2,212,699
Other Loans	-	-	-	7,136	7,136
Total	$ 492,473	$ 61,616	$ 243,144	$ 410,496,428	$ 411,293,661

Nonaccrual Loans

The following table is a summary of the Corporation's nonaccrual loans by loan class:

	CECL			Incurred Loss
	December 31, 2023			December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
1-4 Family - Closed-End	$ 125,740	$ 488,339	$ 614,079	$ 688,127
CRE - Owner Occupied	105,804	-	105,804	-
Commercial & Industrial	219,520	-	219,520	-
Total Loans	$ 451,064	$ 488,339	$ 939,403	$ 688,127

There were no loans past due 90 days or more and still accruing as of December 31, 2023 or 2022.

The Corporation recognized $13,496 of interest income on nonaccrual loans during 2023.

The following table represents the accrued interest receivables written off by reversing interest income during 2023:

	Interest Receivable Written Off
1-4 Family - Closed-End	$ 4,485
CRE - Owner Occupied	167
Commercial & Industrial	2,141
Consumer - Other	300
Total interest receivable written off	$ 7,093

Collateral-Dependent Loans

The Corporation has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

- Commercial Real Estate (CRE) - Owner Occupied: Loans are secured by owner-occupied commercial real estate, where income from the ongoing operations of the business that occupies the property is used to repay the loan.

The following table details the amortized cost of collateral-dependent loans as of December 31, 2023:

	Amortized Cost
CRE - Owner Occupied	$ 238,675
Total Loans	$ 238,675

Allowance for Credit Losses

The following table summarizes the activity related to the allowance for credit losses for 2023 under the CECL methodology:

	Beginning Balance Prior to Adoption of ASU 2016-13	Adjustment to Allowance for Adoption of ASU 2016-13	Charge Offs	Recoveries	Provision for (Recovery of) Credit Losses	Ending Balance
Construction - 1-4 Family	$ 5,627	$ 1,278	$ -	$ -	$ 2,672	$ 9,577
Construction - Other	234,894	(36,579)	-	-	(178,546)	19,769
Farmland	291,614	(115,090)	-	-	(87,155)	89,369
1-4 Family - Revolving	29,057	10,459	-	-	34,951	74,467
1-4 Family - Closed-End	531,919	223,362	-	10,636	662,156	1,428,073
Multifamily Residential	479,769	(62,876)	-	-	(218,960)	197,933
CRE - Owner Occupied	201,496	10,700	-	-	273,138	485,334
CRE - Non-Owner Occupied	2,058,667	(237,016)	-	147	(843,617)	978,181
Agriculture	5,002	1,853	-	-	11,162	18,017
Commercial & Industrial	67,775	6,741	(188,655)	189,655	100,590	176,106
Consumer - Revolving	6,756	(174)	-	-	2,316	8,898
Consumer - Auto	9,374	3,275	(3,774)	-	12,004	20,879
Consumer - Other	13,434	23,231	(10,459)	525	18,880	45,611
State & Political Subdivisions	8,851	(443)	-	950	8,644	18,002
Other Loans	28	(28)	(1,552)	328	1,279	55
Unallocated	209,810	(209,810)	-	-	-	-
Total allowance for credit losses	$ 4,154,073	$ (381,117)	$ (204,440)	$ 202,241	$ (200,486)	$ 3,570,271

Prior to the adoption of ASC 326 on January 1, 2023, the Corporation calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods.

Activity in the allowance for loan losses by loan segment as of December 31, 2022 was as follows:

	Beginning Balance	Charge Offs	Recoveries	Provision	Ending Balance
Consumer	$ 35,196	$ (7,874)	$ 585	$ 35,833	$ 63,740
Business Real Estate	2,920,522	-	220,079	148,469	3,289,070
Business	145,568	-	112,225	(176,166)	81,627
Residential Real Estate	298,686	-	9,705	201,435	509,826
Overdrafts	-	(2,560)	1,016	1,544	-
Calculated allowance	3,399,972	(10,434)	343,610	211,115	3,944,263
Unallocated allowance	420,925	-	-	(211,115)	209,810
Total allowance for loan losses	$ 3,820,897	$ (10,434)	$ 343,610	$ -	$ 4,154,073

Additional detail of the allowance for loan losses by loan segment as of December 31, 2022 was as follows:

Allowance for Loan Losses	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Consumer	$ 4,092	$ 59,648	$ 63,740
Business Real Estate	14,586	3,274,484	3,289,070
Business	-	81,627	81,627
Residential Real Estate	37,498	472,328	509,826
Calculated allowance	56,176	3,888,087	3,944,263
Unallocated allowance	-	209,810	209,810
Total allowance for loan losses	$ 56,176	$ 4,097,897	$ 4,154,073

Detail of loan balances by loan segment relating to the allowance for loan losses as of December 31, 2022 was as follows:

Loans Receivable Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Consumer	$ 24,362	$ 17,606,391	$ 17,630,753
Business Real Estate	931,807	202,499,302	203,431,109
Business	123,092	34,947,659	35,070,751
Residential Real Estate	1,978,758	153,182,290	155,161,048
Total loans receivable balance	$ 3,058,019	$ 408,235,642	$ 411,293,661

Impaired Loans

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Corporation would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans included loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Corporation would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Corporation considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The Corporation individually assessed for impairment all nonaccrual loans and all troubled debt restructurings. The tables below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

The following tables present impaired loans, excluding purchased impaired loans, disaggregated by loan class at December 31, 2022:

Impaired Loans with No Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ -	$ -	$ -	$ -	$ -
Business Real Estate					
1-4 family rentals	45,368	40,118	-	40,796	3,431
Owner occupied	156,507	75,165	-	75,460	11,175
Other real estate	724,904	724,904	-	866,166	56,631
Business					
Commercial and industry	123,092	123,092	-	139,901	8,599
Residential Real Estate					
1-4 family and other	1,053,189	1,024,339	-	1,046,032	64,346
1-4 family (LTV>95%)	168,198	168,198	-	171,235	8,634
Total	$ 2,271,258	$ 2,155,816	$ -	$ 2,339,590	$ 152,816

Impaired Loans with an Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 24,362	$ 24,362	$ 4,092	$ 25,570	$ 1,096
Business Real Estate					
1-4 family rentals	-	-	-	-	-
Owner occupied	91,620	91,620	14,586	93,029	3,966
Other real estate	-	-	-	-	-
Business					
Commercial and industry	-	-	-	-	-
Residential Real Estate					
1-4 family and other	872,067	786,221	37,498	805,481	35,474
1-4 family (LTV>95%)	-	-	-	-	-
Total	$ 988,049	$ 902,203	$ 56,176	$ 924,080	$ 40,536

Total Impaired Loans	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 24,362	$ 24,362	$ 4,092	$ 25,570	$ 1,096
Business Real Estate					
1-4 family rentals	45,368	40,118	-	40,796	3,431
Owner occupied	248,127	166,785	14,586	168,489	15,141
Other real estate	724,904	724,904	-	866,166	56,631
Business					
Commercial and industry	123,092	123,092	-	139,901	8,599
Residential Real Estate					
1-4 family and other	1,925,256	1,810,560	37,498	1,851,513	99,820
1-4 family (LTV>95%)	168,198	168,198	-	171,235	8,634
Total	$ 3,259,307	$ 3,058,019	$ 56,176	$ 3,263,670	$ 193,352

Modified Loans

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Corporation uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Corporation modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Corporation will modify a certain loan by providing multiple types of concessions. 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. For the real estate loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, interest rate reduction, and principal forgiveness.

The following table presents the amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below:

	Term Extension	Interest Rate Reduction	Principal Forgiveness	Combination: Term Extension and Principal Forgiveness	Combination: Term Extension and Interest Rate Reduction	% of Total Loan Type
1-4 Family - Revolving	$ 66,596	$ -	$ -	$ -	$ -	0.63 %
Total Loans	$ 66,596	$ -	$ -	$ -	$ -	0.02 %

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023:

	Weighted Average Term Extension (in years)	Weighted Average Interest Rate Reduction	Principal Forgiveness
1-4 Family - Revolving	**2.67**	**- %**	**$ -**

The following table presents the amortized cost bases of loans to borrowers experiencing financial difficulty that had a payment default during the year ended December 31, 2023 and were modified in the 12 months prior to that default.

	Term Extension	Interest Rate Reduction	Principal Forgiveness	Combination: Term Extension and Principal Forgiveness	Combination: Term Extension and Interest Rate Reduction
1-4 Family - Revolving	**$ 12,340**	**$ -**	**$ -**	**$ -**	**$ -**
Total Loans	**$ 12,340**	**$ -**	**$ -**	**$ -**	**$ -**

The Corporation closely monitors the performance of loans to borrowers experiencing financial difficulty that are modified to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months:

	Payments Status (Amortized Cost Basis)		
	Current	30-89 Days Past Due	90+ Days Past Due
1-4 Family - Revolving	**$ 54,256**	**$ 12,340**	**$ -**
Total Loans	**$ 54,256**	**$ 12,340**	**$ -**

Upon the Corporation's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Troubled Debt Restructuring

Prior to the adoption of ASU 2016-13, loans were considered troubled debt restructurings (TDR) when modifications of the terms of such loans included one or a combination of the following: a reduction in the stated interest rate of the loan, an extension of the maturity date, or some other modification deeming the loan a TDR. All troubled debt restructurings were considered impaired loans in the calculation of the allowance for loan losses as of December 31, 2022. Therefore, management performed a reserve analysis on all loans that had been determined to be TDRs. The Corporation allocated approximately $56,000 of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2022 related to a total TDR portfolio of approximately $3,058,000. There were no new troubled debt restructurings during 2022.

Credit Quality Components

The Corporation utilizes an eight-grade internal loan rating system for all business relationships.

- Loans rated 1-4: Loans in these categories are considered "pass" rated loans with minimal to acceptable risk.
- Loans rated 5: Loans in this category are considered "watch" or "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.
- Loans rated 6: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Corporation will sustain some loss if the weakness is not corrected.
- Loans rated 7: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.
- Loans rated 8: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Corporation formally reviews the ratings on all business loans. Annually, the Corporation engages a third party to review a significant portion of loans. Management utilizes the results of these reviews as part of its annual review process.

Loans not meeting the above criteria that are analyzed individually as part of the above-described process are considered to be pass-rated loans. The Corporation risk rates residential real estate loans on an as-needed basis as they become aware of credit weaknesses.

The Corporation utilizes a two-grade internal loan risk rating system for consumer loans:

- Performing: Loans in this category are, as of the presentation date, those in which payments of principal and interest are less than 90 days past due.
- Nonperforming: Loans in this category were 90 days or more delinquent, nonaccruing loans, or loans acquired with deteriorated credit quality and, therefore, are considered to be nonperforming loans.

Loan Credit Quality

The following table presents the Corporation's recorded investment in loans by credit quality indicators by year of origination at December 31, 2023:

	Term Loans by Year of Origination					
	2023	2022	2021	Prior	Revolving	Total
Construction - 1-4 Family						
Pass	$ 819,328	$ 336,993	$ -	$ 252,031	$ -	$ 1,408,352
Watch	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-
Total Construction - 1-4 Family	$ 819,328	$ 336,993	$ -	$ 252,031	$ -	$ 1,408,352
Current period gross write offs	-	-	-	-	-	-
Construction - Other						
Pass	$ 1,678,717	$ -	$ -	$ 15,824	$ -	$ 1,694,541
Watch	-	-	-	239,214	-	239,214
Substandard or Worse	-	-	-	-	-	-
Total Construction - Other	$ 1,678,717	$ -	$ -	$ 255,038	$ -	$ 1,933,755
Current period gross write offs	-	-	-	-	-	-
Farmland						
Pass	$ 2,914,211	$ 3,587,191	$ 3,301,620	$ 5,507,954	$ 1,420,763	$ 16,731,739
Watch	-	-	-	240,778	372,242	613,020
Substandard or Worse	-	-	-	-	-	-
Total Farmland	$ 2,914,211	$ 3,587,191	$ 3,301,620	$ 5,748,732	$ 1,793,005	$ 17,344,759
Current period gross write offs	-	-	-	-	-	-
1-4 Family - Revolving						
Pass	$ -	$ -	$ -	$ -	$ 10,634,819	$ 10,634,819
Watch	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-
Total 1-4 Family - Revolving	$ -	$ -	$ -	$ -	$ 10,634,819	$ 10,634,819
Current period gross write offs	-	-	-	-	-	-
1-4 Family - Closed-End						
Pass	$ 9,380,051	$ 17,970,315	$ 31,934,714	$ 94,403,499	$ 723,132	$ 154,411,711
Watch	261,263	-	88,238	637,165	-	986,666
Substandard or Worse	-	-	166,472	447,607	-	614,079
Total 1-4 Family - Closed-End	$ 9,641,314	$ 17,970,315	$ 32,189,424	$ 95,488,271	$ 723,132	$ 156,012,456
Current period gross write offs	-	-	-	-	-	-

	Term Loans by Year of Origination					
	2023	2022	2021	Prior	Revolving	Total
Multifamily Residential						
Pass	$ -	$ 3,406,211	$ 7,225,174	$ 9,052,315	$ 1,516	$ 19,685,216
Watch	-	-	-	2,807,225	-	2,807,225
Substandard or Worse	-	-	-	-	-	-
Total Multifamily Residential	$ -	$ 3,406,211	$ 7,225,174	$ 11,859,540	$ 1,516	$ 22,492,441
Current period gross write offs	-	-	-	-	-	-
CRE - Owner Occupied						
Pass	$ 10,937,245	$ 13,866,632	$ 6,343,771	$ 26,206,569	$ 559,290	$ 57,913,507
Watch	864,741	3,560,936	199,127	3,370,035	112,695	8,107,534
Substandard or Worse	-	-	105,804	302,790	-	408,594
Total CRE - Owner Occupied	$ 11,801,986	$ 17,427,568	$ 6,648,702	$ 29,879,394	$ 671,985	$ 66,429,635
Current period gross write offs	-	-	-	-	-	-
CRE - Non-Owner Occupied						
Pass	$ 7,493,156	$ 24,065,171	$ 18,611,789	$ 26,840,935	$ 2,397,159	$ 79,408,210
Watch	-	405,267	1,077,199	8,671,320	-	10,153,786
Substandard or Worse	-	-	-	-	-	-
Total CRE - Non-Owner Occupied	$ 7,493,156	$ 24,470,438	$ 19,688,988	$ 35,512,255	$ 2,397,159	$ 89,561,996
Current period gross write offs	-	-	-	-	-	-
Agriculture						
Pass	$ 837,146	$ 1,484,628	$ -	$ 488,220	$ 1,016,814	$ 3,826,808
Watch	265,641	-	-	-	1,008	266,649
Substandard or Worse	-	-	-	-	-	-
Total Agriculture	$ 1,102,787	$ 1,484,628	$ -	$ 488,220	$ 1,017,822	$ 4,093,457
Current period gross write offs	-	-	-	-	-	-
Commercial & Industrial						
Pass	$ 7,245,228	$ 7,414,056	$ 6,099,273	$ 1,671,516	$ 8,644,708	$ 31,074,781
Watch	1,527,882	1,284,378	338,260	348,890	962,208	4,461,618
Substandard or Worse	126,236	599,271	84,669	224,785	230,108	1,265,069
Total Commercial & Industrial	$ 8,899,346	$ 9,297,705	$ 6,522,202	$ 2,245,191	$ 9,837,024	$ 36,801,468
Current period gross write offs	-	188,655	-	-	-	188,655

	Term Loans by Year of Origination					
	2023	2022	2021	Prior	Revolving	Total
Consumer - Revolving						
Performing	$ -	$ -	$ -	$ -	$ 1,218,873	$ 1,218,873
Nonperforming	-	-	-	-	-	-
Total Consumer - Revolving	$ -	$ -	$ -	$ -	$ 1,218,873	$ 1,218,873
Current period gross write offs	-	-	-	-	-	-
Consumer - Auto						
Performing	$ 890,320	$ 684,225	$ 412,584	$ 294,390	$ -	$ 2,281,519
Nonperforming	-	-	-	-	-	-
Total Consumer - Auto	$ 890,320	$ 684,225	$ 412,584	$ 294,390	$ -	$ 2,281,519
Current period gross write offs	-	-	3,774	-	-	3,774
Consumer - Other						
Performing	$ 787,844	$ 1,380,635	$ 1,139,239	$ 120,403	$ -	$ 3,428,121
Nonperforming	-	-	-	-	-	-
Total Consumer - Other	$ 787,844	$ 1,380,635	$ 1,139,239	$ 120,403	$ -	$ 3,428,121
Current period gross write offs	-	-	10,459	-	-	10,459
State & Political Subdivisions						
Pass	$ 2,938,571	$ 181,087	$ 207,683	$ 421,991	$ 1,115	$ 3,750,447
Watch	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-
Total State & Political Subdivisions	$ 2,938,571	$ 181,087	$ 207,683	$ 421,991	$ 1,115	$ 3,750,447
Current period gross write offs	-	-	-	-	-	-
Other Loans						
Pass	$ 11,469	$ -	$ -	$ -	$ -	$ 11,469
Watch	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-
Total Other Loans	$ 11,469	$ -	$ -	$ -	$ -	$ 11,469
Current period gross write offs	1,552	-	-	-	-	1,552

The following table presents the Corporation's recorded investment in loans by credit quality indicators at December 31, 2022:

Commercial Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Business Real Estate						
1-4 family rentals	$ 7,090,006	$ 693,746	$ -	$ -	$ -	$ 7,783,752
Owner occupied	54,135,431	4,911,138	71,813	-	-	59,118,382
Other real estate	110,288,960	26,240,015	-	-	-	136,528,975
Business						
Commercial and industry	26,208,967	2,805,373	914,403	-	-	29,928,743
Other	5,142,008	-	-	-	-	5,142,008
Total	$ 202,865,372	$ 34,650,272	$ 986,216	$ -	$ -	$ 238,501,860

Residential Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Residential Real Estate						
1-4 family and other	$ 140,942,823	$ -	$ 470,872	$ -	$ -	$ 141,413,695
1-4 family (LTV>95%)	13,530,097	-	217,256	-	-	13,747,353
Total	$ 154,472,920	$ -	$ 688,128	$ -	$ -	$ 155,161,048

Consumer Credit Exposure	Performing	Nonperforming	Total
Consumer			
Real estate	$ 10,043,304	$ -	$ 10,043,304
Other	7,587,449	-	7,587,449
Total	$ 17,630,753	$ -	$ 17,630,753

Paycheck Protection Program Loans

The CARES Act is an economic stimulus bill signed into law on March 27, 2020 in response to the economic fallout of the COVID-19 pandemic in the United States. The creation of the Paycheck Protection Program (PPP) enacted under the CARES Act provides forgivable loans to small businesses for payroll obligations, emergency grants to cover immediate operating costs, and a mechanism for loan forgiveness by the Small Business Association should all criteria be met. Included in commercial loans at December 31, 2023 and December 31, 2022 were approximately $395,000 and $569,000, respectively, of loans granted under the Paycheck Protection Program. These loans are fully guaranteed by the Small Business Association.

Unfunded Commitments

The Corporation maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e. commitment cannot be canceled at any time). The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans. The allowance for credit losses for unfunded loan commitments of $34,991 at December 31, 2023 is separately classified on the balance sheet within accrued expenses and other liabilities. There was no allowance for credit losses for unfunded loan commitments as of December 31, 2022.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the 12 months ended December 31, 2023.

		Total Allowance for Credit Losses Unfunded Commitments
Balance at beginning of year	**$**	**-**
Adjustment to allowance for unfunded commitments for adoption of ASU 2016-13		**-**
Provision for unfunded commitments		**34,991**
Balance at end of year	**$**	**34,991**

Note 4 – Loan Servicing

Mortgage loans serviced for others are not reported as assets. The principal balance of these loans at year-end was as follows:

		2023		2022
Mortgage loan portfolios serviced for:				
Federal Home Loan Bank	**$**	**8,606,156**	$	10,487,511
Freddie Mac		**2,640,089**		3,269,102
Total serviced	**$**	**11,246,245**	$	13,756,613

Custodial escrow balances maintained in connection with serviced loans were $3,551 at year-end 2023 and $17,324 at year-end 2022.

Activity for capitalized mortgage servicing rights was as follows:

		2023		2022
Beginning balance	**$**	**70,581**	$	91,822
Additions		**-**		-
Amortized to expense		**(12,983)**		(21,241)
Ending balance	**$**	**57,598**	$	70,581

Fair value at year-end 2023 was determined using a discount rate of 11.0%, prepayment speeds ranging from 6.00% to 9.8%, depending on the stratification of the specific right, and a weighted-average default rate of zero. Fair value at year-end 2022 was determined using a discount rate of 11.25%, prepayment speeds ranging from 6.0% to 10.3%, depending on the stratification of the specific right, and a weighted-average default rate of zero.

There was no valuation allowance required at December 31, 2023 or 2022.

Note 5 – Other Real Estate Owned

Other real estate owned totaled zero at December 31, 2023 and 2022. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at December 31, 2023 or 2022.

Note 6 - Premises and Equipment

Premises and equipment at December 31 consist of:

	2023	2022
Land	**$ 2,674,488**	**$ 2,674,488**
Buildings and improvements	**9,864,351**	**9,218,570**
Equipment	**3,248,572**	**4,190,607**
Total cost	**15,787,411**	**16,083,665**
Less accumulated depreciation	**(6,535,218)**	**(7,288,289)**
Net premises and equipment	**$ 9,252,193**	**$ 8,795,376**

Depreciation and amortization expense was $575,341 in 2023 and $533,724 in 2022.

Note 7 - Leases

The Corporation enters into leases in the normal course of business primarily for branch offices and back-office operations. The Corporation's leases have remaining terms ranging from 1.5 to 5 years, some of which include renewal options to extend the lease for up to 5 years. The Corporation includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Corporation will exercise the option. The Corporation has elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on its consolidated balance sheets.

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

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

The Corporation records operating leases as a right-of-use asset in accrued interest receivable and other assets and operating lease liability in accrued expenses and other liabilities on the consolidated balance sheets. At December 31, 2023, all leases are considered operating leases.

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

2024	**$ 41,400**
2025	**38,700**
2026	**36,000**
2027	**36,000**
2028	**36,000**
Thereafter	**630,000**
Total	**818,100**
Less: imputed interest	**(150,404)**
Net lease liabilities	**$ 667,696**

The lease expense for operating leases was $41,400 for the year ended December 31, 2023. At December 31, 2023, the weighted average remaining lease term was 19.8 years and the weighted average discount rate utilized to calculate the right-of use asset was 2.00%. The lease expense for operating leases was $41,400 for the year ended December 31, 2022. At December 31, 2022, the weighted average remaining lease term was 20.7 years and the weighted average discount rate utilized to calculate the right-of use asset was 2.00%.

Note 8 – Deposits

At December 31, 2023, stated maturities of time deposits were as follows:

2024	**$**	**60,828,964**
2025		**11,115,259**
2026		**7,825,669**
2027		**1,221,465**
2028		**880,501**
Thereafter		**9,524**
Total time deposits	**$**	**81,881,382**

Time deposits in denominations of $250,000 or more were $24,782,689 at December 31, 2023 and $18,337,293 at December 31, 2022. At December 31, 2023, stated maturities of time deposits in denominations of $250,000 or more were as follows:

In 3 months or less	**$**	**11,820,780**
Over 3 through 6 months		**2,390,734**
Over 6 through 12 months		**10,021,711**
Over 12 months		**549,464**
Total time deposits $250,000 or more	**$**	**24,782,689**

Related-party deposits were approximately $2,148,000 at December 31, 2023 and $3,067,000 at December 31, 2022. Activity in these accounts was not deemed significant during 2023 and 2022.

There were certificates of deposits obtained through deposit brokers totaling $23,504,000 at December 31, 2023 and $29,891,000 at December 31, 2022.

Note 9 – Federal Home Loan Bank Advances and Lines of Credit

At December 31, the types of Federal Home Loan Bank (FHLB) advances were as follows:

		2023		2022
Bullet	**$**	**14,000,000**	$	19,000,000
Total	**$**	**14,000,000**	$	19,000,000

At December 31, 2023, the Corporation had a $25,000,000 line of credit arrangement with Federal Home Loan Bank, with no outstanding balances. There was no line of credit arrangement with Federal Home Loan Bank as of December 31, 2022.

Pursuant to collateral agreements with the Federal Home Loan Bank, in addition to Federal Home Loan Bank stock, advances and the line of credit are secured, under a blanket lien arrangement, by qualified 1-4 family mortgage loans with a carrying value at year-end of approximately $131,109,000 in 2023 and $133,106,000 in 2022.

Scheduled principal reductions and related weighted-average rate grouped by advance type at December 31, 2023 were as follows:

Bullet	Amount	Rate
2024	$ 10,000,000	1.80 %
2025	3,000,000	1.44
2026	1,000,000	1.04
2027	-	-
2028	-	-
Thereafter	-	-
Total	$ 14,000,000	1.67 %

Note 10 – Subordinated Debentures

In 2005, Commercial National Financial Corporation Trust I (CNFC I), a trust formed by the Corporation, closed a pooled private offering of 10,000 trust preferred securities with a liquidation amount of $1,000 per security. The Corporation issued $10,310,000 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. On January 1, 2017, the Corporation acquired Capital Direction Statutory Trust I (CDI I), a trust formed by Capital Directions, Inc. In 2007, CDI issued $3,093,000 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust.

The Corporation may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of 1,000 at a redemption price specified in the indenture plus any accrued and unpaid interest. The subordinated debentures of CNFC I mature on June 15, 2035. The subordinated debentures of CDI I mature on January 15, 2037. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indentures. The Corporation has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The trust preferred securities may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The CNFC I trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three-month CME Term Secured Overnight Financing Rate (SOFR) plus the Spread Adjustment plus 1.95%, which was 7.60% at the December 13, 2023 set date. The CDI I trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three-month CME Term SOFR plus the Spread Adjustment plus 1.68%, which was 7.33% at the December 13, 2023 set date. The trusts are not consolidated with the Corporation’s financial statements, but rather the subordinated debentures are shown as a liability.

The Corporation’s investment in the common stock of CNFC I and CDI I was $310,000 and $93,000, respectively, and is included in other assets.

Note 11 – Employee Benefits

The Corporation's employee benefit plan allows participants to make elective deferrals up to IRS limitations. The Corporation's annual contribution to the plan is based solely on the discretion of the Board of Directors. Employee and employer contributions are vested immediately. The plan covers substantially all employees. Employer expense associated with funding the 401(k) plan was approximately $259,000 in 2023 and $296,000 in 2022.

Note 12 – Federal Income Taxes

Federal income tax expense for the year ended December 31 was as follows:

	2023	2022
Current	**$ 1,255,000**	$ 1,226,000
Deferred benefit	**98,000**	570,000
Total	**$ 1,353,000**	$ 1,796,000

The difference between the federal income taxes and the amount computed by applying the statutory federal income tax to income before taxes is related to the following:

	2023	2022
Statutory rates	**$ 1,580,000**	$ 2,074,000
Increase (decrease) from:		
Tax-exempt interest income	**(100,000)**	(107,000)
Bank-owned life insurance	**(71,000)**	(91,000)
General business credits	**(63,000)**	(105,000)
Other, net	**7,000**	25,000
Total	**$ 1,353,000**	$ 1,796,000

The components of the net deferred income tax assets and liabilities resulted from the following temporary differences between the carrying amounts of assets and liabilities for income tax and financial reporting purposes as of December 31.

	2023	2022
Net unrealized losses on securities available for sale	**$ 2,119,000**	$ 2,981,000
Allowance for credit losses	**757,000**	872,000
Right of use asset - operating	**139,000**	146,000
Asset acquisition - Hastings	**34,000**	56,000
Deferred compensation	**33,000**	36,000
Interest on nonaccrual loans	**26,000**	27,000
Deferred loan fees	**1,000**	29,000
Mortgage servicing rights	**(11,000)**	(14,000)
Asset acquisition - Mason	**(44,000)**	(60,000)
Prepaid expenses	**(72,000)**	(50,000)
Right of use liability - operating	**(139,000)**	(146,000)
Accumulated depreciation	**(688,000)**	(710,000)
Other	**180,000**	128,000
Net deferred tax asset	**$ 2,335,000**	$ 3,295,000

All tax years from 2020 and subsequent remain open to examination by the Internal Revenue Service. The Corporation does not believe that the results from any examination of these open years would have a material adverse effect on the Corporation.

Note 13 – Earnings Per Share

The factors used in the earnings per share computation is presented below for December 31:

		2023		2022
Basic earnings per share:				
Net income	**$**	**6,172,641**	$	8,081,338
Weighted average common shares outstanding		**3,965,303**		3,965,303
Basic earnings per share	**$**	**1.56**	$	2.04
Diluted earnings per share:				
Net income	**$**	**6,172,641**	$	8,081,338
Weighted average common shares outstanding		**3,965,303**		3,965,303
Add: Dilutive effect of assumed exercise of stock options		**-**		-
Average shares and dilutive potential common shares		**3,965,303**		3,965,303
Diluted earnings per share	**$**	**1.56**	$	2.04

Note 14 - Commitments, Off-Balance Sheet Risk, and Contingencies

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the Corporation's financial condition or results of operations.

Loan Commitments

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to make loans, unused lines of credit and standby letters of credit. Contractual amounts of these instruments represent the exposure to credit loss in the event of nonperformance by the other party to financial instruments for commitments to make loans, unused lines of credit and standby letters of credit. The Corporation follows the same credit policy to make such commitments as it uses for on-balance sheet items.

Since many commitments to make loans expire without being used, the amount of commitments shown does not necessarily represent future cash commitments. No losses are anticipated as a result of these transactions. Collateral obtained upon exercise of commitments is determined using management's credit evaluation of the borrowers and may include real estate, business assets, deposits and other items.

Commitments at December 31 were as follows:

	2023				2022			
		Fixed Rate		**Variable Rate**		Fixed Rate		Variable Rate
Commitments to extend credit	**$**	**7,125,865**	**$**	**43,626,594**	$	9,511,774	$	42,052,706
Standby letters of credit		**-**		**163,000**		-		190,000
Total commitments	**$**	**7,125,865**	**$**	**43,789,594**	$	9,511,774	$	42,242,706

Interest rates and terms on fixed-rate commitments ranged from 3.99% to 16.20% and six months to 30 years, respectively.

Leases and Other Contractual Commitments

The Corporation occupies one location under a long-term operating lease. In addition, the Corporation is party to long-term contracts for data processing and operating systems. The future minimum annual commitments under all operating leases and other contractual commitments as of December 31, 2023 were as follows:

Year		Lease and Other Contractual Commitments
2024	$	725,796
2025		750,809
2026		760,009
2027		788,678
2028		624,349
Total	$	3,649,641

Note 15 - Fair Value

Fair Value Measurements

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, foreclosed assets, mortgage servicing rights and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting for write-downs of individual assets.

Following is a description of the valuation methodologies used for assets and liabilities recorded at fair value:

- Securities: Securities available for sale and equity securities are recorded at fair value on a recurring basis. Fair values are determined by quoted market prices (Level 1) or by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The fair values of certain municipal securities are determined by computing discounted cash flows using observable and unobservable market inputs (Level 3 inputs).

- Foreclosed Assets: Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Adjustments to foreclosed assets are measured at fair value less costs to sell. Fair values are generally based on third-party appraisals or realtor evaluations of the property. These appraisals and evaluations may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. If these values are based on appraisals less than six months old, they are considered Level 2. If adjustments are made by management and the adjustments are significant, these result in a Level 3 classification of the inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized through a valuation allowance and the property is reported as nonrecurring Level 2. For Level 3 fair value measurements, management applies adjustments as considered necessary based on the circumstances surrounding each individual property. There were no foreclosed asset appraisal adjustments during 2023 or 2022.

- Loans: The Corporation does not record loans at fair value on a recurring basis; however, from time to time, a loan is individually evaluated and a specific allowance for credit losses is established. Individually evaluated loans are measured using one of three methods: the loan's observable market price, the fair value of collateral, or the present value of expected future cash flows. For each period presented, no individually evaluated loans were measured using the loan's observable market price. During the year, if an individually evaluated loan has had a charge off or if the fair value of the collateral is less than the recorded investment in the loan, the Corporation establishes a specific reserve and reports the loan as nonrecurring Level 3. The fair value of collateral of individually evaluated loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. If adjustments are made by management and the adjustments are significant, these result in a Level 3 classification.

Fair values of assets and liabilities measured on a recurring and nonrecurring basis at December 31 were as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets measured on a recurring basis				
2023				
Securities available for sale	**$ 90,580,670**	**$ 22,021,875**	**$ 65,373,822**	**$ 3,184,973**
2022				
Securities available for sale	$ 97,979,329	$ 27,496,718	$ 66,348,163	$ 4,134,448
Assets measured on a nonrecurring basis				
2023				
Loans	**$ -**	**$ -**	**$ -**	**$ -**
2022				
Loans	$ 846,027	$ -	$ -	$ 846,027

A reconciliation of beginning and ending balances for Level 3 assets measured at fair value on a recurring basis follows:

Level 3 Fair Value Measurements Available-For-Sale Securities	**2023**	2022
Balance at beginning of year	**$ 4,134,448**	$ 1,620,475
Total gains or losses for the period:		
Included in earnings	**-**	-
Included in other comprehensive income (loss)	**94,525**	(218,027)
Purchases	**-**	2,785,000
Sales	**-**	-
Transfers into Level 3		
Transfers out of Level 3	**(1,044,000)**	(53,000)
Balance at end of year	**$ 3,184,973**	$ 4,134,448

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair values for financial instruments:

- Carrying amount is considered to approximate fair value for cash and cash equivalents, interest-bearing deposits in banks, Federal Home Loan Bank (FHLB) stock, demand and savings deposits, accrued interest receivable, accrued interest payable and variable rate loans or deposits that re-price frequently and fully.
- Securities fair values are based on quoted market prices or, if no quotes are available, on the rate, term of the security, and information about the issuer.
- Fixed rate loans and time deposits, and variable rate loans with infrequent re-pricing, are estimated using discounted cash flow analyses or underlying collateral values, where applicable.
- Fair value of Federal Home Loan Bank advances is based on currently available rates for similar financing.
- Fair value of debt is based on current rates for similar financing.
- Fair value of other financial instruments and off-balance sheet items approximate cost and are not considered significant to this presentation.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that if the Corporation had disposed of such items at December 31, 2023 and 2022, the estimated fair values would have been achieved.

Market values may differ depending on various circumstances not taken into consideration in this methodology. The estimated fair values at December 31, 2023 and 2022 should not necessarily be considered to apply at subsequent dates.

Financial instruments at December 31 were approximately as follows:

	2023		2022	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$ 32,943,000**	**$ 32,943,000**	$ 61,072,000	$ 61,072,000
Time deposits in banks	**3,735,000**	**3,735,000**	8,960,000	8,960,000
Securities available for sale	**90,581,000**	**90,581,000**	97,979,000	97,979,000
Federal Home Loan Bank stock	**3,726,000**	**3,726,000**	3,726,000	3,726,000
Loans, net of allowance	**413,833,000**	**385,252,000**	407,140,000	381,832,000
Accrued interest receivable	**2,165,000**	**2,165,000**	1,958,000	1,958,000
Total financial assets	**$ 546,983,000**	**$ 518,402,000**	$ 580,835,000	$ 555,527,000
FINANCIAL LIABILITIES				
Demand and savings deposits	**$ (419,765,000)**	**$ (419,765,000)**	$ (464,936,000)	$ (464,936,000)
Time deposits	**(81,881,000)**	**(80,643,000)**	(73,796,000)	(71,486,000)
Federal Home Loan Bank advances	**(14,000,000)**	**(13,580,000)**	(19,000,000)	(18,029,000)
Subordinated debentures	**(13,403,000)**	**(13,403,000)**	(13,403,000)	(13,403,000)
Accrued interest payable	**(250,000)**	**(250,000)**	(116,000)	(116,000)
Total financial liabilities	**$ (529,299,000)**	**$ (527,641,000)**	$ (571,251,000)	$ (567,970,000)

Note 16 – Capital Requirements and Restrictions on Retained Earnings

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative and qualitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors. The regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the consolidated financial statements. The capital conservation buffer for 2023 and 2022 is 2.50%. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2023, the Bank meets all capital adequacy requirements to which they are subject.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. These terms are not used to represent overall financial condition.

If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions, asset growth and expansion are limited. Plans for capital restoration are also required. The Bank was categorized as well capitalized at December 31, 2023 and 2022. There are no events or conditions since that time that management believes have changed the institution's category.

The Corporation's primary source of funds to pay dividends to shareholders is the dividends received from the Bank. The Bank is subject to certain state and federal restrictions on the amount of dividends it may declare without prior regulatory approval.

The Corporation's ability to pay dividends is dependent on the Bank, which is restricted by state law and regulations. These regulations pose no practical restrictions to paying dividends at historical levels.

Actual and required capital amounts (in thousands) and ratios at December 31 were:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
2023	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital (to risk-weighted assets)	$ 60,957	15.6 %	$ 31,302	8.0 %	$ 39,127	10.0 %
Tier 1 Capital (to risk-weighted assets)	57,352	14.7	23,476	6.0	31,302	8.0
Common Tier 1 Capital (to risk-weighted assets)	57,352	14.7	17,607	4.5	25,432	6.5
Tier 1 Capital (to average assets)	57,352	9.6	23,826	4.0	29,782	5.0
2022						
Total Capital (to risk-weighted assets)	$ 59,123	15.2 %	$ 31,167	8.0 %	$ 38,959	10.0 %
Tier 1 Capital (to risk-weighted assets)	54,969	14.1	23,375	6.0	31,167	8.0
Common Tier 1 Capital (to risk-weighted assets)	54,969	14.1	17,531	4.5	25,323	6.5
Tier 1 Capital (to average assets)	54,969	8.7	25,318	4.0	31,647	5.0

Consolidated capital amounts and ratios are not presented as they are not required since the consolidated entity is less than $3 billion in assets and the Bank comprises approximately 99% of the consolidated assets of the holding company.

Note 17 – Accumulated Other Comprehensive Income (Loss)

The comprehensive income (loss) topic of FASB ASC requires the reporting of comprehensive income (loss) in addition to net income. Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosures of certain financial information that, historically, has not been recognized in the calculation of net income.

The items of other comprehensive income (loss) included in comprehensive income (loss) is the change in unrealized holding gains (losses) on investment securities classified as available for sale. The reclassification adjustment for gains (losses) realized in net income is recorded as a separate line item on the consolidated statements of income.

The amounts for the years ended December 31 are summarized below:

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
2023			
Accumulated other comprehensive loss, beginning balance	**$ (14,196,935)**	**$ 2,981,356**	**$ (11,215,579)**
Unrealized gains on securities available for sale:			
Unrealized holding gains arising during the period	**4,105,653**	**(862,187)**	**3,243,466**
Other comprehensive gain	**4,105,653**	**(862,187)**	**3,243,466**
Accumulated other comprehensive loss, ending balance	**$ (10,091,282)**	**$ 2,119,169**	**$ (7,972,113)**
2022			
Accumulated other comprehensive income, beginning balance	$ 285,465	$ (59,948)	$ 225,517
Unrealized losses on securities available for sale:			
Unrealized holding losses arising during the period	(14,482,400)	3,041,304	(11,441,096)
Other comprehensive loss	(14,482,400)	3,041,304	(11,441,096)
Accumulated other comprehensive loss, ending balance	$ (14,196,935)	$ 2,981,356	$ (11,215,579)

Note 18 – Investment in Qualified Affordable Housing Projects

The Bank holds investments in Cinnaire Michigan Community Fund Limited Partnership XX-2, Cinnaire Michigan Community Fund Limited Partnership XX-3 and Cinnaire Michigan Community Fund Limited Partnership XX-4 (collectively Cinnaire) which are limited liability companies that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The Bank accounts for its investment in Cinnaire using the proportional amortization method, under which the Bank amortizes the cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance as a component of income tax expense. The Bank recognized approximately $63,000 as an income tax benefit related to these investments in 2023 and $105,000 in 2022.

The Bank's recorded investment in Cinnaire was approximately $763,000 at December 31, 2023 and $1,090,000 at December 31, 2022. These investments are included in accrued interest receivable and other assets on the consolidated balance sheets. The Bank's remaining commitment to provide capital contributions to Cinnaire is $111,000 as of December 31, 2023 and $131,000 as of December 31, 2022. These amounts are included in accrued expenses and other liabilities on the consolidated balance sheets.

130 Years of Community Banking

Board of Directors

Back Row (left to right): Daniel Walcutt, Jeffrey Stahl, Richard Prestage, Loren Roslund, Timothy Coscarelly

Front Row (left to right): Brent Hardman, Christopher Goggin, Kevin Collison, Aaron Davis, Heather Cook Fisette

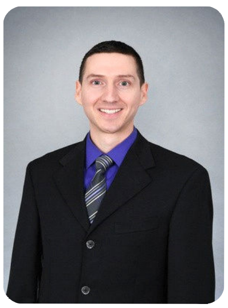
"It has been an honor to serve as a member of the Board of Directors for Commercial National Financial Corporation over the past 19 years. Throughout this period, I have observed remarkable transformations and considerable growth within the organization. Our recent celebration of the 130th anniversary represents a significant milestone in our collective journey and as we venture into the Grand Rapids market, I eagerly look forward to the opportunities that await us."

- Richard S. Prestage, Chair of the Board

Commercial Bank Executive Officers

Kevin D. Collison
President & CEO

Andrew P. Shafley
Executive Vice President &
Chief Lending Officer



Benjamin Z. Ogle
Chief Financial Officer

Gregory R. Hansen
Senior Vice President &
Commercial Loan Manager

Officers

Senior Vice Presidents

Sarah J. Doherty	Retail & Business Operations

Vice Presidents

Garth W. Anderson	Commercial Lender
Marisa G. Bramer	Commercial Lender
Kimberly S. Campbell	Compliance & CRA Officer
Luzmila J. Halliwill	Mason Community President
Paul D. Harger	IT Manager
Aaron J. Hartman	Hastings Community President
Amy S. Homich	Commercial Lender
Jayme L. Kosal	West MI Community President
Heidi L. Miller	Senior Mortgage Lender
Todd J. Moeggenborg	Controller
Denise L. Reese	Security & Risk Officer
Linda M. Vaughn	Loan Operations Manager

First Vice Presidents

Corey S. Bailey	Senior Commercial Loan Officer
Matthew O. Fletcher	Credit Administration

Assistant Vice Presidents

Melanie S. Baxter	Branch Administration
Andrea G. Carr	Treasury Management
Nate R. Kirk, Jr.	Mortgage Lender
Tammy L. McCollum	Treasury Management
Roger K. Merritt	IT Support Specialist
Jamie L. Ogle	Commercial Loan Docs Manager
Sheena M. Williams	Human Resources Manager

Officers

Seth F. Duvall	Mortgage Lender
Tricia C. Frost	Deposit Operations Manager
Kelsey R. Moore	Treasury Management
Heather H. Warren	Mortgage Lender

Commercial Bank Locations

Alma - Wright Avenue Branch

St. Louis Branch

Alma - Loan Production Office

Ithaca Branch

Middleton Branch

Okemos Branch

Greenville Branch

Mason - Cedar Branch

Hastings Branch

Mason - Jefferson Branch

Commercial Bank Locations

Alma - Wright Avenue Branch
1690 Wright Ave.
Alma, MI 48801
Phone: (989) 463-3901

Alma - Loan Production Office
301 North State St.
Alma, MI 48801
Ph. (989) 463-2185

Grand Rapids Branch
****Opening May of 2024****
O-240 Lake Michigan Drive NW
Grand Rapids, MI 49534

Greenville Branch
10530 West Carson City Rd.
Greenville, MI 48838
Phone: (616) 754-7166

Hastings Branch
629 West State St.
Hastings, MI 49058
Phone: (269) 945-9561

Ithaca Branch
101 North Pine River St.
Ithaca, MI 48847
Phone: (989) 875-4144

Mason - Jefferson Branch
322 South Jefferson St.
Mason, MI 48854
Phone: (517) 676-0500

Mason - Cedar Branch
661 North Cedar St.
Mason, MI 48854
Phone: (517) 676-0515

Middleton Branch
101 North Newton St.
Middleton, MI 48856
Phone: (989) 236-7236

Okemos Branch
2112 Jolly Rd.
Okemos, MI 48864
Phone: (517) 337-5000

St. Louis Branch
104 North Mill St.
St. Louis, MI 48880
Phone: (989) 681-5738

Corporate Headquarters

101 North Pine River St.
Ithaca, MI 48847
www.commercial-bank.com
Phone: (989) 875-4144
Fax: (989) 875-4534

Transfer Agent

Commercial National Financial Corporation
Care of Ms. Kim Campbell
101 North Pine River St.
Ithaca, MI 48847

Annual Report Availability

Commercial National Financial Corporation's annual report is available upon written request without charge from:

Commercial National Financial Corporation
Care of Mr. Todd Moeggenborg
101 North Pine River St.
Ithaca, MI 48847
Phone: (989) 875-4144

Investment Brokers

Stifel, Nicolaus & Company, Incorporated
Kyle Travis, First Vice President/Investments, (616) 224-1559
Products & services offered through Stifel, Nicolaus & Company, Incorporated are not affiliated with Commercial Bank
Member SIPC/NYSE

D.A. Davidson & Co.
Nick Bicking, Senior Vice President, (614) 710-7060 and Tom Dooley, Senior Vice President, (614) 710-7061
Products & services offered through D.A. Davidson & Co. are not affiliated with Commercial Bank
Member SIPC

Stock Symbol: CEFC

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FINANCIAL CORPORATION

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