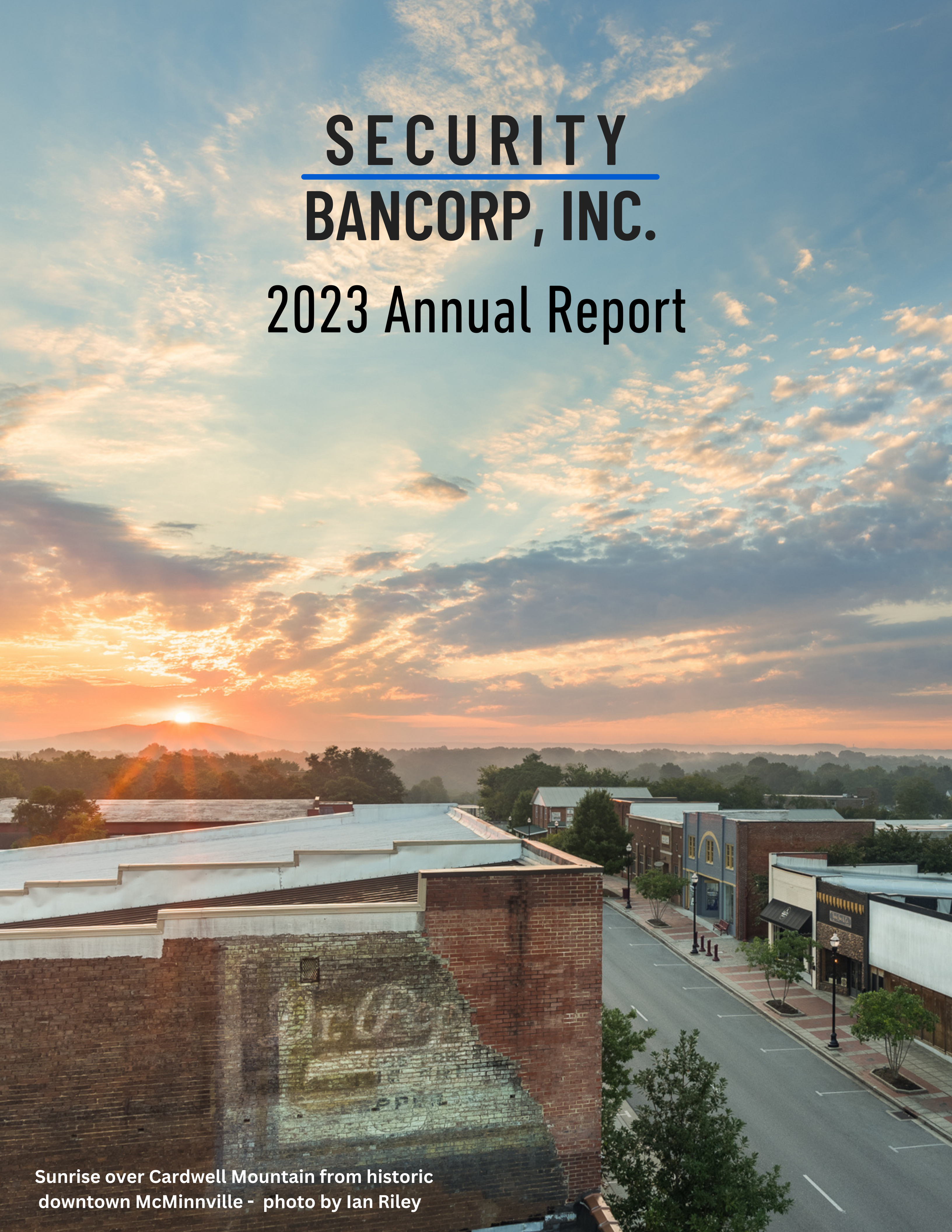
SECURITY BANCORP, INC.

2023 Annual Report



Sunrise over Cardwell Mountain from historic downtown McMinnville - photo by Ian Riley

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PRESIDENT'S MESSAGE

To Our Stockholders:

On behalf of the Board of Directors, Officers and Employees of Security Bancorp, Inc. and its wholly-owned subsidiary, Security Federal Savings Bank, we are pleased to present our twenty-sixth Annual Report as a public company. At the beginning of 2023 we had a very successful transition from my role as Executive Vice President into the President and CEO role. This transition was successful due to the planning we have implemented over the last several years. I want to thank Joe H. Pugh, the Board of Directors, our employees as well our loyal shareholders and customers for all the support during the year.

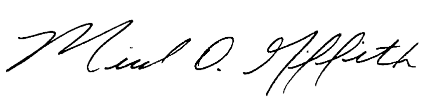
Net income for the year ended December 31, 2023 was $3.3 million, or $8.56 per share, compared to $3.0 million, or $7.99 per share, in 2022. This $217,000, or 7.1%, increase in net income was primarily due to an increase in net interest income as a result of an increase in the yield on loans offset by an increase in the cost of deposits. The Company's consolidated assets totaled $324.4 million at December 31, 2023 compared to $301.8 million a year earlier, representing a 7.5% increase. The increase in assets was primarily attributable to an increase in loan balances funded by investment maturities. Total stockholders' equity was $31.2 million at December 31, 2023, compared to $27.2 million for the prior year. During the year ended December 31, 2023, the Company paid its twenty-sixth annual dividend of $1.00 per share.

Income diversification remained a primary focus of the Company during 2023 and we believe that this diversification will continue to enhance the Company's performance in the future. At December 31, 2023, loans secured by real estate represented 81% of the Bank's total loan portfolio. Diversification has also been achieved through the Bank's mortgage and financial services departments which provide additional sources of non-interest income. The Bank's mortgage department services an off-balance sheet loan portfolio of $91.4 million at December 31, 2023.

Our management team continues to be proud of the quality of our loan portfolio. At December 31, 2023, the Bank had $363,000, or 0.11%, in non-performing assets. We believe that this low level of non-performing assets is indicative of both our conservative underwriting practices as well as the quality of customers that choose to bank with Security Federal Savings Bank.

On behalf of the Board of Directors, management and staff, we would like to thank you for your continued loyalty and confidence in us and your investment in Security Bancorp, Inc.

Sincerely,



Michael D. Griffith
President and CEO

BUSINESS OF THE COMPANY

Security Bancorp, Inc. ("Company"), a Tennessee corporation, was organized on March 18, 1997 for the purpose of becoming the holding company for Security Federal Savings Bank of McMinnville, TN ("Bank") upon its conversion from a federal mutual savings bank to a federal stock savings bank ("Conversion"). The Company issued 436,425 shares of common stock at $10.00 per share and on June 30, 1997 the conversion was completed. At December 31, 2023, the Company's total consolidated assets were $324.4 million and had a total consolidated stockholders' equity of $31.2 million. The Company is not engaged in any significant business activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, applies primarily to the Bank.

The Bank was organized in 1960 as a federal savings and loan association. Effective February 11, 2009, the Bank converted to a Tennessee chartered commercial bank and the Company became a bank holding company regulated by the Board of Governors of the Federal Reserve System ("Federal Reserve"). The Bank's primary regulator is the Tennessee Department of Financial Institutions ("Department") and the Federal Deposit Insurance Corporation ("FDIC"). The Bank's deposits are insured up to applicable limits by the FDIC and the Bank is a member of the Federal Home Loan Bank ("FHLB") System.

The Bank operates as a community-oriented financial institution devoted to serving the needs of its customers in its primary market area of Warren County, Tennessee and contiguous counties. The Bank's business consists primarily of attracting deposits from the general public and using those funds to originate residential real estate loans, acquisition and development loans, commercial business loans, and consumer loans.

FORWARD-LOOKING STATEMENTS

This Annual Report, including information included or incorporated by reference, contains future oral and written statements by the Company and its management may contain, forward-looking statements about the Company and the Bank, which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates acquisition and divestiture opportunities, and synergies, efficiencies, cost savings and funding advantages expected to be realized from prior acquisitions. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. The important factors we discuss below and elsewhere in this document, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein, and identified in our filings with the Department, FDIC, Federal Reserve, and those presented by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this Annual Report.

COMMON STOCK INFORMATION

The Company's common stock is traded on the over-the-counter market through the OTC "Electronic Bulletin Board" under the symbol of "SCYT". As of December 31, 2023, there were approximately 191 stockholders of record and 436,425 shares of common stock outstanding (including treasury stock of 65,227 shares). Generally, if the Bank satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed in the regulations. However, institutions that have converted to the stock form of ownership may not declare or pay a dividend on, or repurchase any of, its common stock if the effect thereof would cause the regulatory capital of the institution to be reduced below the amount required in accordance with the regulations. To date, the Company has not established a policy of paying regular cash dividends.

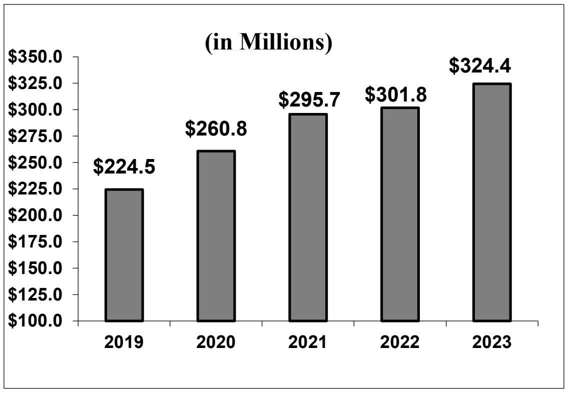
The following table sets forth market price range of the Company's common stock for the four quarters of fiscal years 2021, 2022 and 2023.

2021	High	Low	Dividend
First Quarter	$57.00	$52.50	N/A
Second Quarter	65.00	57.00	N/A
Third Quarter	105.00	66.00	$1.00/share
Fourth Quarter	67.50	67.50	N/A
2022			
First Quarter	67.50	67.50	N/A
Second Quarter	68.80	67.00	N/A
Third Quarter	63.00	59.00	$1.00/share
Fourth Quarter	61.00	59.26	N/A
2023			
First Quarter	60.00	58.75	N/A
Second Quarter	61.00	56.25	N/A
Third Quarter	59.20	57.50	$1.00/share
Fourth Quarter	62.00	58.00	N/A

FINANCIAL HIGHLIGHTS

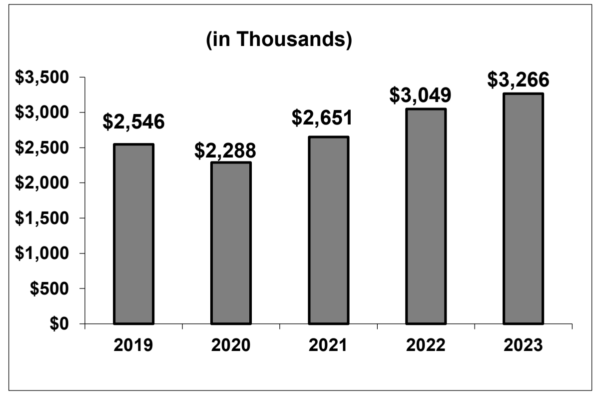
Total Assets

Assets at December 31, 2023 were $324.4 million.



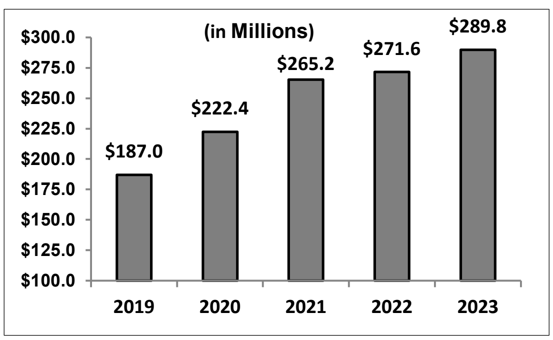
Net Income

Net income was $3.3 million in 2023.



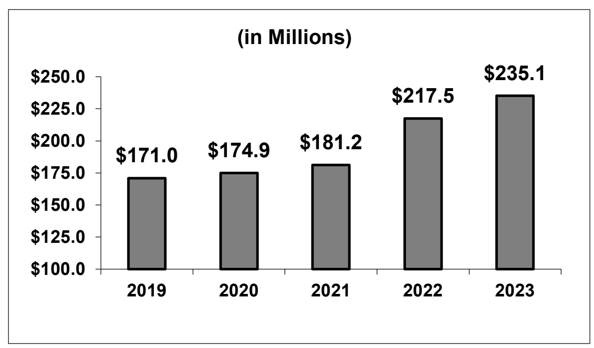
Deposits

Deposits at December 31, 2023 were $289.8 million.



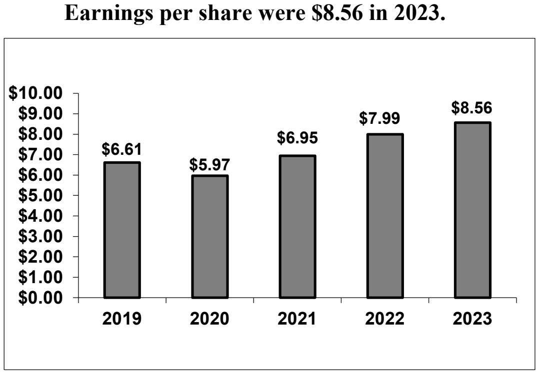
Loans

At December 31, 2023, net loans were $235.1 million.



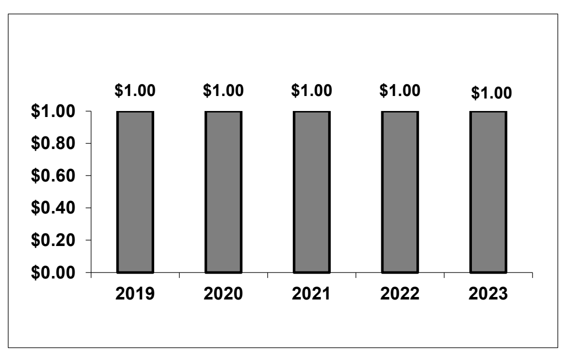
Earnings per Share

Earnings per share were $8.56 in 2023.



Dividends

The Company declared a $1.00 dividend in 2023.



SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth certain information concerning the consolidated financial position and results of operations of the Company at and for the dates indicated. The consolidated data is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company and its Subsidiary presented herein.

	At December 31,				
	2023	2022	2021	2020	2019
			(In thousands)		
SELECTED CONSOLIDATED FINANCIAL CONDITION DATA:					
Total assets	$324,440	$301,759	$295,745	$260,827	$224,467
Net loans receivable	235,086	217,526	181,242	174,913	170,953
Cash and due from banks	32,551	19,231	46,421	39,659	8,932
Investment securities available for sale	45,837	54,307	58,816	37,216	35,774
Deposits	289,810	271,648	265,189	222,352	187,039
FHLB advances	-0-	-0-	-0-	2,000	5,000
Repurchase agreements	-0-	-0-	-0-	7,719	5,382
Stockholders' equity, substantially restricted	31,180	27,245	28,042	26,298	24,699

	Year Ended December 31,				
	2023	2022	2021	2020	2019
			(In thousands)		
SELECTED CONSOLIDATED OPERATING DATA:					
Interest income	$15,601	$10,309	$8,464	$9,068	$9,502
Interest expense	5,743	1,274	1,075	1,711	1,798
Net interest income	9,858	9,035	7,389	7,357	7,704
Provision for credit losses	244	235	240	200	108
Net interest income after provision for credit losses	9,614	8,800	7,149	7,157	7,596
Other income	1,621	1,784	2,648	2,017	1,726
Other expenses	6,839	6,493	6,236	6,129	5,918
Income before income taxes	4,396	4,091	3,561	3,045	3,404
Provision for income tax expense	1,130	1,042	910	757	858
Net income	$3,266	$3,049	$2,651	$2,288	$2,546
Earnings per common share (in dollars)	$8.56	$7.99	$6.95	$5.97	$6.61

	For the Year Ended December 31,				
	2023	2022	2021	2020	2019
KEY OPERATING RATIOS					
Performance Ratios:					
Return on average assets (net income divided by average assets)	1.05%	1.02%	0.94%	0.94%	1.18%
Return on average equity (net income divided by average equity)	11.28	11.27	9.74	8.97	10.87
Interest rate spread (difference between average yield on interest-earning assets and average cost of interest-bearing liabilities)	2.69	3.10	2.72	3.05	3.47
Net interest margin (net interest income as a percentage of average interest-earning assets)	3.31	3.26	2.86	3.29	3.77
Noninterest expense as a percent of average assets	2.19	2.18	2.21	2.51	2.74
Average interest-earning assets to interest-bearing liabilities	132.24	132.92	132.88	131.31	133.65
Efficiency ratio (other expenses divided by the sum of net interest income and noninterest income)	60.87	61.34	63.65	66.81	63.48
Capital Ratios:					
Average equity to average assets	9.27	9.10	9.67	10.46	10.85
Tangible capital to assets	10.69	10.26	9.48	10.03	10.97
Core capital to assets	10.69	10.26	9.48	10.03	10.97
Tier I capital to risk adjusted assets	13.82	13.55	14.51	14.20	14.34
Asset Quality Ratios:					
Allowance for credit losses to total loans at end of period	1.01	0.98	1.11	1.02	0.97
Net charge offs to average outstanding loans during the period	(0.008)	0.06	(3.74)	0.04	0.02
Ratio of nonperforming assets to total assets (1)	0.11	0.10	0.11	0.11	0.32
Ratio of allowance for credit losses to nonperforming assets (1)	664.19	687.22	677.41	609.46	231.81
SELECTED OTHER DATA:					
Number of:					
Real estate loans outstanding	2,008	1,993	2,027	2,035	1,996
Deposit accounts	11,391	10,932	10,791	10,382	10,069
Full-service offices	3	3	3	3	3

(1) Nonperforming assets consist of non-accrual loans, accruing loans contractually past due 90 days or more, and foreclosed property.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Management's discussion and analysis of the financial condition and results of operations is intended to assist in understanding the consolidated financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Consolidated Financial Statements and accompanying notes thereto included herein.

Operating Strategy

The business of the Bank consists principally of attracting deposits from the general public and using such deposits to originate mortgage loans secured primarily by one-to-four family residences. The Bank also originates mortgage loans secured by residential real estate, consumer, commercial business, acquisition and development, and commercial real estate loans. The Bank invests primarily in investment grade federal agency securities, municipals and mortgage-backed securities. The Bank intends to continue to fund its assets primarily with deposits, although FHLB advances and repurchase agreements may be used as supplemental sources of funds.

Operating results are dependent primarily on net interest income, which is the difference between the income earned on its interest-earning assets, such as loans and investments, and the cost of its interest-bearing liabilities, consisting of deposits and other borrowings. Operating results are also significantly affected by general economic and competitive conditions, primarily changes in market interest rates, governmental legislation and policies concerning monetary and fiscal affairs and housing, as well as financial institutions and the attendant actions of the regulatory authorities.

The Bank's strategy is to operate as a conservative, well-capitalized, profitable community-oriented financial institution dedicated to financing home ownership and other consumer and local business needs and to provide quality service to all customers. The Bank believes that it has successfully implemented its strategy by; (i) maintaining strong capital levels, (ii) maintaining effective control over net noninterest income to attempt to achieve profitability under differing interest rate scenarios, (iii) limiting interest rate risk by diversifying its assets, (iv) emphasizing local loan originations, and (v) emphasizing high-quality customer service with a competitive fee structure.

Interest Rate Risk Management

The Bank's principal financial objective is to maintain long-term profitability by utilizing conservative underwriting standards and reducing non-performing assets. The Bank has sought to reduce the exposure of its earnings to changes in market interest rates by managing the mismatch between asset and liability maturities and interest rates. The principal element in achieving the objective is to maintain the interest-rate sensitivity of the Bank's assets by originating loans with interest rates based on market interest rates. The Bank relies on retail deposits as its primary external source of funds. Management believes retail deposits, compared to brokered deposits and long-term borrowings reduce the effects of interest rate fluctuations because these deposits generally represent a more stable source of funds.

Liquidity and Capital Resources

The Bank's primary sources of funds are deposits and proceeds from principal and interest payments on loans. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, and competition. The Bank's primary investing activity is loan originations and to a lesser extent, investment securities. The Bank maintains liquidity levels adequate to fund loan commitments, investment opportunities, deposit withdrawals and other financial commitments. At December 31, 2023, the Bank's liquidity ratio was 13.84%. The Bank also had unfunded loan commitments of $59.0 million and outstanding commercial letters of credit of $267,750. At December 31, 2023, management had no knowledge of any trends, events or uncertainties that will have or are likely to have material effects on the liquidity, capital resources or operations of the Bank.

Comparison of Financial Condition at December 31, 2023 and 2022

Total assets increased $22.7 million, or 7.5%, to $324.4 million at December 31, 2023 from $301.8 million at December 31, 2022. Loans, net, increased $17.6 million, or 8.1%, to $235.1 million at December 31, 2023 from $217.5 million at December 31, 2022 primarily as a result of an increase in commercial real estate loans and residential loans. Investment securities decreased $8.5 million, or 15.6%, to $45.8 million at December 31, 2023 from $54.3 million at December 31, 2022. The decrease in investment securities was due to maturities of investment securities. Deposits increased $18.2 million, or 6.7%, to $289.8 million at December 31, 2023 from $271.6 million at December 31, 2022. The increase was primarily attributable to an increase in interest-bearing demand deposits and certificates of deposit. Stockholders' equity increased $3.9 million, or 14.4%, to $31.2 million at December 31, 2023 from $27.2 million at December 31, 2022. The increase in stockholders' equity was due to the decrease in unrealized losses on securities available-for-sale and an increase in retained earnings.

Comparison of Operating Results for the Years Ended December 31, 2023 and 2022

Net Income. Net income for the year ended December 31, 2023 was $3.3 million compared to $3.0 million for the prior year ended December 31, 2022. The $217,000, or 7.1%, increase was primarily due to an increase in net interest income as a result of an increase in the yield on loans offset by an increase in the cost of deposits.

Net Interest Income. Net interest income after provision for credit losses for the year ended December 31, 2023 increased $814,000, or 9.3%. Total interest income increased $5.3 million, or 51.3%, to $15.6 million for the year ended December 31, 2023 from $10.3 million the prior year primarily as a result of an increase in interest income on loans, interest-bearing cash and due from banks. Interest expense increased $4.5 million to $5.7 million for the year ended December 31, 2023 from $1.3 million a year earlier primarily a result of interest rate increases.

Provision for Loan Losses. Provisions for credit losses are charges to earnings to bring the total allowance for credit losses to a level considered adequate by management to provide for estimated credit losses. They are based on management's evaluation of the collectability of the loan portfolio, including past credit loss experience, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. The provision for credit losses decreased by $9,000 to $244,000 for the year ended December 31, 2023 from $235,000 for the year ended December 31, 2022. Management considers the allowance for credit losses adequate at December 31, 2023.

Other Income. Total other income decreased by $163,000, or 9.1%, to $1.6 million for the year ended December 31, 2023 from $1.8 million the prior year. Gain on sale of loans decreased $106,000, or 45.1%, to $129,000 during the 2023 fiscal year compared to $235,000 in 2022. This decrease was due to the decreased volume in the sales of residential mortgages. Financial service fees decreased $71,000, or 13.6%, to $454,000 in fiscal 2023 from $525,000 in fiscal 2022.

Other Expenses. Total other expenses increased by $346,000, or 5.3%, to $6.8 million for the year ended December 31, 2023 from $6.5 million compared to the prior year. Occupancy expense increased by $79,000, or 9.9% to $870,000 during fiscal 2023 compared to $791,000 the prior fiscal year. The increase in occupancy expense was primarily due to repairs and maintenance during 2023. Data processing increased $100,000, or 12.4%, for the year ended December 31, 2023 to $902,000 from $802,000 in the prior year and is primarily attributable to additional processing costs due to Bank growth and account activity.

Income Tax Expense. Income tax expense increased $88,000, or 8.4%, to $1.1 million for the year ended December 31, 2023 compared to $1.0 million a year earlier. The income tax expense increase was due to an increase in taxable income.

Average Balances, Interest and Average Yield/Cost. The earnings of the Bank depend largely on the spread between the yield on interest-earning assets (primarily loans and investments) and the cost of interest-bearing liabilities (primarily deposit accounts and borrowings), as well as the relative size of the Bank's interest-earning assets and interest-bearing liabilities.

The following table sets forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin, and ratio of average interest-earning assets to average interest-bearing liabilities. Average balances have been calculated using the average of daily balances during the year.

	At December 31, 2023	Year Ended December 31,					
		2023			2022		
	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
		(Dollars in thousands)					
Interest-earning assets:							
Loans receivable	6.74%	$229,594	$13,973	6.09%	$200,381	$9,321	4.65%
Investment securities	1.32%	50,121	680	1.36%	56,923	670	1.18%
Other	5.59%	18,052	948	5.25%	20,234	318	1.57%
Total interest–earning assets	5.85%	297,767	15,601	5.24%	277,538	10,309	3.71%
Noninterest-earning assets		14,564			19,794		
Total assets		$312,331			$297,332		
Interest-bearing liabilities:							
Interest-bearing checking, MMDA and Savings	2.71%	150,012	3,463	2.30%	144,847	777	0.54%
Certificates of deposit	4.16%	75,157	2,280	3.03%	63,946	497	0.77%
Total interest-bearing deposits	2.63%	225,169	5,743	2.55%	208,793	1,274	0.61%
FHLB advances and other borrowings	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total interest-bearing liabilities	2.63%	225,169	5,743	2.55%	208,793	1,274	0.61%
Noninterest-bearing liabilities		58,218			61,474		
Total liabilities		283,387			270,267		
Equity		28,944			27,065		
Total liabilities and equity		$312,331			$297,332		
Net interest income			$9,858			$9,035	
Interest rate spread	3.22%			2.69%			3.10%
Net interest margin				3.31%			3.26%
Ratio of average interest-earning assets to average interest-bearing liabilities				132.24%			132.92%

Off-Balance Sheet Arrangements

As of the date of this Annual Report, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, change in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The Bank does have commitments to originate loans in the ordinary course of business, as disclosed herein. The term "off-balance sheet arrangement" generally means any transaction, agreement, or other contractual arrangement of to which an entity unconsolidated with the Company is a party under which the Company has (i) any obligation arising under a guaranteed contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

ATA, PLLC
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Independent Auditor's Report

To the Board of Directors
Security Bancorp, Inc. and Subsidiary
P.O. Box 7027
McMinnville, TN 37111

Opinion

We have audited the accompanying consolidated financial statements of Security Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Security Bancorp, Inc. and Subsidiary 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Security Bancorp, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the 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 Security Bancorp, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consoldiated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the 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 Security Bancorp, Inc. and Subsidiary'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 Security Bancorp, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

ATA, PLLC

Milan, Tennessee
February 27, 2024

SECURITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents:		
Cash and cash equivalents	$ 5,497,709	$ 6,242,849
Federal funds sold	7,550,000	-
Cash and cash equivalents total	13,047,709	6,242,849
Interest-bearing deposits with banks	19,503,181	12,987,931
Investment securities available-for-sale, at fair value, net	45,837,268	54,306,706
Federal Home Loan Bank stock, at cost	272,500	697,500
Federal Home Loan Mortgage Corporation stock	4,628	1,906
Loans	237,496,747	219,673,738
Less: Allowance for credit losses (loan losses)	(2,410,577)	(2,147,793)
Net loans	235,086,170	217,525,945
Loans held for sale	325,375	-
Premises and equipment, net	2,668,411	2,785,511
Foreclosed assets	139,120	141,547
Cash surrender value of life insurance	3,173,886	3,115,716
Accrued interest receivable	2,291,759	1,464,795
Other assets	2,089,809	2,488,948
Total assets	**$ 324,439,816**	**$ 301,759,354**
Liabilities and stockholders' equity		
Liabilities		
Deposits:		
Noninterest-bearing		
Demand deposits	$ 52,022,399	$ 60,717,214
Interest-bearing		
Demand deposits	97,813,214	89,243,727
Savings	52,667,721	58,358,075
Time	87,306,396	63,329,437
Total deposits	289,809,730	271,648,453
Accrued interest payable	528,990	111,482
Custodial escrow payable	111,511	121,802
Accrued expenses and other liabilities	2,810,077	2,632,357
Total liabilities	293,260,308	274,514,094
Stockholders' equity		
Preferred stock - *$.01 par value, 250,000 shares authorized, zero shares issued*	-	-
Common stock - *$.01 par value; 3,000,000 shares authorized; 436,425 issued*	4,364	4,364
Additional paid-in capital	4,518,925	4,518,925
Retained earnings	31,730,217	28,835,547
Accumulated other comprehensive loss	(2,628,400)	(3,667,978)
Treasury stock - *at cost; 65,227 and 65,227 shares at* December 31, 2023 and 2022	(2,445,598)	(2,445,598)
Total stockholders' equity	31,179,508	27,245,260
Total liabilities and stockholders' equity	**$ 324,439,816**	**$ 301,759,354**

The accompanying notes are an integral part of these financial statements.

SECURITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2023 and 2022

	2023	2022
Interest income		
Interest and fees on loans	$ 13,973,348	$ 9,321,288
Interest on investment securities	679,714	669,836
Interest other	916,513	282,378
Dividends - FHLB stock	31,652	35,450
Total interest income	15,601,227	10,308,952
Interest expense		
Interest on demand deposits and savings	3,463,705	777,017
Interest on time deposits	2,279,860	496,955
Other interest	-	367
Total interest expense	5,743,565	1,274,339
Net interest income	9,857,662	9,034,613
Provision for credit losses (loan losses)	244,233	234,709
Net interest income after provision for credit losses (loan losses)	9,613,429	8,799,904
Other income		
Deposit service charges and fees	875,456	843,793
Gain on sale of loans	129,247	235,497
Gain on equity securities	2,722	-
Financial services fees	453,551	524,817
Servicing fee, net	37,894	14,971
Earnings on cash surrender value	58,170	55,339
Other income	64,816	109,720
Total other income	1,621,856	1,784,137
Other expense		
Salaries and employee benefits	3,637,132	3,592,785
Net occupancy expense	869,516	790,934
Legal and professional fees	237,856	207,147
Loss on equity securities	-	2,614
Loss on sale of foreclosed assets	814	-
Loss on sale of premises and equipment	291	-
FDIC assessments	112,666	118,000
Data processing	901,688	801,975
Financial services expenses	31,805	32,012
Advertising	83,858	96,213
Deferred compensation	219,118	173,122
Other operating expense	744,404	678,214
Total other expense	6,839,148	6,493,016
Income before income taxes	4,396,137	4,091,025
Provision for income tax expense	1,130,270	1,042,440
Net income	**$ 3,265,867**	**$ 3,048,585**
Earnings per common share:		
Net income	**$ 8.56**	**$ 7.99**
Weighted average shares outstanding	**381,617**	**381,617**

The accompanying notes are an integral part of these financial statements.

SECURITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2023 and 2022

	2023	2022
Net income for the year	$ 3,265,867	$ 3,048,585
Other comprehensive income, net of tax		
Unrealized gains (losses) on securities available-for-sale:		
Unrealized gains (losses) arising during the period	1,039,578	(3,474,445)
Reclassification adjustment for (gains) losses included in net income	-	-
Net unrealized gains (losses)	1,039,578	(3,474,445)
Total comprehensive income (loss)	**$ 4,305,445**	**$ (425,860)**

Required disclosure of related tax effects allocated to each component of other comprehensive income:

Year Ended December 31, 2023	**Before-tax Amount**	**Tax (Expense) or Benefit**	**Net-of-tax Amount**
Unrealized gains (losses) on securities available-for-sale:			
Unrealized gains (losses) arising during the period	$ 1,111,848	$ (72,270)	$ 1,039,578
Reclassification adjustment for (gains) losses included in net income	-	-	-
Net unrealized gains (losses)	$ 1,111,848	$ (72,270)	$ 1,039,578

Year Ended December 31, 2022	**Before-tax Amount**	**Tax (Expense) or Benefit**	**Net-of-tax Amount**
Unrealized gains (losses) on securities available-for-sale:			
Unrealized gains (losses) arising during the period	$ (3,715,984)	$ 241,539	$ (3,474,445)
Reclassification adjustment for (gains) losses included in net income	-	-	-
Net unrealized gains (losses)	$ (3,715,984)	$ 241,539	$ (3,474,445)

The accompanying notes are an integral part of these financial statements.

SECURITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2023 and 2022

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
Balance - January 1, 2022	**$ 4,364**	**$ 4,518,925**	**$ 26,158,159**	**$ (193,533)**	**$ (2,445,598)**
Dividends paid	-	-	(371,197)	-	-
Net income for the year	-	-	3,048,585	-	-
Change in unrealized gain (loss) on securities available-for-sale, net of applicable deferred income taxes	-	-	-	(3,474,445)	-
Balance - December 31, 2022	4,364	4,518,925	28,835,547	(3,667,978)	(2,445,598)
Dividends paid	-	-	(371,197)	-	-
Net income for the year	-	-	3,265,867	-	-
Change in unrealized gain (loss) on securities available-for-sale, net of applicable deferred income taxes	-	-	-	1,039,578	-
Balance - December 31, 2023	**$ 4,364**	**$ 4,518,925**	**$ 31,730,217**	**$ (2,628,400)**	**$ (2,445,598)**

The accompanying notes are an integral part of these financial statements.

SECURITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Net income	$ 3,265,867	$ 3,048,585
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	218,194	187,593
Provision for credit losses (loan losses)	244,233	234,709
Gain on sale of loans	(129,247)	(235,497)
Premium amortization, net of discount accretion	271,027	584,659
Loans originated for sale	(5,781,050)	(10,148,765)
Proceeds from sale of loans	5,584,922	10,840,662
Proceeds from sale of foreclosed assets	1,613	-
Loss on sale of foreclosed assets	814	-
Loss on sale of premises and equipment	291	-
Increase in accrued interest receivable	(826,964)	(353,450)
(Increase) decrease in deferred federal and excise income taxes	246,162	(117,657)
(Increase) decrease in other assets	(179,235)	49,204
Increase in accrued interest payable	417,508	32,860
Increase in cash surrender value life insurance	(58,170)	(55,339)
Payments on operating lease	(3,924)	(7,136)
Increase (decrease) in custodial escrow payable	(10,291)	16,011
Increase in accrued expenses and other liabilities	181,644	310,639
Net cash provided by operating activities	3,443,394	4,387,078
Investing Activities		
Proceeds from maturities, prepayments and calls of securities available-for-sale	9,815,751	6,786,729
Purchases of securities available-for-sale	(249,474)	(7,433,952)
Redemption of Federal Home Loan Bank stock	425,000	258,100
(Increase) decrease in value of Federal Home Loan Mortgage Corporation stock	(2,722)	2,613
(Increase) decrease in interest-bearing deposits with banks	(6,515,250)	17,848,837
Payments to ready leased assets for use	3,924	7,136
Purchases of premises and equipment	(101,385)	(308,237)
Increase in loans, net	(17,804,458)	(36,977,412)
Net cash used by investing activities	(14,428,614)	(19,816,186)
Financing Activities		
Net change in demand deposits and savings	(5,815,682)	9,521,095
Net change in time deposits	23,976,959	(3,061,869)
Dividends paid	(371,197)	(371,197)
Net cash provided by financing activities	17,790,080	6,088,029
Net increase (decrease) in cash and cash equivalents	**6,804,860**	**(9,341,079)**
Cash and cash equivalents - beginning of year	6,242,849	15,583,928
Cash and cash equivalents - end of year	**$ 13,047,709**	**$ 6,242,849**

The accompanying notes are an integral part of these financial statements.

SECURITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	$ 1,178,817	$ 1,129,788
Cash paid for interest	$ 5,326,057	$ 1,241,479
Transfer from loans to foreclosed assets	$ -	$ 2,427
Lease liabilities arising from obtaining right-of-use assets	$ -	$ 15,026

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The consolidated financial statements include all the accounts of Security Bancorp, Inc. (the Company) and its wholly owned subsidiary, Security Federal Savings Bank (the Bank). Significant intercompany balances and transactions have been eliminated in consolidation.

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry.

B. Nature of Operations

The Company and the Bank provide a full range of banking, financial and mortgage services to individual and corporate customers principally in Warren County, Tennessee, through its three locations in McMinnville, Tennessee, and the surrounding area. The Bank is subject to competition from other financial services companies and financial institutions. The Company and the Bank are also subject to the regulations of certain federal agencies and undergo periodic examinations by those regulatory authorities.

C. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with general practices of the banking industry in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date. These estimates and assumptions are susceptible to significant change in the near term and actual results could differ significantly from those estimates. Those estimates and assumptions relate principally to the determination of the adequacy of the allowance for loan losses and the valuation of other real estate acquired through foreclosure. The accounting policies for loans and other significant accounting policies are presented below.

D. Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses are included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale debt securities, are reported as a separate component of the stockholders' equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

E. Cash and Cash Equivalents

For purposes of reporting, cash and cash equivalents include cash on hand, cash items in process of collection, amounts due from banks which do not bear interest, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

F. Investment Securities and Allowance for Credit Losses

Debt securities classified as available-for-sale are those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third-party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of stockholders' equity, net of the related deferred tax effect.

Gains and losses realized on sales of investment debt securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things, the length of time and the extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, that the Bank does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

For the allowance for credit losses on available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Bank has the intent to sell the security or it is more likely than not that the Bank will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Bank evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Bank may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. 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 loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss 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 portfolio.

Accrued interest receivable on available for sale debt securities is carried with total accrued interest receivable on the consolidated balance sheets and totaled $131,274 at December 31, 2023, and was excluded from the estimate of credit losses.

Securities sold under agreements to repurchase are treated as collateralized financial transactions. These agreements are recorded at the amount at which the securities were sold plus accrued interest. The Company monitors its exposure with respect to securities sold under repurchase agreements and may be required to provide additional collateral based on the fair value of the underlying securities.

G. Federal Home Loan Bank (FHLB) Stock

Restricted stock is stock from the FHLB, which is restricted as to the marketability. Because no ready market exists for this investment, there is no quoted market value, the Bank's investment in this stock is carried at cost.

H. Loans and Allowance for Credit Losses

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 deferred fees and costs. Accrued interest receivable related to loans totaled $2,159,382 at December 31, 2023, and was reported in total accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status 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.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loan 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.

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, form both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Bank has chosen to utilize the SCALE Tool as their CECL implementation method. The loan portfolio is divided into 8 pools and the Bank's historical loss history from 2009 thru 2022 is applied to each pool. These rates were compared to UBPR rates and appeared reasonable. Also added to these rates are qualitative factors. The Bank utilizes nine qualitative factors which are compiled for each of the eight loan pools. The qualitative factor schedule contains a short explanation for the change or lack of change in each factor. Finally, an adjustment is taken using the UBPR loss peer averages. This adjustment was negative due to the Bank's loss rates being lower that peer average. Impaired loans are tested in eight pools: HELOCs, 1-4 residential, other real estate, commercial unsecured, commercial secured, auto, other consumer secured, and other consumer unsecured. Impairment amounts are aggregated and shown as loan assessed on individual basis on the summary. Criticized asset reports are also included with the ACL calculation to support the impaired values. These reports show the details of the method used (present value of cash flows or fair market value of collateral) as well as the details of the end valuation number used.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative 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 may include adjustments for (lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

Loans that do not share risk characteristic are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of collateral at the reporting date unadjusted for selling costs as appropriate.

The Bank's charge-off policy states after all the collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Bank's established allowance for loan losses.

Fees on loans and costs incurred in origination of loans are generally recognized at the time the loan is recorded. For origination fees greater than $1,000, the first $1,000 is recorded to income immediately and the remainder is deferred over the life of the loan or 5 years, whichever is shortest. Because loan fees are not significant and the majority of loans have maturities of one year or less, the results of operations are not materially different than the results which would be obtained by accounting for loan fees and costs in accordance with accounting principles set forth in the FASB ASC Topic 310, Receivables.

I. Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors.

J. Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Provisions for depreciation are computed principally on the straight-line method and are charged to noninterest expense over the estimated useful lives of the assets. Maintenance agreements are amortized to expense over the period of time covered by the agreement. Costs of major additions, replacements or improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

K. Leases

Leases are classified as operating or finance leases at the lease commencement date. As of December 31, 2023 and 2022, the Bank leases equipment and building space which were classified as operating leases. The Bank records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Bank could obtain for similar loans as of the date of commencement or renewal. The Bank does not record leases that are classified as short term (less than one year).

At lease inception, the Bank determines the lease term by considering the minimum lease term and all optional renewal periods that the Bank is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Bank’s leases do not contain residual value guarantees or material variable lease payments that will impact the Bank’s ability to pay dividends or cause the Bank to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis and any impairment of the right-of-use asset. Rent expense is included in other operating expense on the consolidated statements of income.

L. Foreclosed Assets

Other real estate acquired through foreclosure is carried at approximate market value. Approximate market value is the amount the Company could reasonably expect to receive in a current sale of the subject property to a willing buyer in other than a forced or liquidation sale. The excess of cost over approximate market value at the time of foreclosure is charged to the allowance for loan losses. Subsequent declines in fair value are recognized and charged to noninterest expense.

M. Cash Surrender Value of Life Insurance

The Bank purchased single premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified as noninterest income. Insurance policies can be surrendered subject to certain surrender penalties applied by the insurance carriers, as well as potential income taxes to be paid.

N. Income Taxes

The Company and the Bank file consolidated federal and state income tax returns. Deferred income taxes are provided on significant temporary differences between income determined for financial reporting and income tax purposes. Such differences include expense items relating to the Bank's allowance for credit losses, FHLB stock dividends, depreciation, deferred compensation plan recognized for financial reporting and deferred for income tax purposes, the effect of unrealized gains (losses) on securities available-for-sale, unearned loan fees, writedown of other real estate, deferred gains on mortgage servicing rights, nonaccrual loan interest and various tax credits obtained by the Company.

O. Fair Value Measurements

The Company follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

P. Compensated Absences

Compensated absences for sick and personal time have not been accrued since they cannot be reasonably estimated. The Bank's policy is to recognize the costs of compensated absences when actually paid to employees.

Q. Earnings per Common Share

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per common share is computed by dividing net income, adjusted for the effect of assumed conversions, by the weighted average number of common shares outstanding plus amounts representing the dilutive effect of stock options outstanding. Dilutive potential common shares are calculated using the treasury stock method.

R. Stock Compensation Plans

The Company recognizes compensation cost relating to share-based payment transactions in accordance with ASC Topic 718. Compensation cost has been measured based on the grant date fair value of the equity or liability instruments issued. Compensation cost is calculated and recognized over the employee service period, generally defined as the vesting period. The Company uses a stock option pricing model to determine the fair value of the award on the grant date.

S. Profit Sharing Plan

Profit sharing plan costs are discretionary and do not exceed the amount that can be deducted for federal income tax purposes.

T. Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

U. Financial Instruments and Allowance for Credit Losses

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 Bank's 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 Bank records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments are unconditionally cancelable, through a charge to provision for unfunded commitments in the Bank'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 other liabilities on the Bank's consolidated balance sheets; however, there was no allowance for unfunded commitments recorded as of December 31, 2023.

V. Revenue Recognition

On January 1, 2019, the Bank adopted ASU No. 2014-09 "Revenue from Contracts with Customers" ("Topic 606") and all subsequent ASUs that modified Topic 606. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as asset management fees, service charges on deposit accounts, sales of other real estate, and debit card interchange fees. Substantially all the Bank's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Deposit Account Fees
Service charges on deposit accounts consist of non-sufficient fund fees, monthly service fees, and other deposit account related fees. The Bank's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Non-sufficient fund fees and other deposit account related fees are largely transactional

based, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is received immediately or in the following month through a direct charge to customers' accounts.

Interchange Income
Interchange income is primarily comprised of interchange fees earned whenever the Bank's debit cards are processed through card payment networks. Other service charges include revenue from processing wire transfers, official checks, and other services. The Bank's performance obligation for fees, exchange. and other service charges are largely satisfied, and related revenue recognized. when the services are rendered or upon completion. Payment is typically received daily for the transactions.

Gains or Losses on Sales of Foreclosed Assets
Gain or loss from the sale of foreclosed assets occurs when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of foreclosed assets to the buyer, the Bank 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 assets are 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 Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. Foreclosed asset sales for the year ended December 31, 2023 and 2022, were immaterial.

Other
Other income mainly consists of income from gains on sale of loans, financial department income, earnings on life insurance, servicing fee income, and miscellaneous other income. There are no material items within other income that are within the scope of ASC 606.

Contract Balances
A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Bank's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023 and 2022, the Bank did not have any significant contract balances.

Contract Acquisition Costs
In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Bank utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Bank did not capitalize any contract acquisition cost.

W. Advertising and Promotions

The Company's policy is to charge advertising and promotions to expense as incurred, which includes no direct-response advertising.

X. Mortgage Servicing Rights

Mortgage servicing rights represent the rights to future income related to servicing mortgage loans for others. These rights are capitalized at the lower of their carrying amount or fair value and included in other assets on the consolidated balance sheets. The carrying amount of mortgage loans originated or purchased is allocated between the loans and the mortgage servicing rights. Mortgage servicing rights are capitalized when the underlying loans are sold or securitized. Mortgage servicing rights are amortized over the estimated period of, and in proportion to, net servicing income.

The Bank periodically evaluates mortgage servicing rights for impairment by estimating the fair value based on a discounted cash flow methodology. If the carrying amount of the mortgage servicing rights exceeds estimated fair value, a valuation allowance is established. Changes to the valuation allowance are charged or credited to mortgage servicing income.

Y. Trust Department

Assets under management of the Bank's trust department are not included in these consolidated financial statements. The market value of assets under management of the trust department as of December 31, 2023 and 2022, was $2,411,593 and $2,954,197, respectively.

Z. Adoption of New Accounting Standards

On January 1, 2023, the Bank adopted *ASU 2016-3 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 FASB issued ASU 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This update eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. This update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. The adoption of this standard did not have a material effect on the Bank's operating results or financial condition.

The Bank 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 of the adoption of CECL resulted in no change in the allowance for credit losses on loans, which is presented as a reduction to net loans outstanding and also no allowance for credit losses on unfunded loan commitments which would be recorded within other liabilities due to the amount being immaterial. Results for reporting periods adopted 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 Bank adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2023, the Bank did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Bank determined that an allowance for credit losses on available for sale securities was not deemed material.

The Bank 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 Bank believes the collection of interest is doubtful. The Bank has concluded that this policy results in the timely reversal of uncollectible interest.

The Bank adopted SAS No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, which supersedes SAS No. 122, as amended, section 315 of the same title. SAS 145 takes effect for financial statements for periods ending on or after December 15, 2023.

On January 1, 2022, the Bank adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Bank to recognize most leases on the balance sheet. The standard was adopted under a modified retrospective approach as of the adoption and elected to apply several of the available practical expedients, including: carryover of historical lease determination and lease classification conclusions, carry over of historical initial direct cost balances for existing leases, and accounting for lease and non-lease components in contracts in which the Bank is a lessee as a single lease component.

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $15,026 and operating lease liabilities of $15,026 as of January 1, 2022. These amounts were determined based on the present value of remaining lease payments, discounted using the Bank's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Bank's consolidated income statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Bank's leasing activities are presented in NOTE 10 – Lease Agreements.

AA. Date of Management Review

The Company has evaluated the accompanying financial statements for subsequent events and transactions through February 27, 2024, the date these financial statements were available for issue, based on FASB ASC 855, Subsequent Events, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

NOTE 2 - DETAILED NOTES ON ACCOUNTS

A. Due From Banks

At December 31, 2023 and 2022, the Bank had concentrations of credit risk with financial institutions in the form of correspondent bank accounts. Total uninsured balances held at correspondent banks amounted to $809,702 and $1,860,471 as of December 31, 2023 and 2022, respectively. In addition, federal funds sold are not insured or guaranteed by other parties. If the financial institutions failed to completely perform under the terms of the financial instruments, the exposure for credit loss would be the amount of the financial instruments less amounts covered by regulatory insurance. Correspondent bank balances are maintained for check clearing and other services.

B. Interest-Bearing Deposits with Banks

Interest-bearing deposits with banks consists of an account with the FHLB, an account with the Federal Reserve Bank, sweep accounts with correspondent banks, and certificates of deposit with various financial institutions purchased for investment. As of December 31, 2023 and 2022, all certificates held by the Bank were within regulatory insurance maximums. If the FHLB or Federal Reserve Bank were to completely fail to perform under the terms of the financial instruments, the exposure for credit loss would be the total amount of deposits the Bank maintains with the institution. If the financial institutions failed to completely perform under the terms of the financial instruments, the exposure for credit loss would be the amount of the financial instruments less amounts covered by regulatory insurance. Total uninsured balances held at other banks amounted to $16,999,455 and $10,675,000 as of December 31, 2023 and 2022, respectively.

C. Investment Securities and Allowance for Credit Losses

Debt and equity securities have been classified in the financial statements according to management intent. As of December 31, 2023 and 2022, the Bank held only investment securities available-for-sale in its portfolio. The book value and approximate market value of investment securities at December 31, 2023 and 2022, together with gross unrealized gains and losses are as follows:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government agency securities	$ 12,443,671	$ -	$ (895,746)	$ -	$ 11,547,925
Mortgage-backed securities	13,411,895	-	(1,493,978)	-	11,917,917
State and municipal	10,408,992	-	(337,861)	-	10,071,131
State and municipal, taxable	3,893,322	-	(176,154)	-	3,717,168
SBA	1,201,682	-	(91,965)	-	1,109,717
U.S. treasuries	7,936,127	-	(462,717)	-	7,473,410
Total debt securities	49,295,689	-	(3,458,421)	-	45,837,268
Federal Home Loan Mortgage Corporation stock	4,628	-	-	-	4,628
Total available-for-sale	49,300,317	-	(3,458,421)	-	45,841,896
Federal Home Loan Bank stock	272,500	-	-	-	272,500
Total investment securities, net	$ 49,572,817	$ -	$ (3,458,421)	$ -	$ 46,114,396

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 13,424,159	$ -	$ (1,363,919)	$ 12,060,240
Mortgage-backed securities	15,127,196	-	(1,680,764)	13,446,432
State and municipal	14,539,432	-	(591,531)	13,947,901
State and municipal, taxable	6,133,067	-	(390,699)	5,742,368
SBA	1,000,225	-	(94,040)	906,185
U.S. treasuries	8,908,914	-	(705,334)	8,203,580
Total debt securities	59,132,993	-	(4,826,287)	54,306,706
Federal Home Loan Mortgage Corporation stock	1,906	-	-	1,906
Total available-for-sale	59,134,899	-	(4,826,287)	54,308,612
Federal Home Loan Bank stock	697,500	-	-	697,500
Total investment securities	$ 59,832,399	$ -	$ (4,826,287)	$ 55,006,112

The book value and approximate market value of securities (other than equity securities) available-for-sale at December 31, 2023, by contractual maturity are as follows. Certain securities are distributed according to their stated final maturity. However, expected maturities will differ from contractual maturities due to scheduled monthly payments and because borrowers may have the right to call or prepay obligations, in whole or in part, with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 9,078,324	$ 8,935,810
Due in one to five years	24,735,238	23,116,627
Due in five to ten years	1,725,758	1,541,950
Due in over ten years	344,474	324,964
	35,883,794	33,919,351
Mortgage-backed securities	13,411,895	11,917,917
	$ 49,295,689	$ 45,837,268

Proceeds from sale of investment securities, call of securities prior to maturity, or prepayment of principal, gross realized gains, and gross realized losses from such sales for the years ended December 31, 2023 and 2022, for investment securities available-for-sale are shown as follows:

	2023	2022
Proceeds from sales, maturities, prepayments, and calls	$ 9,815,751	$ 6,786,729
Gross realized gains	$ -	$ -
Gross realized losses	-	-
Net realized gain (loss)	$ -	$ -

Investment securities with a book value of $41,631,412 and $36,924,482 and a fair value of $38,453,200 and $33,622,197 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits, repurchase agreements, and for other purposes as required or permitted by law.

The following table presents information on securities with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and the length of time that the individual securities have been in a continuous loss position:

	Less Than Twelve Months		*Over Twelve Months*		*Total*	
December 31, 2023	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ -	$ -	$ (895,746)	$ 11,547,925	$ (895,746)	$ 11,547,925
Mortgage-backed securities	-	-	(1,493,978)	11,917,917	(1,493,978)	11,917,917
State and municipal	-	-	(337,861)	10,071,131	(337,861)	10,071,131
State and municipal, taxable	(58,945)	941,055	(117,209)	2,776,113	(176,154)	3,717,168
SBA	(1,081)	208,393	(90,884)	901,324	(91,965)	1,109,717
U.S. treasuries	-	-	(462,747)	7,473,410	(462,747)	7,473,410
Total	$ (60,026)	$ 1,149,448	$ (3,398,425)	$ 44,687,820	$ (3,458,451)	$ 45,837,268

	Less Than Twelve Months		*Over Twelve Months*		*Total*	
December 31, 2022	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ -	$ -	$ (1,363,919)	$ 12,060,240	$ (1,363,919)	$ 12,060,240
Mortgage-backed securities	(896,508)	5,350,644	(784,256)	8,095,788	(1,680,764)	13,446,432
State and municipal	(154,934)	4,119,693	(436,597)	9,828,208	(591,531)	13,947,901
State and municipal, taxable	-	-	(390,699)	5,742,368	(390,699)	5,742,368
SBA	(94,040)	906,185	-	-	(94,040)	906,185
U.S. treasuries	(12,885)	977,810	(692,449)	7,225,770	(705,334)	8,203,580
Total	$ (1,158,367)	$ 11,354,332	$ (3,667,920)	$ 42,952,374	$ (4,826,287)	$ 54,306,706

In reviewing the investment portfolio for other-than-temporary impairment of individual securities, consideration is given to (1) the timeframe involved in which the fair value has been less than cost, (2) the financial condition of the issuer, and (3) the ability of the Bank to maintain its investment in the issuer for a time that would provide for any anticipated recovery in the fair value.

As of December 31, 2023, the Bank had 76 debt securities noted with unrealized losses. Of the total debt securities, 11 were government agency securities, 19 were mortgage-backed securities, 8 were state and municipal securities taxable, 28 were state and municipal securities, 2 were SBA, and 8 were U.S. treasury securities. In analyzing the reasons for the unrealized losses, management considers whether the securities are issued by the federal government or its agencies, whether downgrades of bond ratings have occurred, and also reviews any applicable industry analysts' reports. With respect to the unrealized losses on the securities noted and the analysis performed relating to the securities, management currently believes that the declines in the market value are temporary.

D. Loans and Allowance for Credit Losses

Loans outstanding at December 31, 2023 and 2022, by major lending classifications are as follows:

	2023	2022
Real estate	$ 192,310,794	$ 163,763,025
Commercial and industrial	28,885,493	40,271,910
Consumer installment and other	16,300,460	15,638,803
Total loans	237,496,747	219,673,738
Less: Allowance for credit losses (loan losses)	(2,410,577)	(2,147,793)
Net loans	$ 235,086,170	$ 217,525,945

Loans on nonaccrual status as of December 31, 2023 and 2022, by category are as follows:

December 31, 2023	Nonacrual With No Allowance for Credtit Loss	Nonacrual With Allowance for Credtit Loss	Loans Past Due Over 89 Days Still Accruing
Real estate	$ 20,962	$ -	$ 93,554
Commercial and industrial	-	-	-
Consumer installment and other	107,234	-	1,999
Total	$ 128,196	$ -	$ 95,553

December 31, 2022	Nonacrual	Loans Past Due Over 89 Days Still Accruing
Real estate	$ 169,493	$ -
Commercial and industrial	-	-
Consumer installment and other	1,492	-
Total	$ 170,985	$ -

The Bank recognized $2,104 of interest income on nonaccrual loans during the year ended December 31, 2023.

The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2023:

Real estate	$ 1,302
Commercial and industrial	-
Consumer installment and other	9,643
Total	$ 10,945

There were no collateral-dependent loans as of December 31, 2023.

An aging analysis of loans by category as of December 31, 2023 and 2022, is as follows:

December 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Real estate	$ 1,613,764	$ 114,515	$ 1,728,279	$ 190,582,515	$ 192,310,794
Commercial and industrial	700,297	-	700,297	28,185,196	28,885,493
Consumer installment and other	101,863	109,233	211,096	16,089,364	16,300,460
Real estate	$ 2,415,924	$ 223,748	$ 2,639,672	$ 234,857,075	$ 237,496,747

December 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Real estate	$ 1,337,990	$ 169,492	$ 1,507,482	$ 162,255,543	$ 163,763,025
Commercial and industrial	-	-	-	40,271,910	40,271,910
Consumer installment and other	71,781	1,492	73,273	15,565,530	15,638,803
Total	$ 1,409,771	$ 170,984	$ 1,580,755	$ 218,092,983	$ 219,673,738

Prior to the adoption of ASU 2016-13, loans were considered impaired, when based on current information and events, it was probable that the Bank would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Bank would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Bank considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash sufficient to pay all debt obligation and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. 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.

An analysis of impaired loans by category as of December 31, 2022, is as follows:

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allocation recorded:					
Real estate	$ 213,334	$ 213,192	$ -	$ 131,062	$ 6,688
Commercial and industrial	-	-	-	-	-
Consumer installment and other	1,492	1,492	-	746	16
With allocation recorded:					
Real estate	788,792	784,255	161,360	899,340	44,814
Commercial and industrial	-	-	-	61,480	-
Consumer installment and other	-	-	-	3,059	-
Total:					
Real estate	1,002,126	997,447	161,360	1,030,402	51,502
Commercial and industrial	-	-	-	61,480	-
Consumer installment and other	1,492	1,492	-	3,805	16
Totals	$ 1,003,618	$ 998,939	$ 161,360	$ 1,095,687	$ 51,518

The Bank is exposed to risk of loss on loans due to the borrower's difficulties, which may arise from a number of factors including problems within the respective industry or general economic conditions within the Bank's trade area.

The Bank evaluates the credit risk of each customer on an individual basis and when deemed appropriate, collateral is obtained. Collateral varies by individual loan customer, but may include accounts receivable, inventory, real estate, equipment, deposits, agricultural crops and livestock, personal guarantees, and general security agreements. Access to collateral is dependent upon the type of collateral obtained. On a regular basis, the Bank monitors its collateral position relative to the loan balance outstanding and takes the appropriate action, as necessary.

The Bank primarily grants commercial, residential, and consumer loans to customers within its defined market area, primarily in Warren County, Tennessee, and continuous counties, all of which are affected by the general economic conditions of the area. Although the Bank reviews the diversification of the loan portfolio on a regular basis to avoid concentrations of credit risk, the overall quality of the loan portfolio and the borrowers' ability to repay the loans are, to some extent, affected by the health of the local economy taken as a whole.

Credit risk management procedures include assessment of loan quality through the use of an internal loan rating system. Each loan is assigned a rating upon origination and the rating may be revised over the life of the loan as circumstances warrant. The rating system utilizes five major classification types based on risk of loss with Pass being the lowest level of risk and Uncollectable being the highest level of risk. Loans internally rated Pass and are considered loans with low to average level of risk of credit losses. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist. Loans rated Special Mention have potential weaknesses that deserve management’s close attention. Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Doubtful loans have all the characteristics of Substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Uncollectable loans are considered to be non-collectible and of little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, the Bank typically does not maintain a recorded investment in loans within this category.

The following table presents the Bank's recorded investment in loans by the most recent credit quality indicators by year of origination as of December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	
December 31, 2023	2023	2022	2021	2020	2019	Prior		Total
Real estate:								
Grades 1-4	$ 23,713,348	$ 36,866,286	$ 25,527,811	$ 12,208,759	$ 7,666,102	$ 24,513,861	$ 59,865,297	$ 190,361,464
Grade 5	-	-	-	-	-	257,757	26,037	283,794
Grades 6-8	-	-	-	-	93,554	1,561,322	10,659	1,665,535
Total	23,713,348	36,866,286	25,527,811	12,208,759	7,759,656	26,332,940	59,901,993	192,310,793
Commercial and industrial								
Grades 1-4	3,031,617	4,044,466	2,281,012	718,587	426,157	1,412,645	16,693,490	28,607,974
Grade 5	-	-	-	-	-	59,420	107,327	166,747
Grades 6-8	110,772	-	-	-	-	-	-	110,772
Total	3,142,389	4,044,466	2,281,012	718,587	426,157	1,472,065	16,800,817	28,885,493
Consumer installment and other								
Grades 1-4	6,443,627	4,454,123	1,631,626	608,170	237,533	979,298	1,754,598	16,108,975
Grade 5	-	-	-	-	-	10,162	107,234	117,396
Grades 6-8	-	67,254	6,835	-	-	-	-	74,089
Total	$ 6,443,627	$ 4,521,377	$ 1,638,461	$ 608,170	$ 237,533	$ 989,460	$ 1,861,832	$ 16,300,460

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

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Real estate	$ 161,661,788	$ 297,838	$ 1,803,399	$ -	$ 163,763,025
Commercial and industrial	40,169,361	87,249	15,300	-	40,271,910
Consumer installment and other	15,544,880	22,139	71,784	-	15,638,803
Total	$ 217,376,029	$ 407,226	$ 1,890,483	$ -	$ 219,673,738

The Bank seeks to assist customers that are experiencing financial difficulty by renegotiating loans within lending regulations and guidelines. At the time of restructuring, a loan is evaluated for an asset-specific allowance for credit losses. The Bank continues to specifically reevaluate the loan in subsequent periods, regardless of the borrower's performance under the modified terms. If a borrower subsequently defaults on the loan after it is restructured, the Bank provides an allowance for credit losses for the amount of the loan that exceeds the value of the related collateral. There were no loans that were restructured during the years ended December 31, 2023 and 2022.

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 Bank 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 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 Bank modifies loans by providing principal forgiveness. 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 Bank 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.

There were no loans restructured during the years ended December 31, 2023 and 2022.

Activity in the allowance for credit losses by category for the years ended December 31, 2023, is as follows:

December 31, 2023	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Real estate	$ 1,022,887	$ -	$ -	$ 30,000	$ 1,052,887
Commercial and industrial	632,418	-	-	175,000	807,418
Consumer installment and other	492,488	(12,016)	30,567	39,233	550,272
Total	$ 2,147,793	$ (12,016)	$ 30,567	$ 244,233	$ 2,410,577

Activity in the allowance for loan losses as of December 31, 2022, is as follows:

December 31, 2022	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	ASC 310 Evaluated Individually	ASC 450 Evaluated Collectively
Real estate	$ 992,887	$ -	$ -	$ 30,000	$ 1,022,887	$ 161,360	$ 861,527
Commercial and industrial	579,475	(122,057)	-	175,000	632,418	-	632,418
Consumer installment and other	466,922	(20,215)	16,072	29,709	492,488	-	492,488
Total	$ 2,039,284	$ (142,272)	$ 16,072	$ 234,709	$ 2,147,793	$ 161,360	$ 1,986,433

E. Loan Servicing

Mortgage loans serviced for Federal Home Loan Mortgage Corporation (FHLMC) are not included in the accompanying consolidated balance sheet. The unpaid principal balances of these loans were $91,699,834 and $95,537,018 at December 31, 2023 and 2022, respectively.

Mortgage servicing rights are included in other assets in the accompanying consolidated balance sheet. Servicing fees, net totaled $37,894 and $14,971 at December 31, 2023 and 2022, respectively. A summary of transactions in mortgage servicing rights for the years ended December 31, 2023 and 2022, is as follows:

	2023	2022
Balance, beginning of year	$ 478,299	$ 550,870
Amount capitalized	77,888	145,577
Amount amortized	(185,075)	(218,148)
Balance, end of year	$ 371,112	$ 478,299

F. Premises and Equipment

Premises and equipment and related accumulated depreciation at December 31, 2023 and 2022, are as follows:

	Estimated Useful Life	2023	2022
Land	0	$ 1,005,343	$ 1,005,343
Buildings and improvements	5-40	2,659,661	2,646,830
Furniture and equipment	5	1,766,957	1,722,254
Vehicles	5	127,048	127,048
Construction in progress		155,017	155,017
Total		5,714,026	5,656,492
Less: accumulated depreciation		(3,045,615)	(2,870,981)
Premises and equipment, net		$ 2,668,411	$ 2,785,511

G. Deposits

The total amount of demand deposits reclassified as loans at December 31, 2023 and 2022, was $38,728 and $27,177, respectively. The aggregate amounts of time deposits in denominations of $250,000 or more at December 31, 2023 and 2022, were $37,288,451 and $23,126,508, respectively. At December 31, 2023, the scheduled maturities of time deposits are as follows:

On or before December 31, 2024	$ 67,734,598
On or before December 31, 2025	9,682,891
On or before December 31, 2026	2,032,238
On or before December 31, 2027	3,147,466
On or before December 31, 2028	4,709,203
Total	$ 87,306,396

H. Lines of Credit and FHLB Lines of Credit

The Bank currently has available from correspondent banks lines of short-term credit in the form of federal fund purchases. Interest on these lines is at the current daily rate at the time of purchase. The line with First National Bankers Bank is for $8,000,000, unsecured and must be repaid in a maximum of ninety consecutive calendar days. Currently, there are no borrowings against this line. The line with ServisFirst Bank is for $4,000,000, unsecured and must be repaid in a maximum of thirty consecutive calendar days. Currently, there are no borrowings against this line. The line with First Horizon is for $5,000,000, unsecured and must be repaid in a maximum of thirty consecutive calendar days. Currently, there are no borrowings against this line.

The Bank has available a line of credit with the FHLB of Cincinnati. The Bank has an additional borrowing capacity of $37,551,211. Currently, there is $0 borrowed against this line. The Bank also has available a line of credit to borrow up to $10,000,000 in overnight funds, which would limit the borrowing capacity by the borrowed amount. The terms of the borrowings are subject to market rates at the time of the advance with maturities of one to twenty years. Currently, the Bank has $0 borrowed against this line.

I. Income Taxes

Allocation of Federal and State income taxes between current and deferred is as follows as of December 31, 2023 and 2022:

December 31, 2023	Current	Deferred	Total Expense
State income tax	$ 281,850	$ -	$ 281,850
Federal income tax	962,738	(114,318)	848,420
Total expense	$ 1,244,588	$ (114,318)	$ 1,130,270

December 31, 2022	Current	Deferred	Total Expense
State income tax	$ 258,170	$ -	$ 258,170
Federal income tax	866,404	(82,134)	784,270
Total expense	$ 1,124,574	$ (82,134)	$ 1,042,440

The Company adopted practices in accordance with the FASB ASC Topic 740, Income Taxes. FASB ASC Topic 740 on Income Taxes provides guidance for how an entity should recognize, measure, present and disclose uncertain tax positions that it has taken or expects to take on a tax return. As of December 31, 2023 and 2022, the Company had no unrecognized tax benefits. The Company's policy is to recognize penalties and interest on unrecognized tax benefits in provision for income tax expense in the consolidated statements of income. There were no amounts related to interest and penalties recognized for the years ended December 31, 2023 and 2022.

The components of the net deferred tax asset (liability) included in other assets (liabilities) are as follows:

	2023	2022
Deferred tax asset:		
Allowance for credit losses	$ 616,275	$ 545,195
Unearned loan fees	15,006	15,949
Writedowns on other real estate	2,320	2,320
Net unrealized loss on stocks available-for-sale	830,021	1,158,309
Deferred compensation	432,593	397,628
Subtotal	1,896,215	2,119,401
Deferred tax liability:		
FHLB stock dividends	108,629	108,629
Depreciation	105,703	114,940
Non-accrual loan interest	3,594	3,573
Deferred gains on mortgage servicing rights	83,239	83,239
Other	114,317	82,125
Subtotal	415,482	392,506
Net deferred tax asset	$ 1,480,733	$ 1,726,895

The ratio of applicable income taxes to net income before taxes differed from the statutory rate of 21% in 2023 and 2022. The reasons for these differences are as follows:

	2023	2022
Tax expense at statutory rate	$ 923,189	$ 859,115
Increase (decrease) resulting from:		
State income taxes, net of federal tax benefit	59,189	16,780
Tax exempt interest, net of nondeductible expenses	(6,634)	(17,672)
Earnings on cash surrender value life insurance	(12,216)	(11,621)
Other differences	166,742	195,838
	$1,130,270	$1,042,440

NOTE 3 - DIVDEND RESTRICTION

Due to state banking regulations, the Bank may not declare dividends in any calendar year that exceed the total of its net income of that year combined with its retained net income of the preceding two years without the prior approval of the commissioner. As of December 31, 2023 and 2022, the Bank's retained earnings available for the payment of dividends was $7,888,452 and $6,309,048, respectively.

NOTE 4 - EMPLOYEE BENEFIT PLANS

The Bank has in effect a contributory profit sharing plan and an employee stock ownership plan (ESOP). Employees become eligible to participate in the plans after reaching age 21 and completing one year of service.

The Bank's contributions to the profit sharing plan are discretionary and totaled $116,244 and $127,915 at December 31, 2023 and 2022, respectively. Employer contributions vest on a graduated schedule from two to six years of service.

The Bank has a deferred compensation plan for the benefit of its directors. Under the plan, any director electing to defer directors' fees will be entitled to receive the accumulated benefits, including interest earned, over a period of ten or fifteen years following retirement. The Bank recognizes the liability for these benefits over the director's service period. As of December 31, 2023 and 2022, the liability for these benefits was $1,649,245 and $1,515,433, respectively, included in accrued expenses and other liabilities. Expenses related to the deferred compensation plan were $219,118 and $173,122 at December 31, 2023 and 2022, respectively.

The deferred compensation plan also provides for payments of benefits in the event of early termination or death. The Bank purchased single premium, whole life insurance policies to facilitate the funding of these benefits. The Bank is the sole owner and beneficiary of such policies. As of December 31, 2023 and 2022, the cash surrender value of these policies was $3,173,886 and $3,115,716, respectively.

At December 31, 2023 and 2022, the ESOP held common shares of 18,200 and 18,200, and all have been allocated to participants. Allocated ESOP shares are treated as outstanding in the computation of earnings per share. The Bank recorded no charges in relation to the ESOP in 2023 and 2022. Contributions are allocated to participants based on their eligible compensation relative to total eligible compensation. Dividends on ESOP shares are paid to the ESOP trust.

NOTE 5 - STOCK OPTION PLANS

The Company has two stock option plans that provide for both incentive stock options and nonqualified stock options. The exercise price of each option shall not be less than 100 percent of the fair market value of the common stock on the date of the grant. All options have been granted at the fair market value of the shares at the date of grant.

The maximum number of common shares that can be sold or optioned under the 2007 Incentive Stock Plan is 17,000 shares. The maximum term is ten years for incentive options and fifteen years for nonqualified options. Each option vests on an equal incremental basis over five years.

The effect of stock options forfeited is recognized as the forfeitures occur. The fair value of each stock option was estimated on the grant date using the Black-Scholes option-pricing model. If not exercised, the options will expire in 2025.

A summary of activity in the stock option plans for the years ended December 31, 2023 and 2022, is as follows:

December 31, 2023	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	8,800	$ 39.24
Options granted	-	-
Options reissued	-	-
Options exercised	-	-
Options terminated	-	-
Outstanding at end of year	8,800	$ 39.24

December 31, 2022	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	8,800	$ 38.00
Options granted	-	-
Options reissued	-	-
Options exercised	-	-
Options terminated	-	-
Outstanding at end of year	8,800	$ 39.24

There is no aggregate intrinsic value of options outstanding at December 31, 2023 and 2022. The aggregate intrinsic value represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2023 and 2022. This amount changes based on changes in the market value of the Company's stock. The fair value (present value of the estimated future benefit to the option holder) of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

Information pertaining to options outstanding at December 31, 2023 and 2022, is as follows:

December 31, 2023				
Options Outstanding			Options Exercisable	
Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
8,800	1.7 Years	$ 39.24	8,800	$ 39.24

December 31, 2022				
Options Outstanding			Options Exercisable	
Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
8,800	2.7 Years	$ 39.24	8,800	$ 39.24

NOTE 6 - MANAGEMENT RECOGNITION PLAN

The Company's management recognition plan serves as a means of providing existing directors and employees of the Bank with an ownership interest in the Company. Common shares awarded under the management recognition plan vest equally over a five-year period. Compensation expense related to those shares is recognized on a straight-line basis corresponding with the vesting period. Prior to vesting, each participant granted shares under the management recognition plan may direct the voting of the shares allocated to the participant and will be entitled to receive any dividends or other distributions paid on such shares. Shares that vested and were issued to participants in the management recognition plan totaled 180 and 180 shares in 2023 and 2022.

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summary presents the methodologies and assumptions used to estimate the fair value of the Bank's financial instruments presented below. The Bank operates as a going concern, and, except for its investment securities portfolio, no active market exists for its financial instruments. Much of the information used to determine fair value is highly subjective and judgmental in nature, and therefore, the results may not be precise. The subjective factors include, among other things, estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 2023 and 2022, the amounts, which will actually be realized or paid upon settlement or maturity of the various instruments, could be significantly different. Certain financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented are not intended to represent the underlying value of the Bank.

A. Cash Equivalents, Interest-Bearing Deposits with Banks, Accrued Interest Receivable, and Accrued Interest Payable

The carrying amount for cash, due from banks, interest-bearing deposits, federal funds sold, accrued interest receivable and accrued interest payable is a reasonable estimate of fair value for those assets and liabilities.

B. Investment Securities

In estimating fair values, management makes use of prices or dealer quotes for U.S. Treasury securities, other U.S. government agency securities, tax exempt securities, and mortgage-backed certificates. As required by FASB ASC Topic 820, Fair Value Measurements and Disclosures, securities available-for-sale are recorded at fair value.

C. Stock Investments

The carrying value of Federal Home Loan Bank stock is a reasonable estimate of the fair value.

D. Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. The risk of default is measured as an adjustment to the discount rate, and no future interest income is assumed for nonaccrual loans.

The fair value of loans does not include the value of the customer relationship or the right to fees generated by the account.

E. Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at lower of aggregate cost or market.

F. Cash Surrender Value of Life Insurance

Carrying amount of bank-owned life insurance is the cash surrender value as of the end of the periods presented and approximates fair value.

G. Other Assets, Accrued Expenses and Other Liabilities, Repurchase Agreements and Custodial Escrow Payable

Financial instruments included in other assets, other liabilities and repurchase are short-term and, therefore, valued at their carrying values.

H. Deposit Liabilities

The fair value of deposits with no stated maturities (which includes demand deposits, savings accounts, and money market deposits) is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using a discounted cash flow model based on the rates currently offered for deposits of similar maturities.

FASB ASC Topic 820, Fair Value Measurements and Disclosures requires deposit liabilities with no stated maturity to be reported at the amount payable on demand without regard for the inherent funding value of these instruments. The Bank believes that significant value exists in this funding source.

I. Loan Commitments and Standby Letters of Credit

The Bank has reviewed its loan commitments and standby letters of credit and determined that differences between the fair value and notional principal amounts are not significant.

The estimated fair values of the Bank's financial instruments are as follows:

	December 31, 2023				
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
Financial assets:					
Cash and cash equivalents	$ 13,047,709	$ 13,047,709	$ -	$ -	$ 13,047,709
Interest-bearing deposits with banks	19,503,181	19,503,181	-	-	19,503,181
FHLB stock	272,500	-	272,500	-	272,500
FHLMC stock	4,628	-	4,628	-	4,628
Loans, net: (1)					
Held for investment	235,086,170	-	233,852,768	1,233,402	235,972,699
Loans held for sale	325,375	-	325,375	-	325,375
Cash surrender value of life insurance	3,173,886	-	3,173,886	-	3,173,886
Accrued interest receivable	2,291,759	-	2,291,759	-	2,291,759
Other assets	2,227,989	-	2,227,989	-	2,227,989
Financial liabilities:					
Deposits: (1)					
Without stated maturities	202,503,334	-	202,503,334	-	202,503,334
With stated maturities	87,306,396	-	87,306,396	-	87,368,243
Accrued interest payable	528,990	-	528,990	-	528,990
Custodial escrow payable	111,511	-	111,511	-	111,511
Accrued expenses and other liabilities	2,810,077	-	2,810,077	-	2,810,077
Unrecorded financial instruments:					
Commitments to extend credit	59,019,864	-	59,019,864	-	59,019,864
Standby letters of credit	267,750	-	267,750	-	267,750

	December 31, 2022				
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
Financial assets:					
Cash and cash equivalents	$ 6,242,849	$ 6,242,849	$ -	$ -	$ 6,242,849
Interest-bearing deposits with banks	12,987,931	12,987,931	-	-	12,987,931
FHLB stock	697,500	-	697,500	-	697,500
FHLMC stock	1,906	-	1,906	-	1,906
Loans, net: [(1)]					
Held for investment	217,525,945	-	216,527,006	998,939	216,403,454
Cash surrender value of life insurance	3,115,716	-	3,115,716	-	3,115,716
Accrued interest receivable	1,635,897	-	1,635,897	-	1,635,897
Other assets	2,488,948	-	2,488,948	-	2,488,948
Financial liabilities:					
Deposits: [(1)]					
Without stated maturities	208,319,016	-	208,319,016	-	208,319,016
With stated maturities	63,329,437	-	63,329,437	-	63,178,334
Accrued interest payable	111,482	-	111,482	-	111,482
Custodial escrow payable	121,802	-	121,802	-	121,802
Accrued expenses and other liabilities	2,632,357	-	2,632,357	-	2,632,357
Unrecorded financial instruments:					
Commitments to extend credit	57,764,917	-	57,764,917	-	57,764,917
Standby letters of credit	224,350	-	224,350	-	224,350

[(1)] As mentioned in the assumptions above, the fair value of these financial instruments does not include any value for the customer relationship or the right to future fee income which may be generated by these relationships.

The Bank adopted FASB ASC Topic on Fair Value Measurements and Disclosures effective January 1, 2008. The codification defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements. This standard clarifies the principle that fair value should be based on assumptions market participants would use when pricing the asset or liability and establishes a hierarchy that prioritizes information used to develop these assumptions. The hierarchy is as follows:

A. Level 1 Inputs

Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

B. Level 2 Inputs

Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Such inputs may include quoted prices for similar assets or liabilities in active market, and inputs other than quoted market prices that are observable for the assets and liabilities such as interest rates and yield curves that are observable at commonly quoted intervals.

C. Level 3 Inputs

Unobservable inputs for determining fair values of assets and liabilities that reflect an entity's own assumptions about the assumptions that market participants would use pricing the assets and liabilities.

Securities available-for-sale are the only balance sheet components reported at fair value. They are valued using Level 2 inputs. The Bank obtains fair value measurements from a third party vendor. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and terms and conditions of bonds, and other factors.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022:

December 31, 2023	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
U.S. government agency securities	$ -	$ 11,547,925	$ -	$ 11,547,925
Mortgage-backed securities	-	11,917,917	-	11,917,917
State and municipal securities	-	10,071,131	-	10,071,131
State and municipal securities taxable	-	3,717,168	-	3,717,168
SBA	-	1,109,717	-	1,109,717
U.S. treasuries	-	7,473,410	-	7,473,410
Federal Home Loan Mortage Corporation stock	-	4,628	-	4,628
Total	$ -	$ 45,841,896	$ -	$ 45,841,896

December 31, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
U.S. government agency securities	$ -	$ 12,060,240	$ -	$ 12,060,240
Mortgage-backed securities	-	13,446,432	-	13,446,432
State and municipal securities	-	13,947,901	-	13,947,901
State and municipal securities taxable	-	5,742,368	-	5,742,368
SBA	-	906,185	-	906,185
U.S. treasuries	-	8,203,580	-	8,203,580
Federal Home Loan Mortage Corporation stock	-	1,906	-	1,906
Total	$ -	$ 54,308,612	$ -	$ 54,308,612

Certain non-financial assets measured at fair value on a non-recurring basis include intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. Foreclosed assets are recorded at the lower of cost or fair value. Fair value is measured based on independent appraisals and may be discounted by management based on historical experience and knowledge and changes in market conditions from time of valuation. Values of impaired loans are reviewed at least annually or more often if circumstances require more frequent evaluations. The following table summarizes non-financial assets measured at fair value on a recurring basis as of December 31, 2023 and 2022:

December 31, 2023	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Non-financial assets:				
Foreclosed assets	$ -	$ -	$ 139,120	$ 139,120
Impaired loans	-	-	1,233,402	1,233,402
Total	$ -	$ -	$ 1,372,522	$ 1,372,522

December 31, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Non-financial assets:				
Foreclosed assets	$ -	$ -	$ 141,547	$ 141,547
Impaired loans	-	-	998,939	998,939
Total	$ -	$ -	$ 1,140,486	$ 1,140,486

The total amount of foreclosed assets that represents residential real estate at December 31, 2023 and 2022, is $139,120 and $139,120, respectively.

NOTE 8 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND ALLOWANCE FOR CREDIT LOSSES

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk, interest rate risk and liquidity risk, in excess of the amounts recognized in the accompanying balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by one of the other parties to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies and procedures in making commitments and conditional obligations as it does for on balance-sheet instruments. Financial instruments, whose contract amounts represent credit risk at December 31, 2023 and 2022, are as follows:

	2023	2022
Commitments to extend credit	$ 59,019,864	$ 57,764,917
Standby letters of credit	$ 267,750	$ 224,350

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of the collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held, if any, varies but may include certificates of deposit, accounts receivable, inventory, property and equipment, real estate, crops, and income-producing properties. Of the $59,287,614 unfunded commitments as of December 31, 2023, $42,747,941 had variable interest rates and $16,539,673 had fixed interest rates. Of the $57,764,917 unfunded commitments as of December 31, 2022, $37,152,029 had variable interest rates and $20,612,888 had fixed interest rates.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The standby letters of credit at December 31, 2023, are short-term guarantees generally expiring on or before December 31, 2024. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank evaluates each customer's credit worthiness on a case-by-case basis. When deemed necessary, the Bank may hold a variety of collateral to support these commitments similar to the types of collateral held for commitments to extend credit.

The Bank maintains a separate reserve for credit losses on off-balance sheet credit exposures, including unfunded commitments, which is included in other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Bank’s other loan portfolio. No reserve for credit losses has been recorded as of December 31, 2023.

NOTE 9 - SIGNIFICANT GROUP OF CONCENTRATIONS OF CREDIT RISK

Most of the Company’s loans, commitments and commercial and standby letters of credit have been granted to customers in the Company’s market area. Many such customers are depositors of the Bank. A substantial portion of the Company’s customers’ ability to honor their contracts is dependent on the business economy in those areas. Seventy-one percent of the Company’s loan portfolio is concentrated in real estate. A substantial portion of these loans is secured by real estate in the Company’s primary market area. Accordingly, the ultimate collectability of the loan portfolio is susceptible to changes in market conditions in the Company’s primary market area.

NOTE 10 - LEASE AGREEMENTS

The Bank has an operating lease agreement for a digital mailing system beginning in July 2022 for a term of 39 months with monthly payments of $192. The Bank had an operating lease agreement with Security Bancorp, Inc. for rental of space beginning in January 2022 for a term of 15 months and monthly payments of $575 which ended in March 2023. Rental expense was $4,033 and $8,054 as of December 31, 2023 and 2022, respectively.

As of December 31, 2023, right-of-use assets of $3,966 are carried in other assets and lease liabilities of $3,966 are carried in accrued expenses and other liabilities on the balance sheet. The operating lease weighted average remaining lease term is 1.75 years and the weighted average discount rate is 2 percent.

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

Due on or before:	
December 31, 2024	$ 2,308
December 31, 2025	1,731
	$ 4,039

NOTE 11 - RELATED PARTIES

As of December 31, 2023 and 2022, the Bank had entered into loan transactions with its directors, officers, and their affiliates. Direct and indirect loans to executive officers and directors of the Bank and their related interests are as follows:

	2023	2022
Loans outstanding at beginning of the year	$ 2,807,941	$ 1,903,664
New borrowings	96,729	2,687,220
Repayments of loans	(463,711)	(1,782,943)
Loans outstanding at the end of the year	$ 2,440,959	$ 2,807,941

Deposits from related parties held by the Bank at December 31, 2023 and 2022, amounted to $2,255,918 and $2,118,288, respectively.

NOTE 12 - LEGAL MATTERS

The Company and subsidiaries are involved in legal proceedings arising in the normal course of business. In the opinion of management, after consulting with counsel, the ultimate resolution of these matters will not have a material adverse effect on the financial position and results of operations of the Company and subsidiaries.

NOTE 13 - REGULATORY REQUIREMENTS

In July 2013, the federal banking agencies published final rules (the "Basel III Capital Rules") that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to implement, in part, agreements reached by the Basel Committee and certain provisions of the Dodd-Frank Act. The Basel III Capital Rules apply to banking organizations, including the Bank.

In connection with the effectiveness of Basel III, banks were required to decide whether to elect to opt-out of the inclusion of Accumulated Other Comprehensive Income ("AOCI") in their Common Equity Tier I Capital. This was a one-time election and generally irrevocable. The Bank has elected to opt-out of the inclusion.

Among other things, the Basel III Capital Rules: (a) introduce a new capital measure entitled "Common Equity Tier I" ("CETI"); (ii) specify that Tier I Capital consist of CETI and additional financial instruments satisfying specified requirements that permit inclusion in Tier I Capital; (iii) define CETI narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CETI and not to the other components of capital; and (iv) expand the scope of the deductions or adjustments from capital as compared to the existing regulations.

A minimum leverage ratio (Tier I Capital as a percentage of total assets) of 4.0% is also required under the Basel Ill Capital Rules (even for highly rated institutions). The Basel III Capital Rules additionally require institutions to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers. The Bank's capital conservation buffer as of December 31, 2023 and 2022, was 10.69% and 6.49%, respectively.

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Common Equity Tier I Capital, Tier I Capital, Total Capital and leverage ratio of Tier I Capital. The requirements are:

- 4.5% based upon CETI
- 6.0% based upon Tier I Capital
- 8.0% based on total regulatory capital
- Leverage ratio of Tier I Capital assets equal to 4%

As of December 31, 2023 and 2022, management believes the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2023, the most recent notification from the applicable regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

The actual capital amounts were calculated as of December 31, 2023 and 2022.

	Actual:		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital (to risk-weighted assets)	$ 33,656,000	13.815%	$ 10,963,170	≥4.500%	$15,835,690	≥6.500%
Total capital (to risk-weighted assets)	$ 36,067,000	14.804%	$ 14,617,560	≥6.000%	$24,362,600	≥10.00%
Tier I capital (to risk-weighted assets)	$ 33,656,000	13.815%	$ 19,490,080	≥8.000%	$19,490,080	≥8.000%
Tier I capital (to average assets)	$ 33,656,000	10.694%	$ 12,588,920	≥4.000%	$15,736,150	≥5.000%

	Actual:		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital (to risk-weighted assets)	$ 30,749,000	13.546%	$ 10,215,225	≥4.500%	$14,755,325	≥6.500%
Total capital (to risk-weighted assets)	$ 32,897,000	14.492%	$ 13,620,300	≥6.000%	$22,700,500	≥10.00%
Tier I capital (to risk-weighted assets)	$ 30,749,000	13.546%	$ 18,160,400	≥8.000%	$18,160,400	≥8.000%
Tier I capital (to average assets)	$ 30,749,000	10.261%	$ 11,986,920	≥4.000%	$14,983,650	≥5.000%

ATA, PLLC
2070 Rhino Crossing Milan, TN 38358
P 731.686.8371 **F** 731.686.8378

Independent Auditor's Report on Supplementary Information

To the Board of Directors
Security Bancorp, Inc. and Subsidiary
P.O. Box 7027
McMinnville, TN 37111

We have audited the consolidated financial statements of Security Bancorp, Inc. and Subsidiary as of and for the years ended December 31, 2023 and 2022, and our report thereon dated February 27, 2024, which expressed an unmodified opinion on those financial statements, appears on page 12. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on the following pages is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

ATA, PLLC

Milan, Tennessee
February 27, 2024

SECURITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
December 31, 2023

Assets	**Security Bancorp, Inc.**	**Security Federal Savings Bank**	**Eliminations**	**Consolidated**
Cash and cash equivalents:				
Cash and due from banks	$ 23,613	$ 5,497,709	$ (23,613)	$ 5,497,709
Federal funds sold	-	7,550,000	-	7,550,000
Cash and cash equivalents total	23,613	13,047,709	(23,613)	13,047,709
Interest-bearing deposits with banks	-	19,503,181	-	19,503,181
Investment securities available-for-sale	-	45,837,268	-	45,837,268
Investment in subsidiary	31,028,012	-	(31,028,012)	-
Federal Home Loan Bank stock, at cost	-	272,500	-	272,500
Federal Home Loan Mortgage Corporation stock	-	4,628	-	4,628
Loans	-	237,496,747	-	237,496,747
Less: Allowance for credit losses (loan losses)	-	(2,410,577)	-	(2,410,577)
Net loans, net	-	235,086,170	-	235,086,170
Loans held for sale	-	325,375	-	325,375
Premises and equipment, net	62,987	2,605,424	-	2,668,411
Foreclosed assets	-	139,120	-	139,120
Cash surrender value life insurance	-	3,173,886	-	3,173,886
Accrued interest receivable	-	2,291,759	-	2,291,759
Other assets	66,146	2,024,913	(1,250)	2,089,809
Total assets	**$ 31,180,758**	**$ 324,311,933**	**$ (31,052,875)**	**$ 324,439,816**
Liabilities and stockholders' equity				
Liabilities				
Deposits:				
Noninterest-bearing				
Demand deposits	$ -	$ 52,046,012	$ (23,613)	$ 52,022,399
Interest-bearing				
Demand deposits	-	97,813,214	-	97,813,214
Savings	-	52,667,721	-	52,667,721
Time	-	87,306,396	-	87,306,396
Total deposits	-	289,833,343	(23,613)	289,809,730
Accrued interest payable	-	528,990	-	528,990
Escrow payable	-	111,511	-	111,511
Accrued expenses and other liabilities	1,250	2,810,077	(1,250)	2,810,077
Total liabilities	1,250	293,283,921	(24,863)	293,260,308
Stockholders' equity				
Preferred stock	-	-	-	-
Common stock	4,364	1,000	(1,000)	4,364
Additional paid-in capital	4,518,925	4,124,942	(4,124,942)	4,518,925
Retained earnings	31,730,217	29,530,470	(29,530,470)	31,730,217
Accumulated other comprehensive loss	(2,628,400)	(2,628,400)	2,628,400	(2,628,400)
Treasury stock	(2,445,598)	-	-	(2,445,598)
Total stockholders' equity	31,179,508	31,028,012	(31,028,012)	31,179,508
Total liabilities and stockholders' equity	**$ 31,180,758**	**$ 324,311,933**	**$ (31,052,875)**	**$ 324,439,816**

See independent auditor's report on supplementary information.

SECURITY BANCORP, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2023

	Security Bancorp, Inc.	Security Federal Savings Bank	Eliminations	Consolidated
Interest income				
Interest and fees on loans	$ -	$ 13,973,348	$ -	$ 13,973,348
Interest on investment securities	-	679,714	-	679,714
Interest other	6,467	910,046	-	916,513
Dividends - FHLB stock	-	31,652	-	31,652
Total interest income	6,467	15,594,760	-	15,601,227
Interest expense				
Interest on demand deposits and savings	-	3,463,705	-	3,463,705
Interest on time deposits	-	2,279,860	-	2,279,860
Total interest expense	-	5,743,565	-	5,743,565
Net interest income	6,467	9,851,195	-	9,857,662
Provision for credit losses	-	244,233	-	244,233
Net interest income after provision for credit losses	6,467	9,606,962	-	9,613,429
Other income				
Deposit service charges and fees	-	875,456	-	875,456
Gain on sale of loans	-	129,247	-	129,247
Gain on equity securities	-	2,722	-	2,722
Income from subsidiary	3,278,521	-	(3,278,521)	-
Financial service fees	-	453,551	-	453,551
Servicing fee, net	-	37,894	-	37,894
Earnings on cash surrender value	-	58,170	-	58,170
Other income	6,900	64,816	(6,900)	64,816
Total other income	3,285,421	1,621,856	(3,285,421)	1,621,856
Other expense				
Salaries and employee benefits	-	3,637,132	-	3,637,132
Net occupancy expense	1,752	867,764	-	869,516
Legal and professional fees	-	237,856	-	237,856
Loss on sale of foreclosed assets	-	814	-	814
Loss on sale of premises and equipment	-	291	-	291
FDIC assessments	-	112,666	-	112,666
Data processing	-	901,688	-	901,688
Financial service expenses	-	31,805	-	31,805
Advertising	-	83,858	-	83,858
Deferred compensation	-	219,118	-	219,118
Other operating expense	28,399	722,905	(6,900)	744,404
Total other expense	30,151	6,815,897	(6,900)	6,839,148
Income before income taxes	3,261,737	4,412,921	(3,278,521)	4,396,137
Provision for income tax expense (benefit)	(4,130)	1,134,400	-	1,130,270
Net income	**$ 3,265,867**	**$ 3,278,521**	**$ (3,278,521)**	**$ 3,265,867**

See independent auditor's report on supplementary information.

2023 DIRECTORS AND OFFICERS
of
SECURITY BANCORP, INC.

Directors

Michael D. Griffith
President and Chief Executive Officer

Joe H. Pugh
Chairman
Retired President and Chief Executive Officer

Ray ("Buzz") Spivey, Jr.
President of Cumberland Lumber & Mfg. Co.

Thomas L. Foster
Owner of Foster & Foster Realty and Auction Company

Herschel Wells, Jr.
Secretary
Owner of Tennessee Warehouse and Distribution

Robert W. Newman
Attorney

Dr. Franklin J. Noblin (1)
Retired Dentist

Officers

Michael D. Griffith
President and Chief Executive Officer

Lisa Hillis
Senior Vice President and Executive Assistant

Angela D. Brown
Senior Vice President and Chief Financial Officer

(1) Director emeritus.

2023 DIRECTORS AND OFFICERS
of
SECURITY FEDERAL SAVINGS BANK OF
MCMINNVILLE, TN

Directors

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President and Chief Executive Officer

Joe H. Pugh
Chairman
Retired President and Chief Executive Officer

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Attorney

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Senior Vice President and Chief Financial Officer

Lisa Hillis
Senior Vice President and Executive Assistant

Danny Martin
Senior Vice President

Sherry Clendenon
Senior Vice President and Compliance

Kelly T. Basham
Senior Vice President and Information Technology

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(1) Director emeritus.

CORPORATE INFORMATION

Corporate Headquarters

306 West Main Street
McMinnville, Tennessee 37110

Independent Auditors

ATA, PLLC
Milan, Tennessee

General Counsel

Stanley & Bratcher
McMinnville, Tennessee

Special Securities Counsel

Breyer & Associates PC
McLean, Virginia

Transfer Agent

Computershare Investor Services
150 Royall Street, Suite 101
Canton, MA 02021

Common Stock

Traded over-the-counter on the
OTC Electronic Bulletin Board
under the symbol: SCYT

ANNUAL MEETING

The Annual Meeting of Stockholders will be held Wednesday, April 17, 2024 at 2:00 p.m., Central Time, at 306 W. Main Street, McMinnville, Tennessee.

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EQUAL HOUSING LENDER

SECURITY BANCORP, INC.

P.O. Box 7027 • McMinnville, TN 37111

Member FDIC