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THE FARMERS BANK

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THE FARMERS BANK 2023 AUDITOR'S REPORT & CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2023 & 2022

The Farmers Bancorp
June 30, 2023 and 2022

Contents

FORVIS

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Independent Auditor's Report

Audit Committee and Board of Directors
The Farmers Bancorp
Frankfort, Indiana

Opinion

We have audited the consolidated financial statements of The Farmers Bancorp and subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

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

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

FORVIS, LLP

Indianapolis, Indiana
August 30, 2023

The Farmers Bancorp

Consolidated Balance Sheets
June 30, 2023 and 2022
(Dollar Amounts in Thousands)

Assets

	2023	2022
Cash and cash equivalents	$ 35,177	$ 20,458
Interest-bearing time deposits	490	1,227
Securities available for sale	181,422	200,637
Loans held for sale	422	799
Loans, net of allowance of $7,361 and $7,579	625,499	518,466
Premises and equipment, net	8,533	7,393
Right of use assets	1,084	759
Restricted stock, at cost	4,447	1,553
Cash value of life insurance	18,823	18,558
Accrued income and other assets	22,605	19,583
	$ 898,502	$ 789,433

Liabilities and Shareholders' Equity

	2023	2022
Liabilities		
Demand deposits	$ 234,325	$ 247,522
Savings, NOW and money market deposits	356,294	376,659
Time deposits	74,256	44,135
Total deposits	664,875	668,316
Short-term borrowings	66,286	25,233
Federal Home Loan Bank advances	76,450	12,000
Lease liabilities	1,084	759
Subordinated Debentures, net of issuance costs	14,690	14,630
Accrued expenses and other liabilities	8,978	7,820
	832,363	728,758
Shareholders' Equity		
Common stock, no par value - 4,800,000 shares authorized, 1,817,140 and 1,810,193 shares issued and outstanding at June 30, 2023 and 2022, respectively	1,876	1,587
Additional paid-in capital	1	1
Retained earnings	86,748	78,751
Accumulated other comprehensive (loss)	(22,486)	(19,664)
	66,139	60,675
	$ 898,502	$ 789,433

See Notes to Consolidated Financial Statements

The Farmers Bancorp

Consolidated Statements of Income
Years ended June 30, 2023 and 2022
(Dollar Amounts in Thousands)

	2023	2022
Interest Income		
Loans	$ 31,626	$ 22,670
Securities		
Taxable	2,786	2,450
Tax-exempt	2,094	1,948
Other	478	119
	36,984	27,187
Interest Expense		
Deposits	6,800	1,074
Other borrowings	3,483	342
	10,283	1,416
Net Interest Income	26,701	25,771
Provision (credit) for loan losses	(260)	100
Net Interest Income After Provision for Loan Losses	26,961	25,671
Other Operating Income		
Trust fees	1,396	1,349
Service charges and fees on deposit accounts	1,194	1,157
Gain on sale of loans	500	862
Increase in cash value of life insurance	348	376
Interchange income	1,792	1,768
Other	1,545	1,025
	6,775	6,537
Other Operating Expenses		
Salaries and employee benefits	13,514	12,058
Occupancy	1,199	1,101
Equipment	626	773
Data processing	2,368	2,252
Federal deposit insurance corporation premiums	215	203
Other	3,371	2,665
	21,293	19,052
Income Before Income Taxes	12,443	13,156
Income Tax Expense	1,977	2,142
Net Income	$ 10,466	$ 11,014
Basic and Diluted Earnings Per Share	$ 5.77	$ 5.74

See Notes to Consolidated Financial Statements

The Farmers Bancorp

Consolidated Statements of Comprehensive Income (Loss)
Years ended June 30, 2023 and 2022
(Dollar Amounts in Thousands)

	2023	2022
Net Income	$ 10,466	$ 11,014
Other Comprehensive Loss		
Unrealized loss on securities available for sale, net of tax benefit of ($750) and ($6,475), respectively	(2,822)	(24,358)
Comprehensive Income (Loss)	$ 7,644	$ (13,344)

See Notes to Consolidated Financial Statements

The Farmers Bancorp

Consolidated Statements of Changes in Shareholders' Equity
Years Ended June 30, 2023 and 2022

(Dollar Amounts in Thousands, Except Per Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, July 1, 2021	$ 1,702	$ 1	$ 82,587	$ 4,694	$ 88,984
Net income			11,014		11,014
Other comprehensive loss				(24,358)	(24,358)
Stock purchased (251,000 shares)	(214)		(12,386)		(12,600)
Stock issued (2,419 shares)	99				99
Cash dividends ($1.28 per share)			(2,464)		(2,464)
Balance, June 30, 2022	1,587	1	78,751	(19,664)	60,675
Net income			10,466		10,466
Other comprehensive loss				(2,822)	(2,822)
Stock issued (6,947 shares)	289				289
Cash dividends ($1.36 per share)			(2,469)		(2,469)
Balance, June 30, 2023	$ 1,876	$ 1	$ 86,748	$ (22,486)	$ 66,139

See Notes to Consolidated Financial Statements

The Farmers Bancorp

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022
(Dollar Amounts in Thousands)

	2023	2022
Operating Activities		
Net income	$ 10,466	$ 11,014
Items not requiring (providing) cash		
Depreciation	605	611
Provision (credit) for loan losses	(260)	100
Deferred income taxes	(116)	(192)
Net amortization on securities	488	512
Increase in cash value of life insurance	(348)	(376)
Change in assets and liabilities		
Loans held for sale	377	(207)
Interest receivable and other assets	(2,096)	(662)
Interest payable and other liabilities	1,168	2,083
Net cash provided by operating activities	10,284	12,883
Investing Activities		
Net change in interest-bearing time deposits	737	249
Proceeds from maturities and principal repayments on securities available for sale	15,155	24,688
Purchase of securities available for sale	-	(57,907)
Purchase of securities held to maturity	-	-
Proceeds from maturities and principal repayments on securities held to maturity	-	-
Proceeds from sales securities available for sale	-	-
Purchase of restricted stock	(2,894)	
Redemption of restricted stock	-	180
Net change in loans	(106,773)	(57,118)
Proceeds from redemption of life insurance policies	73	-
Property and equipment expenditures	(1,745)	(1,551)
Net cash used in investing activities	(95,447)	(91,459)
Financing Activities		
Net change in deposits	(3,441)	41,083
Net change in short-term borrowings	41,053	(6,853)
Proceeds from FHLB advances	207,450	20,000
Repayment of FHLB advances	(143,000)	(15,000)
Proceeds from subordinated debentures	-	15,000
Stock repurchased	-	(12,600)
Stock issued	289	99
Dividends paid	(2,469)	(2,464)
Net cash provided by financing activities	99,882	39,265
Net Change in Cash and Cash Equivalents	14,719	(39,311)
Cash and Cash Equivalents, Beginning of Year	20,458	59,769
Cash and Cash Equivalents, End of Year	$ 35,177	$ 20,458
Supplemental Disclosures of Cash Flows Information		
Cash paid during the year for		
Interest	$ 9,738	$ 1,504
Income taxes	1,960	2,310

See Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Basis of reporting - The consolidated financial statements include the accounts of The Farmers Bancorp (Bancorp) and its wholly owned subsidiaries, The Farmers Bank (Bank), TFB Risk Management and the bank's wholly owned subsidiaries, FBF Securities and TFB Properties. Significant intercompany accounts and transactions have been eliminated.

Description of business - The Bank generates commercial, installment and mortgage loans and receives deposits from customers located primarily in north central Indiana. Although the overall loan portfolio is diversified, a substantial portion of its debtors' ability to honor their contracts is dependent upon the agricultural industry. The majority of the Bank's loans are secured by specific items of collateral including business assets, consumer assets and real property.

Principles of consolidation - The consolidated financial statements include the accounts of the Bancorp and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses.

Cash equivalents - The Bank considers all liquid investments with original maturities of three months or less to be cash equivalents.

At June 30, 2023, the Bank's interest-bearing cash accounts exceeded federally insured limits by approximately $1,974. Additionally, approximately $29,288 of cash is held by the Federal Home Loan Bank of Indianapolis and Federal Reserve Bank as of June 30, 2023, which are not federally insured.

Interest-Bearing Time Deposits in Banks - The fair value of interest-bearing time deposits in banks approximates carrying value.

Securities - For debt securities with fair value below amortized cost when the Bancorp does not intend to sell a debt security, and it is more likely than not the Bancorp will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it is more likely than not that it will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive loss. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

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

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

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

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

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Allowance for loan losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bancorp’s internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Bancorp will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Bancorp does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Effective July 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and subsequent related ASUs (collectively "Topic 326"), which measures credit loss for most financial assets, including trade and other receivables, debt securities held to maturity, loans, net investments in leases, purchased financial assets with credit deterioration, and off-balance sheet credit exposures. ASU 2016-13 requires the use of a current expected credit losses ("CECL") methodology to determine the allowance for credit losses ("ACL") for loans and debt securities held to maturity. CECL requires loss estimates for the remaining estimated life of the assets to be measured using historical loss data, adjustments for current conditions, and adjustments for reasonable and supportable forecasts of future economic conditions.

Servicing assets - Mortgage-servicing rights on originated loans that have been sold are initially recorded at fair value and are included in accrued income and other assets on the consolidated balance sheet. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage-servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized mortgage-servicing rights for a stratum exceed their fair value.

Premises and equipment - Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Premises and equipment are depreciated on the straight-line and declining-balance methods over the estimated useful lives of the assets.

Restricted stock is a required investment for institutions that are members of the Federal Home Loan Bank (FHLB). The required investment in the common stock is based on a predetermined formula and purchased as needed to support borrowing levels. Restricted stock consists of primarily FHLB stock and is carried at cost.

Cash value of life insurance - The Bank has purchased life insurance policies on certain key executives. The insurance is recorded at its cash surrender value, or the amount that can be realized.

Foreclosed assets - Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Derivative financial instruments - The Bancorp uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Bancorp enters into interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. Designating an interest rate swap as an accounting hedge allows the Bancorp to recognize gains and losses, less any ineffectiveness, in the income statement within the same period that the hedged item affects earnings. The Bancorp includes the gain or loss on the hedged items in the same line item as the offsetting gain or loss on the related interest rate swaps. The fair value of the interest rate swaps is recorded in other assets in the consolidated balance sheets.

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

Income taxes - The Bancorp accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Bancorp determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

Repurchase agreements - Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance. Repurchase agreements are included in short-term borrowings on the consolidated balance sheet.

Benefit plan - Expense of the 401(k) plan is the amount contributed determined by formula.

Off balance sheet financial instruments - Financial instruments include off balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount of these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings per common share - Basic and dilutive earnings per share is net income divided by the weighted- average number of common shares outstanding during the period, which were 1,816,594 and 1,918,721 for 2023 and 2022, respectively

Comprehensive income - Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which is also recognized as a separate component of equity.

Dividend restriction - Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Bancorp or by the Bancorp to shareholders. These restrictions pose no practical limit on the ability of the Bank or the Bancorp to pay dividends at historical levels.

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

Fair value of financial instruments - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Revenue from contracts with customers - The Bancorp records revenue from contracts with customers in accordance with Accounting Codification Topic 606, *Revenue from Contracts with Customers* (Topic 66). Under Topic 606, the Bancorp must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Bancorp satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from the performance obligations satisfied in previous periods. The majority of the Bancorp's revenue come from interest and dividend income on loans, investment securities, and other financial instruments that are outside the scope of ASC 606. The Bancorp has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Bancorp generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; and charged on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

(Dollar Amounts in Thousands)

Note 2: Securities

The fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and federal agency	$ 1,895	$ -	$ (316)	$ 1,579
Mortgage-backed securities - government-sponsored enterprises (GSE) residential	117,823	-	(18,368)	99,455
State and municipal	84,670	81	(9,545)	75,206
Corporate	5,498	-	(316)	5,182
Total	$ 209,886	$ 81	$ (28,545)	$ 181,422

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and federal agency	$ 2,335	$ -	$ (225)	$ 2,110
Mortgage-backed securities - government-sponsored enterprises (GSE) residential	129,533	-	(13,655)	115,878
State and municipal	86,624	103	(10,943)	75,784
Corporate	7,036	1	(172)	6,865
Total	$ 225,528	$ 104	$ (24,995)	$ 200,637

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2023 and 2022 was $175,205 and $190,297, which is approximately 96.6% and 94.8% of the Bancorp's investment portfolio. These declines primarily resulted from recent changes in market interest rates.

At June 30, 2023, management believes the declines in fair value for these securities are temporary.

(Dollar Amounts in Thousands)

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2023 and 2022:

	2023					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and federal agency	$ 387	$ (8)	$ 1,192	$ (308)	$ 1,579	$ (316)
Mortage-backed securities-						
GSE residential	6,431	(408)	93,024	(17,960)	99,455	(18,368)
State and municipals	9,439	(103)	59,550	(9,442)	68,989	(9,545)
Corporate	975	(22)	4,207	(294)	5,182	(316)
Total temporarily impaired securities	$ 17,232	$ (541)	$ 157,973	$ (28,004)	$ 175,205	$ (28,545)

	2022					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and federal agency	$ 835	$ (9)	$ 1,284	$ (216)	$ 2,119	$ (225)
Mortage-backed securities-						
GSE residential	87,623	(8,412)	27,232	(5,243)	114,855	(13,655)
State and municipals	65,866	(10,456)	1,093	(487)	66,959	(10,943)
Corporate	6,364	(172)	-	-	6,364	(172)
Total temporarily impaired securities	$ 160,688	$ (19,049)	$ 29,609	$ (5,946)	$ 190,297	$ (24,995)

(Dollar Amounts in Thousands)

The fair value of debt securities and carrying amount, if different, at June 30, 2023, by contractual maturity, were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Available-for-Sale Amortized Cost	Available-for-Sale Fair Value
Due in one year	$ 3,159	$ 3,115
Due after one year through five years	3,098	2,976
Due after five years through ten years	9,215	8,683
Due after ten years	76,591	67,193
Mortgage-backed securities	117,823	99,455
Total	$ 209,886	$ 181,422

There were no sales of securities resulting in a gain or loss within the available for sale securities for 2023 and 2022.

Securities with a carrying value of $86,332 and $27,302 at June 30, 2023 and 2022 were pledged to secure public deposits and repurchase agreements and for other purposes required or permitted by law.

Note 3: Loans

Loans at year end are comprised of the following:

	2023	2022
Agricultural	$ 56,534	$ 50,947
Commercial	86,352	83,669
Commercial real estate	352,434	289,489
Construction	51,403	27,752
Residential	69,787	60,156
Consumer	16,350	14,032
Subtotal	632,860	526,045
Less: allowance for loan losses	(7,361)	(7,579)
Loans, net	$ 625,499	$ 518,466

The risk characteristics of each loan portfolio segment are as follows:

Commercial and agricultural loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Bancorp's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Bancorp's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. In general, the Bancorp avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus non-owner-occupied loans.

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Bancorp until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

Residential and consumer loans consist of two segments - residential mortgage loans and personal loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Bancorp generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(Dollar Amounts in Thousands)

The following tables present, by portfolio segment, the activity in the allowance for loan losses for the years ended June 30, 2023 and 2022:

2023

	Agricultural	Commercial	Commercial Real Estate	Construction	Residential	Consumer	Total
Beginning balance	$ 177	$ 302	$ 4,633	$ 2,112	$ 135	$ 220	$ 7,579
Provision (credit)	24	(10)	(1,152)	358	504	16	(260)
Loans charged off	-	(30)	-	-	-	(150)	(180)
Recoveries	31	17	75	-	4	95	222
Ending balance	$ 232	$ 279	$ 3,556	$ 2,470	$ 643	$ 181	$ 7,361

2022

	Agricultural	Commercial	Commercial Real Estate	Construction	Residential	Consumer	Total
Beginning balance	$ 240	$ 723	$ 4,568	$ 1,494	$ 255	$ 181	$ 7,461
Provision (credit)	(94)	(486)	51	618	(113)	124	100
Loans charged off	-	-	(8)	-	(10)	(118)	(136)
Recoveries	31	65	22	-	3	33	154
Ending balance	$ 177	$ 302	$ 4,633	$ 2,112	$ 135	$ 220	$ 7,579

The Farmers Bancorp
Notes to Consolidated Financial Statements
June 30, 2023 and 2022
(Dollar Amounts in Thousands)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of June 30, 2023 and 2022:

2023

	Agricultural	Commercial	Commercial Real Estate	Construction	Residential	Consumer	Total
Allowance Balances:							
Individually evaluated for impairment	$ -	$ -	$ 25	$ -	$ -	$ -	$ 25
Collectively evaluated for impairment	232	279	3,531	2,470	643	181	7,336
Total allowance for loan losses	$ 232	$ 279	$ 3,556	$ 2,470	$ 643	$ 181	$ 7,361
Loan Balances:							
Individually evaluated for impairment	$ 923	$ 80	$ 2,973	$ -	$ 44	$ 10	$ 4,030
Collectively evaluated for impairment	55,611	86,272	349,461	51,403	69,743	16,340	628,830
Total loan balances	$ 56,534	$ 86,352	$ 352,434	$ 51,403	$ 69,787	$ 16,350	$ 632,860

2022

	Agricultural	Commercial	Commercial Real Estate	Construction	Residential	Consumer	Total
Allowance Balances:							
Individually evaluated for impairment	$ 64	$ 41	$ 25	$ -	$ 30	$ -	$ 160
Collectively evaluated for impairment	113	261	4,608	2,112	105	220	7,419
Total allowance for loan losses	$ 177	$ 302	$ 4,633	$ 2,112	$ 135	$ 220	$ 7,579
Loan Balances:							
Individually evaluated for impairment	$ 1,106	$ 287	$ 130	$ -	$ 116	$ -	$ 1,639
Collectively evaluated for impairment	49,841	83,382	289,359	27,752	60,040	14,032	524,406
Total loan balances	$ 50,947	$ 83,669	$ 289,489	$ 27,752	$ 60,156	$ 14,032	$ 526,045

Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral.

Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Bancorp's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except 1-4 family residential properties and consumer, the Bancorp promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Bancorp charges off 1-4 family residential and consumer loans, or portions thereof, when the Bancorp reasonably determines the amount of the loss. The Bancorp adheres to timeframes established by applicable regulatory guidance, which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value, less costs to sell when the loan is 180 days past due, charge-off of unsecured open-end loans when the loan is 180 days past due, and charge-down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Bancorp can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bancorp over the prior two years. Management believes the historical loss experience methodology is appropriate in the current economic environment, as it captures loss rates that are comparable to the current period being analyzed.

The following tables present the credit risk profile of the Bancorp's loan portfolio based on rating category and payment activity as of June 30, 2023 and 2022:

(Dollar Amounts in Thousands)

	2023						
	Agricultural	Commercial	Commercial Real Estate	Construction	Residential	Consumer	Total
Grade:							
Pass (1-4)	$ 55,565	$ 77,648	$ 339,613	$ 51,403	$ 69,743	$ 16,350	$ 610,322
Special mention (5)	46	8,624	9,848	-	-	-	18,518
Substandard (6)	923	80	2,973	-	44	-	4,020
Doubtful (7)	-	-	-	-	-	-	-
Loss (8)	-	-	-	-	-	-	-
Total	$ 56,534	$ 86,352	$ 352,434	$ 51,403	$ 69,787	$ 16,350	$ 632,860

	2022						
	Agricultural	Commercial	Commercial Real Estate	Construction	Residential	Consumer	Total
Grade:							
Pass (1-4)	$ 49,795	$ 76,240	$ 280,994	$ 27,752	$ 60,048	$ 14,032	$ 508,861
Special mention (5)	47	7,142	8,364	-	-	-	15,553
Substandard (6)	1,105	287	131	-	108	-	1,631
Doubtful (7)	-	-	-	-	-	-	-
Loss (8)	-	-	-	-	-	-	-
Total	$ 50,947	$ 83,669	$ 289,489	$ 27,752	$ 60,156	$ 14,032	$ 526,045

Internal Risk Categories

Loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grade of 5, or Watch or Special Mention, represents loans of lower quality and is considered criticized. The grades of 6, or Substandard, 7 or Doubtful and 8 or Loss, refer to assets that are classified. The use and application of these grades by the Bancorp will be uniform and shall conform to the Bancorp's policy.

Prime (1) Loans are of superior quality with excellent credit strength and repayment ability providing a nominal credit risk.

Good (2) Loans are of above average credit strength and repayment ability providing only a minimal credit risk.

Satisfactory (3) Loans of reasonable credit strength and repayment ability providing an average credit risk due to one or more underlying weaknesses.

Acceptable (4) Loans of the lowest acceptable credit strength and weakened repayment ability providing a cautionary credit risk due to one or more underlying weaknesses. New borrowers are typically not underwritten within this classification.

Special Mention (5) A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (6) loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful (7) Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (8) Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

(Dollar Amounts in Thousands)

The following tables present the Bancorp's loan portfolio aging analysis as of June 30, 2023 and 2022:

2023

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Agricultural	$ -	$ -	$ -	$ -	$ 56,534	$ 56,534	$ -
Commercial	-	-	80	80	86,272	86,352	-
Commercial real estate	906	-	-	906	351,528	352,434	-
Construction	-	-	-	-	51,403	51,403	-
Residential	702	40	-	742	69,045	69,787	-
Consumer	8	-	10	18	16,332	16,350	10
Total loans	$ 1,616	$ 40	$ 90	$ 1,746	$ 631,114	$ 632,860	$ 10

2022

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Agricultural	$ -	$ -	$ -	$ -	$ 50,947	$ 50,947	$ -
Commercial	436	-	78	514	83,155	83,669	-
Commercial real estate	-	-	-	-	289,489	289,489	-
Construction	-	-	-	-	27,752	27,752	-
Residential	258	64	94	416	59,740	60,156	8
Consumer	46	-	-	46	13,986	14,032	-
Total loans	$ 740	$ 64	$ 172	$ 976	$ 525,069	$ 526,045	$ 8

The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date.

The following table presents the Bancorp's nonaccrual loans at June 30, 2023 and 2022:

	2023	2022
Agricultural	$ 872	$ 1,053
Commercial	80	104
Commercial real estate	82	103
Construction	-	-
Residential	44	108
Consumer	-	-
Total nonaccrual loans	$ 1,078	$ 1,368

(Dollar Amounts in Thousands)

The following tables present impaired loans for the years ended June 30, 2023 and 2022:

	2023				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Agricultural	$ 923	$ 1,206	$ -	$ 1,350	$ 92
Commercial	80	130	-	140	5
Commercial real estate	2,891	3,165	-	999	64
Construction	-	-	-	-	-
Residential	44	129	-	187	11
Consumer	10	16	-	15	2
Total impaired loans with no related specific reserve	$ 3,948	$ 4,646	$ -	$ 2,691	$ 174
Impaired loans with a specific valuation allowance:					
Agricultural	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
Commercial real estate	82	122	25	127	9
Construction	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 82	$ 122	$ 25	$ 127	$ 9
Total impaired loans	$ 4,030	$ 4,768	$ 25	$ 2,818	$ 183

(Dollar Amounts in Thousands)

	2022				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Agricultural	$ 495	$ 847	$ -	$ 900	$ 77
Commercial	143	192	-	195	3
Commercial real estate	27	337	-	424	42
Construction	-	-	-	-	-
Residential	87	167	-	151	6
Consumer	-	6	-	11	2
Total impaired loans with no related specific reserve	$ 752	$ 1,549	$ -	$ 1,681	$ 130
Impaired loans with a specific valuation allowance:					
Agricultural	$ 611	$ 752	$ 64	$ 777	$ 37
Commercial	144	144	41	168	10
Commercial real estate	103	135	25	138	9
Construction	-	-	-	-	-
Residential	29	49	30	50	3
Consumer	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 887	$ 1,080	$ 160	$ 1,133	$ 59
Total impaired loans	$ 1,639	$ 2,629	$ 160	$ 2,814	$ 189

Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

Subsequent payments on nonaccrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

(Dollar Amounts in Thousands)

Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage-servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of mortgage and other loans serviced for others were $155,759 and $156,397 at June 30, 2023 and 2022, respectively.

Activity in the balance of servicing assets was as follows:

	2023	2022
Servicing rights		
Balance at the beginning of the year	$ 1,511	$ 1,566
Assumption of servicing obligations	282	379
Amortization	(415)	(434)
Balance at end of year	$ 1,378	$ 1,511
Valuation allowance		
Balance at the beginning of the year	$ (725)	$ (725)
Subtractions	725	-
Balance at the end of the year	-	(725)
Mortgage servicing assets, net	$ 1,378	$ 786
Fair value disclosures		
Fair value as of the beginning of the period	$ 786	$ 841
Fair value as of the end of the period	1,570	786

Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates, were used to stratify the originated mortgage-servicing rights.

Note 4: Premises and Equipment

Year-end premises and equipment were as follows:

	2023	2022
Land	$ 2,932	$ 2,932
Buildings and improvements	11,915	11,791
Furniture and equipment	5,170	4,812
Construction in process	1,266	111
	21,283	19,646
Accumulated depreciation	(12,750)	(12,253)
	$ 8,533	$ 7,393

(Dollar Amounts in Thousands)

Note 5: Deposits

Certificates of deposits of $250 or more totaled approximately $34,611 and $18,425 at June 30, 2023 and 2022. The Bancorp has one customer that represents $55,911 and $39,510 of total deposits as of June 30, 2023 and 2022.

At June 30, 2022, the scheduled maturities of time deposits are as follows:

2024	$ 58,595
2025	8,604
2026	4,878
2027	1,397
2028	782
Thereafter	-
	$ 74,256

Note 6: Short-Term Borrowings

Short-term borrowings included the following at June 30:

	2023	2022
Federal Reserve Discount Window	$ 20,000	$ -
Repurchase agreements	46,286	25,233

Borrowings at the Federal Reserve Discount Window mature daily and are collateralized by a pledge of Mortgage-backed securities.

Repurchase agreements are borrowings from customers that are collateralized by a pledge of Mortgage-backed securities. The repurchase agreements mature daily.

The Bancorp retains possession of and control over such securities pledged as collateral.

Information regarding repurchase agreements for the years ended June 30, 2023 and 2022 is presented below:

	2023	2022
Average balance during the year	$ 30,774	$ 27,496
Average rate paid during the year	2.22%	0.25%
Maximum month end balance during the year	$ 46,286	$ 31,983

(Dollar Amounts in Thousands)

The following table represents the remaining contractual maturity of repurchase agreements disaggregated by the class of securities pledged as of June 30:

	2023				
	Overnight & Continuous	< 30 Days	30-90 Days	> 90 Days	Total
Mortgage-backed securities government-sponsored enterprises (GSE) residential	$ 46,286	$ -	$ -	$ -	$ 46,286

	2022				
	Overnight & Continuous	< 30 Days	30-90 Days	> 90 Days	Total
Mortgage-backed securities government-sponsored enterprises (GSE) residential	$ 25,233	$ -	$ -	$ -	$ 25,233

Note 7: Federal Home Loan Bank Advances (FHLB)

FHLB advances are secured by a blanket pledge of the Bancorp's mortgage loans and other assets require monthly interest payments and are generally due in full at maturity. Advances, at interest rates from 2.81% to 5.22%, are subject to restrictions or penalties in the event of prepayment. Generally, penalties, based on market rates at the time of prepayment, will be assessed if advances are prepaid. However, certain advances may be prepaid at specified times without penalty.

As of June 30, 2023, the Company has four putable advances totaling $50,000 that are subject to put options every three months, which became effective at the issuance of the advance date. One advance has a six month lock out period while the other three advances have one year lock out periods. If the FHLB elects to not exercise that call option, the advances will stay at fixed rates from 2.81% to 4.61%.

At June 30, 2023, the scheduled maturities of FHLB advances are as follows:

2024	$ 5,000
2025	16,450
2026	-
2027	-
2028	25,000
Thereafter	30,000
	$ 76,450

(Dollar Amounts in Thousands)

Note 8: Subordinated Debt

In March 2022, the Company issued $10.0 million aggregate principal amount of 3.75% Fixed-to-Floating Rate Subordinated Notes due March 2032 (the "2032 Notes"). The 2032 Notes initially had a fixed interest rate of 3.75% per year to, but excluding March 14, 2027, and thereafter a floating rate equal to the current three-month SOFR rate plus 219 basis points. All interest on the 2032 Notes is payable quarterly. The 2032 Notes are scheduled to mature on March 14, 2032. The 2032 Notes are unsecured subordinated obligations of the Company and may be repaid, without penalty, on any interest payment date on or after March 14, 2027. The 2032 Notes are intended to qualify as Tier 2 capital under regulatory guidelines.

In March 2022, the Company issued $5.0 million aggregate principal amount of 4.50% Fixed-to-Floating Rate Subordinated Notes due March 2037 (the "2037 Notes"). The 2037 Notes initially had a fixed interest rate of 4.50% per year to, but excluding March 14, 2032, and thereafter a floating rate equal to the current three-month SOFR rate plus 284 basis points. All interest on the 2037 Notes is payable quarterly. The 2037 Notes are scheduled to mature on March 14, 2037. The 2037 Notes are unsecured subordinated obligations of the Company and may be repaid, without penalty, on any interest payment date on or after March 14, 2032. The 2037 Notes are intended to qualify as Tier 2 capital under regulatory guidelines.

The following table presents the principal balance and unamortized debt issuance costs for the 2032 Notes and the 2037 Notes as of June 30, 2023 and 2022.

	June 30, 2023	
	Principal	Unamortized Debt Issuance Costs
2032 Notes	$ 10,000	$ (206)
2037 Notes	5,000	(104)
	$ 15,000	$ (310)

	June 30, 2022	
	Principal	Unamortized Debt Issuance Costs
2032 Notes	$ 10,000	$ (242)
2037 Notes	5,000	(128)
	$ 15,000	$ (370)

(Dollar Amounts in Thousands)

Note 9: Benefit Plans

The Bancorp also maintains a 401(k) benefit for eligible employees. Employer contributions include discretionary contributions and the matching of a portion of employee contributions. Expense recognized for this plan was $453 and $386 for 2023 and 2022, respectively.

Note 10: Income Taxes

Income taxes consist of the following components:

	2023	2022
Income tax expense		
Current	$ 2,093	$ 2,334
Deferred	(116)	(192)
	$ 1,977	$ 2,142

The following is a reconciliation of income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate of 21% to income before income taxes:

	2023	2022
Statutory rate applied to income before income taxes	$ 2,617	$ 2,763
Add (deduct) tax effect of		
Tax-exempt interest income	(461)	(432)
Cash value of life insurance	(73)	(79)
Benefit of low income housing partnership	(42)	3
Insurance premium section 831 exclusion	(98)	(168)
State taxes	26	89
Other, net	8	(34)
	$ 1,977	$ 2,142

(Dollar Amounts in Thousands)

The net deferred tax asset reflected in the consolidated balance sheets is comprised of the following components:

	2023	2022
Deferred tax assets from		
Securities available for sale	$ 5,977	$ 5,225
Provision for loan losses	1,795	1,887
Deferred compensation plans	347	358
Accrued expenses	40	46
Accrued compensation	430	592
Nonaccrual interest	192	261
Other	647	5
	9,428	8,374
Deferred tax liabilities for		
FHLB stock dividends	(28)	(28)
Prepaid expenses	(186)	(244)
Depreciation	(307)	(220)
Mortgage-servicing rights	(357)	(204)
Investment in low income housing partnership	(134)	(107)
State income tax	(68)	(100)
Deferred loan costs	(218)	(209)
	(1,298)	(1,112)
	$ 8,130	$ 7,262

The Bancorp has not identified any uncertain tax positions that it believes should be recognized in the consolidated financial statements. The Bank's tax years still subject to examination by taxing authorities are years subsequent to 2018.

(Dollar Amounts in Thousands)

Note 11: Commitments and Off-Balance-Sheet Items

The Bancorp, in the ordinary course of business, has commitments and contingent liabilities, such as guarantees and commitments to extend credit which are not reflected in the accompanying consolidated balance sheets. The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans, standby letters of credit and financial guarantees is represented by the contractual amount of those instruments. The same credit policy is used to make such commitments as is used for on-balance-sheet items.

At June 30, 2023 and 2022, these financial instruments are summarized as follows:

	2023	2022
Financial instruments which contract amount represents credit risk:		
Unused commercial lines of credit	$ 127,507	$ 111,953
Unused revolving lines of credit	43,958	36,059
Commitments to make loans	56,118	40,355
Standby letters of credit	196	294

The unused revolving and commercial lines of credit are predominantly variable rate agreements. The commitments are agreements to lend to a customer, provided they accept the terms and conditions offered. These commitments are generally extended for terms of up to 60 days and, in many cases, allow the customer to select from one of several financing options offered. Since many commitments to make loans expire without being used, the amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management’s credit evaluation of the borrower, and may include accounts receivable, inventory, property, land and other items.

At June 30, 2023 and 2022, the Bank was not required to have deposits with the Federal Reserve or as cash on hand.

Note 12: Capital Requirements

Banks and bank holding companies are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate actions by the regulatory agencies that, if undertaken, could have a material effect on the Bancorp's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2023 and 2022 that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2023 and 2022, the most recent notification from the regulatory agency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(Dollar Amounts in Thousands)

Year-end actual and required capital amounts and ratios are presented below:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2023						
Total Capital to risk-weighted assets						
Bank	103,022	12.6%	65,370	8.0%	81,712	10.0%
Tier 1 Capital to risk-weighted assets						
Bank	95,661	11.7%	49,027	6.0%	65,370	8.0%
Common Equity Tier 1 capital (to risk-weighted assets)						
Bank	95,661	11.7%	36,770	4.5%	53,113	6.5%
Tier 1 Capital to average assets						
Bank	95,661	10.7%	35,609	4.0%	44,511	5.0%
As of June 30, 2022						
Total Capital to risk-weighted assets						
Bank	95,673	14.5%	52,635	8.0%	65,794	10.0%
Tier 1 Capital to risk-weighted assets						
Bank	88,094	13.4%	39,476	6.0%	52,635	8.0%
Common Equity Tier 1 capital (to risk-weighted assets)						
Bank	88,094	13.4%	29,607	4.5%	42,766	6.5%
Tier 1 Capital to average assets						
Bank	88,094	11.1%	31,885	4.0%	39,856	5.0%

(Dollar Amounts in Thousands)

Note 13: Derivative Financial Instruments

The Bancorp uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Bancorp enters into interest rate swap agreements as part of its asset/liability management strategy to help manage its interest rate risk position. The Bancorp entered into various interest rate swap agreements designated and qualifying as accounting hedges during the reported periods. Designating an interest rate swap as an accounting hedge allows the Bancorp to recognize gains and losses, less any ineffectiveness, in the consolidated income statement within the same periods that the hedged item affects earnings. The Bancorp includes gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related interest rate swaps. For derivative instruments that are designated and qualify as cash flow hedges, any gains or losses related to changes in fair value are recorded in accumulated other comprehensive income, net of tax. The fair value of interest rate swaps with a positive fair value are reported in accrued income and other assets in the consolidated balance sheets while interest rate swaps with a negative fair value are reported in accrued expenses and other liabilities in the consolidated balance sheets.

The following table presents the amounts recorded on the balance sheet related to cumulative basis adjustments for fair value hedges as of June 30, 2023 and 2022:

2023

Line Item in the Balance Sheet in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)
Loans receivable	$ 5,946	$ 858

2022

Line Item in the Balance Sheet in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)
Loans receivable	$ 6,224	$ 680

The Bancorp presents derivative positions gross on the consolidated balance sheet. The following table reflects the derivatives recorded on the consolidated balance sheet as of June 30, 2023 and 2022:

2023

	Notional Amount	Fair Value
Included in other assets:		
Derivatives designated as hedges:		
Interest rate swaps related to commercial loans	$ 5,946	$ 858

2022

	Notional Amount	Fair Value
Included in other assets:		
Derivatives designated as hedges:		
Interest rate swaps related to commercial loans	$ 6,224	$ 680

Note 14: Related Party Transactions

At June 30, 2023 and 2022, the Bancorp had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $6,535 and $6,552, respectively.

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

Deposits from related parties held by the Bancorp at June 30, 2023 and 2022 totaled $2,906 and $3,285, respectively.

Note 15: Disclosure About Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

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

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

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include agency securities, mortgage-backed government-sponsored securities and corporate securities. Third-party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

(Dollar Amounts in Thousands)

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 and 2022:

		2023 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government and federal agency	$ 1,579	$ -	$ 1,579	$ -
Mortgage-backed securities -				
GSE residential	99,455	-	99,455	-
State and municipal	75,206	-	75,206	-
Corporate	5,182	-	5,182	-
Interest Rate Swaps	858	-	858	-
	$ 182,280	$ -	$ 182,280	$ -

		2022 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government and federal agency	$ 2,110	$ -	$ 2,110	$ -
Mortgage-backed securities -				
GSE residential	115,878	-	115,878	-
State and municipal	75,784	-	75,784	-
Corporate	6,865	-	6,865	-
Interest Rate Swaps	680	-	680	-
	$ 201,317	$ -	$ 201,317	$ -

(Dollar Amounts in Thousands)

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Mortgage servicing rights are tested for impairment on a quarterly basis. The Finance Department measures mortgage servicing rights through the completion of a proprietary model. Inputs to the model are developed by staff that work in mortgage servicing and are reviewed by the Controller. The model is tested quarterly using baseline data to check its accuracy.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2022.

		2022 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserva Inputs (Level 3)
Mortgage servicing rights	$ 786	$ -	$ -	$ 786

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements for the years ended June 30, 2023 and 2022:

	Fair Value at June 30, 2022	Valuation Technique	Unobservable Inputs	Range
Mortgage servicing rights	$ 786	Discounted cash flow	Discount rate	11%
			CPR	8.5%-25%

(Dollar Amounts in Thousands)

The following tables show the estimated fair value of financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 and 2022:

			2023 Fair Value Measurements Using		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 35,177	$ 35,177	$ 35,177	$ -	$ -
Interest-bearing time deposits	490	486	-	486	-
Loan held for sale	422	422	-	-	422
Net loans	625,499	626,516	-	-	626,516
Accrued interest receivable	3,672	3,672	3,672	-	-
Restricted stock	4,447	4,447	-	-	4,447
Financial liabilities					
Deposits	(664,875)	(662,964)	(590,618)	-	(72,346)
Short-term borrowings	(66,286)	(66,286)	-	-	(66,286)
FHLB advances	(76,450)	(76,327)	-	-	(76,327)
Subordinated debt	(14,690)	(9,050)	-	-	(9,050)
Accrued interest payable	(586)	(586)	(586)	-	-

			2022 Fair Value Measurements Using		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 20,458	$ 20,458	$ 20,458	$ -	$ -
Interest-bearing time deposits	1,227	1,227	-	1,227	-
Loan held for sale	799	799	-	-	799
Net loans	518,466	534,980	-	-	534,980
Accrued interest receivable	2,794	2,794	2,794	-	-
Restricted stock	1,553	1,553	-	-	1,553
Financial liabilities					
Deposits	(668,316)	(667,312)	(624,181)	-	(43,131)
Short-term borrowings	(25,233)	(25,233)	-	-	(25,233)
FHLB advances	(12,000)	(11,994)	-	-	(11,994)
Subordinated debt	(14,630)	(13,025)	-	-	(13,025)
Accrued interest payable	(41)	(41)	(41)	-	-

(Dollar Amounts in Thousands)

Note 16: Parent Company Statements

Condensed financial information of The Farmers Bancorp follows.

Condensed Balance Sheets

	2023	2022
Assets		
Cash on deposit with subsidiary	$ 922	$ 307
Investment in subsidiaries	74,975	70,491
Other assets	4,932	4,507
	$ 80,829	$ 75,305
Liabilities and Shareholders' Equity		
Liabilities		
Subordinated debentures	$ 14,690	$ 14,630
	14,690	14,630
Total shareholders' equity	66,139	60,675
	$ 80,829	$ 75,305

Condensed Statements of Income and Comprehensive Income

	2023	2022
Operating income		
Dividends from subsidiaries	$ 3,526	$ 742
Other income	254	205
	3,780	947
Interest expense	600	180
Other expense	142	163
	742	343
Income before income tax and equity in undistributed income of subsidiaries	3,038	604
Income tax expense (benefit)	(121)	(34)
Income before equity in undistributed income of subsidiaries	3,159	638
Undistributed income of subsidiaries	7,307	10,376
Net income	10,466	11,014
Other comprehensive (loss)	(2,822)	(24,358)
Comprehensive income	$ 7,644	$ (13,344)

(Dollar Amounts in Thousands)

Condensed Statements of Cash Flows

	2023	2022
Operating Activities		
Net income	$ 10,466	$ 11,014
Items not providing cash		
Undistributed income of subsidiaries	(7,307)	(10,376)
Change in other assets	(364)	(696)
Change in other liabilities	-	(10)
Net cash provided by (used in) operating activities	2,795	(68)
Financing Activities		
Proceeds from subordinated debentures	-	15,000
Stock repurchased	-	(12,600)
Stock issued	289	99
Dividends paid - net cash used in financing activities	(2,469)	(2,464)
Net cash provided by (used in) financing activities	(2,180)	35
Net Change in Cash	615	(33)
Cash, Beginning of Year	307	340
Cash, End of Year	$ 922	$ 307

Note 17: Subsequent Events

Subsequent events have been evaluated through the date of August 30, 2023, which is the date the consolidated financial statements were available to be issued.