# CITIZENS BANCORP

## CITIZENS BANK

BANK OF CELINA • LIBERTY STATE BANK
SMITH COUNTY BANK • TRADERS BANK

# ANNUAL REPORT

# 2019

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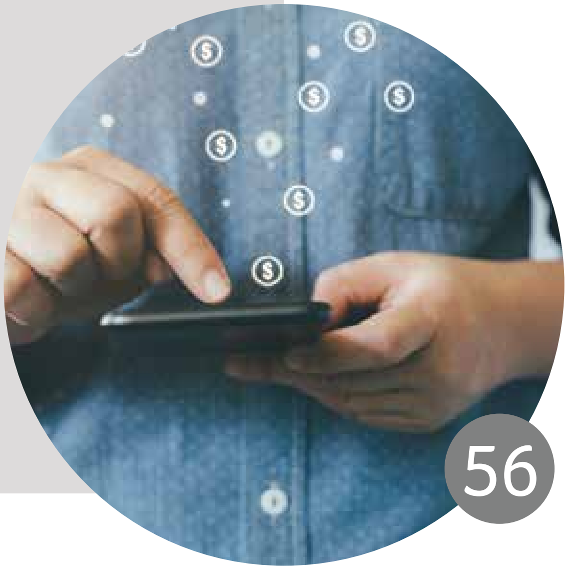


Dear Shareholders,

April, 2020

As I write this letter, our world is gripped with daily reports of the spread and toll of the coronavirus. Our immediate focus at Citizens Bank is on the health and safety of our customers and our employees. Secondly, we are assisting those customers for whom COVID-19 has had a negative financial impact. While many businesses are temporarily closed, we are open to take care of our customers' needs. Our approach is geared to helping our customers get back on their feet and their families and businesses returned to financial health. We ended the year 2019 with $115.2 million in capital, or 12.2% of total assets. We also had a strong allowance for loan losses at 1.46% of loans. These capital and reserve levels will serve as buffers to the economic headwinds we expect to endure as a result of COVID-19. We are a financially strong, 110 year old community bank, and we are here to help our communities rebound from this pandemic!

For 2019, Citizens Bancorp Investment, Inc. recorded net income of $11.2 million, a decrease of 6.5% from 2018. Earnings declined in 2019 due primarily to higher salary expenses incurred to increase our sales capacity and to improve our infrastructure to better prepare the bank to cross the $1 billion asset threshold. Our return on average equity was 10.2% for 2019 and our return on average assets was 1.20%. Net interest income before loan loss provision increased 0.75% to $33.4 million, non-interest income increased 1.8% to $7.4 million, non-interest expense increased 6.1% to $25.4 million, and provision for loan losses increased 6.5% to $1.3 million. Net loan charge-offs in 2019 were 0.07% of average loans outstanding, or 46.9% lower than 2018. Net charge-offs were lower than 2018 due primarily to increased recoveries on charged off real estate loans.

Your board and management continue to guide us on our journey to exceed $1 billion in assets, grow our earnings, and increase the value of our stock. In 2020, management is moving forward with our plan to help the market price of our stock reflect a realistic market value. Our first step was completed when Broadridge became our stock transfer agent in February 2019; they currently manage our stock registry, stock transfer activity and shareholder communication. Our recently amended charter gave us the ability to issue more shares, and in July 2019, we executed a stock split to increase the number of outstanding shares and reduce the stock price to a more affordable level. Recently, Citizens Bancorp was approved by the Depository Trust Company for electronic transfer of shares. Finally, we expect to soon obtain a "ticker" symbol for our stock, and to list the stock on the OTCQX stock listing service. These actions will allow holding of the stock in a brokerage account, facilitate direct deposit of dividends and make our stock easier to buy and sell. We will contact you as we complete these actions to help you take full advantage of these services.

In January 2020, our long-time Chairman and CEO of Citizens Bank, Charlie Darnell, was named Director Emeritus of the bank and the holding company. Charlie retired from the bank and holding company in 2005, but had remained actively involved on our board and loan committees. A former Chairman of the Tennessee Bankers Association, Charlie is well known in Tennessee banking circles, the American Bankers Association, and as a thirty-plus year Little League baseball coach.

In the fall of 2019, the board of directors identified the need to add two additional directors. Eugene R. London, Jr. and Dr. Jon Alan Long joined the board in December 2019. Eugene London is president of Systems Integration/ Modeling & Simulation, Inc., and is a resident of Tullahoma, Tennessee. London has been honored with Tullahoma Citizen of the Year, the Martin Luther King, Jr. Citizen Award, and Tennessee Board of Regents Chancellor's Award for Excellence in Philanthropy. He is an avid supporter of youth, providing mentoring and intern opportunities for students interested in STEM-centric fields, and founding a nonprofit career training and financial literacy program

*continued on next page*

designed to reduce recidivism. Local civic roles include Vice Chairman of a Tullahoma, Tennessee community bank board of directors, Tullahoma Chamber of Commerce President, and Motlow College Foundation Director.

Dr. Jon Alan Long is a dentist and resident of Carthage, Tennessee. A graduate of the University of Tennessee - Knoxville and the University of Tennessee College of Dentistry in Memphis, Dr. Long established his practice in his hometown in 2001. Long joined the Smith County Advisory Board of Citizens Bank in 2004, and has been an active advisory board member, shareholder and supporter of the bank for nineteen years. Dr. Long is a prominent member of his community and is heavily involved there in coaching youth sports.

Finally, Joe Carter, our President retired in June 2019 after 41 years of service and the board of directors appointed Tommy Anderton to succeed Carter as President of Citizens Bank, effective July 1, 2019. Anderton joined Citizens Bank in 2015 as Executive Vice President and Regional President after enjoying 39 years of banking experience in Tennessee, much of it in markets where Citizens Bank currently has branches. Both Carter and Anderton continue to serve on the bank and holding company board of directors.

We cannot accurately predict the economic impact of the COVID-19 pandemic on our country, and we cannot fathom its effect on our people. However, as an optimistic but cautious person, I am confident our country and your bank will survive and prosper again in the future. We simply do not know the depths from which we must climb, nor how long it will be before we start climbing. I do know that your board and management team are committed to bringing your bank out of this crisis with a strong resolve to move this company forward to greater levels of growth and prosperity, and we have the stability to accomplish the same.

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

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

# ABOUT US

Citizens Bank of Lafayette, Tennessee, opened for business in 1909 with $12,000 in capital provided by local investors. The bank survived the Great Depression in the 1930's and was strong enough to acquire the Farmers and Merchants Bank in Lafayette in 1931.

Citizens Bank operated from a single location until 1974 when it opened its first branch. The bank opened additional branches in 1977, 1987, and 2016. We acquired the Bank of Celina, Tennessee in 1987, two branches in Carthage, Tennessee in 1993, and purchased a majority interest in Liberty State Bank in 1999. In 2009, Citizens Bank acquired another branch in Gainesboro, Tennessee, and in 2013, Citizens Bancorp merged Liberty into Citizens Bank. Finally, we acquired Traders Bank, in Tullahoma, Tennessee, in 2015.

Charles Darnell was named President and CEO in 1973, at which time the bank had assets of $14 million. In 2005, the bank had assets of $279 million when Charlie Darnell retired as CEO, Joe Carter was named President and Peter Williston became CEO. Carter retired in 2019 and Tommy Anderton became President.

Recent efforts to transform our culture to create a great working environment for our employees, instill an attitude of service for our customers, and establish a community first culture have proven very successful in creating an even greater bank with over $940 million in assets!

# COMPANY VALUES

Our customers, whether consumer or business, can rest assured that their best interest is at the heart of our success. This approach is focused on our employees ***ALWAYS DOING THE RIGHT THING,*** having a ***"HOW CAN WE" ATTITUDE*** and ***OWNING THEIR RESULTS*** and their ***CUSTOMERS' EXPERIENCE*** each and every day!

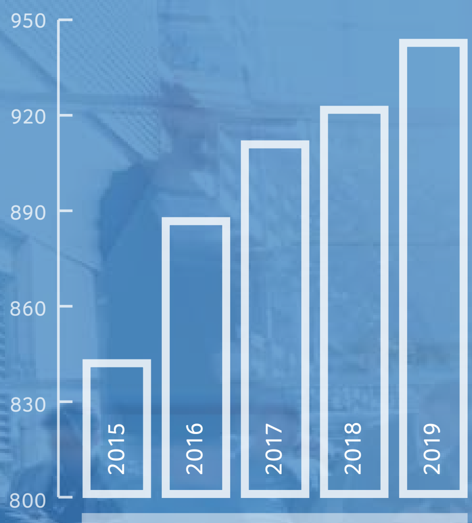
At the heart of our values, Citizens Bank is a ***FUN, SAFE & RESPECTFUL*** place to work. Each employee finds ***GREAT JOY IN HELPING THEIR CUSTOMERS SUCCEED,*** strives to provide excellent service by ***MAKING TIMELY, WELL-INFORMED DECISIONS,*** and contributing to a seamless customer experience.

Citizens Bank has continually operated as a leader in ***MAKING OUR COMMUNITY A BETTER PLACE,*** while supporting economic, educational and philanthropic initiatives. We are an engaged member of the community banking industry, significantly participating in banking education and governmental relations activity. Our commitment and our values have proven successful for the financial well-being of the bank, and for the communities we serve, allowing us to produce ***SIGNIFICANT VALUE FOR OUR SHAREHOLDERS.***

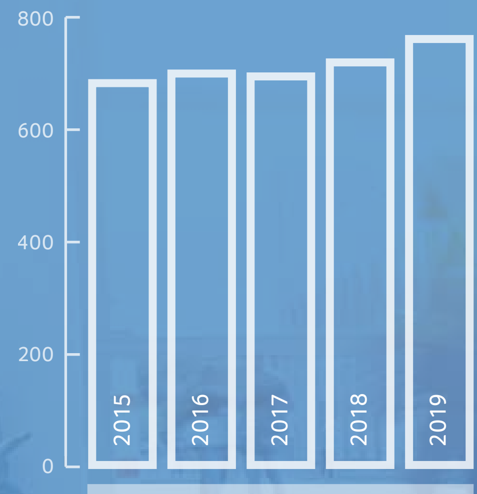
# STRONG FINANCIAL RESULTS

## HISTORICAL PERFORMANCE

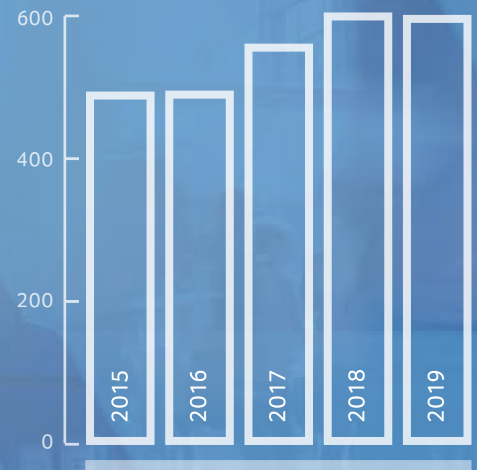
**2019 TOTAL ASSETS**
(MILLIONS) **$943.6**



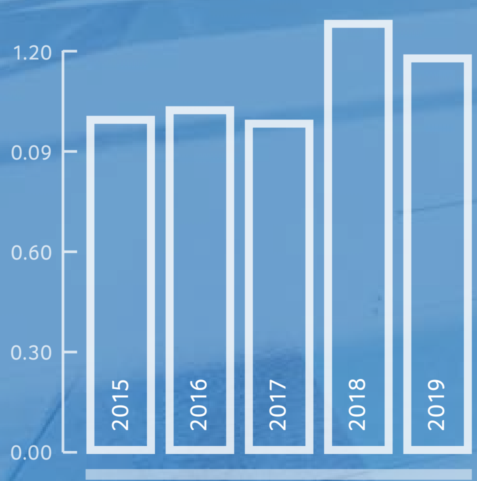

**2019 TOTAL DEPOSITS**
(MILLIONS) **$759.8**




**2019 NET LOANS**
(MILLIONS) **$603.7**

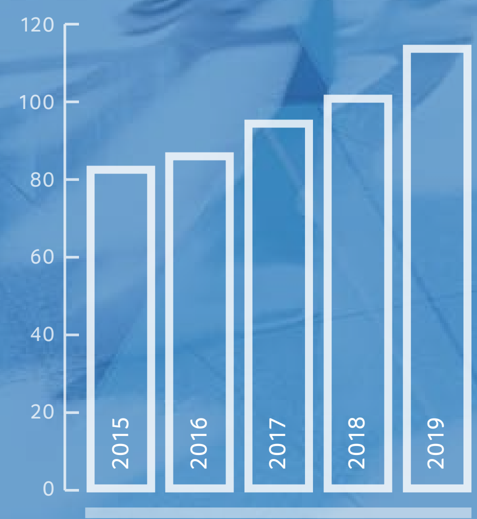



**2019 RETURN ON AVERAGE ASSETS**
(PERCENTAGE) **1.20%**




**2019 RETURN ON AVERAGE EQUITY**
(PERCENTAGE) **10.32%**


**2019 STOCKHOLDERS EQUITY**
(MILLIONS) **$115.2**



# FINANCIALS

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

*Consolidated Financial Statements*

**December 31, 2019 and 2018**

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

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MAGGART & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Stephen M. Maggart, CPA, ABV, CFF
J. Mark Allen, CPA
Joshua K. Cundiff, CPA
Michael T. Holland, CPA, ABV, CFF
M. Todd Maggart, CPA, ABV, CFF
Michael F. Murphy, CPA
P. Jason Ricciardi, CPA, CGMA
David B. von Dohlen, CPA
T. Keith Wilson, CPA, CITP

# *Independent Auditor's Report*

**The Board of Directors**
**Citizens Bancorp Investment, Inc.:**

We have audited the accompanying consolidated financial statements of Citizens Bancorp Investment, Inc. and its Subsidiaries ("the Company"), which comprise the consolidated balance sheets, as of December 31, 2019 and 2018, and the related consolidated statements of earnings, comprehensive earnings, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**The Board of Directors**
**Citizens Bancorp Investment, Inc.**
**Page Two**

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Bancorp Investment, Inc. and Subsidiaries as of December 31, 2019 and 2018, 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.

***Report on Consolidating Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial information presented in Schedule 1 is presented for purposes of additional analysis 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.

Maggart & Associates, P.C.

March 23, 2020

# Consolidated Balance Sheets
**December 31, 2019 and 2018**

| *(In Thousands, except share data)* | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Loans, net of allowance for loan losses of $8,964 and $8,102, respectively | $ 603,707 | $ 606,288 |
| Debt securities, available-for-sale, at market (amortized cost $239,636 and $239,309, respectively) | 242,041 | 235,745 |
| Marketable equity securities, at market (cost $39 and $39, respectively) | 107 | 94 |
| Restricted equity securities | 3,717 | 3,332 |
| Federal funds sold | 1,000 | 1,000 |
| Interest-bearing deposits in financial institutions | 24,900 | 8,709 |
| *Total earning assets* | 875,472 | 855,168 |
| Cash and due from banks | 18,037 | 17,685 |
| Premises and equipment, net | 13,755 | 11,034 |
| Accrued interest receivable | 4,989 | 5,427 |
| Cash surrender value of life insurance | 16,216 | 16,002 |
| Annuity investment | 3,644 | 3,722 |
| Refundable income taxes | 139 | - |
| Other real estate | 40 | 457 |
| Repossessed assets | 8 | - |
| Deferred income taxes, net | 1,249 | 2,546 |
| Other assets | 1,728 | 2,105 |
| Goodwill and intangible assets | 8,366 | 8,605 |
| *Total assets* | $ 943,643 | $ 922,751 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Deposits: | | |
| Non-interest-bearing demand deposits | $ 134,577 | $ 136,662 |
| Interest-bearing demand deposits | 169,222 | 157,513 |
| Money market accounts | 28,685 | 34,232 |
| Savings accounts | 97,993 | 95,014 |
| Certificates of deposit | 273,297 | 245,625 |
| Individual retirement accounts | 56,007 | 51,955 |
| *Total deposits* | 759,781 | 721,001 |
| Notes payable | 3,840 | 4,908 |
| Advances from the Federal Home Loan Bank | 59,974 | 89,692 |
| Accrued interest payable | 1,074 | 799 |
| Income taxes payable | - | 89 |
| Other liabilities | 3,813 | 3,866 |
| *Total liabilities* | 828,482 | 820,355 |
| Stockholders' equity: | | |
| Common stock, Class A, par value $0.05 and $10 per share, authorized 12,000,000 and 40,000 shares, 5,872,200 and 29,361 issued and outstanding, respectively | 294 | 294 |
| Common stock, Class B, no par value, authorized 1,000 shares, no shares issued | - | - |
| Additional paid-in capital | 7,658 | 7,479 |
| Retained earnings | 105,432 | 97,215 |
| Accumulated other comprehensive earnings (losses), net of taxes of $628 and $917, respectively | 1,777 | (2,592) |
| *Total stockholders' equity* | 115,161 | 102,396 |
| COMMITMENTS AND CONTINGENCIES | | |
| *Total liabilities and stockholders' equity* | $ 943,643 | $ 922,751 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Earnings
**Years Ended December 31, 2019 and 2018**

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Interest income: | | |
| Interest and fees on loans | **$ 35,731** | $ 33,719 |
| Interest and dividends on debt securities: | | |
| Taxable debt securities | **2,977** | 2,968 |
| Exempt from Federal income taxes | **2,830** | 3,132 |
| Interest and dividends on marketable equity securities | **4** | 4 |
| Interest and dividends on restricted equity securities | **174** | 194 |
| Interest on federal funds sold | **18** | 10 |
| Interest on interest-bearing deposits in financial institutions | **366** | 46 |
| *Total interest income* | **42,100** | 40,073 |
| Interest expense: | | |
| Interest on interest bearing demand deposit accounts | **501** | 468 |
| Interest on money market accounts and savings accounts | **480** | 431 |
| Interest on certificates of deposit | **4,972** | 3,092 |
| Interest on individual retirement accounts | **1,003** | 581 |
| Interest on federal funds purchased | **3** | 49 |
| Interest on Federal Home Loan Bank borrowings | **1,563** | 2,069 |
| Interest on notes payable | **196** | 248 |
| *Total interest expense* | **8,718** | 6,938 |
| Net interest income before provision for loan losses | **33,382** | 33,135 |
| Provision for loan losses | **1,296** | 1,217 |
| Net interest income after provision for loan losses | **32,086** | 31,918 |
| Non-interest income | **7,374** | 7,241 |
| Net gain on sale of available-for-sale debt securities | **94** | - |
| Non-interest expense | **(25,446)** | (23,979) |
| *Earnings before income taxes and unrealized holding gain on marketable equity securities* | **14,108** | 15,180 |
| Unrealized holding gain on marketable equity securities | **13** | - |
| Income taxes | **2,891** | 3,165 |
| *Net earnings* | **$ 11,230** | $ 12,015 |

*See accompanying notes to consolidated financial statements.*

# *Consolidated Statement of Comprehensive Earnings*

**Years Ended December 31, 2019 and 2018**

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Net earnings | **$ 11,230** | $ 12,015 |
| Other comprehensive earnings (losses), net of tax: | | |
| Unrealized gains (losses) on available-for-sale debt securities net of taxes of $1,570 and $1,040, respectively | **4,438** | (2,940) |
| Reclassification adjustment for gains included in net earnings net of taxes of $25 | **(69)** | - |
| Reclassification of unrealized holdings gain on marketable equity securities due to change in accounting principle, net of taxes of $14 | **41** | - |
| *Other comprehensive earnings (losses)* | **4,410** | (2,940) |
| *Total comprehensive earnings, net of tax.* | **$ 15,640** | $ 9,075 |

*See accompanying notes to consolidated financial statements.*

# *Consolidated Statements of Changes in Stockholders' Equity*

**Years Ended December 31, 2019 and 2018**

| *(In Thousands, Except Per Share Amounts)* | Class A Common Stock | Class B Common Stock | Additional Paid-In Capital | Retained Earnings | Net Unrealized Gain (Loss) on Available-For-Sale-Debt Securities | Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2017 | 293 | - | 7,400 | 87,783 | 348 | 95,824 |
| Net earnings for year | - | - | - | 12,015 | - | 12,015 |
| Issuance of 20 shares of common stock | 1 | - | 79 | - | - | 80 |
| Net change in fair value of available-for-sale securities during the year, net of taxes of $1,040 | - | - | - | - | (2,940) | (2,940) |
| Cash dividends declared on 29,341 shares at $66 and 29,361 shares at $22 per share | - | - | - | (2,583) | - | (2,583) |
| Balance, December 31, 2018 | 294 | - | 7,479 | 97,215 | (2,592) | 102,396 |
| Reclassification of accumulated other comprehensive income due to change in accounting principle | - | - | - | 41 | (41) | - |
| Net earnings for year | - | - | - | 11,230 | - | 11,230 |
| Stock option compensation expense | - | - | 179 | - | - | 179 |
| Net change in fair value of available-for-sale debt securities during the year, net of taxes of $1,545 | - | - | - | - | 4,410 | 4,410 |
| Cash dividends declared on 29,361 shares at $52 and 5,872,200 shares at $0.26 per share | - | - | - | (3,054) | - | (3,054) |
| **Balance, December 31, 2019** | **$ 294** | **$ -** | **$ 7,658** | **$ 105,432** | **$ 1,777** | **$ 115,161** |

*See accompanying notes to consolidated financial statements.*

# *Consolidated Statements of Cash Flows*

**Years Ended December 31, 2019 and 2018**
**Increase (Decrease) in Cash and Cash Equivalents**

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Interest received | **$ 43,776** | $ 41,560 |
| Fees and other income | **6,893** | 6,209 |
| Interest paid | **(8,443)** | (6,651) |
| Cash paid to suppliers and employees | **(23,895)** | (20,636) |
| Income taxes paid | **(3,382)** | (2,920) |
| *Net cash provided by operating activities* | **14,949** | 17,562 |
| Cash flows from investing activities: | | |
| Proceeds from sale of available-for-sale debt securities | **9,763** | - |
| Proceeds from calls/maturities of available-for-sale debt securities | **24,135** | 19,708 |
| Proceeds from paydowns of available-for-sale debt securities | **22,659** | 22,638 |
| Purchase of available-for-sale debt securities | **(58,028)** | - |
| Purchase of restricted equity securities | **(385)** | (50) |
| Loans made to customers, net of repayments | **1,405** | (45,133) |
| Purchase of premises and equipment and software | **(3,530)** | (1,983) |
| Proceeds from sale of premises and equipment and software | **1** | 74 |
| Purchase of annuity investment | **-** | (3,425) |
| Surrender of annuity investment | **68** | - |
| Proceeds from life insurance | **238** | 620 |
| Proceeds from sale of other real estate | **322** | 199 |
| Proceeds from sale of repossessed assets | **6** | 5 |
| Decrease (increase) in interest-bearing deposits in other financial institutions | **(16,191)** | (8,188) |
| *Net cash used in investing activities* | **(19,537)** | (15,535) |
| Cash flows from financing activities: | | |
| Net increase in non-interest-bearing demand, money market and savings deposit accounts | **7,056** | 1,936 |
| Net increase in time deposits | **31,724** | 23,660 |
| Dividends paid | **(3,054)** | (2,583) |
| Principal payments on notes payable | **(1,068)** | (1,661) |
| Repayment of advances from Federal Home Loan Bank Advances | **(29,718)** | (21,320) |
| Proceeds from issuance of common stock | **-** | 80 |
| *Net cash provided by financing activities* | **4,940** | 112 |
| Net increase in cash and cash equivalents | **352** | 2,139 |
| Cash and cash equivalents at beginning of year | **18,685** | 16,546 |
| Cash and cash equivalents at end of year | **$ 19,037** | $ 18,685 |

*See accompanying notes to consolidated financial statements.*

# *Consolidated Statements of Cash Flows, Continued*

**Years Ended December 31, 2019 and 2018**
**Increase (Decrease) in Cash and Cash Equivalents**

| *(In Thousands)* | | **2019** | | 2018 |
|---|---|---|---|---|
| Reconciliation of net earnings to net cash provided by operating activities: | | | | |
| Net earnings | **$** | **11,230** | $ | 12,015 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | | |
| Depreciation of premises and equipment and amortization of software | | **882** | | 892 |
| Amortization of intangible assets | | **239** | | 239 |
| Provision for loan losses | | **1,296** | | 1,217 |
| Amortization and accretion of available-for-sale debt securities, net | | **1,238** | | 1,571 |
| Stock option compensation expense | | **179** | | - |
| Provision for deferred taxes | | **(263)** | | (80) |
| Write-down of goodwill | | **-** | | 15 |
| Net gain on sale of available-for-sale debt securities | | **(94)** | | - |
| Unrealized holding gain on marketable equity securities | | **(13)** | | - |
| Loss (gain) on sale of other real estate, net | | **(39)** | | 39 |
| Loss on sale of other assets, net | | **-** | | 2 |
| Loss (gain) on disposal of premises and equipment, net | | **5** | | (64) |
| Increase in cash surrender value of officers life insurance, net | | **(452)** | | (656) |
| Decrease (increase) in annuity investment | | **10** | | (249) |
| Decrease (increase) in accrued interest receivable | | **438** | | (84) |
| Decrease in other assets | | **299** | | 734 |
| Increase (decrease) in income taxes payable | | **(228)** | | 325 |
| Increase in accrued interest payable | | **275** | | 287 |
| Increase (decrease) in accrued expenses and other liabilities | | **(53)** | | 1,359 |
| *Total adjustments* | | **3,719** | | 5,547 |
| *Net cash provided by operating activities* | **$** | **14,949** | $ | 17,562 |
| **Supplemental Schedule of Non-Cash Activities:** | | | | |
| Change in unrealized gain (loss) on available-for-sale debt securities, net of taxes of $1,545 and $1,040, respectively | **$** | **4,410** | $ | (2,940) |
| Reclassification of unrealized holding gain on marketable equity securities due to change in accounting principle, net of taxes of $14 | **$** | **41** | $ | - |
| Loans transferred to other real estate | **$** | **214** | $ | 389 |
| Loans transferred to repossessed assets | **$** | **14** | $ | 7 |
| Other real estate transferred to loans | **$** | **306** | $ | 219 |

*See accompanying notes to consolidated financial statements.*

*Notes to Consolidated Financial Statements*
**December 31, 2019 and 2018**



**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Citizens Bancorp Investment, Inc. and Subsidiaries ("the Company") are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The following is a brief summary of the more significant policies.

***(a) Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Citizens Bank and Town & Country Finance Company, Inc. The consolidated financial statements also include the accounts of Citizens Bank's 100% owned subsidiary, Citizens Insurance Services, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

***(b) Nature of Operations***

The Company's subsidiary bank operates under a state bank charter and provides full banking services. As a state bank, the subsidiary bank is subject to regulation of the Tennessee Department of Financial Institutions and the Federal Deposit Insurance Corporation. The areas served by the subsidiary bank include Bedford, Clay, Coffee, DeKalb, Franklin, Jackson, Macon, Smith, Sumner, Wilson and surrounding counties in Middle Tennessee. Services are provided at nineteen banking offices.

***(c) Estimates***

In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to determination of the allowance for loan losses, the valuation of deferred tax assets, other-than-temporary impairment of securities and the fair value of financial instruments.

***(d) Significant Group Concentrations of Credit Risk***

Most of the Company's activities are with customers located within Middle Tennessee. The types of securities in which the Company invests are included in Note 3. The types of lending in which the Company engages are included in Note 2. The Company does not have any significant concentrations to any one industry or customer other than as disclosed in Note 2.

***(e) Loans***

Loans are stated at the principal amount outstanding. Unearned discounts and the allowance for loan losses are shown as reductions of loans. Unearned discount represents the unamortized amount of finance charges, principally related to certain installment loans. Interest income on most loans is accrued based on the principal amount outstanding.

The Company follows the provisions of FASB ASC 310, *Receivables* in relation to impaired loans. These provisions apply to impaired loans except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment including residential mortgage and consumer loans.

A loan is impaired when it is probable that the Company will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the Company recognizes an impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

The Company's residential real estate mortgage loans and consumer loans are divided into various groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and, thus, are not subject to the provisions of FASB ASC 310. Substantially all other loans of the Company are evaluated for impairment under the provisions of FASB ASC 310.

The Company considers all loans subject to the provisions of FASB ASC 310 that are on nonaccrual status to be impaired. Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection. Delays or shortfalls in loan payments are evaluated along with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to pay.

Generally, at the time a loan is placed on nonaccrual status, all interest accrued and uncollected on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectibility of outstanding principal is doubtful, such cash received is applied as a reduction of principal. A nonaccrual loan may be restored to an accruing status when principal and interest are no longer past due and unpaid, and future collection of principal and interest on a timely basis is not in doubt.

Loans not on nonaccrual status are classified as impaired in certain cases when there is inadequate protection by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. In those cases, such loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Company will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Company's criteria for nonaccrual status.

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Generally, the Company also classifies as impaired any loans the terms of which have been modified in a troubled debt restructuring. Interest is generally accrued on such loans that continue to meet the modified terms of their loan agreements.

The Company's charge-off policy for impaired loans is similar to its charge-off policy for all loans in that loans are charged off in the month when they are considered uncollectible.

### *(f) Allowance for Loan Losses*

The provision for loan losses represents a charge to earnings necessary, after loan charge-offs and recoveries, to maintain the allowance for loan losses at an appropriate level which is adequate to absorb estimated losses inherent in the loan portfolio. Such estimated losses arise primarily from the loan portfolio but may also be derived from other sources, including commitments to extend credit and standby letters of credit. The level of the allowance is determined on a quarterly basis using procedures which include: (1) categorizing loans into risk categories to estimate loss probabilities based primarily on the historical loss experience of those risk categories and current economic conditions; (2) analyzing significant credits and calculating specific reserves as necessary; (3) assessing various homogeneous loan categories to estimate loss probabilities based primarily on historical loss experience; and (4) considering various other factors, such as changes in credit concentrations, loan mix, and economic conditions which may not be specifically quantified in the loan analysis process.

The allowance for loan losses consists of an allocated portion and an unallocated, or general portion. The allocated portion is maintained to cover estimated losses applicable to specific segments of the loan portfolio. The unallocated portion is maintained to absorb losses which probably exist as of the evaluation date but are not identified by the more objective processes used for the allocated portion of the allowance due to risk of errors or imprecision. While the total allowance consists of an allocated portion and an unallocated portion, these terms are primarily used to describe a process. Both portions of the allowance are available to provide for inherent loss in the entire portfolio.

The allowance for loan losses is increased by provisions for loan losses charged to expense and is reduced by loans charged off net of recoveries on loans previously charged off. The provision is based on management's determination of the amount of the allowance necessary to provide for estimated loan losses based on its evaluation of the loan portfolio. Determining the appropriate level of the allowance and the amount of the provision involves uncertainties and matters of judgment and therefore cannot be determined with precision.

### *(g) Debt and Equity Securities*

The Company accounts for debt securities under the provisions of FASB ASC 320, *"Investments - Debt Securities"*. Under these provisions debt securities are classified in three categories and accounted for as follows:

- ***Securities Held-to-Maturity***

  Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Amortization of premiums and accretion of discounts are recognized by the interest method. No debt securities have been classified as held-to-maturity.

- ***Trading Securities***

  Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. No debt securities have been classified as trading securities.

- ***Securities Available-for-Sale***

  Debt securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity in accumulated other comprehensive income. Amortization of premiums and discounts are recognized by the straight line method. The Company has classified all its debt securities as available-for-sale.

When the fair value of a debt security has declined below the amortized cost at the measurement date, if an entity intends to sell a security or is more likely than not to sell the security before the recovery of the security's cost basis, the entity must recognize an other-than-temporary impairment (OTTI) in earnings. For a debt security with a fair value below the amortized cost at the measurement date where it is more likely than not that an entity will not sell the security before the recovery of its cost basis, but an entity does not expect to recover the entire cost basis of the security, the security is classified as OTTI. The related OTTI loss on the debt security will be recognized in earnings to the extent of the credit losses, with the remaining impairment loss recognized in accumulated other comprehensive income. In estimating OTTI losses, management considers: the length of time and extent that fair value of the security has been less than the cost of the security, the financial condition and near term prospects of the issuer, cash flow, stress testing analysis on securities, when applicable, and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

For equity securities, when the Company has decided to sell an impaired security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made.

Beginning on January 1, 2019, the Company accounts for equity securities under the provisions of FASB ASC 321, "Investments - Equity Securities". Under the provisions of the guidance, equity securities not using the equity method are carried at estimated fair value based on information provided by a third party pricing service with changes in fair value and realized gains or losses reported in earnings. If fair value is not readily determinable, the equity securities are carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. All equity securities are evaluated at least annually for impairment. The Company's equity securities have readily determinable fair values. Because changes in fair value are recorded as they occur, there is no expectation of a gain or loss on the sale of equity securities.

Realized gains or losses from securities are determined on the specific-identification method. Purchase premiums and discounts are recognized in interest income using the straight line method over the terms of the securities.

*Notes to Consolidated Financial Statements, Continued*
**December 31, 2019 and 2018**

**(h) *Cash and Cash Equivalents***

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold. Generally, federal funds sold are purchased and sold for one-day periods. The subsidiary bank maintains deposits with other financial institutions in excess of the federal insurance amounts. Management makes deposits only with financial institutions it considers to be financially sound.

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

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

**(j) *Premises and Equipment***

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the related assets. Gain or loss on items retired and otherwise disposed of is credited or charged to operations and cost and related accumulated depreciation are removed from the asset and accumulated depreciation accounts.

Expenditures for major renewals and improvements of premises and equipment are capitalized and those for maintenance and repairs are charged to earnings as incurred.

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

**(k) *Foreclosed Assets***

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs relating to the development and improvement of the property are capitalized, while holding costs of the property are charged to expense in the period incurred.

**(l) *Goodwill and Other Intangible Assets***

FASB ASC 350, “Intangibles - Goodwill and Other”, requires that management determine the allocation of intangible assets into identifiable groups at the date of acquisition and appropriate amortization periods be established. Under the provisions of FASB ASC 350, goodwill is not to be amortized rather it is to be monitored for impairment and written down to the impairment value at the time impairment occurs.

For details on the Goodwill and Other Intangible Assets see Note 6 to the consolidated financial statements.

*Notes to Consolidated Financial Statements, Continued*

**December 31, 2019 and 2018**

***(m) Life Insurance Policies***

The Company owns life insurance policies insuring the lives of certain officers and directors. Bank-owned life insurance policies are initially recorded at the amount of premiums paid and are periodically adjusted to current cash surrender values. Changes in cash surrender values are recorded in non-interest income and are based on premiums paid less expenses plus accrued interest income.

***(n) Advertising Costs***

Advertising costs are expensed as incurred and totaled $559,000 and $499,000 in 2019 and 2018, respectively.

***(o) Income Taxes***

The Company accounts for income taxes in accordance with Income Tax Accounting Guidance ("FASB ASC 740"). The Company has adopted the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is "more-likely-than-not", based on the technical merits, that the tax position will be realized or sustained upon examination. The term "more-likely-than-not" means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the "more-likely-than-not" recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the "more-likely-than-not" recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is "more-likely-than-not" that some portion or all of a deferred tax asset will not be realized.

It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company and its subsidiaries file a consolidated Federal income tax return. Each member of the consolidated group provides for income taxes on a separate-return basis.

**(p) *Equity-Based Incentives***

Stock compensation accounting guidance (FASB ASC 718, *Compensation - Stock Compensation")* requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, cash-settled stock appreciation rights (SARs), and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee's service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock option and cash-settled SARs at the date of grant.

**(q) *Off-Balance-Sheet Financial Instruments***

In the ordinary course of business the subsidiary bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

**(r) *Fair Value of Financial Instruments***

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18 of the consolidated financial statements. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

**(s) *Subsequent Events***

The Company has adopted the provisions of FASB ASC 855, "Subsequent Event". FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption of FASB ASC 855 did not impact the financial statements. The Company's management evaluated all events or transactions that occurred after December 31, 2019 through March 23, 2020, the date the Company's management issued these financial statements.

Subsequent to December 31, 2019, there has been a global outbreak of the Coronavirus Disease 2019 (COVID-19), which the World Health Organization has declared a "Public Health Emergency of International Concern." The effects of a public health emergency may materially and adversely impact the value and performance of the Company's assets and liabilities and the Company's ability to achieve profitability. In addition, the operations of the Company may be significantly impacted, or even temporarily or permanently halted, as a result of required office closures, government quarantine measures, voluntary and precautionary restrictions on travel or meetings, and other factors related to a public health emergency, including COVID-19's potential adverse impact on the health of any such entity's personnel.

***(t) Reclassifications***

Certain reclassifications have been made to the 2018 figures to conform to the presentation for 2019.

***(u) Stock Split***

The Company's Board of Directors declared a 200-for-1 stock split in the form of a stock dividend for stockholders of record as of June 20, 2019 payable July 1, 2019, solely in shares of Class A common stock. Each stockholder received one hundred and ninety-nine (199) additional shares of Class A common stock for each share owned. Stock options included in these financial statements have been restated to reflect the effect of the stock split.

***(v) Accounting Standard Updates***

On January 1, 2019, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU Collectively, ("ASC 606"), which is (i) creates a single framework for recognizing revenue from contracts that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as repossessed assets. The majority of the Company's revenues are derived from interest income and other sources related to financial assets such as loans and securities, that are outside the scope of the ASC 606. The Company's services that fall within the scope of ASC 606 are presented within Non-Interest Income and recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposits, interchange income included in other fees and commissions, and sales of repossessed assets.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported under legacy GAAP. The modified retrospective method requires that the Company record a net change, if any, in beginning retained earnings as of January 1, 2019 due to the cumulative effect of adopting ASC 606. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded by the Company.

On January 1, 2019, the Company adopted ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASC 825").* The guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The guidance also changes certain disclosure requirements and other aspects of current accounting principles. Adoption of ASU 2016-01, which was effective for the Company on January 1, 2019, required the Company to separately classify its equity securities with readily determinable fair values at fair value in accordance with FASB ASC 321, Investments - Equity Securities.

The Company adopted ASU 2016-01 using the modified retrospective method applied to retained earnings and accumulated other comprehensive earnings (losses) as of January 1, 2019. Retained earnings and accumulated other comprehensive earnings (losses) beginning after January 1, 2019 are presented under ASU 2016-01 while prior period amounts are presented under legacy GAAP. The modified retrospective method requires that the Company record a net change in beginning retained earnings and accumulated other comprehensive earnings (losses) as of January 1, 2019 due to the cumulative effect of adopting ASU 2016-01. The Company reclassified the fair value of marketable equity securities from the available-for-sale debt securities portfolio presented in the consolidated balance sheets as of December 31, 2018 for comparative purposes.

## (2) LOANS AND ALLOWANCE FOR LOAN LOSSES

The Company uses four loan categories for financial reporting a summary of which is as follows:

*Commercial and Agricultural:* These are generally loans to businesses and agricultural enterprises the proceeds of which are used for commercial, industrial, agricultural and professional purposes. Repayment of such loans is generally dependent on the successful operations of the business or agricultural enterprise.

*Real Estate - Commercial, Farming, Residential and Multifamily:* This category includes primarily loans secured by 1-4 family residential, commercial or agricultural property. Repayment is primarily dependent on the cash flow of the underlying individual or business, but could also be dependent upon the operation, refinance or sale of the underlying real estate.

*Real Estate - Construction and Land Development:* Loans in this category generally include land development, 1-4 family construction and commercial construction projects such as office and retail space, warehouses, apartments and land development loans. Repayment of these loans is dependent upon the successful operations or sale of the completed projects.

*Consumer and Other:* This category includes all loans issued to individuals not included in the real estate classification. These loans generally include vehicle, education and other consumer loans. Repayment is subject to the individual's underlying ability to service their loan payments.

Loans and allowance for loan losses at December 31, 2019 and 2018 are summarized as follows:

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Commercial and agricultural | **$ 58,170** | $ 58,196 |
| Real estate: | | |
| Commercial | **143,540** | 155,631 |
| Farming | **72,426** | 71,789 |
| Residential | **203,390** | 193,239 |
| Construction and land development | **61,686** | 56,597 |
| Multifamily | **12,241** | 14,534 |
| Consumer and other | **61,335** | 64,521 |
| | **612,788** | 614,507 |
| Less unearned interest | **(117)** | (117) |
| Less allowance for loan losses | **(8,964)** | (8,102) |
| | **$ 603,707** | $ 606,288 |

At December 31, 2019, variable rate and fixed rate loans totaled $259,690,000 and $353,098,000, respectively. At December 31, 2018, variable rate and fixed rate loans totaled $255,991,000 and $358,516,000, respectively.

In the normal course of business, the Company's subsidiaries have made loans at prevailing interest rates and terms to directors and executive officers of the Company and their affiliates. At December 31, 2019 and 2018, the aggregate amount of these loans was $2,280,000 and $548,000, respectively. None of these loans were restructured, charged-off or involved more than the normal risk of collectability or presented other unfavorable features.

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

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Balance, January 1 | **$ 548** | $ 479 |
| New loans, advances, and renewals during the year | **493** | 587 |
| Appointment of officer or director | **2,169** | - |
| Repayment (including loans paid by renewal) during the year | **(930)** | (354) |
| Retirement of officer | **-** | (164) |
| | **$ 2,280** | $ 548 |

Transactions in the allowance for loan losses for the years ended December 31, 2019 and 2018 are summarized as follows:

| *(In Thousands)* | Commercial and Agricultural | Commercial Real Estate | Farming Real Estate | Residential Real Estate | Construction and Land Development | Multifamily Real Estate | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2019:** | | | | | | | | |
| Beginning balance | **$ 941** | **$ 1,976** | **$ 1,024** | **$ 2,442** | **$ 703** | **$ 181** | **$ 835** | **$ 8,102** |
| Provision | **(12)** | **(568)** | **790** | **62** | **(45)** | **(540)** | **1,609** | **1,296** |
| Charge-offs | **(142)** | **(82)** | **-** | **(61)** | **-** | **-** | **(1,196)** | **(1,481)** |
| Recoveries | **8** | **151** | **-** | **9** | **1** | **485** | **393** | **1,047** |
| Total | **$ 795** | **$ 1,477** | **$ 1,814** | **$ 2,452** | **$ 659** | **$ 126** | **$ 1,641** | **$ 8,964** |
| Specific reserves: | | | | | | | | |
| Impaired loans | **$ 68** | **$ -** | **$ 1,064** | **$ 28** | **$ -** | **$ -** | **$ 2** | **$ 1,162** |
| General reserves | **727** | **1,477** | **750** | **2,424** | **659** | **126** | **1,639** | **7,802** |
| Total | **$ 795** | **$ 1,477** | **$ 1,814** | **$ 2,452** | **$ 659** | **$ 126** | **$ 1,641** | **$ 8,964** |
| Loans: | | | | | | | | |
| Loans individually evaluated for impairment | **$ 2,165** | **$ 6,876** | **$ 13,748** | **$ 4,401** | **$ 2,308** | **$ -** | **$ 41** | **$ 29,539** |
| Acquired with credit impairment | **79** | **57** | **-** | **247** | **174** | **-** | **-** | **557** |
| Loans collectively evaluated for impairment | **55,926** | **136,607** | **58,678** | **198,742** | **59,204** | **12,241** | **61,294** | **582,692** |
| Total | **$ 58,170** | **$ 143,540** | **$ 72,426** | **$ 203,390** | **$ 61,686** | **$ 12,241** | **$ 61,335** | **$ 612,788** |

## Notes to Consolidated Financial Statements, Continued
**December 31, 2019 and 2018**

| (In Thousands) | Commercial and Agricultural | Commercial Real Estate | Farming Real Estate | Residential Real Estate | Construction and Land Development | Multifamily Real Estate | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2018:** | | | | | | | | |
| Beginning balance | $ 812 | $ 1,747 | $ 1,041 | $ 2,397 | $ 556 | $ 225 | $ 925 | $ 7,703 |
| Provision | 129 | 280 | (15) | 51 | 146 | (44) | 670 | 1,217 |
| Charge-offs | (27) | (51) | (4) | (79) | - | - | (1,026) | (1,187) |
| Recoveries | 27 | - | 2 | 73 | 1 | - | 266 | 369 |
| Total | $ 941 | $ 1,976 | $ 1,024 | $ 2,442 | $ 703 | $ 181 | $ 835 | $ 8,102 |
| Specific reserves: | | | | | | | | |
| Impaired loans | $ 218 | $ - | $ 133 | $ 43 | $ - | $ - | $ 77 | $ 471 |
| General reserves | 723 | 1,976 | 891 | 2,399 | 703 | 181 | 758 | 7,631 |
| Total | $ 941 | $ 1,976 | $ 1,024 | $ 2,442 | $ 703 | $ 181 | $ 835 | $ 8,102 |
| Loans: | | | | | | | | |
| Loans individually evaluated for impairment | $ 1,755 | $ 5,329 | $ 12,295 | $ 5,251 | $ 3,272 | $ 914 | $ 240 | $ 29,056 |
| Acquired with credit impairment | 102 | 72 | - | 318 | 187 | - | - | 679 |
| Loans collectively evaluated for impairment | 56,339 | 150,230 | 59,494 | 187,670 | 53,138 | 13,620 | 64,281 | 584,772 |
| Total | $ 58,196 | $ 155,631 | $ 71,789 | $ 193,239 | $ 56,597 | $ 14,534 | $ 64,521 | $ 614,507 |

The Company had an unallocated reserve approximating $454,000 and $213,000 of December 31, 2019 and 2018, respectively. These amounts have been allocated to their respective category based on overall outstanding loans.

The Company's principal customers are primarily in the Middle Tennessee area with a concentration in Bedford, Clay, Coffee, DeKalb, Franklin, Jackson, Macon, Smith, Sumner and Wilson Counties, Tennessee. Credit is extended to businesses and individuals and is evidenced by promissory notes. The terms and conditions of the loans including collateral varies depending upon the purpose of the credit and the borrower's financial condition.

The Company’s loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company’s loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower’s sustained repayment performance for a reasonable period, generally six months.

The following table summarizes the carrying balances of TDRs at December 31, 2019 and 2018:

| (Dollars In Thousands) | **2019** | 2018 |
|---|---|---|
| Performing TDRs | **$ 1,851** | $ 3,379 |
| Nonperforming TDRs | **294** | 363 |
| Total TDRs | **$ 2,145** | $ 3,742 |

The following table outlines the amount of each troubled debt restructuring categorized by loan classification during the years ended 2019 and 2018 (dollars in thousands):

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Number of Contracts | Pre Modification Outstanding Recorded Investment | Post Modification Outstanding Recorded Investment, Net of Related Allowance | Number of Contracts | Pre Modification Outstanding Recorded Investment | Post Modification Outstanding Recorded Investments Net of Related Allowance |
| Commercial and agricultural | 1 | $ 8 | $ 8 | 2 | $ 132 | $ 114 |
| Real estate: | | | | | | |
| Commercial | - | - | - | - | - | - |
| Farming | - | - | - | - | - | - |
| Residential | - | - | - | 1 | 4 | 4 |
| Construction and land development | - | - | - | - | - | - |
| Multifamily | - | - | - | - | - | - |
| Consumer and other | 4 | 43 | 43 | 7 | 55 | 50 |
| Total | 5 | $ 51 | $ 51 | 10 | $ 191 | $ 168 |

During the years ended 2019 and 2018, there were no loans modified as a troubled debt restructuring that had default payments for the 12 months following the loan being modified.

Impaired loans and related allowance for loan loss allocation amounts at December 31, 2019 and 2018 were as follows:

| | Impaired Loans With Allowance | | | Impaired Loans With No Allowance | |
|---|---|---|---|---|---|
| *(In Thousands)* | Principal Balance | Recorded Investment | Allocated Allowance for Loan Losses | Principal Balance | Recorded Investment |
| **December 31, 2019** | | | | | |
| Commercial and agriculture | $ 659 | $ 664 | $ 68 | $ 1,506 | $ 1,521 |
| Real estate: | | | | | |
| Commercial | - | - | - | 6,876 | 6,881 |
| Farming | 2,553 | 2,553 | 1,064 | 11,195 | 11,313 |
| Residential | 235 | 235 | 28 | 4,166 | 4,170 |
| Construction and land development | - | - | - | 2,308 | 2,314 |
| Multifamily | - | - | - | - | - |
| Consumer and other | 17 | 17 | 2 | 24 | 26 |
| Total | $ 3,464 | $ 3,469 | $ 1,162 | $ 26,075 | $ 26,225 |

## *Notes to Consolidated Financial Statements, Continued*

**December 31, 2019 and 2018**

| | Impaired Loans With Allowance | | | Impaired Loans With No Allowance | |
|---|---|---|---|---|---|
| *(In Thousands)* | Principal Balance | Recorded Investment | Allocated Allowance for Loan Losses | Principal Balance | Recorded Investment |
| December 31, 2018 | | | | | |
| Commercial and agriculture | $ 261 | $ 267 | $ 218 | $ 1,494 | $ 1,506 |
| Real estate: | | | | | |
| Commercial | - | - | - | 5,347 | 5,374 |
| Farming | 3,098 | 3,175 | 133 | 9,197 | 9,441 |
| Residential | 216 | 218 | 43 | 5,283 | 5,306 |
| Construction and land development | - | - | - | 3,459 | 3,622 |
| Multifamily | - | - | - | 914 | 917 |
| Consumer and other | 176 | 176 | 77 | 64 | 65 |
| Total | $ 3,751 | $ 3,836 | $ 471 | $ 25,758 | $ 26,231 |

The average recorded investment in impaired loans for the years ended December 31, 2019 and 2018 was $29,498,000 and $28,554,000, respectively. The related total amount of interest income recognized for the period that such loans were impaired was $972,000 and $1,300,000 for 2019 and 2018, respectively.

***Credit Quality Indicators***

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention are reviewed regularly by the Company to determine if appropriately classified or to determine if the loan is impaired. The Company's loan portfolio is reviewed for credit quality on a quarterly basis, with samples being selected based on loan size, credit grades, etc. to ensure that the Company's management is properly applying credit risk management processes.

Loans excluded from the scope of the annual review process are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the creditworthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to special mention, substandard or doubtful, or could even be considered for charge-off. The Company uses the following definitions for risk ratings at December 31, 2019 and 2018:

- ***Special Mention*** - The loan does not currently expose the Bank to a sufficient degree of risk to warrant an adverse classification. These loans are considered sound with no apparent loss anticipated. Further deterioration of the loan may expose the Company to increased risk of loss and applicable downgrade in classification.

  Examples of loans may include:

  a) Financial condition remains adequate but shows signs of being strained.
  b) Serious documentation deficiencies or any other deviation from prudent lending practices.
  c) Marginal net worth or cash flow problems.
  d) Collateral under-margined or has limited marketability.
  e) Loans with major loan policy inconsistencies.
  f) Loans classified special mention in the latest regulatory report of examination.

- ***Substandard*** - Some weakness is evident where more than normal risk is prevalent and requires immediate management attention. Includes loans to borrowers with erratic earnings and unstable financial condition, loans where the primary source of repayment has not been adhered to and alternate sources of repayment must be considered and loans where financial information is inadequate. Includes all loans which are on non-accrual status and all assets carried on Bank's books as other real estate or other assets. Includes loans classified Substandard at latest regulatory examination. Minor losses may occur on some of these loans.

- ***Doubtful*** - Loans inaccurately supported by current sound net worth and/or collateral. Workout situation exists, or may occur, requiring detailed servicing and the closest attention. Reliance on alternative source of repayment is likely and immediate steps should be taken to strengthen our positon. Includes loans classified doubtful at latest regulatory examination. The possibility of loss exists.

- ***Loss*** - Loans graded "Loss" may be considered uncollectible either for the short-term or at all and of such little value that their continuance as a bookable asset is no longer warranted. The amount of loss is to be clearly identifiable and will be charged to the Allowance for Loan and Lease Losses. Although collateral securing this loan may retain some liquidation value, the amount and timing of any recovery is highly uncertain. Loans so rated could include borrowers, endorsers, and guarantors that exhibit an unwillingness to liquidate the debt. Losses are to be taken in the period in which they surface as uncollectible.

The following tables break down the Company's credit quality indicators by type of loan as of December 31, 2019 and 2018:

| *(In Thousands)* | Commercial and Agricultural | Commercial Real Estate | Farming Real Estate | Residential Real Estate | Construction and Land Development | Multifamily Real Estate | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | | | |
| Grade | | | | | | | | |
| Pass | **$ 55,436** | **$ 136,077** | **$ 58,255** | **$ 191,806** | **$ 58,918** | **$ 12,241** | **$ 59,885** | **$ 572,618** |
| Special Mention | **1,606** | **2,237** | **4,497** | **3,625** | **1,775** | **-** | **858** | **14,598** |
| Substandard | **1,128** | **5,226** | **9,674** | **7,959** | **993** | **-** | **592** | **25,572** |
| Doubtful | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Loss | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Total | **$ 58,170** | **$ 143,540** | **$ 72,426** | **$ 203,390** | **$ 61,686** | **$ 12,241** | **$ 61,335** | **$ 612,788** |
| December 31, 2018 | | | | | | | | |
| Grade | | | | | | | | |
| Pass | $ 55,901 | $ 149,761 | $ 58,930 | $ 181,601 | $ 53,186 | $ 13,619 | $ 63,200 | $ 576,198 |
| Special Mention | 1,480 | 4,045 | 5,884 | 3,005 | 2,780 | - | 251 | 17,445 |
| Substandard | 815 | 1,825 | 6,975 | 8,633 | 631 | 915 | 1,070 | 20,864 |
| Doubtful | - | - | - | - | - | - | - | - |
| Loss | - | - | | - | - | - | - | - |
| Total | $ 58,196 | $ 155,631 | $ 71,789 | 193,239 | $ 56,597 | $ 14,534 | $ 64,521 | $ 614,507 |

The following tables provide an aging analysis of the Company's past due loans as of December 31, 2019 and 2018:

| *(In Thousands)* | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days or Non-Accrual | Total Past Due and Non-Accrual Loans | Total Current Loans | Total Loans | Recorded Investment Past Due > 90 Days and Still Accruing |
|---|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | | |
| Commercial and agricultural | **$ 240** | **$ 160** | **$ 298** | **$ 698** | **$ 57,472** | **$ 58,170** | **$ -** |
| Real estate: | | | | | | | |
| Commercial | **108** | **-** | **4,709** | **4,817** | **138,723** | **143,540** | **394** |
| Farming | **390** | **149** | **4,627** | **5,166** | **67,260** | **72,426** | **-** |
| Residential | **2,627** | **1,287** | **2,979** | **6,893** | **196,497** | **203,390** | **643** |
| Construction and land development | **21** | **70** | **605** | **696** | **60,990** | **61,686** | **15** |
| Multifamily | **-** | **-** | **-** | **-** | **12,241** | **12,241** | **-** |
| Consumer and other | **2,170** | **565** | **1,676** | **4,411** | **56,924** | **61,335** | **1,240** |
| Total | **$ 5,556** | **$ 2,231** | **$ 14,894** | **$ 22,681** | **$ 590,107** | **$ 612,788** | **$ 2,292** |
| December 31, 2018 | | | | | | | |
| Commercial and agricultural | $ 462 | $ 46 | $ 323 | $ 831 | $ 57,365 | $ 58,196 | $ 11 |
| Real estate: | | | | | | | |
| Commercial | 182 | - | 512 | 694 | 154,937 | 155,631 | - |
| Farming | 1,997 | 111 | 140 | 2,248 | 69,541 | 71,789 | - |
| Residential | 3,925 | 843 | 3,018 | 7,786 | 185,453 | 193,239 | 372 |
| Construction and land development | 253 | 350 | 514 | 1,117 | 55,480 | 56,597 | - |
| Multifamily | - | - | - | - | 14,534 | 14,534 | - |
| Consumer and other | 1,452 | 733 | 3,418 | 5,603 | 58,918 | 64,521 | 2,622 |
| Total | $ 8,271 | $ 2,083 | $ 7,925 | $ 18,279 | $ 596,228 | $ 614,507 | $ 3,005 |

Nonaccrual loans by type of loan as of December 31, 2019 and 2018:

| *(In Thousands)* | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Commercial and agricultural | **$ 298** | $ 311 |
| Real estate: | | |
| Commercial | **4,329** | 512 |
| Farming | **4,627** | 140 |
| Residential | **2,340** | 2,646 |
| Construction and land development | **589** | 514 |
| Multifamily | **-** | - |
| Consumer and other | **437** | 798 |
| Total | **$ 12,620** | $ 4,921 |

Had interest income been recognized on nonaccrual loans in 2019 and 2018, net earnings would have increased by approximately $432,000 and $233,000, respectively.

The category of "Greater than 90 Days or Nonaccrual" loans of $14,894,000 includes $1,192,000 of student loans purchased which are guaranteed approximately at 98%. The Company typically continues recognizing interest on such loans due to the guarantees.

The Company has acquired loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding balances and carrying amounts of the loans were as follows at December 31, 2019 and 2018:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Commercial and agricultural | **$ 80** | $ 105 |
| Real estate: | | |
| Construction and land development | **$ 234** | $ 252 |
| Commercial real estate | **86** | 104 |
| Residential real estate | **320** | 416 |
| Total outstanding balance | **720** | 877 |
| Less remaining purchase discount | **163** | 198 |
| | **557** | 679 |
| Allowance for loan losses | **-** | - |
| Carrying amount, net of allowance | **$ 557** | $ 679 |

Activity related to the accretable portion of the purchase discount on loans acquired with deteriorated credit quality were as follows for the years ended December 31, 2019 and 2018:

| | **2019** | 2018 |
|---|---|---|
| Balance as of January 1, | **$ 34** | $ 39 |
| New loans acquired | **-** | - |
| Accretion income | **(11)** | (5) |
| Reclassification from nonaccretable | **61** | - |
| Balance at December 31, | **$ 84** | $ 34 |

*Notes to Consolidated Financial Statements, Continued*
**December 31, 2019 and 2018**

**(3) SECURITIES**

Debt securities have been classified in the balance sheet according to management's intent. The amortized cost and the estimated market values of debt securities at December 31, 2019 were as follows:

| | Available-for-Sale 2019 | | | |
|---|---|---|---|---|
| *(In Thousands)* | *Amortized Cost* | *Gross Unrealized Gains* | *Gross Unrealized Losses* | *Estimated Market Value* |
| U.S. Treasury and other U.S. government agencies and corporations | **$ 36,537** | **$ 161** | **$ 146** | **$ 36,552** |
| Obligations of state and political subdivisions | **107,944** | **1,973** | **89** | **109,828** |
| Residential mortgage-backed securities | **91,467** | **582** | **121** | **91,928** |
| Commercial mortgage-backed securities | **3,180** | **53** | **11** | **3,222** |
| Corporate and other securities | **508** | **3** | **-** | **511** |
| | **$ 239,636** | **$ 2,772** | **$ 367** | **$ 242,041** |

The amortized cost and the estimated market values of debt securities at December 31, 2018 were as follows:

| | Available-for-Sale 2018 | | | |
|---|---|---|---|---|
| *(In Thousands)* | *Amortized Cost* | *Gross Unrealized Gains* | *Gross Unrealized Losses* | *Estimated Market Value* |
| U.S. Treasury and other U.S. government agencies and corporations | $ 72,087 | $ 273 | $ 1,169 | $ 71,191 |
| Obligations of state and political subdivisions | 115,759 | 511 | 2,344 | 113,926 |
| Residential mortgage-backed securities | 47,695 | 319 | 1,051 | 46,963 |
| Commercial mortgage-backed securities | 3,252 | - | 95 | 3,157 |
| Corporate and other securities | 516 | - | 8 | 508 |
| | $ 239,309 | $ 1,103 | $ 4,667 | $ 235,745 |

The amortized cost and estimated market value of debt securities at December 31, 2019 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| *(In Thousands)* | ***2019*** | |
|---|---|---|
| *Debt Securities Available-for-Sale* | *Amortized Cost* | *Estimated Market Value* |
| Due in one year or less | **$ 8,780** | **$ 8,828** |
| Due after one year through five years | **43,984** | **44,405** |
| Due after five years through ten years | **58,716** | **59,672** |
| Due after ten years | **33,509** | **33,986** |
| Residential and commercial mortgage-backed securities | **94,647** | **95,150** |
| | **$ 239,636** | **$ 242,041** |

In 2019, the Company reclassified at fair value, $107,000 and $94,000 (amortized cost of $39,000 and $39,000) at December 31, 2019 and 2018, respectively, of equity securities from the available-for-sale portfolio to marketable equity securities. The related unrealized gain of $41,000, net of tax of $14,000, was reclassified from accumulated other comprehensive earnings at January 1, 2019 to retained earnings at December 31, 2019.

The results of sales of available-for-sale debt securities are as follows:

| | 2019 |
|---|---|
| Gross proceeds | $ 9,763,000 |
| Gross gains | $ 113,000 |
| Gross losses | (19,000) |
| Net gain | $ 94,000 |

There were no sales of available-for-sale debt securities during 2018. There were no sales of marketable equity securities during 2019 and 2018.

Investment securities carried in the balance sheet at $74,957,000 and $67,435,000, respectively (amortized cost $73,972,000 and $68,513,000), as of December 31, 2019 and 2018, respectively, were pledged to secure public and trust deposits and for other purposes as required or permitted by law.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019:

| | *In Thousands, Except Number of Securities* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 Months | | | 12 Months or More | | | Total | |
| | Fair Value | Unrealized Losses | Number of Securities Included | Fair Value | Unrealized Losses | Number of Securities Included | Fair Value | Unrealized Losses |
| U.S. Treasury and other U.S. Government agencies and corporations | $ 14,059 | $ 104 | 14 | $ 4,245 | $ 42 | 7 | $ 18,304 | $ 146 |
| Obligations of states and political subdivisions | 6,045 | 23 | 14 | 3,653 | 66 | 9 | 9,698 | 89 |
| Residential mortgage-backed securities | 37,239 | 95 | 22 | 4,162 | 26 | 6 | 41,401 | 121 |
| Commercial mortgage-backed securities | 1,380 | 11 | 1 | - | - | - | 1,380 | 11 |
| Corporate and other securities | - | - | - | - | - | - | - | - |
| Total temporarily impaired securities | $ 58,723 | $ 233 | 51 | $ 12,060 | $ 134 | 22 | $ 70,783 | $ 367 |

The impaired securities are considered high quality investments in line with normal industry investing practices. The unrealized losses are primarily the result of changes in the interest rate and sector environments consistent with the classification as available-for-sale. The Company intends and has the ability to hold the above securities until the value is realized.

The Company may sell the above or other securities in the ordinary course of business in response to unexpected and significant changes in liquidity needs, unexpected and significant increases in interest rates and/or sector spreads that significantly extend the security's holding period, or conducting a small volume of security transactions.

## (4) RESTRICTED EQUITY SECURITIES

Restricted equity securities consist of stock of the Federal Home Loan Bank and Westport Life Insurance. The FHLB stock totaled $3,712,000 and $3,332,000 at December 31, 2019 and 2018, respectively. In 2019, the Company purchased an initial investment of $5,000 of Westport Life Insurance stock. Both stocks can be sold back only at par or a value as determined by the issuing entity and only to the respective entity or to another member entity. These securities are recorded at cost.

## (5) PREMISES AND EQUIPMENT

The detail of premises and equipment at December 31, 2019 and 2018 is as follows:

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Land | **$ 2,266** | $ 2,266 |
| Buildings | **11,225** | 11,209 |
| Furniture and equipment | **10,466** | 10,054 |
| Autos | **285** | 306 |
| Construction in progress | **4,308** | 1,348 |
| | **28,550** | 25,183 |
| Less accumulated depreciation | **(14,795)** | (14,149) |
| | **$ 13,755** | $ 11,034 |

Depreciation expense totaled $739,000 and $751,000 for the years ended December 31, 2019 and 2018, respectively.

Construction in progress at December 31, 2019 and 2018 represents costs incurred related to an addition to and renovation of the Company's main branch. The estimated total cost of the project is $5,000,000 with an estimated completion date during Spring 2020.

## (6) GOODWILL AND INTANGIBLE ASSETS

Amortizable intangible assets:

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Premium on purchased deposits | **$ 3,580** | $ 3,580 |
| Accumulated amortization | **(2,034)** | (1,795) |
| | **$ 1,546** | $ 1,785 |
| Amortization expense | **$ 239** | $ 239 |

The premium on purchased deposits is amortized on a straight-line basis over the estimated useful life. As of December 31, 2019 the amortization schedule of the deposit base premium is as follows:

| *(In Thousands)* | | |
|---|---|---|
| 2020 | **$** | **239** |
| 2021 | | **239** |
| 2022 | | **239** |
| 2023 | | **239** |
| 2024 | | **225** |
| Thereafter | | **365** |
| | **$** | **1,546** |

Goodwill represents the excess of cost over the net book value of the Company's subsidiary, Liberty State Bank, which was merged into Citizens Bank after the close of business on December 13, 2013, and the acquisition of TraCorp, Inc. which was acquired on March 5, 2015.

| *(In Thousands)* | | **2019** | | 2018 |
|---|---|---|---|---|
| Goodwill: | | | | |
| Balance at January 1, | **$** | **6,820** | $ | 6,835 |
| Goodwill acquired during the year | | **-** | | - |
| Impairment loss | | **-** | | (15) |
| Balance at December 31, | **$** | **6,820** | $ | 6,820 |

## (7) DEPOSITS

Principal maturities of certificates of deposit and individual retirement accounts at December 31, 2019 are as follows:

| *Maturity* | | *(In Thousands)* |
|---|---|---|
| 2020 | **$** | **173,997** |
| 2021 | | **75,018** |
| 2022 | | **49,680** |
| 2023 | | **21,058** |
| 2024 | | **9,551** |
| Thereafter | | **-** |
| | **$** | **329,304** |

At December 31, 2019 and 2018, certificates of deposit and individual retirement accounts in denominations of $250,000 or more amounted to $83,127,000 and $57,337,000, respectively.

The aggregate amount of overdrafts reclassified as loans receivable was $661,000 and $738,000 at December 31, 2019 and 2018, respectively.

The subsidiary bank is required to maintain cash balances or balances with the Federal Reserve Bank or other correspondent banks based on certain percentages of deposit types. No amounts were required at December 31, 2019 or 2018.

## (8) NOTES PAYABLE

The notes payable at December 31, 2019, consist of a fixed rate note in the amount of $2,888,000 and a variable rate note in the amount of $952,000.

The fixed rate note bears interest at the rate of 4% and is payable in quarterly installments of principal and interest of $152,000. The variable rate note bears interest at the 90 day LIBOR rate plus 2.70% and is payable quarterly. Both notes are based on a 10 year principal amortization with a 5 year balloon maturing on March 5, 2020.

Subsequent to December 31, 2019, the fixed rate and variable rate notes were refinanced into a single fixed rate note with a maturity date of March 5, 2025. The new note bears interest at a rate of 4.10% and is payable in quarterly installments of principal and interest of $213,000.

Estimated principal maturities of the notes payable are as follows:

| *(In Thousands)* | | |
|---|---|---|
| 2020 | $ | 516 |
| 2021 | | 728 |
| 2022 | | 758 |
| 2023 | | 790 |
| 2024 | | 823 |
| Thereafter | | 225 |
| | $ | 3,840 |

## (9) ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank maintains a line of credit with the Federal Home Loan Bank in the amount of $153,438,000. As of December 31, 2109 and 2018, advances under this line of credit consist of the following:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| *(In Thousands)* | Amount | Weighted Average Rate | Amount | Weighted Average Rate |
| Fixed rate advances | **$ 59,974** | **2.16%** | $ 82,192 | 2.14% |
| Variable rate advances | **$ -** | **-%** | $ 7,500 | 2.55% |

Required future principal payments on FHLB advances are as follows:

| *(In Thousands)* | | Amount |
|---|---|---|
| 2020 | **$** | **12,646** |
| 2021 | | **15,333** |
| 2022 | | **8,658** |
| 2023 | | **4,660** |
| 2024 | | **5,860** |
| Thereafter | | **12,817** |
| | **$** | **59,974** |

First and junior mortgage residential real estate loans, HELOC, commercial real estate loans, multifamily loans and loans secured by farmland totaling $431,310,000 are pledged to the FHLB as collateral for these advances at December 31, 2019.

## (10) NON-INTEREST INCOME AND NON-INTEREST EXPENSE

The significant components of non-interest income and non-interest expense for the years ended December 31, 2019 and 2018 are presented below:

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Non-interest income: | | |
| Service charges and overdraft fees on deposits | **$ 3,644** | $ 3,257 |
| Debit and ATM card income | **2,597** | 2,299 |
| Earnings on bank owned life insurance and annuity contracts | **442** | 968 |
| Other fees and commissions | **560** | 545 |
| Brokers fee income | **92** | 108 |
| Net gain on sale of other real estate | **39** | - |
| Net gain on sale of premises and equipment | **-** | 64 |
| | **$ 7,374** | $ 7,241 |
| Non-interest expense: | | |
| Employee salaries and benefits | **$ 15,400** | $ 14,213 |
| Other operating expenses | **2,005** | 1,897 |
| Occupancy expenses | **1,274** | 1,263 |
| Furniture and equipment expenses | **1,096** | 1,081 |
| Debit card and ATM expense | **1,228** | 1,008 |
| Data processing | **1,028** | 996 |
| Professional fees | **894** | 797 |
| Telephone and communications | **518** | 514 |
| Advertising | **559** | 499 |
| Supplies | **381** | 402 |
| Director and Committee fees | **328** | 309 |
| Postage | **287** | 305 |
| FDIC insurance and state banking fees | **198** | 390 |
| Amortization of purchased deposit base | **239** | 239 |
| Net loss on sale of other real estate | **-** | 39 |
| Write-down of goodwill | **-** | 15 |
| Other real estate expense | **6** | 10 |
| Net loss on sale of premises and equipment | **5** | - |
| Net loss on sale of repossessed assets | **-** | 2 |
| | **$ 25,446** | $ 23,979 |

## (11) INCOME TAXES

The components of the net deferred tax asset (liability) at December 31, 2019 and 2018 are as follows:

| (In Thousands) | 2019 | 2018 |
|---|---|---|
| Deferred tax asset: | | |
| Federal | $ 2,043 | $ 2,499 |
| State | 587 | 737 |
| | 2,630 | 3,236 |
| Deferred tax liability: | | |
| Federal | (1,068) | (546) |
| State | (313) | (144) |
| | (1,381) | (690) |
| Net deferred tax asset | $ 1,249 | $ 2,546 |

The tax effects of each type of significant item that gave rise to deferred taxes at December 31, 2019 and 2018 are as follows:

| (In Thousands) | 2019 | 2018 |
|---|---|---|
| Financial statement allowance for loan losses in excess of tax allowance | $ 2,277 | $ 2,051 |
| Financial statement deduction for deferred compensation in excess of deduction for tax purposes | 265 | 216 |
| Financial statement deduction for stock options compensation expense not recognized for tax purposes | 46 | - |
| Excess of depreciation deducted for tax purposes over amounts deducted in the financial statements | (344) | (378) |
| Financial statement income on FHLB stock dividends not recognized for tax purposes | (15) | (15) |
| Financial statement deduction for deposit premium in excess of base deduction for tax purposes | 42 | 50 |
| Financial statement write-down of securities not deductible for tax purposes until sold | - | 2 |
| Purchased goodwill amortized for tax purposes | (375) | (297) |
| Unrealized loss (gain) on debt securities available-for-sale | (629) | 917 |
| Unrealized gain on marketable equity securities | (18) | - |
| | $ 1,249 | $ 2,546 |

The components of income tax expense (benefit) for the years ended December 31, 2019 and 2018 are summarized as follows:

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Current: | | |
| Federal | **$ 2,360** | $ 2,249 |
| State | **793** | 996 |
| | **3,153** | 3,245 |
| Deferred: | | |
| Federal | **(195)** | (38) |
| State | **(67)** | (42) |
| | **(262)** | (80) |
| | **$ 2,891** | $ 3,165 |

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

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Computed “expected” federal tax expense | **$ 2,965** | $ 3,188 |
| State income taxes, net of benefit of state tax deduction for federal tax purposes | **586** | 749 |
| Benefit of tax exempt interest, net of interest expense exclusion | **(578)** | (644) |
| Tax benefit of earnings on cash surrender value of officers life insurance not taxable | **(95)** | (138) |
| Other | **13** | 10 |
| | **$ 2,891** | $ 3,165 |

As of December 31, 2019 and 2018, the Company has not accrued or recognized interest or penalties related to uncertain tax positions. It is the Company’s policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company does not expect that unrecognized tax benefits will significantly increase or decrease within the next 12 months. Included in the balance at December 31, 2019 were approximately $2,630,000 of tax positions (deferred tax assets) for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company and its subsidiaries file income tax returns in the United States (“U.S.”), as well as in the State of Tennessee. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2015 which would include audits of acquired entities. The Company’s Federal tax returns have not been audited for several years and there have been no changes in the returns in prior audits.

## (12) COMMITMENTS AND CONTINGENCIES

The Company is party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the consolidated financial position.

The values of the Company's assets as reported in the consolidated financial statements are subject to the volatility in the financial markets; and accordingly, the ultimate realization may be subject to the condition of the U.S. economy and banking system in general.

The Company's subsidiary bank has lines of credit with other financial institutions. At December 31, 2019 and 2018, Citizens Bank had lines of credit totaling $55,000,000 with other financial institutions. At December 31, 2019 and 2018, there were no amounts outstanding under these lines of credit.

The Company leases office space in Smith County, Tennessee, under two non-cancelable operating leases that expired in 2018 and were renewed through 2023. The Company also leases various office equipment under non-cancelable operating leases with various expiration dates through 2022.

As of December 31, 2019, the minimum future rental commitments under all non-cancelable operating leases were as follows:

| *(In Thousands)* | |
|---|---|
| 2020 | **$ 36** |
| 2021 | **20** |
| 2022 | **11** |
| 2023 | **2** |

Total office rental office expense incurred for the years ended December 31, 2019 and 2018 amounted to $10,000 and $11,000, respectively. Total office equipment lease expense incurred for the year ended December 31, 2019 and 2018 amounted to $26,000 and $27,000, respectively.

The Company entered into a three year profit enhancing program in December, 2016 at a cost of $125,000 per year. During December, 2019, the contract automatically renewed through April, 2021 at a cost of $115,000 and $41,000 for 2020 and 2021, respectively.

## (13) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

| | **Contract or Notional Amount** | Contract or Notional Amount |
|---|---|---|
| *(In Thousands)* | **2019** | 2018 |
| Financial instruments whose contract amounts represent credit risk: | | |
| Unused commitments to extend credit | **$ 101,501** | $ 96,563 |
| Standby letters of credit | **2,074** | 2,466 |
| *Total* | **$ 103,575** | $ 99,029 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees extend from one to two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The maximum potential amount of future payments that the Company could be required to make under the guarantees totaled $2,074,000 and $2,466,000 at December 31, 2019 and 2018, respectively.

## (14) CONCENTRATION OF CREDIT RISK

Substantially all of the Company's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Company's market area. Virtually all such customers are depositors of the subsidiary banks. Investment in state and municipal securities also include governmental entities within the Company's market area. Additional information regarding concentrations in securities are included in note 3 to the consolidated financial statements. The concentrations of credit by type of loan are set forth in note 2 to the consolidated financial statements.

At December 31, 2019 and 2018, the Company's cash and due from banks included commercial bank deposit accounts aggregating $8,399,000 and $9,741,000, respectively, in excess of the Federal Deposit Insurance Corporation limit of $250,000 per institution. Interest bearing deposits in financial institutions at December 31, 2019 and 2018 consist of the following:

| *(In Thousands)* | **2019** | 2018 |
|---|---|---|
| Federal Reserve Bank | **$ 22,402** | $ 4,246 |
| Federal Home Loan Bank | **2,498** | 4,463 |
| Total | **$ 24,900** | $ 8,709 |

Deposits held at the Federal Reserve Bank and Federal Home Loan Bank are not insured by the Federal Deposit Insurance Corporation.

## (15) REGULATORY MATTERS AND RESTRICTIONS ON DIVIDENDS

The Company and its bank subsidiaries are subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total, common equity Tier 1 and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Company and the bank subsidiaries meet all capital adequacy requirements to which they are subject. The actual ratios of the Company and the bank subsidiaries were as follows:

| | | | Minimum Requirement | |
|---|---|---|---|---|
| *(In Thousands)* | **2019** | 2018 | 2019 | 2018 |
| Citizens Bancorp Investment, Inc.: | | | | |
| Common Equity Tier 1 ratio | **16.26%** | 15.12% | 7.0% | 6.375% |
| Tier 1 ratio | **16.26%** | 15.12% | 8.5% | 7.875% |
| Total capital ratio | **17.51%** | 16.37% | 10.5% | 9.875% |
| Leverage ratio | **11.29%** | 10.57% | 4.0% | 4.000% |
| Citizens Bank: | | | | |
| Common Equity Tier 1 ratio | **16.79%** | 15.76% | 7.0% | 6.375% |
| Tier 1 ratio | **16.79%** | 15.76% | 8.5% | 7.875% |
| Total capital ratio | **18.04%** | 17.00% | 10.5% | 9.875% |
| Leverage ratio | **11.73%** | 11.06% | 4.0% | 4.000% |

As of December 31, 2019, the most recent notification from the banking regulators categorized the Company 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 Company's category.

In July 2013, the Federal banking regulators, in response to the statutory requirements of The Dodd-Frank Act, adopted new regulations implementing the Basel Capital Adequacy Accord ("Basel III"). The new capital requirements are effective January 1, 2015 and include a new "Common Equity Tier I Ratio", which has stricter rules as to what qualifies as Common Equity Tier I Capital.

The guidelines under Basel III establish a 2.5% capital conservation buffer requirement that is phased in over four years beginning January 1, 2016. The buffer is related to risk weighted assets. The Basel III minimum requirements after giving effect to the buffer are as follows:

| | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Common Equity Tier I Ratio........................ | 5.125% | 5.75% | 6.375% | 7.0% |
| Tier I Capital Ratio ...................................... | 6.625% | 7.25% | 7.875% | 8.5% |
| Total Capital Ratio....................................... | 8.625% | 9.25% | 9.875% | 10.5% |

In order to avoid limitations on capital distributions, such as dividends and certain discretionary bonus payments to executive officers, a banking organization must maintain capital ratios above the minimum ratios including the buffer.

The requirements of Basel III also place more restrictions on the inclusion of deferred tax assets and capitalized mortgage servicing rights as a percentage of Tier I Capital. In addition, the risk weights assigned to certain assets such as past due loans and certain real estate loans have been increased.

## (16) BANK OWNED LIFE INSURANCE AND DEFERRED COMPENSATION PLAN

The Company purchased single premium life insurance policies on the lives of several key employees for the purpose of financing the cost of employee benefits. The Company has committed a portion of the policy death benefits to be paid to the estate of each participant upon their death. The cash surrender value of BOLI policies as of December 31, 2019 and 2018 was $15,930,000 and $15,723,000, respectively, and is included in "cash surrender value of life insurance" on the Consolidated Balance Sheet. The net non-cash income of which is included in the above asset values was $351,000 and $356,000, respectively. The Company has not borrowed against the cash surrender value of these policies. Also, the Company has entered into supplemental life insurance contracts related to these officers. The Company has recorded a liability related to these beneficiary death benefits totaling $241,000 and $245,000 as of December 31, 2019 and 2018, respectively, and was included in "other liabilities".

The Company has recorded a liability totaling $18,000 and $24,000 as of December 31, 2019 and 2018, respectively, related to a retirement package for a retired officer. The retirement benefits under this arrangement are to be made monthly until the retired officer's death.

The Company provides its directors with the opportunity to participate in an unfunded, deferred compensation program, which also provides for death and retirement benefits. There were three participants in the program at December 31, 2019 and 2018. Under the program, participants may defer a portion of their yearly total cash compensation. The amounts deferred remain the sole property of the Company, which uses them together with additional corporate funds, to purchase either insurance policies on the lives of the participants or other investments. The insurance policies, which remain the sole property of the Company, are payable to the Company upon the death of the participant. The Company separately contracts with the participants to pay benefits based upon the deferred amount compounded at an interest rate as determined by management and the Board of Directors. At December 31, 2019 and 2018, the deferred compensation liability totaled $193,000 and $232,000, respectively, and was included in "other liabilities" on the Consolidated Balance Sheet. The cash surrender value of life insurance was $286,000 and $279,000 at December 31, 2019 and 2018, respectively, and was included in "cash surrender value of life insurance" on the consolidated balance sheet. The face amount of the insurance policies in force at December 31, 2019 and 2018, respectively, was approximately $739,000. The Plan is not qualified under Section 401 of the Internal Revenue Code.

During 2018, the Company entered into Supplemental Executive Retirement Plan (SERP) Agreements ("SERP Agreements"). The SERP Agreements were established by the Board of Directors to reward executive management for past performance and to provide additional incentive to retain the service of executive management. The SERP Agreements generally provide executives with benefits of a portion of their salary beginning at retirement through life. As a result, the Company has accrued a liability for future obligations under the SERP Agreements. At December 31, 2019 and 2018, the liability related to the SERP Agreements totaled $564,000 and $324,000, respectively. The Company purchased Flexible Premium Indexed Deferred Annuity Contracts to fund the benefits under SERP Agreements. The outstanding investment in the annuity contracts was $3,644,000 and $3,722,000 as of December 31, 2019 and 2018, respectively. The Plan is not qualified under Section 401 of the Internal Revenue Code.

## (17) EQUITY INCENTIVE PLAN

In February, 2018, the Board of Directors of the Company approved the Citizens Bancorp Investment, Inc. 2018 Incentive Plan (the "Plan"). The Plan provided for the granting of stock options, and authorized the issuance of common stock upon the exercise of such options, for up to 500,000 shares of common stock to employees, officers, directors and consultants of the Company and its affiliates. The primary purpose of the Plan is to promote the success, and enhance the value, of the Company by linking the personal interests of employees, officers, directors and consultants of the company or any affiliate to those of Company shareholders and by providing such persons with an incentive for outstanding performance. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of employees, officers, directors and consultants upon whose judgment, interest and special effort the successful conduct of the Company's operation is largely dependent.

Under the Plan, the stock option awards may be granted in the form of nonstatutory stock options, stock appreciation rights, restricted stock units, deferred stock units, performance awards and other stock-based awards. The stock option awards are exercisable for up to ten years following the date such option awards are granted. Exercise prices of stock option awards must be equal to or greater than the fair market value of the common stock on the grant date. As of December 31, 2019, the Company had 301,000 shares remaining available for issuance under the Plan.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2018:

| | **2018** |
|---|---|
| Expected dividends | **2.00%** |
| Expected term (in years) | **7.00** |
| Expected stock price volatility | **10.00%** |
| Risk-free rate | **2.84%** |

The expected stock price volatility is based on historical volatility adjusted for consideration of other relevant factors. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

A summary of the stock option activity for 2019 and 2018 is as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 226,000 | $ 18.75 | - | $ - |
| Granted | - | - | 226,000 | 18.75 |
| Exercised | - | - | - | - |
| Forfeited or expired | (27,000 ) | 18.75 | - | - |
| Outstanding at end of year | 199,000 | $ 18.75 | 226,000 | $ 18.75 |
| Options exercisable at year end | 40,400 | $ 18.75 | - | $ - |

The following tables summarize information about stock options for the year ended December 31, 2019:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding at 12/31/19 | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Number Exercisable at 12/31/19 | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
| $ 18.75 | 199,000 | $ 18.75 | 8.13 years | 40,400 | $ 18.75 | 8.13 years |
| Aggregate intrinsic value (in thousands) | $ 448 | | | $ 91 | | |

No options were granted during 2019.

Stock based compensation expense for the year ended December 31, 2019 totaled $179,000. As of December 31, 2019, there was $270,000 of total unrecognized cost related to non-vested share-based compensation agreements granted under the Company's stock option plans. The cost is expected to be recognized over a weighted-average period of 3.12 years.

## (18) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

***Fair Value of Financial Instruments***

FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

***Valuation Hierarchy***

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

***Assets***

*Securities available-for-sale* - Where quoted prices are available for identical securities in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other financial products. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation and more complex pricing models or discounted cash flows are used, securities are classified within Level 3 of the valuation hierarchy.

*Impaired loans* - A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses or the expense is recognized as a charge-off. Impaired loans are classified within Level 3 of the hierarchy due to the unobservable inputs used in determining their fair value such as collateral values and the borrower's underlying financial condition.

*Other real estate owned* - Other real estate owned “OREO” represents real estate foreclosed upon by the Company through loan defaults by customers or acquired in lieu of foreclosure. Substantially all of these amounts relate to lots, homes and development projects that are either completed or are in various stages of construction for which the Company believes it has adequate collateral. Upon foreclosure, the property is recorded at the lower of cost or fair value, based on appraised value, less selling costs estimated as of the date acquired with any loss recognized as a charge-off through the allowance for loan losses. Additional OREO losses for subsequent valuation downward adjustments are determined on a specific property basis and are included as a component of noninterest expense along with holding costs. Any gains or losses realized at the time of disposal are also reflected in noninterest expense, as applicable. OREO is included in Level 3 of the valuation hierarchy due to the lack of observable market inputs into the determination of fair value. Appraisal values are property-specific and sensitive to the changes in the overall economic environment.

*Other assets* – Included in other assets are certain assets carried at fair value, including the cash surrender value of bank owned life insurance policies and annuity investments. The Company uses financial information received from insurance carriers indicating the performance of the insurance policies and cash surrender values in determining the carrying value of life insurance. The Company reflects these assets within Level 3 of the valuation hierarchy due to the unobservable inputs included in the valuation of these items. The Company does not consider the fair values of these policies to be materially sensitive to changes in these unobservable inputs.

The following tables present the financial instruments carried at fair value as of December 31, 2019 and 2018, by caption on the consolidated balance sheet and by FASB ASC 820 valuation hierarchy (as described above) (in thousands):

| | Measured on a Recurring Basis | | | |
|---|---|---|---|---|
| | Total Carrying Value in the Consolidated Balance Sheet | Quoted Market Price in an Active Market (Level 1) | Models with Significant Observable Market Parameters (Level 2) | Models with Significant Unobservable Market Parameters (Level 3) |
| **December 31, 2019** | | | | |
| Debt securities available-for-sale | **$ 242,041** | **$ -** | **$ 242,041** | **$ -** |
| Marketable equity securities | **107** | **107** | **-** | **-** |
| Cash surrender value of life insurance | **16,216** | **-** | **-** | **16,216** |
| Annuity investment | **3,644** | **-** | **-** | **3,644** |
| **Total assets at fair value** | **$ 262,008** | **$ 107** | **$ 242,041** | **$ 19,860** |
| December 31, 2018 | | | | |
| Debt securities available-for-sale | $ 235,745 | $ - | $ 235,839 | $ - |
| Marketable equity securities | 94 | 94 | - | - |
| Cash surrender value of life insurance | 16,002 | - | - | 16,002 |
| Annuity investment | 3,722 | - | - | 3,722 |
| Total assets at fair value | $ 255,563 | $ 94 | $ 235,839 | $ 19,724 |

| | Measured on a Non-Recurring Basis | | | |
|---|---|---|---|---|
| | Total Carrying Value in the Consolidated Balance Sheet Total | Quoted Market Price in an Active Market (Level 1) Quoted | Models with Significant Observable Market Parameters (Level 2) Models with | Models with Significant Unobservable Market Parameters (Level 3) Models with |
| **December 31, 2019** | | | | |
| Other real estate owned | **$ 40** | **$ -** | **$ -** | **$ 40** |
| Impaired loans, net (1) | **28,934** | **-** | **-** | **28,934** |
| **Total** | **$ 28,974** | **$ -** | **$ -** | **$ 28,974** |

| | Measured on a Non-Recurring Basis | | | |
|---|---|---|---|---|
| | Total Carrying Value in the Consolidated Balance Sheet Total | Quoted Market Price in an Active Market (Level 1) Quoted | Models with Significant Observable Market Parameters (Level 2) Models with | Models with Significant Unobservable Market Parameters (Level 3) Models with |
| December 31, 2018 | | | | |
| Other real estate owned | $ 457 | $ - | $ - | $ 457 |
| Impaired loans, net ([1]) | 29,264 | - | - | 29,264 |
| Total | $ 29,721 | $ - | $ - | $ 29,721 |

([1]) *Amount is net of a valuation allowance of $1,162,000 at December 31, 2019 and $471,000 at December 31, 2018 as required by ASC 310, "Receivables."*

In the case of the bond portfolio, the Company monitors the valuation technique utilized by various pricing agencies to ascertain when transfers between levels have been affected. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the twelve months ended December 31, 2019, there were no transfers between Levels 1, 2 or 3.

The table below includes a rollforward of the balance sheet amounts for the twelve months ended December 31, 2019 and 2018 (including the change in fair value) for financial instruments classified by the Company within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology (in thousands):

| | For the Twelve Months Ended December 31, | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | Other Assets | Other Liabilities | Other Assets | Other Liabilities |
| Fair value, January 1 | **$ 19,724** | **$ -** | $ 15,966 | $ - |
| Total realized gains included in income, net of expenses | **442** | **-** | 968 | - |
| Change in unrealized gains/losses included in other comprehensive income for assets and liabilities still held at December 31 | **-** | **-** | - | - |
| Purchases, issuances and settlements | **(306)** | **-** | 2,790 | - |
| Transfers out of Level 3 | **-** | **-** | - | - |
| Fair value, December 31 | **$ 19,860** | **$ -** | $ 19,724 | $ - |
| Total net realized gains included in income related to financial assets and liabilities still on the consolidated balance sheet at December 31 | **$ 442** | **$ -** | $ 968 | $ - |

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows and borrower creditworthiness. The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2019 and 2018. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

**Loans** - The fair value of our loan portfolio includes a credit risk factor in the determination of the fair value of our loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. Our loan portfolio is initially fair valued using a segmented approach. We divide our loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk to determine the exit price.

**Deposits and Federal Home Loan Bank Advances** - The carrying amounts of demand deposits and savings deposits approximate their fair values. Fair values for certificates of deposit and Federal Home Loan Bank advances are estimated using discounted cash flow models, using current market interest rates offered on certificates and advances with similar remaining maturities.

**Off-Balance Sheet Instruments** - The fair values of the Company's off-balance-sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value to the Company until such commitments are funded.

The following table presents the carrying amounts, estimated fair value and placement in the fair value hierarchy of the Company's financial instruments at December 31, 2019 and 2018. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as noninterest bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

| *(In Thousands)* | Carrying/ Notional Amount | Estimated Fair Value (1) | Quoted Market Prices in an Active Market (Level 1) | Models with Significant Observable Market Parameters (Level 2) | Models with Significant Unobservable Market Parameters (Level 3) |
|---|---|---|---|---|---|
| **December 31, 2019** | | | | | |
| *Financial assets:* | | | | | |
| Loans, net | **$ 603,707** | **$ 596,079** | **$ -** | **$ -** | **$ 596,079** |
| *Financial liabilities:* | | | | | |
| Deposits | **759,781** | **769,003** | **-** | **-** | **769,003** |
| Notes payable | **3,840** | **3,829** | **-** | **-** | **3,829** |
| Advances from Federal Home Loan Bank | **59,974** | **60,709** | **-** | **-** | **60,709** |
| *Off-balance sheet instruments:* | | | | | |
| Commitments to extend credit | **-** | **-** | **-** | **-** | **-** |
| Standby letters of credit | **-** | **-** | **-** | **-** | **-** |

*Notes to Consolidated Financial Statements, Continued*
**December 31, 2019 and 2018**

| *(In Thousands)* | Carrying/ Notional Amount | Estimated Fair Value ([1]) | Quoted Market Prices in an Active Market (Level 1) | Models with Significant Observable Market Parameters (Level 2) | Models with Significant Unobservable Market Parameters (Level 3) |
|---|---|---|---|---|---|
| December 31, 2018 | | | | | |
| *Financial assets:* | | | | | |
| Loans, net | $ 606,288 | $ 596,659 | $ - | $ - | $ 596,659 |
| *Financial liabilities:* | | | | | |
| Deposits | 721,001 | 729,371 | - | - | 729,371 |
| Notes payable | 4,908 | 4,819 | - | - | 4,819 |
| Advances from Federal Home Loan Bank | 89,692 | 88,738 | - | - | 88,738 |
| *Off-balance sheet instruments:* | | | | | |
| Commitments to extend credit | - | - | - | - | - |
| Standby letters of credit | - | - | - | - | - |

([1]) Estimated fair values are consistent with an exit-price concept. The assumptions used to estimate the fair values are intended to approximate those that a market-participant would realize in a hypothetical orderly transaction.

*Schedule 1*

***CITIZENS BANCORP INVESTMENT, INC.***

***Consolidating Balance Sheet***

***December 31, 2019***

| *(In Thousands)* | Citizens Bancorp Investments, Inc. | Citizens Bank | Citizens Insurance Services Inc. | Eliminations Dr. | Eliminations Cr. | Citizens Bank Consolidated | Town & Country Finance Company, Inc. | Eliminations Dr. | Eliminations Cr. | Citizens Bancorp Investments, Inc. Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Loans, net of unearned interest | $ - | 612,198 | - | | | 612,198 | 473 | | | 612,671 |
| Allowance for loan losses | - | (8,680) | - | | | (8,680) | (284) | | | (8,964) |
| *Loans, net* | - | 603,518 | - | | | 603,518 | 189 | | | 603,707 |
| Debt securities, available-for-sale, at market | - | 242,041 | - | | | 242,041 | - | | | 242,041 |
| Marketable equity securities, at market | - | 107 | - | | | 107 | - | | | 107 |
| Restricted equity securities | - | 3,717 | - | | | 3,717 | - | | | 3,717 |
| Federal funds sold | - | 1,000 | - | | | 1,000 | - | | | 1,000 |
| Interest-bearing deposits in financial institutions | - | 24,900 | - | | | 24,900 | - | | | 24,900 |
| *Total earning assets* | - | 875,283 | - | | | 875,283 | 189 | | | 875,472 |
| Cash and due from banks | 132 | 18,037 | 437 | | (1) 437 | 18,037 | 43 | | (1) 175 | 18,037 |
| Premises and equipment: | | | | | | | | | | |
| Land | - | 2,266 | - | | | 2,266 | - | | | 2,266 |
| Buildings | - | 11,225 | - | | | 11,225 | - | | | 11,225 |
| Furniture and equipment | - | 10,466 | - | | | 10,466 | - | | | 10,466 |
| Auto | - | 285 | - | | | 285 | - | | | 285 |
| Construction in progress | - | 4,308 | - | | | 4,308 | - | | | 4,308 |
| | - | 28,550 | - | | | 28,550 | - | | | 28,550 |
| Less accumulated depreciation | - | (14,795) | - | | | (14,795) | | | | (14,795) |
| *Premises and equipment, net* | - | 13,755 | - | | | 13,755 | - | | | 13,755 |
| Accrued interest receivable | - | 4,989 | - | - | - | 4,989 | - | - | - | 4,989 |
| Cash surrender value of life insurance | - | 16,216 | - | | | 16,216 | - | | | 16,216 |
| Annuity investment | - | 3,644 | - | | | 3,644 | - | | | 3,644 |
| Refundable income taxes | (1) | 139 | (6) | (1) 6 | | 139 | (6) | (1) 7 | | 139 |
| Foreclosed assets | - | 48 | - | | | 48 | - | | | 48 |
| Deferred income taxes, net | 47 | 1,128 | - | | | 1,128 | 74 | | | 1,249 |
| Other assets | - | 1,693 | 49 | | (1) 14 | 1,728 | - | | | 1,728 |
| Goodwill and intangible assets | 2,366 | 6,000 | - | | | 6,000 | - | | | 8,366 |
| Investment in Citizens Bank | 116,159 | - | - | | - | - | - | | (2) 116,159 | - |
| Investment in Citizens Insurance Services, Inc. | - | 480 | - | | (2) 480 | - | - | | | - |
| Investment in Town & Country Finance, Inc. | 300 | - | - | | - | - | - | | (2) 300 | - |
| *Total assets* | $ 119,003 | 941,412 | 480 | | | 940,967 | 300 | | | 943,643 |

**CITIZENS BANCORP INVESTMENT, INC.**

**Consolidating Balance Sheet, Continued**

**December 31, 2019**

| *(In Thousands)* | Citizens Bancorp Investments, Inc. | Citizens Bank | Citizens Insurance Services Inc. | Eliminations | Dr. | Cr. | Citizens Bank Consolidated | Town & Country Finance Company, Inc. | Eliminations | Dr. | Cr. | Citizens Bancorp Investments, Inc. Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-interest-bearing demand deposits | $ - | 135,189 | - | (1) | 437 | | 134,752 | - | (1) | 175 | | 134,577 |
| Interest-bearing demand deposits | - | 169,222 | - | | | | 169,222 | - | | | | 169,222 |
| Money market accounts | - | 28,685 | - | | | | 28,685 | - | | | | 28,685 |
| Savings accounts | - | 97,993 | - | | | | 97,993 | - | | | | 97,993 |
| Certificates of deposit | - | 273,297 | - | | | | 273,297 | - | | | | 273,297 |
| Individual retirement accounts | - | 56,007 | - | | | | 56,007 | - | | | | 56,007 |
| *Total deposits* | - | 760,393 | - | | | | 759,956 | - | | | | 759,781 |
| Notes payable | 3,840 | - | - | | | | - | - | | | | 3,840 |
| Advances from the Federal Home Loan Bank | - | 59,974 | - | | | | 59,974 | - | | | | 59,974 |
| Accrued interest payable | - | 1,074 | - | | | | 1,074 | - | | | | 1,074 |
| Other liabilities | 2 | 3,811 | - | | | | 3,811 | - | | | | 3,813 |
| *Total liabilities* | 3,842 | 825,252 | - | | | | 824,815 | - | | | | 828,482 |
| Common stock | 294 | 430 | - | | | | 430 | 61 | (2) | 491 | | 294 |
| Additional paid-in capital | 7,658 | 35,917 | 91 | (2) | 91 | | 35,917 | 414 | (2) | 36,331 | | 7,658 |
| Retained earnings | 105,432 | 78,035 | 389 | (2) | 389 | | 78,035 | (175) | (2) | 77,860 | | 105,432 |
| Accumulated other comprehensive earnings, net of taxes | 1,777 | 1,777 | - | | | | 1,777 | - | (2) | 1,777 | | 1,777 |
| *Total Citizens Bancorp shareholders' equity* | 115,161 | 116,159 | 480 | | | | 116,159 | 300 | | | | 115,161 |
| *Total liabilities and equity* | $ 119,003 | 941,411 | 480 | | | | 940,974 | 300 | | | | 943,643 |

Eliminations:

(1) To eliminate intercompany accounts including due from/due to accounts.

(2) To eliminate investment accounts, capital accounts, subsidiary earnings and record minority interest.

Schedule 1, Continued

**CITIZENS BANCORP INVESTMENT, INC.**

**Consolidating Statement of Earnings**

**December 31, 2019**

| (In Thousands) | Citizens Bancorp Investments, Inc. | Citizens Bank | Citizens Insurance Services Inc. | Eliminations Dr. | Eliminations Cr. | Citizens Bank Consolidated | Town & Country Finance Company, Inc. | Eliminations Dr. | Eliminations Cr. | Citizens Bancorp Investments, Inc. Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest and fees on loans | $ - | 35,720 | - | | | 35,720 | 11 | | | 35,731 |
| Interest and dividends on debt securities - taxable securities | - | 2,977 | - | | | 2,977 | - | | | 2,977 |
| Interest and dividends on debt securities - exempt from federal income taxes | - | 2,830 | - | | | 2,830 | - | | | 2,830 |
| Interest and dividends on marketable equity securities | - | 4 | - | | | 4 | - | | | 4 |
| Interest and dividends on restricted equity securities | - | 174 | - | | | 174 | - | | | 174 |
| Interest on fed funds sold | - | 18 | - | | | 18 | - | | | 18 |
| Interest on interest-bearing deposits in financial institutions | - | 366 | - | | | 366 | - | | | 366 |
| | - | 42,089 | - | | | 42,089 | 11 | | | 42,100 |
| Interest on interest bearing demand deposit accounts | - | 501 | - | | | 501 | - | | | 501 |
| Interest on money market accounts and savings accounts | - | 480 | - | | | 480 | - | | | 480 |
| Interest on certificates of deposit | - | 4,972 | - | | | 4,972 | - | | | 4,972 |
| Interest on individual retirement accounts | - | 1,003 | - | | | 1,003 | - | | | 1,003 |
| Interest on federal funds purchased | - | 3 | - | | | 3 | - | | | 3 |
| Interest on Federal Home Loan Bank borrowings | - | 1,563 | - | | | 1,563 | - | | | 1,563 |
| Interest on notes payable | 196 | - | - | | | - | - | | | 196 |
| | 196 | 8,522 | - | | | 8,522 | - | | | 8,718 |
| Net interest income before provision for loan losses | (196) | 33,567 | - | | | 33,567 | 11 | | | 33,382 |
| Provision for loan losses | - | 1,116 | - | | | 1,116 | 180 | | | 1,296 |
| Net interest income after provision for loan losses | (196) | 32,451 | - | | | 32,451 | (169) | | | 32,086 |
| Non-interest income: | | | | | | | | | | |
| Service charges and overdraft fees on deposits | - | 3,644 | - | | | 3,644 | - | | | 3,644 |
| Debit and ATM card income | - | 2,597 | - | | | 2,597 | - | | | 2,597 |
| Earnings on bank owned life insurance and annuity contracts | - | 442 | - | | | 442 | - | | | 442 |
| Other fees and commissions | - | 667 | 27 | | | 694 | - | (1) 134 | | 560 |
| Brokers fee income | - | 92 | - | | | 92 | - | | | 92 |
| Net gain on sale of other real estate | - | 39 | - | | | 39 | - | | | 39 |
| | - | 7,481 | 27 | | | 7,508 | - | | | 7,374 |
| Net gain on sale of available-for-sale debt securities | - | 94 | - | | | 94 | - | | | 94 |
| Non-interest expense: | | | | | | | | | | |
| Employee salaries and benefits | 179 | 15,221 | - | | | 15,221 | - | | | 15,400 |
| Other operating expenses | 36 | 1,916 | - | | | 1,916 | 53 | | | 2,005 |
| Occupancy expenses | - | 1,274 | - | | | 1,274 | - | | | 1,274 |
| Debit and ATM card expense | - | 1,228 | - | | | 1,228 | | | | 1,228 |
| Furniture and equipment expenses | - | 1,096 | - | | | 1,096 | - | | | 1,096 |
| Data Processing | - | 1,028 | - | | | 1,028 | - | | | 1,028 |
| Professional fees | 134 | 817 | - | | | 817 | 77 | | (1) 134 | 894 |
| Advertising | - | 559 | - | | | 559 | - | | | 559 |
| Telephone and communications | - | 518 | - | | | 518 | - | | | 518 |
| Supplies | - | 381 | - | | | 381 | - | | | 381 |
| Director and Committee fees | - | 328 | - | | | 328 | - | | | 328 |
| Postage | - | 287 | - | | | 287 | - | | | 287 |
| Amortization of purchased deposit base | - | 239 | - | | | 239 | - | | | 239 |
| FDIC insurance and state banking fees | - | 198 | - | | | 198 | - | | | 198 |
| Other real estate expense | - | 6 | - | | | 6 | - | | | 6 |
| Net loss on sale of premises and equipment | - | 5 | - | | | 5 | - | | | 5 |
| | 349 | 25,101 | - | | | 25,101 | 130 | | | 25,446 |
| Earnings (loss) before taxes and equity in earnings of subsidiaries | (545) | 14,925 | 27 | | | 14,952 | (299) | | | 14,108 |
| Citizens Bank | 11,854 | - | - | | | - | - | (2) 11,854 | | - |
| Citizens Insurance Services, Inc. | - | 21 | - | (2) 21 | | - | - | | | - |
| Town & Country Finance Company, Inc. | (221) | - | - | | | - | - | | (2) 221 | - |
| | 11,088 | 14,946 | 27 | | | 14,952 | (299) | | | 14,108 |
| Unrealized holding gain on marketable equity securities | - | 13 | - | | | 13 | - | | | 13 |
| Income taxes (benefit) | (142) | 3,105 | 6 | | | 3,111 | (78) | | | 2,891 |
| Net earnings | $ 11,230 | 11,854 | 21 | | | 11,854 | (221) | | | 11,230 |

# CORPORATE INFORMATION

**Stock Registrar & Transfer Agent**
Broadridge Corporate Issuer Solutions
1155 Long Island Avenue
Edgewood, NY 11717-8309

**Outside Counsel**
Butler Snow LLP
150 3rd Avenue South, Suite 1600
Nashville, TN  37201

**External Auditors**
Maggart & Associates, CPAs
1201 Demonbreun Street, Suite 1220
Nashville, TN 37203-3140

## Extraordinary Banking Achievements

Citizens Bank was recognized for a second straight year with a *Banky™ Award* from the Institute for Extraordinary Banking for its commitment to strong community banking! Citizens Bank was also recognized for our demonstration of creating a culture where people bring their best selves to work to make an impact on their customers and communities. The award is the top culture award as judged by a panel of industry experts whose scores were combined with the bank's scores from a validated culture survey.

*"These awards are due to our employees' continued efforts to make our bank a Truly Extraordinary Bank," said Pete Williston, Citizens Bank CEO. "We could not achieve this without the support of our Directors and Shareholders, our ever-valuable employees, and our beloved communities. We thank our customers' trust in our bank and look forward to serving all of their financial needs for years to come."*

The Extraordinary Banking™ Awards recognize the best of what community banks offer to our cities, towns, and nation: a true commitment to the success of the small businesses and local community they serve.

## Taking an Innovative Approach

Citizens Bank always evaluates our services and looks for ways to offer unique products to our customers. Some of those products include:

- **Instant issue debit cards** that promote our local high schools and give money back to our community schools. Our local school debit cards represent 16 local schools, to which we have donated just over $58,000 solely through our school debit card program.
- Our new **ID Secure checking account** protects our customers with Identity Theft Protection, credit monitoring, cell phone insurance and AD&D insurance.
- Our bank also serves the "un-banked" in our communities with our **SmartStart checking account**. Many customers do not qualify to open an account at most banks due to charge-offs, bankruptcy, unfavorable credit scores, etc. Our solution gives these customers a new start and helps turn their finances around.

Our leadership team envisions growth from organic efforts as well as acquisition of banks with similar cultures. Value-focused products combined with customer service focusing on the customer's needs will generate extraordinary growth for our bank in the future. We share this vision with our employees through on-boarding, quarterly celebrations and regular employee training.

## Bank Culture

Our bank's culture focuses on our bank "family" and customer service based on years of helping each other and serving our community.

A primary cultural emphasis is employee development and recognition. Our annual culture survey measures employees' opinions about our bank culture, and recently indicated our employees wanted additional training and opportunities for advancement.

Our desire is always to see our employees succeed.

## Focus on Financial Literacy

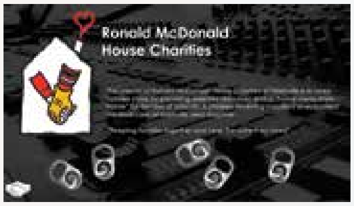
Citizens Bank has outstanding programs focused on financial education for our communities:

Citizens Bank offers the LiFE Program (Literacy in Financial Education) in schools, using a web-based learning platform to bring critical financial concepts to life. This financial literacy program uses the latest technology, video, animations, 3-D gaming, avatars, and social networking to bring complex financial concepts to life for today's digital generation. The curriculum offers topics such as banking, budgeting, savings, payment methods, investments and financing higher education. It tracks the progress of every student and provides a Certification in Financial Literacy.

Every community has a "Bank Ambassador" from our local branch to serve as a connection between the teacher/school and our bank. They make presentations, perform mock-interviews, and act as guest speakers. To date, 6,742 students have completed 48,286 hours, in our LiFE Program. They showed a 53% knowledge gain on financial topics on their post exams compared with their pre-assessments. Finally, the bank offers our LiFE Program at no cost to our community schools.

Citizens Bank offers our SmartStart Checking Account that enables the under-banked or non-banked to have a checking account. It helps individuals get back on their feet after such events as charged off accounts or bankruptcy.

## Meeting the Needs of Our Community




The mission of our charitable giving program is to *"help meet the needs of the communities we serve by supporting nonprofit organizations that improve overall quality of life"*.

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

Our employees live and work in the communities we serve, giving us a personal stake in the efforts to improve our local commerce. Citizens Bank employees have volunteered over 3,600 hours for community events and programs such as the American Cancer Society, 4-H, and the Ronald McDonald House.

St. Jude Children's Research Hospital

Citizens Bank also proudly sponsors events and programs that enhance the vitality of our neighborhoods such as Romans 8:28 Ministry, Inc. (a Christian recovery home for women battling drug addiction), and our annual Easter Egg Hunt.

Some of our major recipients in our philanthropy program are our U.S. Veterans! Each Veterans' Day, our bank hosts multiple Veterans' events around Middle Tennessee to allow us to give thanks for the enormous sacrifice by our many Veterans in and around our area. Citizens Bank has also contributed supplies needed for our Veterans in the Sumner County Veterans Home.

We also donate to our local community schools from our School Debit Card program and support local educational efforts through our LiFE Program (Literacy in Financial Education).

## BOARD OF DIRECTORS

Thomas E. Anderton
*President, Citizens Bancorp Investment Inc, and Citizens Bank, Shelbyville, TN*

Joe M. Carter
*Banker (retired), Lafayette, TN*

Charles E. Darnell
*Director Emeritus, Banker (retired), Lafayette, TN*

W. Ransom Jones
*Larco Medical Equipment, Lascassas, TN*

Eugene R. London, Jr.
*Systems Integration/Modeling & Simulation, Inc. Tullahoma, TN*

Jon Alan Long
*Dentist, Carthage, TN*

F. Tom McCall
*D.T. McCall & Sons, Lafayette, TN*

Cynthia A. McClard
*Pharmacy Consultant/Store Owner, Brentwood, TN*

Tony H. Polston
*BD Polston Building Supply, Lafayette, TN*

Michael W. Reese
*Reese's Piggly Wiggly, Castalian Springs, TN*

Gail L. Srygley
*Educator (retired), Nashville, TN*

Peter G. Williston
*Chairman and CEO, Citizens Bancorp Investment Inc, and Citizens Bank, Lafayette, TN*

## EXECUTIVE MANAGEMENT

Thomas E. Anderton
*President/Chief Lending Officer*

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

Douglas L. Haehl
*VP/Marketing*

Kevin L. Miller
*EVP/Chief Information Officer*

K. Michael Robbins
*EVP/Chief Retail Officer*

Susan F. Rogers
*SVP/Human Resources*

Arthur O. Taylor, Jr.
*EVP/Chief Financial Officer*

Peter G. Williston
*Chief Executive Officer*

## ADVISORY BOARD MEMBERS

### TRADERS BANK

Thomas E. Anderton
Russell K. Barrett
Mary W. Beard
Jeremy B. Bell
William A. Bobo
Max J. Christopher
Thomas H. Copeland
Tommy Hodges
David E. Johnson
Eugene R. London, Jr.
John D. McCord
William J. Orr
Stephen L. Philpot
Benjamin J. Smith
Peter G. Williston

### JACKSON COUNTY

Jay R. Cassetty
Wesley M. Cassetty
Richard Z. Chaffin
Jerry R. Driver
Donnie G. Elkins
Joe V. Halfacre
James R. Montgomery
K. Michael Robbins
Peter G. Williston

### SMITH COUNTY

Jay R. Cassetty
Kenneth R. Frye
John E. McCall
Patrick L. Nixon
K. Michael Robbins
Peter G. Williston
Thomas A. White
Kevin S. Young

### CLAY COUNTY

Michael K. Bailey
Jay R. Cassetty
Ruth Ann Dale
Richard N. Denton
Mary Ann Hamilton
Linda S. Key
K. Michael Robbins
Allen W. West
Peter G. Williston

## CITIZENS BANK

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### LAFAYETTE SCOTTSVILLE RD BRANCH
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### RED BOILING SPRINGS BRANCH
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### WESTMORELAND BRANCH
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### GAINESBORO BRANCH
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## BANK OF CELINA

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### SMITHVILLE BRANCH
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## TRADERS BANK

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### TULLAHOMA BRANCH
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### MANCHESTER BRANCH
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### SHELBYVILLE BRANCH
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### WINCHESTER BRANCH
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