

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL REPORT**

**DECEMBER 31, 2021**

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL REPORT  
DECEMBER 31, 2021**

**TABLE OF CONTENTS**

**Page**

|                                                              |                |
|--------------------------------------------------------------|----------------|
| <b>INDEPENDENT AUDITOR'S REPORT .....</b>                    | <b>1 and 2</b> |
| <b>CONSOLIDATED FINANCIAL STATEMENTS</b>                     |                |
| <b>Consolidated balance sheets .....</b>                     | <b>3</b>       |
| <b>Consolidated statements of income .....</b>               | <b>4</b>       |
| <b>Consolidated statements of comprehensive income .....</b> | <b>5</b>       |
| <b>Consolidated statements of stockholders' equity .....</b> | <b>6</b>       |
| <b>Consolidated statements of cash flows .....</b>           | <b>7</b>       |
| <b>Notes to consolidated financial statements .....</b>      | <b>8 - 38</b>  |



## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors  
Bainbridge Bancshares, Inc. and Subsidiary  
Bainbridge, Georgia**

### *Opinion*

We have audited the accompanying consolidated financial statements of Bainbridge Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bainbridge Bancshares, Inc. and Subsidiary as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Responsibilities of Management for the Financial Statements*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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

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

*Mauldin & Jenkins, LLC*

Albany, Georgia  
March 28, 2022

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2021 AND 2020**

| <u>Assets</u>                                                               | <u>2021</u>           | <u>2020</u>           |
|-----------------------------------------------------------------------------|-----------------------|-----------------------|
| Cash and due from banks                                                     | \$ 10,122,881         | \$ 9,432,229          |
| Interest-bearing deposits at other banks                                    | 76,215,773            | 15,336,481            |
| Federal funds sold                                                          | 15,000,000            | 14,199,584            |
| Securities available for sale, at fair value                                | 38,411,609            | 19,932,389            |
| Restricted equity securities, at cost                                       | 600,150               | 778,750               |
| <br>                                                                        |                       |                       |
| Loans                                                                       | 147,132,514           | 144,880,654           |
| Less allowance for loan losses                                              | <u>2,376,983</u>      | <u>2,435,006</u>      |
| Loans, net                                                                  | 144,755,531           | 142,445,648           |
| <br>                                                                        |                       |                       |
| Premises and equipment, net                                                 | 7,065,898             | 4,074,962             |
| Bank owned life insurance                                                   | 1,743,616             | 1,697,983             |
| Core deposit intangible                                                     | 118,750               | 143,750               |
| Other assets                                                                | <u>1,472,439</u>      | <u>1,574,686</u>      |
| <br>                                                                        |                       |                       |
| Total assets                                                                | <u>\$ 295,506,647</u> | <u>\$ 209,616,462</u> |
| <br><b><u>Liabilities and Stockholders' Equity</u></b><br><br>              |                       |                       |
| Deposits                                                                    |                       |                       |
| Noninterest-bearing                                                         | \$ 44,285,963         | \$ 38,776,046         |
| Interest-bearing                                                            | <u>218,361,493</u>    | <u>147,964,252</u>    |
| Total deposits                                                              | 262,647,456           | 186,740,298           |
| Federal Home Loan Bank advances                                             | 3,000,000             | 3,000,000             |
| Other borrowings                                                            | -                     | 477,119               |
| Subordinated debt                                                           | 9,865,612             | -                     |
| Other liabilities                                                           | <u>702,667</u>        | <u>756,434</u>        |
| Total liabilities                                                           | <u>276,215,735</u>    | <u>190,973,851</u>    |
| <br>                                                                        |                       |                       |
| Commitments and contingencies (Note 14)                                     |                       |                       |
| <br>                                                                        |                       |                       |
| Stockholders' equity                                                        |                       |                       |
| Preferred stock, no par value; 1,000,000 shares authorized                  | -                     | -                     |
| Common stock, no par value; 10,000,000 shares authorized,<br>993,881 issued | -                     | -                     |
| Paid-in-capital                                                             | 8,397,187             | 7,897,187             |
| Retained earnings                                                           | 11,104,424            | 10,608,890            |
| Accumulated other comprehensive income                                      | <u>80,093</u>         | <u>427,326</u>        |
|                                                                             | 19,581,704            | 18,933,403            |
| Less cost of treasury stock, 18,354                                         | <u>290,792</u>        | <u>290,792</u>        |
| Total stockholders' equity                                                  | <u>19,290,912</u>     | <u>18,642,611</u>     |
| <br>                                                                        |                       |                       |
|                                                                             | <u>\$ 295,506,647</u> | <u>\$ 209,616,462</u> |

**See Notes to Consolidated Financial Statements.**

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2021 AND 2020**

|                                                                 | <u>2021</u>       | <u>2020</u>         |
|-----------------------------------------------------------------|-------------------|---------------------|
| Interest income:                                                |                   |                     |
| Loans, including fees                                           | \$ 7,713,341      | \$ 7,693,487        |
| Securities:                                                     |                   |                     |
| Taxable                                                         | 255,122           | 367,010             |
| Nontaxable                                                      | 198,562           | 132,499             |
| Federal funds sold and interest-bearing deposits at other banks | 41,300            | 46,904              |
| Total interest income                                           | <u>8,208,325</u>  | <u>8,239,900</u>    |
| Interest expense:                                               |                   |                     |
| Deposits                                                        | 995,350           | 1,251,864           |
| Other borrowings                                                | 298,497           | 185,146             |
| Total interest expense                                          | <u>1,293,847</u>  | <u>1,437,010</u>    |
| Net interest income                                             | 6,914,478         | 6,802,890           |
| Provision for loan losses                                       | -                 | 454,000             |
| Net interest income after provision for loan losses             | <u>6,914,478</u>  | <u>6,348,890</u>    |
| Noninterest income:                                             |                   |                     |
| Service charges on deposit accounts                             | 174,574           | 190,715             |
| Bank owned life insurance                                       | 45,633            | 41,775              |
| Other fees and income                                           | 564,168           | 437,681             |
| Gains on sales of securities available for sale                 | -                 | 7,977               |
| Total noninterest income                                        | <u>784,375</u>    | <u>678,148</u>      |
| Noninterest expenses:                                           |                   |                     |
| Salaries and employee benefits                                  | 3,544,333         | 2,892,627           |
| Occupancy and equipment expenses                                | 887,854           | 755,498             |
| Other operating expenses                                        | 2,170,195         | 1,898,756           |
| Total noninterest expenses                                      | <u>6,602,382</u>  | <u>5,546,881</u>    |
| Income before income taxes                                      | 1,096,471         | 1,480,157           |
| Income tax expense                                              | 201,716           | 205,807             |
| Net income                                                      | <u>\$ 894,755</u> | <u>\$ 1,274,350</u> |
| Basic earnings per common share                                 | <u>\$ 0.93</u>    | <u>\$ 1.34</u>      |
| Diluted earnings per common share                               | <u>\$ 0.93</u>    | <u>\$ 1.34</u>      |

**See Notes to Consolidated Financial Statements.**

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

|                                                                                                                                                  | 2021              | 2020                |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------------|
| <b>Net income</b>                                                                                                                                | <b>\$ 894,755</b> | <b>\$ 1,274,350</b> |
| <b>Other comprehensive income (loss):</b>                                                                                                        |                   |                     |
| Unrealized holding gains (loss) on securities available for sale arising during the year, net of taxes of \$(92,302) and \$113,754, respectively | (347,233)         | 427,932             |
| Reclassification adjustment for gains realized in net income, net of taxes of \$- and \$1,675, respectively                                      | -                 | (6,302)             |
| <b>Other comprehensive income (loss)</b>                                                                                                         | <b>(347,233)</b>  | <b>421,630</b>      |
| <b>Comprehensive income</b>                                                                                                                      | <b>\$ 547,522</b> | <b>\$ 1,695,980</b> |

**See Notes to Consolidated Financial Statements.**

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2021 AND 2020**

|                                            | Common<br>Stock<br>Shares | Paid-In<br>Capital  | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury Stock  |                     | Total<br>Stockholders'<br>Equity |
|--------------------------------------------|---------------------------|---------------------|----------------------|--------------------------------------------------------|-----------------|---------------------|----------------------------------|
|                                            |                           |                     |                      |                                                        | Shares          | Amount              |                                  |
| <b>Balance, December 31, 2019</b>          | 968,881                   | \$ 7,897,187        | \$ 10,294,571        | \$ 5,696                                               | (18,534)        | \$ (290,792)        | \$ 17,906,662                    |
| Net income                                 | -                         | -                   | 1,274,350            | -                                                      | -               | -                   | 1,274,350                        |
| Cash dividends paid,<br>\$1.01 per share   | -                         | -                   | (960,031)            | -                                                      | -               | -                   | (960,031)                        |
| Other comprehensive income                 | -                         | -                   | -                    | 421,630                                                | -               | -                   | 421,630                          |
| <b>Balance, December 31, 2020</b>          | 968,881                   | 7,897,187           | 10,608,890           | 427,326                                                | (18,534)        | (290,792)           | 18,642,611                       |
| Net income                                 | -                         | -                   | 894,755              | -                                                      | -               | -                   | 894,755                          |
| Cash dividends paid,<br>\$0.42 per share   | -                         | -                   | (399,221)            | -                                                      | -               | -                   | (399,221)                        |
| Issuance of common stock,<br>25,000 shares | 25,000                    | 500,000             | -                    | -                                                      | -               | -                   | 500,000                          |
| Other comprehensive loss                   | -                         | -                   | -                    | (347,233)                                              | -               | -                   | (347,233)                        |
| <b>Balance, December 31, 2021</b>          | <b>993,881</b>            | <b>\$ 8,397,187</b> | <b>\$ 11,104,424</b> | <b>\$ 80,093</b>                                       | <b>(18,534)</b> | <b>\$ (290,792)</b> | <b>\$ 19,290,912</b>             |

See Notes to Consolidated Financial Statements.

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2021 AND 2020**

|                                                                                   | 2021                 | 2020                |
|-----------------------------------------------------------------------------------|----------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>                                                       |                      |                     |
| Net income                                                                        | \$ 894,755           | \$ 1,274,350        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                     |
| Depreciation                                                                      | 263,661              | 214,384             |
| Provision for deferred tax                                                        | 58,572               | (86,097)            |
| Provision for loan losses                                                         | -                    | 454,000             |
| Amortization of core deposit intangible                                           | 25,000               | 25,000              |
| (Increase) decrease in interest receivable                                        | 157,779              | (91,535)            |
| Decrease in interest payable                                                      | (65,702)             | (41,577)            |
| Increase in taxes receivable                                                      | (9,998)              | (34,756)            |
| Gain on sales of available for sale securities                                    | -                    | (7,977)             |
| Gain on sales of premises and equipment                                           | (23,244)             | -                   |
| Loss on sales of foreclosed assets                                                | 4,250                | 200                 |
| Increase in cash value life insurance                                             | (45,633)             | (41,775)            |
| Other operating activities, net                                                   | (75,869)             | 263,128             |
|                                                                                   | <b>1,183,571</b>     | <b>1,927,345</b>    |
| <b>INVESTING ACTIVITIES</b>                                                       |                      |                     |
| Purchases of securities available for sale                                        | (23,253,243)         | (5,161,291)         |
| Proceeds from sales of securities available for sale                              | -                    | 581,326             |
| Proceeds from maturities and calls of securities available for sale               | 4,334,488            | 5,351,221           |
| Net change in restricted equity securities                                        | 178,600              | (4,300)             |
| (Increase) decrease in interest bearing deposits at other banks                   | (60,879,292)         | (14,806,842)        |
| (Increase) decrease in federal funds sold                                         | (800,416)            | 9,902,640           |
| Net increase in loans                                                             | (2,327,658)          | (9,910,900)         |
| Proceeds from sales of foreclosed assets                                          | 89,525               | 5,700               |
| Proceeds from the sales of premises and equipment                                 | 37,000               | -                   |
| Purchases of premises and equipment                                               | (3,268,353)          | (204,071)           |
|                                                                                   | <b>(85,889,349)</b>  | <b>(14,246,517)</b> |
| <b>FINANCING ACTIVITIES</b>                                                       |                      |                     |
| Net increase in deposits                                                          | 75,907,158           | 14,061,717          |
| Receipt of other borrowings                                                       | -                    | 477,119             |
| Repayment of other borrowings                                                     | (477,119)            | -                   |
| Proceeds from issuance of subordinated debt, net of costs                         | 9,865,612            | -                   |
| Issuance of common stock                                                          | 500,000              | -                   |
| Dividends paid to shareholders                                                    | (399,221)            | (960,031)           |
|                                                                                   | <b>85,396,430</b>    | <b>13,578,805</b>   |
| Net increase in cash                                                              | <b>690,652</b>       | <b>1,259,633</b>    |
| Cash and due from banks at beginning of year                                      | <b>9,432,229</b>     | <b>8,172,596</b>    |
| Cash and due from banks at end of year                                            | <b>\$ 10,122,881</b> | <b>\$ 9,432,229</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                          |                      |                     |
| Cash paid during the year for:                                                    |                      |                     |
| Interest                                                                          | \$ 1,359,549         | \$ 1,478,587        |
| Income taxes                                                                      | \$ 124,912           | \$ 325,160          |
| <b>NONCASH TRANSACTIONS</b>                                                       |                      |                     |
| Unrealized losses on securities available for sale                                | \$ 439,535           | \$ 533,709          |
| Transfer from loans to foreclosed assets                                          | \$ 17,775            | \$ 77,700           |

See Notes to Consolidated Financial Statements. 7

**BAINBRIDGE BANCSHARES, INC.**  
**AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Bainbridge Bancshares, Inc. (the “Company”) is a one-bank holding company whose principal activity is the ownership and management of its wholly-owned bank subsidiary, First National Bank of Decatur County (the “Bank”). The Bank provides a full range of banking services to individual and corporate customers in its primary markets which includes Decatur County, Colquitt County and Grady County, Georgia and Destin, Florida and counties within a 60 mile radius of their existing locations.

**Basis of Presentation and Accounting Estimates**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed assets, deferred taxes, other-than-temporary impairments of securities and the fair value of financial instruments.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Company’s loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers’ ability to honor their contracts is dependent on local economic conditions in the agricultural industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The Company has evaluated all transactions, events and circumstances for consideration or disclosure through March 28, 2022, the date these financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Cash, Due from Banks and Cash Flows**

For purposes of reporting cash flows, cash and due from banks include cash on hand, cash items in process of collection and amounts due from banks. Cash flows from interest-bearing deposits at other banks, loans, federal funds sold, restricted equity securities, loans and deposits are reported net.

During 2020, the Federal Reserve Bank no longer required the Company to maintain a reserve requirement. This remains unchanged as of December 31, 2021. The Federal Reserve Bank does not have plans to re-implement the reserve requirement in the near future, but reserves the right to increase the reserve percentage at a future date.

The Company maintains amounts due from banks which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

#### **Securities**

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized costs. Securities not classified as held to maturity are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income (loss), net of the related deferred tax effect. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates investment securities for other-than-temporary impairment using relevant accounting guidance specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless a credit loss has occurred in the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in comprehensive income (loss).

#### **Restricted Equity Securities**

The Company is required to maintain an investment in the capital stock of various entities. Based on redemption provisions of these entities, the stock has no quoted market value and is carried at cost. At their discretion, these entities may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks.

#### **Bank-Owned Life Insurance**

Bank-owned life insurance represents life insurance on the lives of certain employees who have provided positive consent allowing the Company as beneficiary of such policies. These policies are recorded at their cash surrender value, or the amount that can be realized upon surrender of the policy. Income from these policies and changes in the cash surrender value are recorded in noninterest income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees and direct origination costs of loans are recognized at the time the loan is placed on the books. Because the loan origination fee approximates the cost of most loans and the majority of loans have maturities of one year or less, the effect on operations is immaterial.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued, but not collected for loans that are placed on nonaccrual or charged-off, is reversed against interest income or charged to the allowance, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash-basis, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms for a period of generally not less than six months.

#### Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flow collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical loss experience adjusted for other qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Allowance for Loan Losses (Continued)

A loan is considered impaired when it is probable, based on current information and events, the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower's request, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The Company's homogeneous loan pools include commercial real estate loans, real estate construction, residential real estate loans, farmland, commercial, financial and agricultural loans, consumer and other loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk and (7) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio and the total dollar amount of the loans in the pool.

#### Troubled Debt Restructurings

The Company designates loan modifications as troubled debt restructurings ("TDRs") when for economic or legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Company typically classifies these restructurings as nonaccrual.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current capacity to pay, which among other things may include a review of the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt to income analysis and an evaluation of secondary sources of payment from the borrower and any guarantors. This evaluation also includes an evaluation of the borrower's current willingness to pay, which may include a review of past payment history, an evaluation of the borrower's willingness to provide information on a timely basis and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower's future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest and trends indicating improving profitability and collectability of receivables.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Troubled Debt Restructurings (Continued)

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

#### Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in other expense.

|                           | <u>Years</u> |
|---------------------------|--------------|
| Building and improvements | 15-39        |
| Furniture and equipment   | 3-15         |

#### Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

#### Advertising Costs

Advertising costs are expensed as incurred.

#### Foreclosed Assets

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed assets and subsequent write-downs to the value are expensed. The carrying amount of foreclosed assets at December 31, 2021 and 2020 was \$- and \$76,000, respectively, and is included in other assets in the consolidated balance sheets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Intangible Assets

Intangible assets consist of core deposit premiums acquired in connection with the business combinations. The core deposit premium is initially recognized based on a valuation performed as of the consummation date. The core deposit premium is amortized over the average remaining life of the acquired customer deposits, or approximately ten years. Amortization periods are reviewed annually in connection with the annual impairment testing. The intangible assets were evaluated for impairment during the fourth quarter and based on that evaluation it was determined that there was no impairment at December 31, 2021.

#### Income Taxes

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The 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%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and 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.

#### Earnings Per Share

Basic earnings per common share are computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share are computed by dividing net income available to common stockholders by the sum of weighted-average number of shares of common stock outstanding and potential common shares. The weighted-average number of basic shares outstanding for each of the years ended December 31, 2021 and 2020 was 956,375 and 950,527, respectively. The weighted-average number of diluted shares outstanding for the years ended December 31, 2021 and 2020 was 959,825 and 953,323, respectively.

#### Comprehensive Income

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Stock-Based Compensation

Stock compensation accounting guidance 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, share appreciation rights and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' 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. A Black-Scholes model is used to estimate the fair value of stock options.

#### Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 17. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

#### Reclassification of Certain Items

Certain items in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation with no effect on total assets or net income.

### NOTE 2. SECURITIES

The amortized cost and fair value of securities with gross unrealized gains and losses are summarized as follows:

|                                              | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|----------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| <b>Securities Available for Sale</b>         |                   |                              |                               |               |
| <b>December 31, 2021:</b>                    |                   |                              |                               |               |
| U.S. Government and federal agencies         | \$ 1,520,115      | \$ 7,935                     | \$ (239)                      | \$ 1,527,811  |
| U.S. Government-sponsored enterprises (GSEs) | 5,748,348         | -                            | (30,342)                      | 5,718,006     |
| Municipal securities                         | 15,082,366        | 199,552                      | (20,726)                      | 15,261,192    |
| Mortgage-backed securities - GSEs            | 14,959,396        | 126,423                      | (155,639)                     | 14,930,180    |
| Corporate bonds                              | 1,000,000         | -                            | (25,580)                      | 974,420       |
| Total securities available for sale          | \$ 38,310,225     | \$ 333,910                   | \$ (232,526)                  | \$ 38,411,609 |
| <b>December 31, 2020:</b>                    |                   |                              |                               |               |
| U.S. Government-sponsored enterprises (GSEs) | \$ 500,000        | \$ -                         | \$ (281)                      | \$ 499,719    |
| Municipal securities                         | 7,385,120         | 212,305                      | -                             | 7,597,425     |
| Mortgage-backed securities - GSEs            | 11,506,350        | 329,452                      | (557)                         | 11,835,245    |
| Total securities available for sale          | \$ 19,391,470     | \$ 541,757                   | \$ (838)                      | \$ 19,932,389 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (CONTINUED)

The amortized cost and fair value of debt securities as of December 31, 2021 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

|                                   | Available for Sale |               |
|-----------------------------------|--------------------|---------------|
|                                   | Amortized<br>Cost  | Fair<br>Value |
| Due in one year or less           | \$ 3,380,000       | \$ 3,376,199  |
| Due in one to five years          | 6,497,077          | 6,530,296     |
| Due from five years to ten years  | 12,922,383         | 13,022,119    |
| Due after ten years               | 551,369            | 552,815       |
| Mortgage-backed securities - GSEs | 14,959,396         | 14,930,180    |
| Total securities                  | \$ 38,310,225      | \$ 38,411,609 |

Securities with a carrying value of approximately \$26,818,000 and \$11,179,950 at December 31, 2021 and 2020, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Gains and losses on sales of securities available for sale consist of the following:

|                    | Year Ended<br>December 31,<br>2020 |
|--------------------|------------------------------------|
| Gross gains        | \$ 8,990                           |
| Gross losses       | (1,013)                            |
| Net realized gains | \$ 7,977                           |

There were no sales of securities available for sale during the year ended December 31, 2021.

#### *Restricted Equity Securities*

Restricted equity securities consist of the following:

|                              | December 31, |            |
|------------------------------|--------------|------------|
|                              | 2021         | 2020       |
| Federal Reserve Bank stock   | \$ 378,950   | \$ 378,950 |
| Federal Home Loan Bank stock | 221,200      | 399,800    |
|                              | \$ 600,150   | \$ 778,750 |

The Company has investments in the common stock of the Federal Home Loan Bank of Atlanta and the Federal Reserve Bank at December 31, 2021. These investments are accounted for by the cost method, which represents par value, and is made for long-term business affiliation reasons. In addition, these investments are subject to restrictions relating to sale, transfer or other disposition. Dividends are recognized in income when declared. At December 31, 2021 and 2020, the estimated fair value of the investments was approximately \$600,150 and \$778,750, respectively, and, therefore, are not considered impaired.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (CONTINUED)

#### *Temporarily Impaired Securities*

The following table shows the gross unrealized losses and fair value of securities, aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2021 and 2020.

|                                              | Less Than 12 Months         |                            | 12 Months or More          |                           | Total                       |                            |
|----------------------------------------------|-----------------------------|----------------------------|----------------------------|---------------------------|-----------------------------|----------------------------|
|                                              | Fair Value                  | Unrealized Losses          | Fair Value                 | Unrealized Losses         | Fair Value                  | Unrealized Losses          |
| <b>Securities Available for Sale</b>         |                             |                            |                            |                           |                             |                            |
| <b>December 31, 2021:</b>                    |                             |                            |                            |                           |                             |                            |
| U.S. Government and federal agencies         | \$ 971,641                  | \$ (239)                   | \$ -                       | \$ -                      | \$ 971,641                  | \$ (239)                   |
| U.S. Government-sponsored enterprises (GSEs) | 2,328,002                   | (10,345)                   | 480,004                    | (19,997)                  | 2,808,006                   | (30,342)                   |
| Municipal securities                         | 2,778,285                   | (20,726)                   | -                          | -                         | 2,778,285                   | (20,726)                   |
| Mortgage-backed securities - GSEs            | <u>5,246,456</u>            | <u>(128,545)</u>           | <u>590,215</u>             | <u>(27,094)</u>           | <u>5,836,671</u>            | <u>(155,639)</u>           |
| Subtotal debt securities                     | 11,324,384                  | (159,855)                  | 1,070,219                  | (47,091)                  | 12,394,603                  | (206,946)                  |
| Corporate bonds                              | <u>974,420</u>              | <u>(25,580)</u>            | -                          | -                         | <u>974,420</u>              | <u>(25,580)</u>            |
| <b>Total temporarily impaired securities</b> | <b><u>\$ 12,298,804</u></b> | <b><u>\$ (185,435)</u></b> | <b><u>\$ 1,070,219</u></b> | <b><u>\$ (47,091)</u></b> | <b><u>\$ 13,369,023</u></b> | <b><u>\$ (232,526)</u></b> |
| <b>Securities Available for Sale</b>         |                             |                            |                            |                           |                             |                            |
| <b>December 31, 2020:</b>                    |                             |                            |                            |                           |                             |                            |
| U.S. Government-sponsored enterprises (GSEs) | \$ 499,719                  | \$ (281)                   | \$ -                       | \$ -                      | \$ 499,719                  | \$ (281)                   |
| Mortgage-backed securities - GSEs            | <u>252,157</u>              | <u>(557)</u>               | -                          | -                         | <u>252,157</u>              | <u>(557)</u>               |
| <b>Total temporarily impaired securities</b> | <b><u>\$ 751,876</u></b>    | <b><u>\$ (838)</u></b>     | <b><u>\$ -</u></b>         | <b><u>\$ -</u></b>        | <b><u>\$ 751,876</u></b>    | <b><u>\$ (838)</u></b>     |

*U.S. Government and federal agency obligations.* The unrealized losses on one investment in U.S. Government obligations and direct obligations of U.S. government agencies was caused by interest rate increases. The contractual terms of this investment does not permit the issuer to settle the security at a price less than the amortized cost basis of the investment. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of their amortized cost bases, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2021.

*U.S. Government-sponsored enterprises (GSEs) debt securities.* The unrealized loss on four investments in U.S. Government-sponsored enterprises (GSEs) debt securities which were caused by interest rate changes. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost bases, which may be maturity, the Company does not consider this investments to be other-than-temporarily impaired at December 31, 2021.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (CONTINUED)

#### *Temporarily Impaired Securities (Continued)*

*State and municipal obligations.* The unrealized losses on six investments in state and municipal securities were caused by interest rate increases. The contractual terms of the investments do not permit the issuers to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2021.

*GSE residential mortgage-backed securities.* The unrealized losses on the Company's investment in seven GSE mortgage-backed securities were caused by interest rate changes. The Company purchased these investments at a discount relative to the securities' face amount, and the contractual cash flows of the investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities will not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of the securities' amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2021.

*Corporate debt securities.* The Company's unrealized loss on the one corporate bond relates to investment in a company within the financial services sector. The contractual terms of this investment does not permit the company to settle the security at a price less than the par value of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual term of the investment. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of their par value, which may be maturity, it does not consider the investment to be other-than-temporarily impaired at December 31, 2021.

### NOTE 3. LOANS

#### **Portfolio Segmentation**

The composition of loans is summarized as follows:

|                                        | <b>December 31,</b>   |                |
|----------------------------------------|-----------------------|----------------|
|                                        | <b>2021</b>           | 2020           |
| Real estate mortgages:                 |                       |                |
| Commercial                             | \$ 45,029,074         | \$ 40,857,683  |
| Construction                           | 9,591,833             | 6,170,481      |
| Residential                            | 50,856,009            | 48,010,810     |
| Farmland                               | 4,986,741             | 5,607,281      |
| Commercial, financial and agricultural | 32,239,080            | 39,391,429     |
| Consumer and other                     | 4,429,777             | 4,842,970      |
|                                        | <b>147,132,514</b>    | 144,880,654    |
| Allowance for loan losses              | <b>(2,376,983)</b>    | (2,435,006)    |
| Loans, net                             | <b>\$ 144,755,531</b> | \$ 142,445,648 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Portfolio Segmentation (Continued)

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are three loan portfolio segments that include real estate; commercial, financial and agricultural; and consumer and other. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan and an entity's method for monitoring and assessing credit risk. Commercial, financial and agricultural is a separate commercial loan class. Classes within the real estate portfolio segment include commercial, construction, residential and farmland. Consumer and other loans are a class in itself.

The following describe risk characteristics relevant to each of the portfolio segments and classes:

Real Estate - As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Commercial real estate mortgage loans include owner-occupied commercial real estate loans, owner-occupied construction loans for commercial businesses and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. Owner-occupied construction loans for a commercial business are for the development of land or construction of a building. Both of these loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.
- Loans for real estate construction are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.
- Residential real estate loans include 1-4 family first mortgages, junior liens, open end real estate loans and multifamily mortgage loans. These loans are repaid by various means such as a borrower's income, sale of the property or rental income derived from the property.
- Farmland mortgage loans are repaid by various means such as a borrower's income, sale of the property or rental income derived from the property.

Commercial, financial and agricultural - This portfolio segment includes commercial, financial and agricultural loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations.

Consumer and other - This portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Credit Risk Management

Management and the Loan Committee are both involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to manage the portfolios and reduce risk, particularly in the more problematic portfolios.

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Credit Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios, including a complete review of all relationships over \$300,000 on an annual basis or more frequently as needed.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by the Chief Executive Officer, Loan Committee and the Board of Directors.

A description of the general characteristics of the risk grades used by the Company is as follows:

**“Pass”:** Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

**“Watch”:** Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining earnings, strained cash flow, increasing leverage and weakening market position that indicate above average risk. These borrowers generally have limited additional debt capacity, modest coverage and average or below average asset quality, margins and market share. If left uncorrected, these potential weaknesses may result in interim losses or adverse trends, but not to the level that would affect the Company’s position.

**“Substandard”:** Loans in this risk grade have well-defined weakness where a payment default or a loss is possible, but not yet probable. Cash flow is insufficient to service debt, with prospects that the condition is permanent. Assets classified as substandard are inadequately protected by the current net worth and paying capacity of the borrower and there is a likelihood that collateral will have to be liquidated or guarantor called upon to repay the debt.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Credit Risk Management (Continued)

“**Doubtful**”: Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that available information suggests it is unlikely that the loan will be repaid in its entirety. Cash flow is insufficient to service debt. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimated loss is deferred until its more exact status may be determined.

“**Loss**”: Loans in this risk grade are considered to be noncollectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, the Company typically does not maintain a recorded investment in loans within this category.

The following table summarizes the risk category of the Company’s loan portfolio based upon the most recent analysis performed:

|                                                   | <u>Pass</u>                  | <u>Watch</u>             | <u>Substandard</u>         | <u>Doubtful</u>    | <u>Total</u>                 |
|---------------------------------------------------|------------------------------|--------------------------|----------------------------|--------------------|------------------------------|
| <b>December 31, 2021</b>                          |                              |                          |                            |                    |                              |
| <b>Real estate mortgages:</b>                     |                              |                          |                            |                    |                              |
| <b>Commercial</b>                                 | \$ 43,694,838                | \$ 123,696               | \$ 1,210,540               | \$ -               | \$ 45,029,074                |
| <b>Construction</b>                               | 9,591,833                    | -                        | -                          | -                  | 9,591,833                    |
| <b>Residential</b>                                | 50,289,644                   | 77,388                   | 488,977                    | -                  | 50,856,009                   |
| <b>Farmland</b>                                   | 4,985,325                    | -                        | 1,416                      | -                  | 4,986,741                    |
| <b>Commercial, financial<br/>and agricultural</b> | <b>30,639,446</b>            | <b>221,009</b>           | <b>1,378,625</b>           | <b>-</b>           | <b>32,239,080</b>            |
| <b>Consumer and other</b>                         | <b>4,357,020</b>             | <b>-</b>                 | <b>72,757</b>              | <b>-</b>           | <b>4,429,777</b>             |
| <b>Total</b>                                      | <b><u>\$ 143,558,106</u></b> | <b><u>\$ 422,093</u></b> | <b><u>\$ 3,152,315</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 147,132,514</u></b> |
| <br>                                              |                              |                          |                            |                    |                              |
| <b>December 31, 2020</b>                          |                              |                          |                            |                    |                              |
| <b>Real estate mortgages:</b>                     |                              |                          |                            |                    |                              |
| <b>Commercial</b>                                 | \$ 38,841,478                | \$ 539,053               | \$ 1,477,152               | \$ -               | \$ 40,857,683                |
| <b>Construction</b>                               | 6,170,481                    | -                        | -                          | -                  | 6,170,481                    |
| <b>Residential</b>                                | 47,280,563                   | 82,387                   | 647,860                    | -                  | 48,010,810                   |
| <b>Farmland</b>                                   | 5,600,458                    | -                        | 6,823                      | -                  | 5,607,281                    |
| <b>Commercial, financial<br/>and agricultural</b> | <b>38,323,554</b>            | <b>302,458</b>           | <b>765,417</b>             | <b>-</b>           | <b>39,391,429</b>            |
| <b>Consumer and other</b>                         | <b>4,744,028</b>             | <b>49,838</b>            | <b>49,104</b>              | <b>-</b>           | <b>4,842,970</b>             |
| <b>Total</b>                                      | <b><u>\$ 140,960,562</u></b> | <b><u>\$ 973,736</u></b> | <b><u>\$ 2,946,356</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 144,880,654</u></b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on nonaccrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following table presents the aging of the recorded investment in loans:

|                                        | Current               | Past Due Status (Accruing Loans) |                  |                  | Total Past Due    | Nonaccrual          | Total                 |
|----------------------------------------|-----------------------|----------------------------------|------------------|------------------|-------------------|---------------------|-----------------------|
|                                        |                       | 30-59 Days                       | 60-89 Days       | 90+ Days         |                   |                     |                       |
| <b>December 31, 2021</b>               |                       |                                  |                  |                  |                   |                     |                       |
| <b>Real estate mortgages:</b>          |                       |                                  |                  |                  |                   |                     |                       |
| Commercial                             | \$ 44,824,017         | \$ -                             | \$ -             | \$ -             | \$ -              | \$ 205,057          | \$ 45,029,074         |
| Construction                           | 9,591,833             | -                                | -                | -                | -                 | -                   | 9,591,833             |
| Residential                            | 50,814,432            | 15,329                           | -                | -                | 15,329            | 26,248              | 50,856,009            |
| Farmland                               | 4,986,741             | -                                | -                | -                | -                 | -                   | 4,986,741             |
| Commercial, financial and agricultural | 32,019,798            | 39,616                           | -                | -                | 39,616            | 179,666             | 32,239,080            |
| Consumer and other                     | 4,346,876             | 776                              | 11,890           | -                | 12,666            | 70,235              | 4,429,777             |
| <b>Total</b>                           | <b>\$ 146,583,697</b> | <b>\$ 55,721</b>                 | <b>\$ 11,890</b> | <b>\$ -</b>      | <b>\$ 67,611</b>  | <b>\$ 481,206</b>   | <b>\$ 147,132,514</b> |
| <b>December 31, 2020</b>               |                       |                                  |                  |                  |                   |                     |                       |
| <b>Real estate mortgages:</b>          |                       |                                  |                  |                  |                   |                     |                       |
| Commercial                             | \$ 40,233,475         | \$ 166,944                       | \$ -             | \$ -             | \$ 166,944        | \$ 457,264          | \$ 40,857,683         |
| Construction                           | 6,170,481             | -                                | -                | -                | -                 | -                   | 6,170,481             |
| Residential                            | 47,568,778            | 31,560                           | -                | 26,537           | 58,097            | 383,935             | 48,010,810            |
| Farmland                               | 5,600,458             | -                                | -                | -                | -                 | 6,823               | 5,607,281             |
| Commercial, financial and agricultural | 39,051,195            | 188,743                          | -                | -                | 188,743           | 151,491             | 39,391,429            |
| Consumer and other                     | 4,688,620             | 105,246                          | -                | -                | 105,246           | 49,104              | 4,842,970             |
| <b>Total</b>                           | <b>\$ 143,313,007</b> | <b>\$ 492,493</b>                | <b>\$ -</b>      | <b>\$ 26,537</b> | <b>\$ 519,030</b> | <b>\$ 1,048,617</b> | <b>\$ 144,880,654</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Allowance for Loan Losses

The allowance for loan losses is a valuation reserve established through provisions for loan losses charged against income. The allowance for loan losses, which is evaluated quarterly, is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The allowance for loan losses is comprised of specific valuation allowances for loans evaluated individually for impairment, general allocations for pools of homogeneous loans with similar risk characteristics and trends and an unallocated component that reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows, (2) the fair value of collateral if the loan is determined to be collateral dependent or (3) the loan's observable market price. The Company's homogeneous loan pools include commercial real estate loans, real estate construction loans, residential real estate loans, real estate farmland, commercial/financial/agricultural, and consumer and other loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk and (7) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio and the total dollar amount of the loans in the pool.

The following tables detail activity in the allowance for loan losses by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

|                                                        | <u>Real Estate</u>    | <u>Commercial</u>    | <u>Consumer</u>     | <u>Unallocated</u> | <u>Total</u>          |
|--------------------------------------------------------|-----------------------|----------------------|---------------------|--------------------|-----------------------|
| <b>December 31, 2021</b>                               |                       |                      |                     |                    |                       |
| <b>Allowance for loan losses:</b>                      |                       |                      |                     |                    |                       |
| Beginning balance                                      | \$ 1,148,898          | \$ 392,857           | \$ 68,381           | \$ 824,870         | \$ 2,435,006          |
| Charge-offs                                            | (33,362)              | (32,402)             | (103,874)           | -                  | (169,638)             |
| Recoveries                                             | 33,321                | 36,593               | 41,701              | -                  | 111,615               |
| Provision (recovery)                                   | 9,789                 | (45,727)             | 76,034              | (40,096)           | -                     |
| Ending balance                                         | <u>\$ 1,158,646</u>   | <u>\$ 351,321</u>    | <u>\$ 82,242</u>    | <u>\$ 784,774</u>  | <u>\$ 2,376,983</u>   |
| Ending balance - individually evaluated for impairment | <u>\$ -</u>           | <u>\$ -</u>          | <u>\$ -</u>         | <u>\$ -</u>        | <u>\$ -</u>           |
| Ending balance - collectively evaluated for impairment | <u>\$ 1,158,646</u>   | <u>\$ 351,321</u>    | <u>\$ 82,242</u>    | <u>\$ 784,774</u>  | <u>\$ 2,376,983</u>   |
| <b>Loans:</b>                                          |                       |                      |                     |                    |                       |
| Ending balance                                         | <u>\$ 110,463,657</u> | <u>\$ 32,239,080</u> | <u>\$ 4,429,977</u> | <u>\$ -</u>        | <u>\$ 147,132,514</u> |
| Ending balance - individually evaluated for impairment | <u>\$ 870,020</u>     | <u>\$ 425,182</u>    | <u>\$ -</u>         | <u>\$ -</u>        | <u>\$ 1,295,202</u>   |
| Ending balance - collectively evaluated for impairment | <u>\$ 109,593,637</u> | <u>\$ 31,813,898</u> | <u>\$ 4,429,777</u> | <u>\$ -</u>        | <u>\$ 145,837,312</u> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Allowance for Loan Losses (Continued)

|                                                        | Real Estate           | Commercial           | Consumer            | Unallocated       | Total                 |
|--------------------------------------------------------|-----------------------|----------------------|---------------------|-------------------|-----------------------|
| December 31, 2020                                      |                       |                      |                     |                   |                       |
| Allowance for loan losses:                             |                       |                      |                     |                   |                       |
| Beginning balance                                      | \$ 1,347,027          | \$ 424,767           | \$ 125,818          | \$ 99,074         | \$ 1,996,686          |
| Charge-offs                                            | (58,448)              | (3,676)              | (48,041)            | -                 | (110,165)             |
| Recoveries                                             | 5,255                 | 83,647               | 5,583               | -                 | 94,485                |
| Provision (recovery)                                   | (144,936)             | (111,881)            | (14,979)            | 725,796           | 454,000               |
| Ending balance                                         | <u>\$ 1,148,898</u>   | <u>\$ 392,857</u>    | <u>\$ 68,381</u>    | <u>\$ 824,870</u> | <u>\$ 2,435,006</u>   |
| Ending balance - individually evaluated for impairment | <u>\$ -</u>           | <u>\$ -</u>          | <u>\$ -</u>         | <u>\$ -</u>       | <u>\$ -</u>           |
| Ending balance - collectively evaluated for impairment | <u>\$ 1,148,898</u>   | <u>\$ 392,857</u>    | <u>\$ 68,381</u>    | <u>\$ 824,870</u> | <u>\$ 2,435,006</u>   |
| Loans:                                                 |                       |                      |                     |                   |                       |
| Ending balance                                         | <u>\$ 100,646,255</u> | <u>\$ 39,391,429</u> | <u>\$ 4,842,970</u> | <u>\$ -</u>       | <u>\$ 144,880,654</u> |
| Ending balance - individually evaluated for impairment | <u>\$ -</u>           | <u>\$ -</u>          | <u>\$ -</u>         | <u>\$ -</u>       | <u>\$ -</u>           |
| Ending balance - collectively evaluated for impairment | <u>\$ 100,646,255</u> | <u>\$ 39,391,429</u> | <u>\$ 4,842,970</u> | <u>\$ -</u>       | <u>\$ 144,880,654</u> |

#### Impaired Loans

A loan held for investment is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail impaired loans, by portfolio class:

|                                          | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|------------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| December 31, 2021                        |                        |                                |                      |                                   |                                  |
| With no related allowance recorded:      |                        |                                |                      |                                   |                                  |
| Real estate mortgages:                   |                        |                                |                      |                                   |                                  |
| Commercial                               | \$ 870,020             | \$ 870,020                     | \$ -                 | \$ 880,141                        | \$ 46,394                        |
| Construction                             | -                      | -                              | -                    | -                                 | -                                |
| Residential                              | -                      | -                              | -                    | -                                 | -                                |
| Farmland                                 | -                      | -                              | -                    | -                                 | -                                |
| Commercial, financial and agriculture    | 425,182                | 425,182                        | -                    | -                                 | -                                |
| Consumer and other                       | -                      | -                              | -                    | 477,671                           | 27,119                           |
| Total with no related allowance recorded | <u>\$ 1,295,202</u>    | <u>\$ 1,295,202</u>            | <u>\$ -</u>          | <u>\$ 1,357,812</u>               | <u>\$ 73,513</u>                 |
| With an allowance recorded:              |                        |                                |                      |                                   |                                  |
| Real estate mortgages:                   |                        |                                |                      |                                   |                                  |
| Commercial                               | \$ 340,519             | \$ 340,519                     | \$ 18,509            | \$ 460,259                        | \$ 6,890                         |
| Construction                             | -                      | -                              | -                    | -                                 | -                                |
| Residential                              | 488,977                | 488,977                        | 26,579               | 510,210                           | 11,357                           |
| Farmland                                 | 1,416                  | 1,416                          | 77                   | 4,119                             | -                                |
| Commercial, financial and agriculture    | 953,444                | 953,444                        | 51,826               | 1,112,523                         | 34,034                           |
| Consumer and other                       | 72,757                 | 72,757                         | 3,955                | 78,364                            | 2,295                            |
| Total with an allowance recorded         | <u>\$ 1,857,113</u>    | <u>\$ 1,857,113</u>            | <u>\$ 100,946</u>    | <u>\$ 2,165,475</u>               | <u>\$ 54,576</u>                 |
| Total impaired loans                     | <u>\$ 3,152,315</u>    | <u>\$ 3,152,315</u>            | <u>\$ 100,946</u>    | <u>\$ 3,523,287</u>               | <u>\$ 128,089</u>                |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Impaired Loans (Continued)

|                                       | <u>Recorded<br/>Investment</u> | <u>Unpaid<br/>Principal<br/>Balance</u> | <u>Related<br/>Allowance</u> | <u>Average<br/>Recorded<br/>Investment</u> | <u>Interest<br/>Income<br/>Recognized</u> |
|---------------------------------------|--------------------------------|-----------------------------------------|------------------------------|--------------------------------------------|-------------------------------------------|
| December 31, 2020                     |                                |                                         |                              |                                            |                                           |
| With an allowance recorded:           |                                |                                         |                              |                                            |                                           |
| Real estate mortgages:                |                                |                                         |                              |                                            |                                           |
| Commercial                            | \$ 1,477,152                   | \$ 1,477,152                            | \$ 164,151                   | \$ 1,512,498                               | \$ 48,364                                 |
| Construction                          | -                              | -                                       | -                            | -                                          | -                                         |
| Residential                           | 647,860                        | 647,860                                 | 71,995                       | 681,490                                    | 15,533                                    |
| Farmland                              | 6,823                          | 6,823                                   | 758                          | 9,526                                      | -                                         |
| Commercial, financial and agriculture | 765,417                        | 765,417                                 | 85,058                       | 775,539                                    | 15,341                                    |
| Consumer and other                    | 49,104                         | 49,104                                  | 5,457                        | 55,536                                     | -                                         |
| Total with an allowance recorded      | <u>\$ 2,946,356</u>            | <u>\$ 2,946,356</u>                     | <u>\$ 327,419</u>            | <u>\$ 3,034,589</u>                        | <u>\$ 79,238</u>                          |
| Total impaired loans                  | <u>\$ 2,946,356</u>            | <u>\$ 2,946,356</u>                     | <u>\$ 327,419</u>            | <u>\$ 3,034,589</u>                        | <u>\$ 79,238</u>                          |

There were no loans deemed to be impaired without a recorded allowance at December 31, 2020.

Included in impaired loans are TDR's and nonaccruals not individually evaluated for impairment.

#### Troubled Debt Restructurings

At December 31, 2021 and 2020, impaired loans included loans that were classified as TDRs. The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. In assessing whether or not a borrower is experiencing financial difficulties, the Company considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the borrower is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the borrower has declared or is in the process of declaring bankruptcy and (iv) the borrower's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the borrower's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Company generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. As of December 31, 2019, the Company had approximately \$180,000 in loans considered restructured and on nonaccrual. As of December 31, 2020, the Company had approximately \$106,000 in loans considered restructured and placed on nonaccrual status. There were no loans classified as restructured and on accrual status as of December 31, 2021 or 2020. A loan is placed back on accrual status when both principal and interest are current and it is probable that management will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Troubled Debt Restructurings (Continued)

The Company had no additional loans modified as a TDR in 2021.

The following table summarizes the loans that were modified as a TDR during the year ended December 31, 2020:

|                                       | Number<br>of Loans | Recorded<br>Investment<br>Prior to<br>Modification | Recorded<br>Investment<br>After<br>Modification | Impact on the<br>Allowance<br>for Loan<br>Losses |
|---------------------------------------|--------------------|----------------------------------------------------|-------------------------------------------------|--------------------------------------------------|
| December 31, 2020:                    |                    |                                                    |                                                 |                                                  |
| Commercial, financial and agriculture | 1                  | \$ 105,512                                         | \$ 105,512                                      | \$ -                                             |

The Company had no loans modified in a TDR over the last twelve months that subsequently defaulted during 2021 or 2020.

The Company has no additional commitments to lend additional funds to any of the related borrowers whose terms have been modified in a TDR.

#### Related Party Loans

In the ordinary course of business, the Company has granted loans to certain directors, executive officers and related entities of the Company and the Bank. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans were as follows:

|                            | Years Ended December 31, |              |
|----------------------------|--------------------------|--------------|
|                            | 2021                     | 2020         |
| Balance, beginning of year | \$ 3,841,772             | \$ 1,966,602 |
| Advances                   | 1,053,598                | 3,017,681    |
| Repayments                 | (2,234,502)              | (1,142,511)  |
| Balance, end of year       | \$ 2,660,868             | \$ 3,841,772 |

### NOTE 4. FORECLOSED ASSETS

A summary of foreclosed assets is presented as follows:

|                                    | Years Ended December 31, |           |
|------------------------------------|--------------------------|-----------|
|                                    | 2021                     | 2020      |
| Balance, beginning of year         | \$ 76,000                | \$ 4,200  |
| Additions                          | 17,775                   | 77,700    |
| Net disposals                      | (89,525)                 | (5,700)   |
| Loss on sales of foreclosed assets | (4,250)                  | (200)     |
| Balance, end of year               | \$ -                     | \$ 76,000 |

Residential real estate included in foreclosed assets totaled \$- and \$69,000 at December 31, 2021 and 2020, respectively. There were no residential real estate properties in process of foreclosure as of December 31, 2021.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

|                           | <b>Years Ended December 31,</b> |                     |
|---------------------------|---------------------------------|---------------------|
|                           | <b>2021</b>                     | <b>2020</b>         |
| Land and improvements     | \$ 1,228,203                    | \$ 1,207,778        |
| Building and improvements | 3,663,468                       | 3,565,246           |
| Furniture and equipment   | 2,237,381                       | 1,829,717           |
| Projects in process       | 2,731,973                       | 51,833              |
|                           | <b>9,861,025</b>                | <b>6,654,574</b>    |
| Accumulated depreciation  | <b>(2,795,127)</b>              | <b>(2,579,612)</b>  |
|                           | <b>\$ 7,065,898</b>             | <b>\$ 4,074,962</b> |

At December 31, 2021, the Company had approximately \$2.7 million in expenses toward construction and development of the new branch located in Destin, Florida, as well as upgrades to the Moultrie branch's ATM and core processor system. These costs were included in projects in process. Per discussion with management, the Destin branch's development is expected to incur additional cost of approximately \$1.5 million with the project expecting to be completed and moved into fixed assets in the fourth quarter of 2022. The Moultrie ATM and core processor upgrades are expected to incur additional cost of approximately \$300,000 with the project expected to be completed in the third quarter of 2022.

#### Leases

The Company made payments on two different lease locations in 2021. The Company enters into leases in the normal course of business for financial institutions.

The Company began renting a space in an office building in Miramar Beach, Florida for its Florida loan production office on April 1, 2020. The agreement was for a period of one year to expire on March 31, 2021. The original agreement, which expired on March 31, 2021, was renewed for a three-year period ending March 31, 2024. Rent expense for the year ended December 31, 2021 amounted to \$61,280.

The Company is renting an office space in Moultrie, Georgia for loan production which operates under First National Bank of Moultrie. The lease term began on January 1, 2021 and will expire on December 31, 2022. Rent expense for the year ended December 31, 2021 amounted to \$37,200.

Future minimum lease commitments on non-cancelable operation leases, excluding any renewal options are summarized as follows:

|      |                   |
|------|-------------------|
| 2022 | \$ 99,338         |
| 2023 | 62,138            |
| 2024 | 15,535            |
|      | <b>\$ 177,011</b> |

At December 31, 2021, there were no lease commitments beyond March 2024.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 6. INTANGIBLE ASSETS

#### *Intangible Assets*

During the fourth quarter of 2016, the Company acquired the assets and assumed the liabilities with the acquisition of Citizens Bank, Cairo Georgia in a business combination. Following is a summary of information related to the intangible assets:

|                              | As of December 31, 2021     |                             | December 31, 2020           |                             |
|------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                              | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Amortized intangible assets: |                             |                             |                             |                             |
| Core deposit intangible      | \$ 250,000                  | \$ 131,250                  | \$ 250,000                  | \$ 106,250                  |

Amortization expense in the amount of \$25,000 was recorded for each the years ended December 31, 2021 and 2020.

The estimated amortization expense for each of the next five years is as follows:

|      |            |
|------|------------|
| 2022 | \$ 25,000  |
| 2023 | 25,000     |
| 2024 | 25,000     |
| 2025 | 25,000     |
| 2026 | 18,750     |
|      | \$ 118,750 |

### NOTE 7. DEPOSITS

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2021 and 2020 was \$34,417,016 and \$20,083,187, respectively. The scheduled maturities of time deposits at December 31, 2021 were as follows:

|      |               |
|------|---------------|
| 2022 | \$ 52,424,943 |
| 2023 | 12,711,007    |
| 2024 | 3,082,790     |
| 2025 | 3,387,107     |
| 2026 | 2,492,414     |
|      | \$ 74,098,261 |

At December 31, 2020, deposits of one customer comprised approximately \$20,493,000 or 7.61% of total deposits. At December 31, 2021 and 2020, the Company held brokered time deposits in the amount of \$498,000 and \$5,654,000, respectively.

At December 31, 2021 and 2020, overdraft demand and savings deposits reclassified to loans totaled \$3,175 and \$7,131, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 8. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Federal Home Loan Bank advances consist of the following:

|                                                                                                | <u>December 31,</u> |                     |
|------------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                                | <u>2021</u>         | <u>2020</u>         |
| Advance from Federal Home Loan Bank<br>due on November 16, 2023 with an interest rate of 5.04% | <u>\$ 3,000,000</u> | <u>\$ 3,000,000</u> |

Advances from the Federal Home Loan Bank are secured by four securities with an original face value of \$3,000,000 as well as loans totaling approximately \$2,508,000. The book and fair value of the available for sale securities securing the advance was \$1,233,857 and \$1,246,224, respectively, at December 31, 2021.

The Company and subsidiary have available unused lines of credit with various financial institutions including the Federal Home Loan Bank totaling approximately \$14,164,000.

During 2020, the Federal Reserve Bank (“FRB”) established the Paycheck Protection Program Liquidity Facility (“PPPLF”) to provide banks with support and liquidity for PPP loans. At December 31, 2020, the Company had advances under the PPPLF due to the FRB totaling \$477,119. The interest rate applicable to all PPPLF advances is 0.35%. Pursuant to collateral agreements with the FRB, these advances are secured by loans originated under the SBA 7(a) loan program titled the PPP. At December 31, 2021, the Company had no advances outstanding under the PPPLF.

### NOTE 9. SUBORDINATED DEBT

In September 2021, the Company issued \$10,000,000 subordinated debt through a private placement. The debt is a fixed-to-floating issuance that requires semi-annual interest payments for the fixed rate period ending September 30, 2026. The rate during this period is 4.25%. After the fixed period, interest is payable quarterly at a rate of the three-month SOFR plus 350 basis points. Principal reductions can be made starting after September 30, 2026. The subordinated debt matures in September 2031. It is unsecured debt.

### NOTE 10. EMPLOYEE BENEFIT PLANS

#### Profit Sharing Plan

The Company has a 401(k) Employee Profit-Sharing Plan available to all eligible employees, subject to certain minimum age and service requirements. Employees may contribute up to 20% of their compensation subject to certain limits based on federal laws. The Company may make a contribution to the plan each year. The Board of Directors will determine the amount, if any, the Company will contribute each year. The contributions expensed were \$91,716 and \$72,278 for the years ended December 31, 2021 and 2020, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 11. STOCK COMPENSATION PLAN

In 2015, the 2015 Stock Option Plan (“2015 Plan”) was approved to promote the long-term success of the Company. The plan reserves 100,000 shares of common stock for the granting of options to directors, officers and employees. Both incentive stock options and nonqualified stock options may be granted under the Plan. Option prices reflect the fair market value of the Company’s common stock on the dates the options are granted. The options may be exercised over a period of ten years in accordance with vesting schedules determined by the Board of Directors. There were no shares granted from the plan during 2021 or 2020. At December 31, 2021, there were 92,500 shares still available for grant under the 2015 Plan.

There is no remaining unrecognized compensation related to stock options at December 31, 2021.

Information related to outstanding options is as follows:

|                                  | December 31, |                                 |        |                                 |
|----------------------------------|--------------|---------------------------------|--------|---------------------------------|
|                                  | 2021         |                                 | 2020   |                                 |
|                                  | Shares       | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 7,500        | \$ 10.80                        | 7,500  | \$ 10.80                        |
| Expired                          | -            |                                 | -      |                                 |
| Outstanding at end of year       | 7,500        |                                 | 7,500  |                                 |
| Options exercisable at year-end  | 7,500        |                                 | 7,500  |                                 |

|                                                 | Years Ended December 31, |            |
|-------------------------------------------------|--------------------------|------------|
|                                                 | 2021                     | 2020       |
| Stock options vested and expected to vest:      |                          |            |
| Number                                          | 7,500                    | 7,500      |
| Weighted-average exercise price                 | \$ 10.80                 | \$ 10.80   |
| Aggregate intrinsic value                       | \$ 69,000                | \$ 37,800  |
| Weighted-average contractual term of options    | 3.51 years               | 4.51 years |
| Stock options vested and currently exercisable: |                          |            |
| Number                                          | 7,500                    | 7,500      |
| Weighted-average exercise price                 | \$ 10.80                 | \$ 10.80   |
| Aggregate intrinsic value                       | \$ 69,000                | \$ 37,800  |
| Weighted-average contractual term of options    | 3.51 years               | 4.51 years |

| Options Outstanding      |                    |                                   |                                 |                    |                                 |
|--------------------------|--------------------|-----------------------------------|---------------------------------|--------------------|---------------------------------|
| Range of Exercise Prices | Number Outstanding | Weighted-Average Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| \$ 10.80                 | 7,500              | 3.51 years                        | \$ 10.80                        | 7,500              | \$ 10.80                        |
|                          | 7,500              |                                   |                                 | 7,500              |                                 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 12. INCOME TAXES

The components of income tax expense are as follows:

|          | <b>Years Ended December 31,</b> |                   |
|----------|---------------------------------|-------------------|
|          | <b>2021</b>                     | <b>2020</b>       |
| Current  | \$ 260,288                      | \$ 291,904        |
| Deferred | (58,572)                        | (86,097)          |
|          | <b>\$ 201,716</b>               | <b>\$ 205,807</b> |

The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

|                                         | <b>Years Ended December 31,</b> |                   |
|-----------------------------------------|---------------------------------|-------------------|
|                                         | <b>2021</b>                     | <b>2020</b>       |
| Tax provision at federal statutory rate | \$ 230,259                      | \$ 310,833        |
| Tax-exempt interest                     | (39,455)                        | (37,368)          |
| Other items, net                        | 10,912                          | (67,658)          |
| Income tax expense                      | <b>\$ 201,716</b>               | <b>\$ 205,807</b> |

The components of the net deferred tax assets, included in other assets, are as follows:

|                                    | <b>Years Ended December 31,</b> |                   |
|------------------------------------|---------------------------------|-------------------|
|                                    | <b>2021</b>                     | <b>2020</b>       |
| Deferred tax assets (liabilities): |                                 |                   |
| Loan loss reserves                 | \$ 410,100                      | \$ 410,100        |
| Nonaccrual interest                | 33,482                          | 31,089            |
| Other                              | 17,886                          | 9,257             |
| Securities available for sale      | (21,991)                        | (113,593)         |
| Core deposit intangible            | (24,938)                        | (30,188)          |
| Depreciation                       | (359,583)                       | (301,100)         |
| NOL carryforward                   | 222,306                         | 238,667           |
| Net deferred tax assets            | <b>\$ 277,262</b>               | <b>\$ 244,232</b> |

The federal income tax returns for the Company for 2020, 2019 and 2018 are subject to examination by the IRS, generally for three years after they were filed. The Company had approximately \$1,059,000 federal and state net operating loss carryforwards as of December 31, 2021. These carryforwards will begin to expire in 2027. The federal net operating loss carryforwards are subject to limitations pursuant to Internal Revenue Code Section 382 and are expected to be recovered over the next five years. The state net operating loss carryforwards are subject to similar limitations and are also expected to be recovered over the next five years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 13. EARNINGS PER COMMON SHARE

Presented below is a summary of the components used to calculate basic and diluted earnings per common share:

|                                                                                                    | <b>Years Ended December 31,</b> |                     |
|----------------------------------------------------------------------------------------------------|---------------------------------|---------------------|
|                                                                                                    | <b>2021</b>                     | 2020                |
| Net income                                                                                         | \$ 897,755                      | \$ 1,274,350        |
| Less dividends on preferred stock                                                                  | -                               | -                   |
| Net income available to common stockholders                                                        | <b>\$ 874,755</b>               | <b>\$ 1,274,350</b> |
| Weighted-average number of common shares outstanding                                               | <b>956,375</b>                  | 950,527             |
| Effect of dilutive options                                                                         | <b>3,450</b>                    | 2,796               |
| Weighted-average number of common shares outstanding used to calculate dilutive earnings per share | <b>959,825</b>                  | 953,323             |

### NOTE 14. COMMITMENTS AND CONTINGENCIES

#### Loan Commitments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate 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 and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments. A summary of the Company's commitments is as follows:

|                              | <b>Years Ended December 31,</b> |                      |
|------------------------------|---------------------------------|----------------------|
|                              | <b>2021</b>                     | 2020                 |
| Commitments to extend credit | \$ 10,943,226                   | \$ 10,215,519        |
| Standby letters of credit    | <b>2,471,384</b>                | 303,000              |
|                              | <b>\$ 13,414,610</b>            | <b>\$ 10,518,519</b> |

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 expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### Loan Commitments (Continued)

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

At December 31, 2021, the carrying amount of liabilities related to the Company's obligation to perform under standby letters of credit was insignificant. The Company has not been required to perform on any standby letters of credit, and the Company has not incurred any losses on standby letters of credit for the year ended December 31, 2021.

#### Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

### NOTE 15. CONCENTRATIONS OF CREDIT RISK

The Company originates primarily commercial, residential and consumer loans to customers in Decatur County and surrounding counties and Destin, Florida. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the local and area economics.

Seventy-five percent (75%) of the Company's loan portfolio is concentrated in loans secured by real estate, of which a substantial portion is secured by real estate in the Company's primary market area. Accordingly, the ultimate collectability of the loan portfolio and recovery of the carrying amount of foreclosed assets is susceptible to changes in real estate conditions in the Company's primary market area. The other concentrations of credit by type of loan are set forth in Note 3.

At various times throughout the year, the Company maintains cash balances with other financial institutions. The Company monitors the capital adequacy of these financial institutions on a quarterly basis. At December 31, 2021, the Company had a concentration of funds on deposit at Centerstate Bank totaling approximately \$82,054,000.

### NOTE 16. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2021, approximately \$2,542,000 in retained earnings were available for dividend declaration without regulatory approval.

The Company, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of 25% of the Bank's statutory capital base of approximately \$6,226,000.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 16. REGULATORY MATTERS (CONTINUED)

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. 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 Bank to maintain minimum amounts and ratios of total and Tier 1 and CET1 capital to risk weighted assets, as defined, and of Tier 1 capital to average assets, as defined. Management believes, as of December 31, 2021 and 2020, the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2021, the most recent notification from the Federal Deposit Insurance Corporation categorized First National Bank of Decatur County as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, CET1 risk-based and Tier 1 leverage ratios as set forth in the following table and not be subject to a formal enforcement action. There are no conditions or events since that notification that management believes have changed the Banks' categories.

The Bank's actual capital amounts and ratios are presented in the following table.

|                                                                          | Actual    |        | For Capital Adequacy Purposes |       | To Be Well Capitalized Under Prompt Corrective Action Provisions |        |
|--------------------------------------------------------------------------|-----------|--------|-------------------------------|-------|------------------------------------------------------------------|--------|
|                                                                          | Amount    | Ratio  | Amount                        | Ratio | Amount                                                           | Ratio  |
| (Dollars in Thousands)                                                   |           |        |                               |       |                                                                  |        |
| <b>As of December 31, 2021</b>                                           |           |        |                               |       |                                                                  |        |
| <b>Total Capital Ratio (total capital to risk weighted assets)</b>       | \$ 24,625 | 14.71% | \$ 13,389                     | 8.00% | \$ 16,737                                                        | 10.00% |
| <b>Core Capital Ratio (Tier 1 capital to risk weighted assets)</b>       | \$ 22,529 | 13.46% | \$ 10,042                     | 6.00% | \$ 13,389                                                        | 8.00%  |
| <b>CET1 Ratio (common equity Tier 1 capital to risk weighted assets)</b> | \$ 22,529 | 13.46% | \$ 7,531                      | 4.50% | \$ 10,879                                                        | 6.50%  |
| <b>Leverage Ratio (Tier 1 capital to average assets)</b>                 | \$ 22,529 | 8.55%  | \$ 10,538                     | 4.00% | \$ 13,172                                                        | 5.00%  |
| <b>As of December 31, 2020</b>                                           |           |        |                               |       |                                                                  |        |
| Total Capital Ratio (total capital to risk weighted assets)              | \$ 19,701 | 13.72% | \$ 11,486                     | 8.00% | \$ 14,357                                                        | 10.00% |
| Core Capital Ratio (Tier 1 capital to risk weighted assets)              | \$ 17,898 | 12.47% | \$ 8,614                      | 6.00% | \$ 11,486                                                        | 8.00%  |
| CET1 Ratio (common equity Tier 1 capital to risk weighted assets)        | \$ 17,898 | 12.47% | \$ 6,461                      | 4.50% | \$ 9,332                                                         | 6.50%  |
| Leverage Ratio (Tier 1 capital to average assets)                        | \$ 17,898 | 9.04%  | \$ 7,916                      | 4.00% | \$ 9,895                                                         | 5.00%  |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17. FAIR VALUE OF ASSETS AND LIABILITIES

#### Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

#### Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

**Assets Measured at Fair Value on a Nonrecurring Basis:** Under certain circumstances, management makes adjustments to fair value for assets although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy, for which a nonrecurring change in fair value has been recorded, are summarized below:

|                           | Fair Value Measurements Using                                              |                                                           |                                                    | Total Losses |
|---------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|--------------|
|                           | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |              |
| <b>December 31, 2021:</b> |                                                                            |                                                           |                                                    |              |
| <b>Impaired loans</b>     | \$ -                                                                       | \$ -                                                      | \$ 1,295,202                                       | \$ -         |
| <b>December 31, 2020:</b> |                                                                            |                                                           |                                                    |              |
| Impaired loans            | \$ -                                                                       | \$ -                                                      | \$ -                                               | \$ -         |

#### ***Impaired Loans***

Loans considered impaired under ASC 310-10-35, *Receivables*, are loans for which, based on current information and events, it is probable that 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 can be 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 estimated selling costs if the loan is collateral dependent.

The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate or business assets including equipment, inventory, and accounts receivable. The Company determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for estimated costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

**Assets Measured at Fair Value on a Recurring Basis:** Assets measured at fair value on a recurring basis are summarized below:

|                                              | Fair Value Measurements Using                                              |                                                           |                                                    | Total<br>Carrying<br>Value |
|----------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|----------------------------|
|                                              | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                            |
| <b>December 31, 2021</b>                     |                                                                            |                                                           |                                                    |                            |
| Assets                                       |                                                                            |                                                           |                                                    |                            |
| Securities available for sale                |                                                                            |                                                           |                                                    |                            |
| U.S. Government and federal agencies \$      | -                                                                          | \$ 1,527,811                                              | \$ -                                               | \$ 1,527,811               |
| U.S. Government-sponsored enterprises (GSEs) | -                                                                          | 5,718,006                                                 | -                                                  | 5,718,006                  |
| Municipal securities                         | -                                                                          | 15,261,192                                                | -                                                  | 15,261,192                 |
| Mortgage-backed securities - GSEs            | -                                                                          | 14,930,180                                                | -                                                  | 14,930,180                 |
| Corporate bonds                              | -                                                                          | 974,420                                                   | -                                                  | 974,420                    |
| <b>Total securities</b>                      | <b>\$ -</b>                                                                | <b>\$ 38,411,609</b>                                      | <b>\$ -</b>                                        | <b>\$ 38,411,609</b>       |
| <b>December 31, 2020</b>                     |                                                                            |                                                           |                                                    |                            |
| Assets                                       |                                                                            |                                                           |                                                    |                            |
| Securities available for sale                |                                                                            |                                                           |                                                    |                            |
| U.S. Government-sponsored enterprises (GSEs) | \$ -                                                                       | \$ 499,719                                                | \$ -                                               | \$ 499,719                 |
| Municipal securities                         | -                                                                          | 7,597,425                                                 | -                                                  | 7,597,425                  |
| Mortgage-backed securities -GSEs             | -                                                                          | 11,835,245                                                | -                                                  | 11,835,245                 |
| <b>Total securities</b>                      | <b>\$ -</b>                                                                | <b>\$ 19,932,389</b>                                      | <b>\$ -</b>                                        | <b>\$ 19,932,389</b>       |

### NOTE 18. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2021 and 2020. Items outside the scope of ASC 606 are noted as such.

|                                                   | 2021              | 2020              |
|---------------------------------------------------|-------------------|-------------------|
| <b>Noninterest Income</b>                         |                   |                   |
| Service charges on deposit accounts               | \$ 174,574        | \$ 190,715        |
| Bank owned life insurance (a)                     | 45,633            | 41,775            |
| Gain on sale of securities available for sale (a) | -                 | 7,977             |
| Other fees and income                             | 564,168           | 437,681           |
|                                                   | <b>\$ 784,375</b> | <b>\$ 678,148</b> |

(a) Not within scope of ASC 606.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 18. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Following is a discussion of key revenues within the scope of Topic 606:

*Service charges on deposit accounts:* Revenue from service charges on deposit accounts is earned through cash management, wire transfer, overdraft, nonsufficient funds, and other deposit-related services. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. This category also includes interchange fees from consumer credit and debit cards processed by card association networks, as well as merchant discounts, and other card-related services. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month.

*Other fees and income:* Other operating income primarily consist of revenues generated from ATM fees, safe deposit box rentals and death benefits received on a bank owned life insurance policy. ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. Safe deposit box rentals income are recognized on a monthly basis as the Company's performance obligation for these services is satisfied. Death benefits are recorded when received.

### NOTE 19. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheets as of December 31, 2021 and 2020 and the condensed statements of income and cash flows of Bainbridge Bancshares, Inc. for the years ended December 31, 2021 and 2020.

#### CONDENSED BALANCE SHEETS

|                                                   | 2021          | 2020          |
|---------------------------------------------------|---------------|---------------|
| <b>Assets</b>                                     |               |               |
| Cash                                              | \$ 6,548,132  | \$ 302,481    |
| Investment in subsidiary                          | 22,608,392    | 18,325,268    |
| Other assets                                      | -             | 14,862        |
| Total assets                                      | \$ 29,156,524 | \$ 18,642,611 |
| <b>Liabilities</b>                                |               |               |
| Subordinated debt, net                            | \$ 9,865,612  | \$ -          |
| <b>Stockholders' equity</b>                       | 19,290,912    | 18,642,611    |
| <b>Total liabilities and stockholders' equity</b> | \$ 29,156,524 | \$ 18,642,611 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 19. PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

#### CONDENSED STATEMENTS OF INCOME

|                                                                 | 2021              | 2020         |
|-----------------------------------------------------------------|-------------------|--------------|
| <b>Income</b>                                                   |                   |              |
| Interest                                                        | \$ 12,735         | \$ 2,329     |
| Dividend                                                        | 300,000           | 560,000      |
| Other                                                           | 237               | 1,710        |
|                                                                 | <b>312,972</b>    | 564,039      |
| <b>Expense, other</b>                                           | <b>48,575</b>     | 55,847       |
| Income before equity in undistributed earnings<br>of subsidiary | 264,397           | 508,192      |
| <b>Equity in undistributed earnings of subsidiary</b>           | <b>630,358</b>    | 766,158      |
| Net income                                                      | <b>\$ 894,755</b> | \$ 1,274,350 |

#### CONDENSED STATEMENTS OF CASH FLOWS

|                                                                                      | 2021                | 2020         |
|--------------------------------------------------------------------------------------|---------------------|--------------|
| <b>OPERATING ACTIVITIES</b>                                                          |                     |              |
| Net income                                                                           | \$ 894,755          | \$ 1,274,350 |
| Adjustments to reconcile net income to net cash provided by<br>operating activities: |                     |              |
| Equity in undistributed earnings of subsidiary                                       | (630,358)           | (766,158)    |
| Other prepaids, deferrals and accruals                                               | 14,863              | (2)          |
| Net cash provided by operating activities                                            | <b>279,260</b>      | 508,190      |
| <b>INVESTING ACTIVITIES</b>                                                          |                     |              |
| Capital injection into subsidiary                                                    | <b>(4,000,000)</b>  | -            |
| Net cash used in investing activities                                                | <b>(4,000,000)</b>  | -            |
| <b>FINANCING ACTIVITIES</b>                                                          |                     |              |
| Issuance of common stock                                                             | 500,000             | -            |
| Dividends paid to shareholders                                                       | (399,221)           | (960,031)    |
| Proceeds from subordinated debt, net                                                 | 9,865,612           | -            |
| Net cash provided by (used in) operating activities                                  | <b>9,966,391</b>    | (960,031)    |
| Net increase (decrease) in cash                                                      | 6,245,651           | (451,841)    |
| Cash at beginning of year                                                            | 302,481             | 754,322      |
| Cash at end of year                                                                  | <b>\$ 6,548,132</b> | \$ 302,481   |