



# MAULDIN & JENKINS

CPAs & ADVISORS

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL REPORT**

**DECEMBER 31, 2023**

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL REPORT  
DECEMBER 31, 2023**

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## 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, 2023 and 2022, and the related consolidated statements of operations, comprehensive income (loss), 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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 29, 2024

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2023 AND 2022**

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Cash and due from banks	\$ 8,093,145	\$ 8,204,144
Interest-bearing deposits at other banks	10,401,235	11,055,259
Federal funds sold	-	10,000,000
Securities available for sale, at fair value (amortized cost \$76,835,768 and \$103,196,645)	69,574,642	94,493,975
Securities held to maturity, net of allowance for credit losses of \$90,000 and \$-(estimated fair value of \$1,939,419 and \$2,243,625, respectively)	2,160,000	2,250,000
Restricted equity securities, at cost	771,600	837,600
Loans	198,471,832	170,896,032
Less allowance for credit losses	2,385,431	2,228,477
Loans, net	<u>196,086,401</u>	<u>168,667,555</u>
Premises and equipment, net	10,652,331	8,605,365
Bank owned life insurance	4,732,046	4,600,857
Cored deposit intangible	68,750	93,750
Right-of-use asset	123,223	221,004
Foreclosed assets	358,922	-
Other assets	4,384,796	3,960,198
Total assets	<u>\$ 307,407,091</u>	<u>\$ 312,989,707</u>
<u>Liabilities and Stockholders' Equity</u>		
Deposits		
Noninterest-bearing	\$ 42,579,966	\$ 46,564,356
Interest-bearing	239,548,576	238,801,083
Total deposits	<u>282,128,542</u>	<u>285,365,439</u>
Federal Home Loan Bank advances	-	3,000,000
Subordinated debt	9,893,179	9,879,395
Right-of-use liability	126,923	225,815
Other liabilities	1,873,380	858,938
Total liabilities	<u>294,022,024</u>	<u>299,329,587</u>
Commitments and contingencies (Note 14)		
Stockholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized	-	-
Common stock, no par value; 10,000,000 shares authorized, 1,010,881 issued	-	-
Paid-in-capital	8,726,055	8,726,055
Retained earnings	10,665,365	12,072,490
Accumulated other comprehensive loss	(5,736,288)	(6,875,110)
	<u>13,655,132</u>	<u>13,923,435</u>
Less cost of treasury stock, 16,770 and 16,395, respectively	270,065	263,315
Total stockholders' equity	<u>13,385,067</u>	<u>13,660,120</u>
	<u>\$ 307,407,091</u>	<u>\$ 312,989,707</u>

**See Notes to Consolidated Financial Statements.**

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
Interest income:		
Loans, including fees	\$ 11,354,851	\$ 8,216,855
Securities:		
Taxable	2,126,867	1,028,626
Nontaxable	596,765	513,186
Federal funds sold and interest bearing deposits at other banks	696,976	711,684
Total interest income	<b>14,775,459</b>	<b>10,470,351</b>
Interest expense:		
Deposits	6,305,692	1,253,037
Other borrowings	583,838	572,697
Total interest expense	<b>6,889,530</b>	<b>1,825,734</b>
Net interest income	7,885,929	8,644,617
Provision for credit losses	303,000	160,000
Net interest income after provision for credit losses	<b>7,582,929</b>	<b>8,484,617</b>
Noninterest income:		
Service charges on deposit accounts	272,791	220,862
Bank owned life insurance	131,189	107,241
Gain (loss) on sales and write-downs of foreclosed assets	4,500	(30,486)
Other fees and income	733,368	598,303
Total noninterest income	<b>1,141,848</b>	<b>895,920</b>
Noninterest expenses:		
Salaries and employee benefits	4,846,874	4,022,580
Occupancy and equipment expenses	1,237,395	959,555
Net loss on sales of securities available for sale	73,571	-
Other operating expenses	3,028,350	2,708,799
Total noninterest expenses	<b>9,186,190</b>	<b>7,690,934</b>
Income (loss) before income taxes	(461,413)	1,689,603
Income tax expense (benefit)	(242,318)	223,529
Net income (loss)	<b>\$ (219,095)</b>	<b>\$ 1,466,074</b>
Basic earnings (loss) per common share	<b>\$ (0.22)</b>	<b>\$ 1.49</b>
Diluted earnings (loss) per common share	<b>\$ (0.22)</b>	<b>\$ 1.48</b>

**See Notes to Consolidated Financial Statements.**

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
<b>Net income (loss)</b>	<b>\$ (219,095)</b>	<b>\$ 1,466,074</b>
<b>Other comprehensive income (loss):</b>		
Net unrealized holding gains (losses) on securities available for sale arising during the year, net of tax (benefit) expense of \$287,275 and \$(1,848,851), respectively	1,080,701	(6,955,203)
Reclassification adjustment for losses on sales of securities available for sale included in net income, net of tax benefit of \$15,450 and \$-, respectively	58,121	-
<b>Total other comprehensive income (loss)</b>	<b>1,138,822</b>	<b>(6,955,203)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 919,727</b>	<b>\$ (5,489,129)</b>

See Notes to Consolidated Financial Statements.

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	Common Stock Shares	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity
					Shares	Amount	
<b>Balance, December 31, 2021</b>	993,881	\$ 8,397,187	\$ 11,104,424	\$ 80,093	(18,354)	\$ (290,792)	\$ 19,290,912
Net income	-	-	1,466,074	-	-	-	1,466,074
Cash dividends paid, \$0.51 per share	-	-	(498,008)	-	-	-	(498,008)
Issuance of common stock, 17,000 shares	17,000	340,000	-	-	-	-	340,000
Issuance of common stock grants, 3,000 shares from treasury	-	(48,182)	-	-	3,000	48,182	-
Stock based compensation	-	37,050	-	-	-	-	37,050
Purchase of treasury shares	-	-	-	-	(1,041)	(20,705)	(20,705)
Other comprehensive loss	-	-	-	(6,955,203)	-	-	(6,955,203)
<b>Balance, December 31, 2022</b>	<u>1,010,881</u>	<u>8,726,055</u>	<u>12,072,490</u>	<u>(6,875,110)</u>	<u>(16,395)</u>	<u>(263,315)</u>	<u>13,660,120</u>
Cumulative change in accounting principle, net (Note 1)	-	-	(472,000)	-	-	-	(472,000)
Net loss	-	-	(219,095)	-	-	-	(219,095)
Cash dividends paid, \$0.72 per share	-	-	(716,030)	-	-	-	(716,030)
Purchase of treasury shares	-	-	-	-	(375)	(6,750)	(6,750)
Other comprehensive income	-	-	-	1,138,822	-	-	1,138,822
<b>Balance, December 31, 2023</b>	<u><u>1,010,881</u></u>	<u><u>\$ 8,726,055</u></u>	<u><u>\$ 10,665,365</u></u>	<u><u>\$ (5,736,288)</u></u>	<u><u>(16,770)</u></u>	<u><u>\$ (270,065)</u></u>	<u><u>\$ 13,385,067</u></u>

See Notes to Consolidated Financial Statements.

**BAINBRIDGE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (219,095)	\$ 1,466,074
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	465,635	320,573
Provision for deferred tax	(99,138)	74,768
Provision for credit loss	303,000	160,000
Amortization of core deposit intangible	25,000	25,000
Amortization of subordinated debt issuance costs	13,784	13,783
Increase in interest receivable	(411,330)	(553,115)
Increase in interest payable	919,424	133,778
(Increase) decrease in taxes receivable	(151,788)	124,241
Gain on sales of premises and equipment	(22,942)	-
Gain (loss) on sales and writedowns of foreclosed assets	(4,500)	30,486
Loss on sales of securities available for sale	73,571	-
Increase in cash value life insurance	(131,189)	(107,241)
Other operating activities, net	24,840	(257,496)
Stock based compensation	-	37,050
Net cash provided by operating activities	785,272	1,467,901
<b>INVESTING ACTIVITIES</b>		
Purchases of securities available for sale	(6,966,069)	(69,408,176)
Purchases of securities held to maturity	-	(2,250,000)
Proceeds from maturities and calls of securities available for sale	9,384,826	4,521,754
Proceeds from sales of securities available for sale	23,868,552	-
Net change in restricted equity securities	66,000	(237,450)
Decrease in interest-bearing deposits at other banks	654,024	65,160,514
Decrease in federal funds sold	10,000,000	5,000,000
Net increase in loans	(28,458,768)	(24,109,410)
Proceeds from sales of foreclosed assets	4,500	6,900
Proceeds from the sales of premises and equipment	43,500	-
Purchase of premises and equipment	(2,533,159)	(1,860,040)
Purchase of cash value life insurance	-	(2,750,000)
Net cash provided by (used in) investing activities	6,063,406	(25,925,908)
<b>FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	(3,236,897)	22,717,983
Repayment of Federal Home Loan Bank advances	(3,000,000)	-
Issuance of common stock	-	340,000
Dividends paid to stockholders	(716,030)	(498,008)
Purchase of treasury stock	(6,750)	(20,705)
Net cash provided by (used in) financing activities	(6,959,677)	22,539,270
Net decrease in cash	(110,999)	(1,918,737)
Cash and due from banks at beginning of year	8,204,144	10,122,881
Cash and due from banks at end of year	\$ 8,093,145	\$ 8,204,144
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ 5,970,106	\$ 1,144,478
Income taxes	\$ -	\$ 273,000
<b>NONCASH TRANSACTIONS</b>		
Net change in unrealized gains (losses) on securities available for sale	\$ 1,441,547	\$ (8,804,054)
Transfer from loans to foreclosed assets	\$ 358,922	\$ 37,836

**See Notes to Consolidated Financial Statements.**

**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 (“GAAP”), 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 consolidated balance sheet 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 credit losses, the valuation of foreclosed assets, deferred taxes, credit impairments of securities and the fair value of financial instruments.

The determination of the adequacy of the allowance for credit 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 29, 2024 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, 2023. The Federal Reserve Bank does not have plans to reimplement 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.

#### Investment Securities

The Company classifies its debt securities in one of three categories: (i) trading, (ii) held to maturity or (iii) available for sale. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which the Company has the ability and positive intent to hold until maturity. All other debt securities are classified as available for sale.

Available for sale securities are carried at fair value. Unrealized holding gains and losses, net of the related deferred tax effect, on available for sale securities are excluded from earnings and are reported in other comprehensive income (loss) as a separate component of stockholders' equity until realized. Held to maturity securities are carried at amortized cost.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method. The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest in other assets in the consolidated balance sheets. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the years ended December 31, 2023 and 2022. Accrued interest receivable on debt securities totaled \$455,576 and \$550,961 as of December 31, 2023 and 2022, respectively.

The Company evaluates available for sale securities in an unrealized loss position to determine if credit-related impairment exists. The Company first evaluates whether it intends to sell or more likely than not will be required to sell an impaired security before recovering its amortized cost basis. If either criteria is met, the entire amount of unrealized loss is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is attributable to credit or resulted from other factors. If credit-related impairment exists, the Company recognizes an allowance for credit losses ("ACL"), limited to the amount by which the fair value is less than the amortized cost basis. Any impairment not recognized through an ACL is recognized in other comprehensive income (loss), net of tax, as a non credit-related impairment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Investment Securities (Continued)

The Company uses a systematic methodology to determine its ACL for debt securities held to maturity considering the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the portfolio. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the held to maturity portfolio. The Company monitors the held to maturity portfolio on a quarterly basis to determine whether a valuation account would need to be recorded. As of December 31, 2023, the Company had an amortized cost of \$2,250,000 in held to maturity securities with related valuation accounts of \$90,000.

#### 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.

#### Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the allowance for credit losses. Amortized cost is the outstanding principal balances less unearned income, net of deferred fees, origination costs and unaccrued or unamortized non-credit purchase discounts or premiums, respectively. Interest income is accrued on the outstanding principal balance. For all classes of loans, the accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due, unless the loan is well secured and in the process of collection. Interest income on mortgage and commercial loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Mortgage loans and commercial loans are charged off to the extent principal or interest is deemed uncollectible. uncollectible. Consumer loans continue to accrue interest until they are charged off, generally between 90 and 120 days past due, unless the loan is in the process of collection. All interest accrued, but not collected for loans collected for loans that are placed on nonaccrual or charged off, is reversed against interest income. Interest received on nonaccrual loans is applied against principal 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 future payments are reasonably assured.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Allowance for Credit Losses – Loans

Under the current expected credit loss model, the ACL on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans.

The Company estimates the ACL on loans based on the underlying loans' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans is reported in other assets on the consolidated balance sheets and totaled \$1,386,028 and \$879,313 at December 31, 2023 and 2022, respectively.

Expected credit losses are reflected in the allowance for credit losses through a charge to provision for credit losses. The Company measures expected credit losses of loans on a collective (pool) basis, when the loans share similar risk characteristics. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The Company's methodologies for estimating the ACL consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, adjusted for asset-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions over a period that has been determined to be reasonable and supportable, to the identified pools of loans with similar risk characteristics for which the historical loss experience was observed.

*Individually Evaluated Assets* Loans that do not share risk characteristics are evaluated on an individual basis. For collateral-dependent loans where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the loan to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. The Company may, in the alternative, measure the expected credit loss as the amount by which the amortized cost basis of the loan exceeds the estimated fair value of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized costs basis of the loan exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

*Charge-offs and Recoveries* Loan losses are charged against the allowance when management believes the collection of a loan's principal is unlikely. Subsequent recoveries are credited to the allowance. If the loan is collateral-dependent, the loss is more easily identified and is charged-off when it is identified, usually based upon receipt of an appraisal. However, when a loan has guarantor support, and the guarantor demonstrates willingness and capacity to support the debt, the Company may carry the estimated loss as a reserve against the loan while collection efforts with the guarantor are pursued. If, after collection efforts with the guarantor are complete, the deficiency is still considered uncollectible, the loss is charged-off and any further collections are treated as recoveries.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### **Allowance for Credit Losses - Loans (Prior to the Adoption of ASU 2016-13)**

Prior to the adoption of ASU 2016-13, the ACL was an amount that represented a reserve for probable incurred losses in the loan portfolio. The ACL was evaluated on a regular basis by management and was based upon management's periodic review of various risks in the loan portfolio highlighted by 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 was inherently subjective as it required estimates that were susceptible to significant revision as more information became available. The ACL evaluation did not include the effects of expected losses on specific loans or groups of loans that were related to future events or expected changes in economic conditions.

The ACL consisted of specific and general components. The specific component included loans management considered impaired and other loans or groups of loans that management classified with higher risk characteristics. For such loans that were classified as impaired, an allowance was established when the discounted cash flows, collateral value or observable market price of the impaired loan was lower than the carrying value of that loan. The general component covered non-classified loans and was based on historical loss experience adjusted for qualitative factors.

The Company segregated the loan portfolio by type of loan and utilized this segregation in evaluating exposure to risks within the portfolio. In addition, based on internal reviews and external reviews performed by independent loan reviewers and regulatory authorities, the Company further segregated the loan portfolio by loan grades based on an assessment of risk for a particular loan or group of loans. In establishing allowances, management considered historical loan loss experience but adjusted this data with a significant emphasis on data such as risk ratings, current loan quality trends, current economic conditions and other factors in the markets where the Company operates. Factors considered include, among others, current valuations of real estate in their markets, unemployment rates, the effect of weather conditions on agricultural related entities and other significant local economic events.

#### **Loan Commitments and Financial Instruments**

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 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

#### Leases

The Company recognizes its leases on the consolidated balance sheet as required under ASU No. 2016-02 “Leases (Topic 842)”. The lease standard requires recognition of both an operating right-of-use asset and operating lease liability as determined based on the present value of remaining minimum lease payments, discounted using the Company’s incremental borrowing rate as of the date the Company entered the lease or adopted ASU No. 2016-02. Management implemented the standard under a modified retrospective approach and has elected to apply several of the available practical expeditions, including:

- Carryover of historical lease determination and lease classification conclusions.
- Carryover of historical initial direct deposit cost balance for existing leases.
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component.

Further disclosure about the Company’s leasing activities are presented in Note 5.

#### 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.

## 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, 2023.

#### 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 (Loss) Per Share

Basic earnings (loss) per common share are computed by dividing net income (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings (loss) per share are computed by dividing net income (loss) 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 the years ended December 31, 2023 and 2022 was 994,235 and 982,540, respectively. The weighted-average number of diluted shares outstanding for the years ended December 31, 2023 and 2022 was 994,235 and 987,370, respectively.

#### Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in operations. 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 (loss), are components of comprehensive income (loss).

## 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 2022 consolidated financial statements have been reclassified to conform to the 2023 presentation with no effect on total assets or net income.

#### Adoption of New Accounting Standards

On January 1, 2023, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, loan commitments, leases, financial guarantees, and held to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of \$472,000 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes a \$378,000 impact due to an increase in the allowance for credit losses on loans, \$130,000 impact due to an increase in the allowance for unfunded commitments and a \$90,000 impact due to an increase in the allowance for held to maturity securities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Adoption of New Accounting Standards (Continued)

In addition, for available for sale debt securities, the new methodology replaces the other-than-temporary impairment model and requires the recognition of an allowance for reductions in a security's fair value attributable to declines in credit quality, instead of a direct write-down of the security when a valuation decline is determined to be other-than-temporary. There was no financial impact related to this implementation. The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest in accrued interest receivable in the consolidated balance sheets.

ASU No. 2022-02 – Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures (“ASU 2022-02”). ASU 2022-02 eliminates the troubled debt restructuring (“TDR”) measurement and recognition guidance and requires that entities evaluate whether the modification represents a new loan or a continuation of an existing loan consistent with the accounting for other loan modifications. Additional disclosures relating to modifications to borrowers experiencing financial difficulty are required under ASU 2022-02. ASU 2022-02 also requires disclosure of current-period gross write-offs. The Company adopted this ASU effective January 1, 2023 on a prospective basis

### NOTE 2. SECURITIES

The following table summarizes the amortized cost, fair value and allowance for credit losses of securities available for sale and securities held to maturity at December 31, 2023 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) for available for sale securities and gross unrecognized gains and losses for held to maturity securities:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Securities Available for Sale</b>				
<b>December 31, 2023:</b>				
U.S. Government and federal agencies	\$ 7,828,482	\$ -	\$ (216,978)	\$ 7,611,504
U.S. Government-sponsored enterprises (GSEs)	16,353,445	-	(1,460,949)	14,892,496
Municipal securities	26,373,385	75	(2,931,098)	23,442,362
Mortgage-backed securities - GSEs	23,782,589	21,100	(2,327,729)	21,475,960
Corporate bonds	2,497,867	-	(345,547)	2,152,320
<b>Total securities available for sale</b>	<b>\$ 76,835,768</b>	<b>\$ 21,175</b>	<b>\$ (7,282,301)</b>	<b>\$ 69,574,642</b>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Securities Held to Maturity</b>				
<b>December 31, 2023:</b>				
<b>Debt securities:</b>				
Corporate bonds	\$ 2,250,000	\$ -	\$ (310,581)	\$ 1,939,419
<b>Total debt securities</b>	<b>\$ 2,250,000</b>	<b>\$ -</b>	<b>\$ (310,581)</b>	<b>\$ 1,939,419</b>
		<u>Allowance For Credit Losses</u>		
		<u>(90,000)</u>		

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (CONTINUED)

The following table summarizes the amortized cost and fair value at December 31, 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) for available for sale securities and gross unrecognized gains and losses for held to maturity securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available for Sale</b>				
December 31, 2022:				
U.S. Government and federal agencies	\$ 23,496,209	\$ 8,134	\$ (306,356)	\$ 23,197,987
U.S. Government-sponsored enterprises (GSEs)	24,103,291	-	(1,715,883)	22,387,408
Municipal securities	27,421,733	52	(3,956,073)	23,465,712
Mortgage-backed securities - GSEs	26,179,851	21,566	(2,358,797)	23,842,620
Corporate bonds	1,995,561	-	(395,313)	1,600,248
Total securities available for sale	<u>\$ 103,196,645</u>	<u>\$ 29,752</u>	<u>\$ (8,732,422)</u>	<u>\$ 94,493,975</u>
<b>Securities Held to Maturity</b>				
December 31, 2022:				
Debt securities:				
Corporate bonds	\$ 2,250,000	\$ -	\$ (6,375)	\$ 2,243,625
Total debt securities	<u>\$ 2,250,000</u>	<u>\$ -</u>	<u>\$ (6,375)</u>	<u>\$ 2,243,625</u>

The amortized cost and fair value of debt securities as of December 31, 2023 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.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Due in one year or less</b>	\$ 1,678,104	\$ 1,660,573	\$ -	\$ -
<b>Due in one to five years</b>	19,001,675	18,109,534	-	-
<b>Due from five years to ten years</b>	12,383,691	10,903,104	2,000,000	1,777,942
<b>Due after ten years</b>	19,989,709	17,425,471	250,000	161,477
<b>Mortgage-backed securities - GSEs</b>	23,782,589	21,475,960	-	-
<b>Total securities</b>	<u>\$ 76,835,768</u>	<u>\$ 69,574,642</u>	<u>\$ 2,250,000</u>	<u>\$ 1,939,419</u>

Securities with a carrying value of approximately \$61,656,000 and \$78,333,000 at December 31, 2023 and 2022, 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 December 31, 2023
Gross gains	\$ 412
Gross losses	(73,983)
Net realized losses	<u>\$ (73,571)</u>

There were no sales of securities for the year ended December 31, 2022.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (CONTINUED)

#### *Restricted Equity Securities*

Restricted equity securities consist of the following:

	December 31,	
	2023	2022
Federal Reserve Bank stock	\$ 552,700	\$ 562,300
Federal Home Loan Bank stock	<u>218,900</u>	<u>275,300</u>
	<u>\$ 771,600</u>	<u>\$ 837,600</u>

The Company has investments in the common stock of the Federal Home Loan Bank of Atlanta and the Federal Reserve Bank at December 31, 2023. 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, 2023 and 2022, the estimated fair value of the investments was approximately \$771,600 and \$837,600, respectively, and, therefore, are not considered impaired.

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, 2023 and 2022.

	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, 2023:</b>						
U.S. Government and federal agencies	\$ 967,500	\$ (8,802)	\$ 6,644,004	\$ (208,176)	\$ 7,611,504	\$ (216,978)
U.S. Government-sponsored enterprises (GSEs)	3,188,214	(19,248)	11,704,282	(1,441,701)	14,892,496	(1,460,949)
Municipal securities	-	-	22,972,286	(2,931,098)	22,972,286	(2,931,098)
Mortgage-backed securities - GSEs	-	-	<u>20,371,808</u>	<u>(2,327,729)</u>	<u>20,371,808</u>	<u>(2,327,729)</u>
Subtotal debt securities	4,155,714	(28,050)	61,692,380	(6,908,704)	65,848,094	(6,936,754)
Corporate bonds	<u>484,327</u>	<u>(13,541)</u>	<u>1,667,993</u>	<u>(332,006)</u>	<u>2,152,320</u>	<u>(345,547)</u>
<b>Total temporarily impaired securities</b>	<u>\$ 4,640,041</u>	<u>\$ (41,591)</u>	<u>\$ 63,360,373</u>	<u>\$ (7,240,710)</u>	<u>\$ 68,000,414</u>	<u>\$ (7,282,301)</u>
<b>Securities Available for Sale</b>						
<b>December 31, 2022:</b>						
U.S. Government and federal agencies	\$ 16,567,674	\$ (225,517)	\$ 898,281	\$ (80,839)	\$ 17,465,955	\$ (306,356)
U.S. Government-sponsored enterprises (GSEs)	15,593,442	(760,316)	4,793,966	(955,567)	20,387,408	(1,715,883)
Municipal securities	14,320,511	(1,835,805)	8,675,149	(2,120,268)	22,995,660	(3,956,073)
Mortgage-backed securities - GSEs	<u>15,491,293</u>	<u>(1,082,294)</u>	<u>6,576,177</u>	<u>(1,276,503)</u>	<u>22,067,470</u>	<u>(2,358,797)</u>
Subtotal debt securities	61,972,920	(3,903,932)	20,943,573	(4,433,177)	82,916,493	(8,337,109)
Corporate bonds	-	-	<u>1,600,248</u>	<u>(395,313)</u>	<u>1,600,248</u>	<u>(395,313)</u>
<b>Total temporarily impaired securities</b>	<u>\$ 61,972,920</u>	<u>\$ (3,903,932)</u>	<u>\$ 22,543,821</u>	<u>\$ (4,828,490)</u>	<u>\$ 84,516,741</u>	<u>\$ (8,732,422)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (CONTINUED)

Securities held to maturity that have been in a continuous unrealized loss position are as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Held to Maturity Securities</b>						
<b>December 31, 2023:</b>						
Debt securities:						
Corporate bonds	\$ 1,007,361	\$ (242,639)	\$ 432,058	\$ (67,942)	\$ 1,439,419	\$ (310,581)
<b>Total debt securities</b>	<b>\$ 1,007,361</b>	<b>\$ (242,639)</b>	<b>\$ 432,058</b>	<b>\$ (67,942)</b>	<b>\$ 1,439,419</b>	<b>\$ (310,581)</b>
<b>Held to Maturity Securities</b>						
<b>December 31, 2022:</b>						
Debt securities:						
Corporate bonds	\$ 493,625	\$ (6,375)	\$ -	\$ -	\$ 493,625	\$ (6,375)
<b>Total debt securities</b>	<b>\$ 493,625</b>	<b>\$ (6,375)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 493,625</b>	<b>\$ (6,375)</b>

At December 31, 2023, the Company's available for sale and held to maturity securities consisted of one hundred thirty-two (132) and four (4), respectively, securities in an unrealized loss positions.

The Company does not intend to sell investment securities in an unrealized loss position prior to the recovery of the unrealized loss, which may not be until maturity, and has the ability and intent to hold those securities for that period of time. Additionally, the Company is not currently aware of any circumstances which will require it to sell any of the securities that are in an unrealized loss position prior to the respective securities' recovery of all such unrealized losses. At December 31, 2023, no ACL was established for investment securities available for sale. Substantially all of the unrealized losses on the securities portfolio were the result of changes in market interest rates compared to the date the securities were acquired rather than the credit quality of the issuers or underlying loans. U.S. Treasury and agency securities and agency mortgage-backed securities are issued, guaranteed or otherwise supported by the United States government, an agency of the United States government, or a government sponsored enterprise.

#### *Allowance for Credit Losses – Held to Maturity Securities*

The following table presents the activity in the allowance for credit losses for debt securities held to maturity by major security type for the year ended December 31, 2023:

	Corporate Bonds
<b>December 31, 2023</b>	
Allowance for credit losses:	
Beginning balance	\$ -
Impact of adopting ASC 326	(90,000)
Securities charged-off	-
<b>Total ending allowance balance</b>	<b>\$ (90,000)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS

#### Portfolio Segmentation

The composition of loans is summarized as follows:

	December 31,	
	2023	2022
Real estate mortgages:		
Commercial	\$ 61,109,981	\$ 44,660,583
Construction	19,365,428	14,853,686
Residential	73,950,489	60,508,420
Farmland	3,728,277	3,627,776
Commercial, financial and agricultural	35,916,122	42,499,381
Consumer and other	4,401,535	4,746,186
	198,471,832	170,896,032
Allowance for credit losses	(2,385,431)	(2,228,477)
Loans, net	\$ 196,086,401	\$ 168,667,555

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Portfolio Segmentation (Continued)

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.

#### Credit Quality Indicators

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.

**“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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Credit Quality Indicators (Continued)

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, 2023</b>					
<b>Real estate mortgages:</b>					
Commercial	\$ 57,348,191	\$ 2,836,286	\$ 925,504	\$ -	\$ 61,109,981
Construction	19,365,428	-	-	-	19,365,428
Residential	73,296,312	62,438	591,739	-	73,950,489
Farmland	3,728,277	-	-	-	3,728,277
Commercial, financial and agricultural	34,980,545	-	935,577	-	35,916,122
Consumer and other	4,318,313	-	83,222	-	4,401,535
<b>Total</b>	<b>\$ 193,037,066</b>	<b>\$ 2,898,724</b>	<b>\$ 2,536,042</b>	<b>\$ -</b>	<b>\$ 198,471,832</b>
<b>December 31, 2022</b>					
<b>Real estate mortgages:</b>					
Commercial	\$ 43,576,758	\$ 120,582	\$ 963,243	\$ -	\$ 44,660,583
Construction	14,853,686	-	-	-	14,853,686
Residential	59,774,951	69,611	663,858	-	60,508,420
Farmland	3,627,776	-	-	-	3,627,776
Commercial, financial and agricultural	41,041,629	-	1,457,752	-	42,499,381
Consumer and other	4,699,257	-	46,929	-	4,746,186
<b>Total</b>	<b>\$ 167,574,057</b>	<b>\$ 190,193</b>	<b>\$ 3,131,782</b>	<b>\$ -</b>	<b>\$ 170,896,032</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 provides a summary of current, accruing past due and nonaccrual loans by portfolio class as of December 31, 2023:

	<u>Past Due Status (Accruing Loans)</u>				Nonaccrual with an ACL	Nonaccrual without an ACL	Total
	<u>Current</u>	<u>30-89 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>			
<b>December 31, 2023</b>							
<b>Real estate mortgages:</b>							
Commercial	\$ 61,024,133	\$ -	\$ -	\$ -	\$ 85,848	\$ -	\$ 61,109,981
Construction	19,365,428	-	-	-	-	-	19,365,428
Residential	73,746,297	8,891	-	8,891	195,301	-	73,950,489
Farmland	3,728,277	-	-	-	-	-	3,728,277
<b>Commercial, financial and agricultural</b>	<b>34,742,331</b>	<b>913,169</b>	<b>-</b>	<b>913,169</b>	<b>260,622</b>	<b>-</b>	<b>35,916,122</b>
Consumer and other	4,308,248	47,797	-	47,797	45,490	-	4,401,535
<b>Total</b>	<b>\$ 196,914,714</b>	<b>\$ 969,857</b>	<b>\$ -</b>	<b>\$ 969,857</b>	<b>\$ 587,261</b>	<b>\$ -</b>	<b>\$ 198,471,832</b>

The following table presents the aging of the recorded investment in loans as of December 31, 2022:

	<u>Past Due Status (Accruing Loans)</u>				Total Past Due	Nonaccrual	Total
	<u>Current</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90+ Days</u>			
<b>December 31, 2022</b>							
<b>Real estate mortgages:</b>							
Commercial	\$ 44,563,447	\$ -	\$ -	\$ -	\$ -	\$ 97,136	\$ 44,660,583
Construction	14,853,686	-	-	-	-	-	14,853,686
Residential	59,840,818	140,313	73,337	-	213,650	453,952	60,508,420
Farmland	3,627,776	-	-	-	-	-	3,627,776
<b>Commercial, financial and agricultural</b>	<b>41,694,966</b>	<b>169,119</b>	<b>-</b>	<b>2,695</b>	<b>171,814</b>	<b>632,601</b>	<b>42,499,381</b>
Consumer and other	4,676,868	68,474	-	-	68,474	844	4,746,186
<b>Total</b>	<b>\$ 169,257,561</b>	<b>\$ 377,906</b>	<b>\$ 73,337</b>	<b>\$ 2,695</b>	<b>\$ 453,938</b>	<b>\$ 1,184,533</b>	<b>\$ 170,896,032</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Allowance for Credit Losses

The following tables detail activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023 and 2022. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Real Estate	Commercial, Financial and Agricultural	Consumer	Unallocated	Total
<b>December 31, 2023</b>					
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 1,557,753	\$ 465,239	\$ 111,031	\$ 94,454	\$ 2,228,477
Cumulative change in accounting principle	-	-	-	378,000	378,000
Charge-offs	-	(513,139)	(34,245)	-	(547,384)
Recoveries	4,000	16,476	2,862	-	23,338
Provision (recovery)	253,347	326,424	64,352	(341,023)	303,000
<b>Ending balance</b>	<b>\$ 1,815,000</b>	<b>\$ 295,000</b>	<b>\$ 144,000</b>	<b>\$ 131,431</b>	<b>\$ 2,385,431</b>
Ending balance - individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance - collectively evaluated for impairment	\$ 1,815,000	\$ 295,000	\$ 144,000	\$ 131,431	\$ 2,385,431
<b>Loans:</b>					
Ending balance	\$ 158,154,175	\$ 35,916,122	\$ 4,401,535	\$ -	\$ 198,471,832
Ending balance - individually evaluated for impairment	\$ 819,599	\$ 214,686	\$ -	\$ -	\$ 1,034,285
Ending balance - collectively evaluated for impairment	\$ 157,334,576	\$ 35,701,436	\$ 4,401,535	\$ -	\$ 197,437,547
	Real Estate	Commercial	Consumer	Unallocated	Total
<b>December 31, 2022</b>					
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 1,158,646	\$ 351,321	\$ 82,242	\$ 784,774	\$ 2,376,983
Charge-offs	(34,022)	(219,898)	(63,395)	-	(317,315)
Recoveries	3,350	3,369	2,090	-	8,809
Provision (recovery)	429,779	330,447	90,094	(690,320)	160,000
<b>Ending balance</b>	<b>\$ 1,557,753</b>	<b>\$ 465,239</b>	<b>\$ 111,031</b>	<b>\$ 94,454</b>	<b>\$ 2,228,477</b>
Ending balance - individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance - collectively evaluated for impairment	\$ 1,557,753	\$ 465,239	\$ 111,031	\$ 94,454	\$ 2,228,477
<b>Loans:</b>					
Ending balance	\$ 123,650,465	\$ 42,499,381	\$ 4,746,186	\$ -	\$ 170,896,032
Ending balance - individually evaluated for impairment	\$ 844,303	\$ 307,976	\$ -	\$ -	\$ 1,152,279
Ending balance - collectively evaluated for impairment	\$ 122,806,162	\$ 42,191,405	\$ 4,746,186	\$ -	\$ 169,743,753

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Collateral-Dependent Loans (Formerly Impaired Loans)

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Balance	Allowance for Credit Losses
<b>December 31, 2023</b>		
Real estate mortgages:		
Commercial	\$ 819,599	\$ -
Commercial, financial and agriculture	214,686	-
<b>Total</b>	<b>\$ 1,034,285</b>	<b>\$ -</b>

#### Impaired Loans

The following table details impaired loans by class of loans from December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2022					
With no related allowance recorded:					
Real estate mortgages:					
Commercial	\$ 844,303	\$ 844,303	\$ -	\$ 857,161	\$ 49,447
Construction	-	-	-	-	-
Residential	-	-	-	-	-
Farmland	-	-	-	-	-
Commercial, financial and agriculture	307,976	307,976	-	366,579	24,193
Consumer and other	-	-	-	-	-
Total with no related allowance recorded	<b>\$ 1,152,279</b>	<b>\$ 1,152,279</b>	<b>\$ -</b>	<b>\$ 1,223,740</b>	<b>\$ 73,640</b>
With an allowance recorded:					
Real estate mortgages:					
Commercial	\$ 239,523	\$ 239,523	\$ 11,368	\$ 247,784	\$ 6,451
Construction	-	-	-	-	-
Residential	733,469	733,469	53,816	743,315	13,137
Farmland	-	-	-	-	-
Commercial, financial and agriculture	1,149,776	1,149,776	91,272	1,226,446	31,981
Consumer and other	46,929	46,929	3,724	47,628	2,852
Total with an allowance recorded	<b>\$ 2,169,697</b>	<b>\$ 2,169,697</b>	<b>\$ 160,180</b>	<b>\$ 2,265,173</b>	<b>\$ 54,421</b>
Total impaired loans	<b>\$ 3,321,976</b>	<b>\$ 3,321,976</b>	<b>\$ 160,180</b>	<b>\$ 3,488,913</b>	<b>\$ 128,061</b>

No material amount of interest income was recognized on the cash basis on collateral-dependent or impaired loans as of December 31, 2023 and 2022.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS (CONTINUED)

#### Modified Loans (Formerly Troubled Debt Restructurings)

There were no loans that were modified due to borrowers facing financial difficulty for the year ended December 31, 2023.

There were no loans modified as a TDR that subsequently defaulted within one year during 2023 or 2022.

At December 31, 2022, impaired loans included loans that were classified as TDRs. The restructuring of a loan was considered a TDR if both (i) the borrower were experiencing financial difficulties and (ii) the creditor had granted a concession.

In assessing whether or not a borrower was experiencing financial difficulties, the Company considered information available regarding the financial condition of the borrower. This information included, but was not limited to, whether (i) the borrower was in payment default on any of its debt; (ii) a payment default was probable in the foreseeable future without the modification; (iii) the borrower had declared or was in the process of declaring bankruptcy and (iv) the borrower's projected cash flow was 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.

#### 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. 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:

	<b>Years Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Balance, beginning of year	\$ 1,707,844	\$ 2,660,868
Advances	63,690	152,834
Repayments	(808,642)	(607,803)
Change in related parties	-	(498,055)
Balance, end of year	\$ 962,892	\$ 1,707,844

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 4. FORECLOSED ASSETS

A summary of foreclosed assets is presented as follows:

	Years Ended December 31,	
	2023	2022
Balance, beginning of year	\$ -	\$ -
Additions	358,922	37,386
Net disposals	(4,500)	(6,900)
Gain (loss) on sales of foreclosed assets	4,500	(30,486)
Balance, end of year	\$ 358,922	\$ -

At December 31, 2023, the balance in foreclosed assets included \$343,722 of foreclosed residential real estate properties. There were no residential real estate properties in process of foreclosure as of December 31, 2023.

### NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	Years Ended December 31,	
	2023	2022
Land and improvements	\$ 1,228,703	\$ 1,228,703
Building and improvements	7,845,567	3,663,468
Furniture and equipment	3,331,597	2,630,906
Projects in process	1,797,910	4,197,989
	14,203,777	11,721,066
Accumulated depreciation	(3,551,446)	(3,115,701)
	\$ 10,652,331	\$ 8,605,365

At December 31, 2023, the Company had approximately \$1,800,000 in projects in process expenses for renovation and expansion of Company owned properties. The total expected cost to complete these projects is approximately \$1,800,000 with the latest project expected to be completed in the fourth quarter of 2024.

### Leases

The Company enters into leases in the normal course of business for financial institutions. The Company made payments on two different lease locations in 2023.

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. This original agreement was renewed for a three-year period ending March 31, 2024. The Company terminated this leasing agreement in June of 2023 after construction was completed on the new Miramar location.

The Company is renting an office space in Moultrie, Georgia for a branch location which operates under First National Bank of Moultrie. The lease term began on January 1, 2021 and was set to expire on December 31, 2023. The Company exercised an additional three year renewal option that extended the lease term until December 31, 2026. The Company has evaluated the lease and determined it to be an operating lease.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5. PREMISES AND EQUIPMENT (CONTINUED)

#### Leases (Continued)

Right-of use assets and lease liabilities by lease type, and the associated balance sheet classifications, are as follows:

		December 31,	
		2023	2022
	<b>Balance Sheet Classification</b>		
Right-of-use assets:			
Operating leases	Other assets	\$ 123,223	\$ 221,004
Lease liabilities			
Operating leases	Other liabilities	\$ 126,923	\$ 225,815

#### Lease Expense

The components of total lease expense were as follows:

		December 31,	
		2023	2022
Operating lease cost		\$ 87,949	\$ 103,982

#### Lease Obligations

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

		Operating Leases
2024		\$ 43,200
2025		43,200
2026		43,200
Total undiscounted lease payments		129,600
Less imputed interest		2,677
Net lease liabilities		\$ 126,923

#### Supplemental Lease Information

	December 31, 2023
Operating lease weighted average remaining lease term	3 years
Operating lease weighted average discount rate	3.25%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 6. INTANGIBLE ASSETS

	As of December 31, 2023		December 31, 2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	\$ 250,000	\$ 181,250	\$ 250,000	\$ 156,250

Amortization expense in the amount of \$25,000 was recorded for each of the years ended December 31, 2023 and 2022.

The estimated amortization expense for the remaining life is as follows:

2024	\$ 25,000
2025	25,000
2026	18,750
	\$ 68,750

### NOTE 7. DEPOSITS

The aggregate amount of time deposits, excluding brokered time deposits, in denominations of \$250,000 or more at December 31, 2023 and 2022 was \$55,670,511 and \$44,089,157, respectively. The scheduled maturities of time deposits at December 31, 2023 were as follows:

2024	\$ 102,783,342
2025	7,668,006
2026	2,128,394
2027	2,692,837
2028	787,342
Thereafter	1,179
	\$ 116,061,100

At December 31, 2023, deposits of one municipal customer comprised approximately \$37,268,000 or 38% of total deposits. At December 31, 2023 and 2022, the Company held brokered time deposits in the amounts of \$18,297,000 and \$498,000, respectively.

At December 31, 2023 and 2022, overdraft demand and savings deposits reclassified to loans totaled \$5,118 and \$3,483, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 8. FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank advances consist of the following:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Advance from Federal Home Loan Bank		
due on November 16, 2023 with an interest rate of 5.04%	<u>\$ -</u>	<u>\$ 3,000,000</u>

The Company and subsidiary have available unused lines of credit with various financial institutions, including the Federal Home Loan Bank, totaling approximately \$13,518,000.

### 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 rate 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 \$127,568 and \$102,975 for the years ended December 31, 2023 and 2022, 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 2023 and 2022. At December 31, 2023, there were 89,500 shares still available for grant under the 2015 Plan.

There is no remaining unrecognized compensation related to stock options at December 31, 2023.

Information related to outstanding options is as follows:

	December 31,			
	2023		2022	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	10,500	\$ 10.80	10,500	\$ 10.80
Expired	-		-	
Outstanding at end of year	10,500	\$ 10.80	10,500	\$ 10.80
Options exercisable at year-end	10,500	\$ 10.80	10,500	\$ 10.80

	Years Ended December 31,	
	2023	2022
Stock options vested and expected to vest:		
Number	10,500	10,500
Weighted-average exercise price	\$ 10.80	\$ 10.80
Weighted-average contractual term of options	1.51 years	2.51 years
Stock options vested and currently exercisable:		
Number	10,500	10,500
Weighted-average exercise price	\$ 10.80	\$ 10.80
Weighted-average contractual term of options	1.51 years	2.51 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	10,500	1.51 years	\$ 10.80	10,500	\$ 10.80
	10,500			10,500	

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 12. INCOME TAXES

The components of income tax (benefit) expense are as follows:

	<b>Years Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Current	\$ (341,456)	\$ 298,297
Deferred	<b>99,138</b>	(74,768)
Income tax (benefit) expense	<b><u>\$ (242,318)</u></b>	<b><u>\$ 223,529</u></b>

The Company's income tax (benefit) 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>2023</b>	<b>2022</b>
Tax (benefit) provision at federal statutory rate	\$ (96,897)	\$ 354,817
Tax-exempt interest	(73,674)	(90,192)
Other items, net	(71,747)	(41,096)
Income tax (benefit) expense	<b><u>\$ (242,318)</u></b>	<b><u>\$ 223,529</u></b>

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

	<b>Years Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Deferred tax assets (liabilities):		
Allowance for credit losses	\$ 447,337	\$ 368,991
Allowance for credit losses – unfunded commitments	27,300	-
Allowance for credit losses – HTM securities	18,900	-
Nonaccrual interest	20,820	23,837
Other	37,166	27,301
Securities available for sale	1,524,836	1,827,560
Core deposit intangible	(14,438)	(19,688)
Depreciation	(403,049)	(381,902)
NOL carryforward	189,586	205,946
Net deferred tax assets	<b><u>\$ 1,848,458</u></b>	<b><u>\$ 2,052,045</u></b>

The federal income tax returns for the Company are subject to examination by the IRS, generally for three years after they were filed. The Company had approximately \$1,792,000 federal and state net operating loss carryforwards as of December 31, 2023. These carryforwards will begin to expire in 2028. 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 (LOSS) PER COMMON SHARE

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

	<b>Years Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Net income (loss)	\$ (219,095)	\$ 1,466,074
Less dividends on preferred stock	-	-
Net income (loss) available to common stockholders	<b>\$ (219,095)</b>	<b>\$ 1,466,074</b>
Weighted-average number of common shares outstanding	<b>994,235</b>	982,540
Effect of dilutive options	-	4,830
Weighted-average number of common shares outstanding used to calculate dilutive earnings (loss) per share	<b>994,235</b>	<b>987,370</b>

### 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>2023</b>	<b>2022</b>
Commitments to extend credit	\$ 37,895,143	\$ 22,783,190
Standby letters of credit	<b>25,000</b>	2,492,134
	<b>\$ 37,920,143</b>	<b>\$ 25,275,324</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, 2023, 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, 2023.

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans. The allowance for credit losses for unfunded commitments is separately classified on the balance sheet within other liabilities.

The following table presents the balance and activity in the allowance for credit losses for unfunded commitments for the year ended December 31, 2023:

	<b>Allowance for Credit Losses – Unfunded Commitments</b>
<b>December 31, 2023</b>	
<b>Beginning balance</b>	\$ -
Adjustment to allowance for the adoption of ASU 2016-13	130,000
Change in unfunded commitments	-
<b>Ending balance</b>	<u>\$ 130,000</u>

#### 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.

## NOTES TO CONSOLIDATED 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.

Eighty percent (80%) 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.

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 \$7,122,000.

### 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, 2023, approximately \$1,839,000 in retained earnings were available for dividend declaration without regulatory approval.

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, 2023 and 2022, the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2023, 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 16. REGULATORY MATTERS (CONTINUED)

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, 2023</b>						
<b>Total Capital Ratio (total capital to risk weighted assets)</b>	\$ 28,707	13.74%	\$ 16,718	8.00%	\$ 20,897	10.00%
<b>Core Capital Ratio (Tier 1 capital to risk weighted assets)</b>	\$ 26,102	12.49%	\$ 12,538	6.00%	\$ 16,718	8.00%
<b>CET1 Ratio (common equity Tier 1 capital to risk weighted assets)</b>	\$ 26,102	12.49%	\$ 9,404	4.50%	\$ 13,583	6.50%
<b>Leverage Ratio (Tier 1 capital to average assets)</b>	\$ 26,102	8.57%	\$ 12,177	4.00%	\$ 15,221	5.00%
<b>As of December 31, 2022</b>						
Total Capital Ratio (total capital to risk weighted assets)	\$ 29,220	14.85%	\$ 15,742	8.00%	\$ 19,677	10.00%
Core Capital Ratio (Tier 1 capital to risk weighted assets)	\$ 26,992	13.72%	\$ 11,806	6.00%	\$ 15,742	8.00%
CET1 Ratio (common equity Tier 1 capital to risk weighted assets)	\$ 26,992	13.72%	\$ 8,855	4.50%	\$ 12,790	6.50%
Leverage Ratio (Tier 1 capital to average assets)	\$ 26,992	9.01%	\$ 11,985	4.00%	\$ 14,982	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 Recurring Basis:** Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using			Total Carrying Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>December 31, 2023</b>				
<b>Assets</b>				
<b>Securities available for sale</b>				
U.S. Government and federal agencies	\$ -	\$ 7,611,504	\$ -	\$ 7,611,504
U.S. Government-sponsored enterprises (GSEs)	-	14,892,496	-	14,892,496
Municipal securities	-	23,442,362	-	23,442,362
Mortgage-backed securities - GSEs	-	21,475,960	-	21,475,960
Corporate bonds	-	2,152,320	-	2,152,320
<b>Total securities</b>	<b>\$ -</b>	<b>\$ 69,574,642</b>	<b>\$ -</b>	<b>\$ 69,574,642</b>
<b>December 31, 2022</b>				
<b>Assets</b>				
<b>Securities available for sale</b>				
U.S. Government and federal agencies	\$ -	\$ 23,197,987	\$ -	\$ 23,197,987
U.S. Government-sponsored enterprises (GSEs)	-	22,387,408	-	22,387,408
Municipal securities	-	23,465,712	-	23,465,712
Mortgage-backed securities - GSEs	-	23,842,620	-	23,842,620
Corporate bonds	-	1,600,248	-	1,600,248
<b>Total securities</b>	<b>\$ -</b>	<b>\$ 94,493,975</b>	<b>\$ -</b>	<b>\$ 94,493,975</b>

**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 in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>December 31, 2023:</b>				
Collateral-dependent loans	\$ -	\$ -	\$ 1,034,285	\$ -
<b>December 31, 2022:</b>				
Impaired loans	\$ -	\$ -	\$ 1,152,279	\$ -

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Quantitative Disclosures for Level 3 Fair Value Measurements

The Company had no Level 3 assets measured at fair value on a recurring basis at December 31, 2023.

For Level 3 assets measured at fair value on a nonrecurring basis, the significant unobservable inputs used in the fair value measurements are presented below.

	<u>Carrying Amount</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input</u>
<b>December 31, 2023:</b>			
<b>Nonrecurring:</b>			
<b>Collateral-dependent loans</b>	<b>\$ 1,034,285</b>	<b>Appraisal</b>	<b>Appraisal discounts (5-10%)</b>
<b>December 31, 2022:</b>			
<b>Nonrecurring:</b>			
Impaired loans	\$ 1,152,279	Appraisal	Appraisal discounts (5-10%)

### 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, 2023 and 2022. Items outside the scope of ASC 606 are noted as such.

	<u>2023</u>	<u>2022</u>
<b>Noninterest income</b>		
Service charges on deposit accounts	\$ 272,791	\$ 220,862
Bank owned life insurance (a)	131,189	107,241
Gains (losses) on sales and write-downs of foreclosed assets	4,500	(30,486)
Other fees and income	<u>733,368</u>	<u>598,303</u>
	<u>\$ 1,141,848</u>	<u>\$ 895,920</u>

(a) Not within scope of ASC 606.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

*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.

*Gains/Losses on sales of foreclosed assets:* The Company records a gain from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When a company finances the sale of foreclosed assets to the buyer, the Company assesses whether the buyer is committed to perform their obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain on sale, the Company adjusts the transaction price and related gain on sale if a significant financing component is present.

### NOTE 19. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheets as of December 31, 2023 and 2022 and the condensed statements of income and cash flows of Bainbridge Bancshares, Inc. for the years ended December 31, 2023 and 2022.

#### CONDENSED BALANCE SHEETS

	2023	2022
<b>Assets</b>		
Cash	\$ 2,759,136	\$ 3,401,759
Investment in subsidiary	20,365,898	20,117,086
Other assets	269,780	149,325
Total assets	\$ 23,394,814	\$ 23,668,170
<b>Liabilities</b>		
Subordinated debt, net	\$ 9,893,179	\$ 9,879,395
Other liabilities	116,568	128,655
Total liabilities	10,009,747	10,008,050
<b>Stockholders' equity</b>	13,385,067	13,660,120
<b>Total liabilities and stockholders' equity</b>	\$ 23,394,814	\$ 23,668,170

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### CONDENSED STATEMENTS OF OPERATIONS

	2023	2022
<b>Income</b>		
Interest	\$ 2,365	\$ 2,371
Dividend	500,000	250,000
Other	36,524	17,405
	538,889	269,776
<b>Expense</b>		
Interest expense	430,896	547,478
Other	29,533	32,396
	460,429	579,874
Income (loss) before income tax benefit in undistributed earnings (loss) of subsidiary	78,460	(310,098)
<b>Income tax benefit</b>	120,455	149,325
Income (loss) before equity in undistributed earnings (loss) of subsidiary	198,915	(160,773)
<b>Equity in undistributed earnings (loss) of subsidiary</b>	(418,010)	1,626,847
Net income (loss)	\$ (219,095)	\$ 1,466,074

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### CONDENSED STATEMENTS OF CASH FLOWS

	2023	2022
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (219,095)	\$ 1,466,074
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in undistributed (earnings) loss of subsidiary	418,010	(1,626,847)
Increase (decrease) in interest payable	(12,087)	108,724
Increase in tax receivable	(120,455)	(149,325)
Amortization of subordinated debt cost	13,784	13,783
Other prepaids, deferrals and accruals	-	(17,119)
Stock based compensation	-	37,050
Net cash provided by (used in) operating activities	80,157	(167,660)
<b>INVESTING ACTIVITIES</b>		
Capital injection into subsidiary	-	(2,800,000)
Net cash used in investing activities	-	(2,800,000)
<b>FINANCING ACTIVITIES</b>		
Issuance of common stock	-	340,000
Dividends paid to stockholders	(716,030)	(498,008)
Purchase of treasury stock	(6,750)	(20,705)
Net cash used in operating activities	(722,780)	(178,713)
Net decrease in cash	(642,623)	(3,146,373)
Cash at beginning of year	3,401,759	6,548,132
Cash at end of year	\$ 2,759,136	\$ 3,401,759