

TOUCHMARK BANCSHARES, INC., AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

TOUCHMARK BANCSHARES, INC., AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Touchmark Bancshares, Inc.
Alpharetta, Georgia

Opinion

We have audited the consolidated financial statements of Touchmark Bancshares, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income(loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Touchmark Bancshares, Inc. and its subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2023, Touchmark Bancshares, Inc. adopted new accounting guidance for Accounting Standards Update (ASU) 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)* as amended. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Touchmark Bancshares, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Touchmark Bancshares, Inc.'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 Touchmark Bancshares, Inc.'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.

Richels, Cauley + Associates, LLC

Atlanta, Georgia
March 26, 2024

TOUCHMARK BANCSHARES, INC., AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

ASSETS

	2023	2022
Cash and Due from Banks	\$ 345,165	\$ 1,692,508
Federal Funds Sold	<u>5,175,000</u>	<u>5,175,000</u>
Cash and Cash Equivalents	5,520,165	6,867,508
Interest-Bearing Accounts with Other Banks	47,498,058	22,416,393
Securities Available for Sale, at Fair Value, Net of Allowance for Credit Losses of \$-0- and \$-0-, Respectively	13,313,921	14,923,301
Restricted Stock	1,523,050	1,495,050
Loans, Net of Allowance for Credit Losses of \$4,939,673 and \$5,981,056, Respectively	446,672,731	287,970,888
Premises and Equipment	1,285,458	1,303,366
Foreclosed Real Estate	5,825,716	-
Operating Right-of-Use Asset	66,448	142,972
Other Assets	<u>5,467,773</u>	<u>5,113,431</u>
Total Assets	<u><u>\$ 527,173,320</u></u>	<u><u>\$ 340,232,909</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits		
Non-Interest Bearing Demand	\$ 16,110,957	\$ 21,951,118
Interest-Bearing	<u>430,386,883</u>	<u>248,890,106</u>
Total Deposits	446,497,840	270,841,224
Foreclosed Real Estate Liabilities	4,360,231	-
Operating Right-of-Use Liability	75,967	160,702
Other Liabilities	<u>5,693,443</u>	<u>3,730,695</u>
Total Liabilities	<u><u>456,627,481</u></u>	<u><u>274,732,621</u></u>
Stockholders' Equity		
Common Stock, \$.01 par Value, 50,000,000 Shares Authorized, 4,475,891 Issued and Outstanding	44,759	44,759
Paid-In Capital	46,880,651	46,880,651
Retained Earnings	24,435,723	19,583,335
Accumulated Other Comprehensive Income (Loss)	<u>(815,294)</u>	<u>(1,008,457)</u>
Total Stockholders' Equity	<u><u>70,545,839</u></u>	<u><u>65,500,288</u></u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 527,173,320</u></u>	<u><u>\$ 340,232,909</u></u>

See accompanying independent auditor's report and notes to consolidated financial statements.

TOUCHMARK BANCSHARES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Interest Income		
Loans, Including Fees	\$ 27,108,402	\$ 14,450,996
<i>Securities</i>		
Taxable	369,573	329,371
Tax-Exempt	10,437	18,546
Federal Funds Sold and Interest Bearing Accounts	1,588,319	433,481
Other	<u>91,035</u>	<u>85,929</u>
Total Interest Income	<u>29,167,766</u>	<u>15,318,323</u>
Interest Expense		
Deposits	13,120,892	2,183,001
Other Borrowings	<u>783,215</u>	<u>113,618</u>
Total Interest Expense	<u>13,904,107</u>	<u>2,296,619</u>
Net Interest Income	15,263,659	13,021,704
Provision for Credit Losses	<u>304,000</u>	<u>586,758</u>
Net Interest Income after Provision for Credit Losses	<u>14,959,659</u>	<u>12,434,946</u>
Noninterest Income		
Service Charges on Deposit Accounts and Other Fees	19,403	19,084
Loan Servicing Fees	807,501	978,499
Gain on Sale of Government Guaranteed Loans	-	638,664
Litigation Settlement	1,503,369	-
Other Noninterest Income	<u>435,909</u>	<u>244,764</u>
Total Noninterest Income	<u>2,766,182</u>	<u>1,881,011</u>
Noninterest Expense		
Salaries and Employee Benefits	3,829,173	3,768,605
Occupancy and Equipment	315,482	315,850
Foreclosed Real Estate	60,000	-
Referral fees for Government Guaranteed Loans	185,000	60,000
Data Processing	333,343	327,502
Loan Collection	725,000	243,352
Directors Fees	285,500	277,500
Other Noninterest Expense	<u>1,548,725</u>	<u>1,550,363</u>
Total Noninterest Expense	<u>7,282,223</u>	<u>6,543,172</u>
Income Before Taxes	10,443,618	7,772,785
Provision for Income Taxes	<u>2,449,400</u>	<u>1,899,199</u>
Net Income	<u>\$ 7,994,218</u>	<u>\$ 5,873,586</u>

See accompanying independent auditor's report and notes to consolidated financial statements.

TOUCHMARK BANCSHARES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Net Income	\$ 7,994,218	\$ 5,873,586
Other Comprehensive Income (Loss)		
Securities Available for Sale:		
Unrealized Gain (Loss) on Securities	257,550	(1,452,958)
Tax Effect	<u>(64,387)</u>	<u>363,238</u>
Other Comprehensive Income (Loss)	<u>193,163</u>	<u>(1,089,720)</u>
Comprehensive Income	<u>\$ 8,187,381</u>	<u>\$ 4,783,866</u>

See accompanying independent auditor's report and notes to consolidated financial statements.

TOUCHMARK BANCSHARES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

	Outstanding Shares of Common Stock	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2021	4,475,891	\$ 44,759	\$ 46,880,651	\$ 16,171,492	\$ 81,263	\$ 63,178,165
Net Income	-	-	-	5,873,586	-	5,873,586
Unrealized Loss on Securities, Net of Tax	-	-	-	-	(1,089,720)	(1,089,720)
Dividends Declared on Common Shares (\$0.55 per Share)	-	-	-	(2,461,743)	-	(2,461,743)
Balance, December 31, 2022	4,475,891	44,759	46,880,651	19,583,335	(1,008,457)	65,500,288
Cumulative Effect of Change in Accounting for Credit Losses (Note 1)	-	-	-	(232,501)	-	(232,501)
Net Income	-	-	-	7,994,218	-	7,994,218
Unrealized Loss on Securities, Net of Tax	-	-	-	-	193,163	193,163
Dividends Declared on Common Shares (\$0.65 per Share)	-	-	-	(2,909,329)	-	(2,909,329)
Balance, December 31, 2023	4,475,891	\$ 44,759	\$ 46,880,651	\$ 24,435,723	\$ (815,294)	\$ 70,545,839

See accompanying independent auditor's report and notes to consolidated financial statements.

**TOUCHMARK BANCSHARES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Cash Flow from Operating Activities		
Net Income	\$ 7,994,218	\$ 5,873,586
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities		
Depreciation, Amortization, and Accretion	3,564,397	1,954,612
Provision for Credit Losses	304,000	586,758
Deferred Income Taxes	193,503	(217,246)
Gain on Sale of Government Guaranteed Loans	-	(638,664)
Litigation Settlement	1,503,369	-
Change in		
Increase in Other Assets	(684,181)	(104,619)
Increase in Other Liabilities	1,341,427	98,690
	14,216,733	7,553,117
Cash Flow from Investing Activities		
Increase (Decrease) in Interest Bearing Accounts	(25,081,665)	81,577,669
Proceeds from Sale, Call, Paydown, and Maturity of		
Securities Available for Sale	1,827,103	2,546,347
Purchase of Securities Available for Sale	-	(6,010,142)
Proceeds (Purchase) from Sale of Restricted Stock	(28,000)	3,400
Loan Originations and Collections, Net	(165,437,784)	1,243,683
Purchase of Premises and Equipment	(38,603)	(55,042)
	(188,758,949)	\$ 79,305,915
Net Cash from Investing Activities	\$ (188,758,949)	\$ 79,305,915

See accompanying independent auditor's report and notes to consolidated financial statements.

**TOUCHMARK BANCSHARES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Cash Flow from Financing Activities		
Net Change in Deposits	\$ 175,656,616	\$ (84,141,143)
Payment of Dividends on Common Stock	(2,461,743)	(2,237,944)
Proceeds from Federal Home Loan Bank Advances	168,500,000	-
Repayment of Federal Home Loan Bank Advances	(168,500,000)	-
Net Cash from Financing Activities	173,194,873	(86,379,087)
Net Change in Cash and Cash Equivalents	(1,347,343)	479,945
Cash and Cash Equivalents at the Beginning of the Period	6,867,508	6,387,563
Cash and Cash Equivalents at the End of the Period	\$ 5,520,165	\$ 6,867,508
Supplemental disclosures of cash flow information		
Interest Paid	\$ 12,576,799	\$ 2,237,851
Income Taxes	\$ 2,794,852	\$ 1,654,332
Non-Cash Operating, Investing, and Financing Activity		
Transfer of Loan Principal to Foreclosed Real Estate	\$ 5,825,716	\$ -
Foreclosed Real Estate Liability	\$ (4,360,231)	\$ -
Cumulative Effect of Change in Accounting for Credit Losses	\$ (232,501)	\$ -
Change in Dividends Payable	\$ 447,586	\$ 223,799
Operating Right-of-Use Assets at Inception	\$ -	\$ 198,224
Operating Lease Liabilities at Inception, Net of Deferred Rent	\$ -	\$ 198,224

See accompanying independent auditor's report and notes to consolidated financial statements.

**TOUCHMARK BANCSHARES, INC., AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

(1) Summary Of Significant Accounting Policies

The accounting and reporting policies of Touchmark Bancshares, Inc. (the Company) and subsidiary conform to generally accepted accounting principles and with general practices within the banking industry. The following is a description of the more significant of those policies that the Company follows in preparing and presenting its financial statements.

Reporting Entity and Nature of Operations

The Company is a Georgia corporation established on April 3, 2007, for the purpose of organizing and managing Touchmark National Bank, (the Bank). The Company is a one-bank holding company with respect to its subsidiary, Touchmark National Bank. The Bank was opened with the purpose of serving as a community bank in Gwinnett County, Fulton, and DeKalb counties and surrounding areas in the state of Georgia.

The Bank operates from its Alpharetta, Georgia headquarters. The Company's primary sources of revenue are derived from the Bank's loans to customers and its investment portfolio. The Company's earnings are primarily dependent upon its net interest income, which is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities (interest rate spread) and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding. The Company's interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand and deposit flows. The Bank, like other community banks, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or re-price more rapidly than interest-earning assets.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany accounts and transactions have been eliminated.

Adoption of New Accounting Standards

On January 1, 2023, the Company adopted Accounting Standards Update (ASU) 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)*, as amended. This standard replaced 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 CECL is applicable to financial assets measured at amortized costs, including loan receivables, and held to maturity debt securities and some off-balance sheet credit exposure as unfunded commitments to extend credit. Additionally, purchased credit deteriorated (PCD) loans will receive an initial allowance at the acquisition date that represents an adjustment to the amortized cost basis of the loan, with no impact to earnings. *ASC 326* also made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

(1) Summary Of Significant Accounting Policies (Continued)

Adoption of New Accounting Standards (Continued)

The Company adopted ASC 326 using the modified retrospective 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 following table illustrates the impact of ASC 326.

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Allowance for Credit Losses on Loans			
Commercial Real Estate	\$ 495,486	\$ 495,486	\$ -
Residential Real Estate	21,249	21,249	-
Small Business	5,464,321	5,464,321	-
	<u>5,981,056</u>	<u>5,981,056</u>	<u>-</u>
Deferred Tax Assets	1,660,038	1,737,537	(77,499)
Liabilities			
Allowance for Credit Losses on Unfunded Commitments	310,000	-	310,000
Equity			
Retained Earnings	19,350,834	19,583,335	(232,501)

On January 1, 2023, the Company adopted ASU 2022-02 *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 eliminates the troubled debt restructuring (TDR) measurement and recognition guidance and adds disclosures related to modifications made to borrowers experiencing financial difficulties. The Company adopted using a modified retrospective approach. There was no consolidated financial statement impact upon the adoption of this standard.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(1) Summary Of Significant Accounting Policies (Continued)

Use of Estimates in the Preparation of Financial Statements (Continued)

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on loans, the valuation of real estate acquired in connection with foreclosure or in satisfaction of loans, fair market value of securities, derivatives and financial instruments, the valuation of deferred tax assets, and the disclosure of contingent assets and liabilities. In connection with the determination of the allowances for credit losses on loans, management obtains independent appraisals for significant properties.

Management believes that the allowance for credit losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowances 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 Company's allowance for credit losses on loans. Such agencies may require the Company to recognize additions to the allowance 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 allowance for credit losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

For purposes of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions "cash and due from banks" and "federal funds sold." Cash flows from deposits, federal funds sold, secured borrowings, and originations and collections of loans are reported net.

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. Effective March 26, 2020, the Federal Reserve's board of directors approved reducing the required reserve requirement ratio to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined timeframe and may be revised by the Federal Reserve's board in the future.

Investment securities

Debt securities that management has the positive intent, and the Company has the ability to hold to maturity are classified as securities held to maturity and recorded at amortized cost. Securities not classified as securities held to maturity, including equity securities with readily, determinable fair values, are securities available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). There were no securities classified as held to maturity or trading at December 31, 2023 or 2022.

The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the expected life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the trade date. The Company has made a policy election to include accrued interest in the amortized cost basis of debt. 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 or 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.

(1) Summary Of Significant Accounting Policies (Continued)

Allowance for Credit Losses-Available-for-Sale Securities

For all available-for-sale securities in an unrealized loss position, the Company first evaluates whether it intends to sell, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through earnings. If either of the criteria is not met, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of tax, as a non-credit related impairment.

Changes in the allowance for credit losses are recorded as provision for credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no allowance for credit loss related to the available for sale portfolio.

Federal Home Loan Bank (FHLB) Stock and Federal Reserve Bank (FRB) Stock

FHLB stock represents an equity interest in FHLB and FRB stock represents an equity interest in FRB. Both stocks do not have a readily determinable fair value because ownership is restricted, and the stocks lack a market. The amount of FHLB and FRB stock held by the Company is required by the FHLB and FRB to be maintained and is based on membership requirements and terms of advance agreements. Such restricted equity securities without a readily determinable fair value are recorded at cost and are periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for purchase premiums or discounts, deferred loan fees, charge-offs, and an allowance for loan losses. Interest on loans is accrued and credited to income based on the unpaid principal balance on a daily basis. Accrued interest receivable totaled \$2,701,386 and \$1,423,541 at December 31, 2023 and 2022 and is excluded from the estimate of credit losses. Loan-origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame.

Loan delinquencies are determined by comparing contractual requirements to the timing of payments received from the borrower. The policies and procedures related to nonaccrual and delinquent loans are applied to all outstanding loans.

(1) Summary Of Significant Accounting Policies (Continued)

Allowance for Credit Losses-Loans

The allowance for credit losses – loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the collectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The allowance for credit losses-loans represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses-loans is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors such as national, state and local economies, interest rates, farm commodity prices, consumer housing market and commercial real estate market.

Management allocates the allowance for credit losses-loans by pools of risk within each loan portfolio segment. The allocation methodology consists of the following components. First, a specific reserve is established for individually evaluated purchase credit deteriorated (PCD) and other credit-deteriorated loans, which management defines as nonaccrual credit relationships, collateral dependent loans, and other loans with evidence of credit deterioration. The specific reserve in the allowance for credit losses-loans for these credit deteriorated loans is equal to the aggregate collateral or discounted cash flow shortfall. Next, management allocates the allowance for credit losses-loans on loans with historical loss rates by loan segment. The loss factors are measured on a quarterly basis and applied to each loan segment based on current loan balances and projected for their expected remaining life. Management also allocates using the qualitative and environmental factors mentioned above. Consideration is given to those current qualitative or environmental factors that are likely to cause estimated credit losses at the evaluation date to differ from the historical loss experience of each loan segment. Lastly, management considers reasonable and supportable forecasts to assess the collectability of future cash flows.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments with similar risk characteristics for measuring expected credit losses.

- *Small Business/ Commercial and Industrial Installment-* Loans in this segment are made to businesses for commercial, industrial, or professional purposes and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy and resultant decreased consumer spending will have an effect on the credit quality in this segment.
- *Consumer Real Estate Installment/Agriculture Real Estate and Land-* Loans in this segment include real estate development loans for which the source of repayment is the sale of the property. Also included in this segment are loans for owner occupied commercial property or investment property such as office buildings, retail shopping centers, and industrial. Credit risk in this segment is affected by many factors including real estate market conditions, the credit quality of commercial borrowers, the overall health of the economy and unemployment rates.

(1) Summary Of Significant Accounting Policies (Continued)

Allowance for Credit Losses-Loans (Continued)

- *Residential Real Estate* – Loans in this segment include family residential units for 1-4 families, home equity line of credit, and second mortgage loans. Credit risk in this segment is affected by many factors including real estate market conditions, the credit quality of individual borrowers, the overall health of the economy and unemployment rates.

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

Allowance for Credit Losses-Unfunded Commitments

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on unfunded commitments is adjusted through the provision for credit losses.

The allowance for credit losses on unfunded commitments is estimated by loan portfolio segment under the current expected credit loss model using the same methodologies as for loans. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Significant Group Concentrations of Credit Risk

The nature of the Company's business requires that it maintain amounts in correspondent institutions which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts, and management works to mitigate risk associated with its correspondent institutions. Amounts included in due from banks are typically maintained in demand deposit accounts which are insured up to \$250,000.

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 - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (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 or the ability to unilaterally cause the holder to return specific assets.

(1) Summary Of Significant Accounting Policies (Continued)

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, computed principally on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs that do not extend the useful life of the premises and equipment are charged to expense. The useful lives of premises and equipment are as follows:

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	40 years
Furniture, Fixtures and Equipment	3-7 years

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less selling costs at the date of foreclosure establishing a new cost basis. Any write down to fair value at the time of foreclosure is charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed real estate and subsequent adjustment to the value are expensed.

Loan Servicing Rights

The Company services loans it sells to third-party institutions. Servicing loans includes collecting monthly principal and interest payments from borrowers, passing such payments through to the third-party investors, and maintaining escrow accounts for taxes and insurance. When necessary, the Company also performs collection functions for delinquent loan payments, handles loan foreclosure proceedings, and disposes of foreclosed property. The Company generally earns a servicing fee on the outstanding loan balance for performing these services as well as fees and interest income from ancillary sources such as late fees and float. Servicing fees totaled \$807,501 and \$978,499 for the years ended December 31, 2023 and 2022, respectively. Servicing fees and other ancillary income earned each year are reported in the consolidated statement of earnings as a component of loan servicing fees.

Loan servicing rights are recognized as assets when loans are sold or when servicing rights are acquired. Purchased servicing rights are recognized at cost when acquired. Loan servicing rights recognized when loans are sold are measured at fair value. The fair value of loan servicing rights is estimated using market prices for comparable contracts, when available, or a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income such as costs to service, a discount rate, custodial earnings rate, ancillary income, default rates and losses, and prepayment speeds. The fair value of loan servicing rights may change due to changes in discount rates, prepayment expectations, default rates, and other factors. Loan servicing rights are reported in other assets and are amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. The loan servicing asset totaled approximately \$967,739 and \$1,311,727 at December 31, 2023 and 2022, respectively.

(1) Summary Of Significant Accounting Policies (Continued)

Loan Servicing Rights (continued)

Loan servicing rights are evaluated for impairment at least annually. Changes in the carrying value of servicing assets are recorded in noninterest expense in the Consolidated Statements of Income. Loan servicing asset amortization included in noninterest expense totaled approximately \$225,972 and \$305,382 for the years ended December 31, 2023 and 2022, respectively.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws and considers any uncertain tax positions.

A valuation allowance for deferred tax assets is required when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realization of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income (in the near-term based on current projections), and tax planning strategies.

The Company recognizes accrued interest associated with uncertain tax positions as part of interest expense and penalties associated with uncertain tax positions as part of other expenses. As of December 31, 2023 and 2022, there were no accrued interest and penalties associated with uncertain tax positions.

The operating results of the Company and its subsidiary are included in consolidated income tax returns.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although 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 balance sheet, such items, along with net income, are components of comprehensive income (loss).

Stock Based Compensation

The Company maintains a share-based employee compensation plan for grants of equity-based compensation to key personnel. The Company accounts for such share-based payment based on the fair value of such as of the date of grant. Upon issuance of share-based payment awards, compensation cost is recognized in the consolidated financial statements of the Company for all share-based payments granted, based on the grant date fair value over the requisite service period of the awards. The stock-based compensation plan is described more fully in Note 17.

Revenue from Contracts with Customers

Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers (ASC 606)*, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

(1) Summary Of Significant Accounting Policies (Continued)

Revenue from Contracts with Customers (Continued)

The majority of revenue-generating transactions are not subject to *ASC 606*, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as well as revenue related to loan servicing activities, as these activities are subject to other GAAP discussed elsewhere within disclosures. Descriptions of revenue-generating activities that are within the scope of *ASC 606*, which are presented in income statements as components of noninterest income are as follows:

Service charges on deposits: These include general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue on these types of fees are recognized when performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied. Service charges on deposits also include overdraft and NSF fees. Overdraft fees are charged when a depositor has a draw on their account that has inadequate funds.

Card interchange income: A contract between the Bank, as a card-issuing bank, and its customers whereby the Bank receives a transaction fee from the merchant's bank whenever a customer uses a debit or credit card to make a purchase. These fees are earned as the service is provided (i.e., when customer uses a debit/ATM card).

Gain or loss on sale of foreclosed real estate: This revenue stream is recorded when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present. This revenue stream is within the scope of *ASC 606* and is included in other income in noninterest income. No revenue was generated from gains and losses on the sale and financing of foreclosed real estate.

Other revenue streams that are recorded in other income in noninterest income include revenue generated from letters of credit. These revenue streams are either not material or out of scope of *ASC 606*.

Financial Instruments

In the ordinary course of business, the Company enters into off balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Fair Values of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments. Since no quoted market prices exist for a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on management's assumptions, the estimated amount and timing of future cash flows, and estimated discount rates.

(1) Summary Of Significant Accounting Policies (Continued)

Fair Values of Financial Instruments (Continued)

The estimation methods for individual classifications of financial instruments are described in Note 15. Different assumptions could significantly affect these estimates. Accordingly, net realizable values could be materially different from the estimates presented. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the combined Company.

Advertising Costs

The Company expenses the cost of advertising in the periods in which those costs were incurred. Advertising expense was \$49,100 and \$11,150 for the years ended December 31, 2023 and 2022 respectively.

Reclassifications

Certain amounts have been reclassified in the 2022 consolidated financial statements for them to be more comparable to the 2023 consolidated financial statements.

(2) Risk Factors

The Company's operations, profitability, cash flows, capital and liquidity are affected by various risk factors, including, but not necessarily limited to, interest-rate risk, credit risk and loan concentration risk. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities and rate terms and structures of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to credit-worthy borrowers, although credit losses are expected to occur resulting from factors beyond the control of the Company.

The Company's operations, profitability, cash flows, capital and liquidity are significantly dependent on economic conditions and related uncertainties. In addition, the Company is affected, directly and indirectly, by domestic and international economic and political conditions and by governmental monetary and fiscal policies.

The Company is subject to extensive federal and state governmental supervision and regulation, which are intended primarily for the protection of depositors. In addition, the Company is subject to changes in federal and state laws, as well as changes in regulations, governmental policies, and accounting principles. The effects of any such potential changes cannot be predicted but could adversely affect the business, operations, profitability, cash flows, capital, and liquidity of the Company in the future.

The Company is subject to vigorous competition in all aspects and areas of business from banks and other financial institutions, including savings and loan associations, savings banks, finance companies, credit unions and other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. The Company also competes with nonfinancial institutions, including retail stores that maintain their own credit programs and governmental agencies that make available low cost or guaranteed loans to certain borrowers. Certain competitors are larger financial institutions with substantially greater resources, lending limits, larger branch systems, and a wider array of commercial banking services.

(2) Risk Factors (Continued)

In addition, the Bank conducts business daily with correspondent banks. These banks are not immune to financial difficulties. Regulation F “Limitations on Interbank Liabilities” requires the Bank to establish and maintain written policies and procedures to prevent excessive exposure to any individual correspondent banking relationship relative to the financial condition of such correspondent. The Company is vulnerable to the financial difficulties of any of its major correspondent banking relationships directly and indirectly.

(3) Securities Available for Sale

The amortized cost, gross unrealized gains, and losses, and estimated fair value of investments securities at December 31 are summarized as follows:

	2023				
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
U.S. Government-sponsored enterprises (GSEs)	\$ 6,264,036	\$ -	\$ (88,538)	\$ -	\$ 6,175,498
Mortgage-backed GSE residential	8,136,942	-	(998,519)	-	7,138,423
	<u>\$ 14,400,978</u>	<u>\$ -</u>	<u>\$ (1,087,057)</u>	<u>\$ -</u>	<u>\$ 13,313,921</u>
	2022				
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
U.S. Government-sponsored enterprises (GSEs)	\$ 6,320,870	\$ -	\$ (195,340)		\$ 6,125,530
State and municipal securities	570,101	-	(5,733)		564,368
Mortgage-backed GSE residential	9,376,937	-	(1,143,534)		8,233,403
	<u>\$ 16,267,908</u>	<u>\$ -</u>	<u>\$ (1,344,607)</u>		<u>\$ 14,923,301</u>

Fair values of debt securities are generally estimated based on financial models or prices paid for similar securities. It is possible interest rates or other key inputs to the valuation estimate could change considerably resulting in a material change in the estimated fair value of debt securities.

Included in stockholders' equity at December 31, 2023 is \$815,294 of unrealized losses on investment securities available for sale, net of tax of \$271,763. Included in stockholders' equity at December 31, 2022 is \$1,008,457 of unrealized losses on investment securities available for sale, net of tax of \$336,150.

The amortized cost and estimated fair value of investment securities at December 31, 2023, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(3) Securities Available for Sale (Continued)

	Available For Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 1,998,409	\$ 1,980,000
Due after one year but less than five years	4,297,760	4,228,417
Due after five years but less than ten years	2,247,612	2,108,045
Due after ten or more years	5,857,197	4,997,459
	<u>\$ 14,400,978</u>	<u>\$ 13,313,921</u>

For the purpose of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

There were no sales of debt securities in 2023 and 2022.

Investment securities with a carrying value of \$817,062 and \$838,429 at December 31, 2023 and 2022 were pledged to secure public deposits.

Taxable interest income on investments was \$369,573 and \$329,371 for the years ended December 31, 2023 and 2022, respectively. Interest income exempt from Federal income tax was \$10,437 and \$18,546 for the years ended December 31, 2023 and 2022, respectively.

Information pertaining to securities with gross unrealized losses for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by investment category and length of time individual securities have been in a continuous position, follows:

	2023			
	Twelve Months or Less		Over Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. Government-sponsored enterprises (GSEs)	\$ -	\$ -	\$ (88,536)	\$ 6,175,500
Mortgage-backed GSE residential	-	-	(998,521)	7,138,421
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,087,057)</u>	<u>\$ 13,313,921</u>

(3) Securities Available for Sale (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2022, aggregated by investment category and length of time individual securities have been in a continuous position, follows:

	2022			
	Twelve Months or Less		Over Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. Government-sponsored enterprises (GSEs)	\$ (195,340)	\$ 6,125,530	\$ -	\$ -
State and municipal securities	(5,733)	564,368	-	-
Mortgage-backed GSE residential	<u>(537,183)</u>	<u>5,590,801</u>	<u>(606,351)</u>	<u>2,642,602</u>
	<u>\$ (738,256)</u>	<u>\$ 12,280,699</u>	<u>\$ (606,351)</u>	<u>\$ 2,642,602</u>

At December 31, 2023, 34 debt securities have unrealized losses with aggregate depreciation of 7.5 percent from the Company's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts' reports, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

The unrealized losses on the Company's investment on the mortgage-backed securities GSE residential, state, and municipal bonds, and U.S. Government sponsored entities were caused by changes in interest rates and the market. The contractual cash flows of mortgage-backed securities GSE residential and U.S Government sponsored entity securities are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments. Additionally, state, and municipal bonds purchased by the Company met certain credit rating requirements. Because the decline in market value is attributable to changes in interest rates and not credit quality, and since the Bank does not intend to sell these investment securities at an unrealized loss position at December 31, 2023, and it is more likely than not that the Bank will not be required to sell these securities prior to recovery or maturity, management determined that none of the loss was attributable to credit impairment.

(4) Loans And Allowance for Credit Losses

The approximate composition of loans as of December 31, are summarized as follows.

	<u>2023</u>
Commercial Real Estate	\$ 78,616,118
Residential Real Estate	1,812,252
Small Business	<u>372,230,185</u>
	<u>452,658,555</u>
Allowance for Credit Losses	(4,939,673)
Unearned Deferred Fees	<u>(1,046,151)</u>
Loans, Net	<u><u>\$ 446,672,731</u></u>
	<u>2022</u>
Construction and Development	\$ 35,939,941
Real Estate - Mortgage	2,335,226
Commercial Real Estate	220,384,230
Commercial and Industrial	<u>36,442,191</u>
	<u>295,101,588</u>
Allowance for Loan Losses	(5,981,056)
Unearned deferred fees	<u>(1,149,644)</u>
Loans, Net	<u><u>\$ 287,970,888</u></u>

The Company is not committed to lend additional funds to borrowers with non-accrual or restructured loans.

The loan classifications above include unamortized net premiums on purchased loans totaling \$24,082,584 and \$6,625,617 as of December 31, 2023 and 2022, respectively.

The Company grants loans and extensions of credit to individuals and a variety of businesses. Although the Company has a diversified loan portfolio, a substantial portion of the portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market. In addition, the Company makes loans nationally through government guaranteed lending programs.

In the normal course of business, the Company sells and purchases loan participations to and from other financial institutions. Loan participations are typically sold to comply with the legal lending limits per borrower as imposed by regulatory authorities. The participations are sold without recourse and the Company imposes no transfer or ownership restrictions on the purchaser.

(4) Loans And Allowance for Credit Losses (Continued)

The allowance for credit losses as of December 31, 2023, by approximate portfolio segment, is as follows:

	Commercial Real Estate	Residential Real Estate	Small Business	Total
Allowance for loan losses:				
Beginning balance	\$ 495,486	\$ 21,249	\$ 5,464,321	\$ 5,981,056
Charge-offs	-	-	(1,627,318)	(1,627,318)
Recoveries	-	-	60,935	60,935
Provision	391,952	8,895	124,153	525,000
Ending balance	\$ 887,438	\$ 30,144	\$ 4,022,091	\$ 4,939,673
Ending balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -

Prior to the adoption of ASU 2016-13, the Company calculated the allowance for loan losses under the incurred loss methodology. The allowance for loan losses as of December 31, 2022, by approximate portfolio segment, is as follows:

Prior Year ALL Rollforward

	Construction and Development	Real Estate- Mortgage	Commercial Real Estate	Commercial and Industrial	Other	Total
Allowance for Loan Losses:						
Beginning balance	\$ 656,453	\$ 16,523	\$ 4,346,964	\$ 445,384	\$ 3,230	\$ 5,468,554
Charge-offs	-	-	(26,760)	(89,484)	-	(116,244)
Recoveries	-	-	39,407	2,581	-	41,988
Provision	(160,967)	4,726	414,808	331,421	(3,230)	586,758
Ending Balance	\$ 495,486	\$ 21,249	\$ 4,774,419	\$ 689,902	\$ -	\$ 5,981,056
Ending Balance: Individually Evaluated for Impairment	\$ -	\$ -	\$ 2,263,206	\$ 278,164	\$ -	\$ 2,541,370
Ending Balance: Collectively Evaluated for Impairment	\$ 495,486	\$ 21,249	\$ 2,511,213	\$ 411,738	\$ -	\$ 3,439,686
Ending Balance: Loans Acquired with Deteriorated Credit Quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gross Loans:						
Ending Balance	\$ 35,939,941	\$ 2,335,226	\$ 220,384,230	\$ 36,442,191	\$ -	\$ 295,101,588
Ending Balance: Individually Evaluated for Impairment	\$ -	\$ -	\$ 10,953,748	\$ 3,699,457	\$ -	\$ 14,653,205
Ending Balance: Collectively Evaluated for Impairment	\$ 35,939,941	\$ 2,335,226	\$ 209,430,482	\$ 32,742,734	\$ -	\$ 280,448,383
Ending Balance: Loans Acquired with Deteriorated Credit Quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(4) Loans And Allowance for Credit Losses (Continued)

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impaired loans were measured by either the present value of expected cash flows discounted at the loan's effective rate, the loan's obtainable market price, or the estimated fair value of the collateral if the loan was collateral dependent.

Impaired loans as of December 31, 2022 by approximate portfolio segment, are as follows:

	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Construction and Development	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate - mortgage	-	-	-	-	-
Commercial Real Estate	10,953,748	-	10,953,748	10,953,748	2,263,206
Commercial and Industrial	3,699,457	2,408,369	1,291,088	3,699,457	278,164
Total	\$ 14,653,205	\$ 2,408,369	\$ 12,244,836	\$ 14,653,205	\$ 2,541,370

	Year Ended December 31, 2022	
	Average Recorded Investment	Income Recognized
Construction and Development	\$ -	\$ -
Real Estate - Mortgage	-	-
Commercial Real Estate	9,713,902	453,556
Commercial and Industrial	2,397,019	94,372
Total	\$ 12,110,921	\$ 547,928

The recorded investment excludes accrued interest and fees, due to immateriality.

The Company designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans designated as having higher risk. Collateral-dependent loans are loans where repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. If the Bank determines that foreclosure is probable, these loans are written down to the lower of cost or fair value of the collateral less estimated costs to sell. When repayment is expected to be from the operation of the collateral, the allowance for credit loss (ACL) is calculated as the amount by which the amortized cost basis of the financial asset exceeds the present value of expected cash flows from the operation of the collateral. The Bank may, in the alternative, measure the ACL as the amount by which the amortized cost basis of the financial asset exceeds the estimated fair value of the collateral.

(4) Loans And Allowance for Credit Losses (Continued)

The following table presents the individually evaluated collateral-dependent financial assets and related ACL as of December 31, 2023.

	Balance	Allowance for Credit Losses
	<u> </u>	<u> </u>
Commercial Real Estate	\$ 1,012,548	\$ 223,767
Small Business	28,938,026	2,423,126
	<u> </u>	<u> </u>
Total	<u>\$ 29,950,574</u>	<u>\$ 2,646,893</u>

A primary credit quality indicator for financial institutions is delinquent balances. Delinquencies are updated on a daily basis and are continuously monitored. Loans are placed on nonaccrual status as needed based on repayment status and consideration of accounting and regulatory guidelines. Nonaccrual balances are updated and reported on a daily basis.

The following are the delinquent amounts, by portfolio segment, as of December 31:

<u>2023</u>	Current	30-89 Days	Accruing Greater Than 90 Days	Total Accruing Past Due	Non-accrual	Total Financing Receivables
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Consumer Real Estate Installment	\$ 78,616,118	\$ -	\$ -	\$ -	\$ -	\$ 78,616,118
Residential Real Estate	1,812,252	-	-	-	-	1,812,252
Small Business	338,888,045	11,818,115	291,056	12,109,171	21,232,969	372,230,185
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 419,316,415</u>	<u>\$ 11,818,115</u>	<u>\$ 291,056</u>	<u>\$ 12,109,171</u>	<u>\$ 21,232,969</u>	<u>\$ 452,658,555</u>
<u>2022</u>						
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Construction and development	\$ 35,602,808	\$ 337,133	\$ -	\$ 337,133	\$ -	\$ 35,939,941
Real estate - mortgage	2,335,226	-	-	-	-	2,335,226
Commercial real estate	210,318,277	4,249,938	-	4,249,938	5,816,015	220,384,230
Commercial and industrial	17,739,837	15,002,897	-	15,002,897	3,699,457	36,442,191
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 265,996,148</u>	<u>\$ 19,589,968</u>	<u>\$ -</u>	<u>\$ 19,589,968</u>	<u>\$ 9,515,472</u>	<u>\$ 295,101,588</u>

The following table is a summary of the Company's nonaccrual loans by major categories for the period indicated.

	December 31, 2023		
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
	<u> </u>	<u> </u>	<u> </u>
Small Business	<u>\$ 20,988,680</u>	<u>\$ 244,289</u>	<u>\$ 21,232,969</u>

(4) Loans And Allowance for Credit Losses (Continued)

The Company categorized loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Company utilizes a nine grade internal loan rating system for its loan portfolio as follows:

Internal Watch. Loans in this category contain elements of additional risk that may require close following. Collateral values generally afford adequate coverage but may not be immediately marketable. Ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectability of the contractual loan payments is still probable.

Special Mention. Potential weaknesses exist that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the assets or in the institution's credit position at some future date. Loans in this category and worse are included on the bank's watch list.

Substandard. Loans are inadequately protected by the net worth and cash flow of the borrower or of the collateral pledged and are considered classified. The credit risk in this situation is related to the possibility of some loss of principal or interest if the deficiencies are not corrected.

Doubtful. Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

Loss. Loans are categorized as Loss have the same characteristics as Doubtful; however, probability of loss is certain. Loans classified as such are generally charged-off.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

(4) Loans And Allowance for Credit Losses (Continued)

Loan grades are monitored regularly and updated as necessary based upon review of repayment status and consideration of periodic updates regarding the borrower's financial condition and capacity to meet contractual requirements. The following presents the Company's loans by risk rating based on the most recent information available as of December 31:

<u>2023</u>	Commercial Real Estate	Real Estate- Mortgage	Small Business	Total	
1-4 (Pass)	\$ 38,900,542	\$ 1,812,252	\$ 315,211,197	\$ 355,923,991	
5 (Internal Watch)	38,387,002	-	27,040,275	65,427,277	
6 (Special Mention)	316,026	-	1,400,479	1,716,505	
7 (Substandard)	1,012,548	-	28,578,234	29,590,782	
8 (Doubtful)	-	-	-	-	
9 (Loss)	-	-	-	-	
Total	<u>\$ 78,616,118</u>	<u>\$ 1,812,252</u>	<u>\$ 372,230,185</u>	<u>\$ 452,658,555</u>	
<u>2022</u>	Construction and Development	Real Estate - Mortgage	Commercial Real Estate	Commercial and Industrial	Total
1-4 (Pass)	\$ 16,484,513	\$ 2,180,759	\$ 137,393,132	\$ 15,973,314	\$ 172,031,718
5 (Internal Watch)	19,455,428	154,467	66,846,887	1,684,260	88,141,042
6 (Special Mention)	-	-	346,855	82,264	429,119
7 (Substandard)	-	-	13,205,524	18,702,353	31,907,877
8 (Doubtful)	-	-	2,591,832	-	2,591,832
9 (Loss)	-	-	-	-	-
Total	<u>\$ 35,939,941</u>	<u>\$ 2,335,226</u>	<u>\$ 220,384,230</u>	<u>\$ 36,442,191</u>	<u>\$ 295,101,588</u>

The Company periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness, or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of modification. When principal forgiveness is provided, the amount of principal forgiveness is charged off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan. During the year ended December 31, 2023, there were no loans modified for borrowers experiencing financial difficulty and the Company does not have any commitments to lend additional funds to borrowers experiencing financial difficulty for which the Bank has modified their loans.

There were no loans that had a payment default during the year ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

(4) Loans And Allowance for Credit Losses (Continued)

Prior to the adoption of ASU 2022-02, in the real estate environment it became common to restructure or modify the terms of certain loans under certain conditions (i.e., troubled debt restructures or “TDRs”). In those circumstances it was beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable real estate market. When the Bank has modified the terms of a loan, the Bank usually either reduces or defers payments for a period of time. The Bank has not forgiven any material principal amounts on any loan modifications during 2022. The Bank did not have any loans determined to be TDRs as of December 31, 2022.

(5) Allowance For Credit Losses – Unfunded Commitments

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments, which is included in accrued expenses and other current liabilities on the balance sheet, as of December 31, 2023:

Beginning balance, prior to adoption of ASC 326	\$ -
Impact of adopting ASC 326	310,000
Provision	<u>(221,000)</u>
Ending balance	<u>\$ 89,000</u>

(6) Foreclosed Real Estate

There was \$60,000 and \$-0- in expenses related to foreclosed assets during the year ended December 31, 2023 and 2022, respectively.

As of December 31, 2023, there were \$5,825,716 in real estate properties held by the Company as a result of obtaining physical possession or foreclosure. As of December 31, 2023, there were \$4,360,231 in other real estate liabilities for amounts due to the Small Business Administration and another financial institution. As of December 31, 2022, there were no real estate properties held by the Company as a result of obtaining physical possession or foreclosure.

(7) Premises And Equipment

Major classifications of these assets at December 31, are summarized as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 400,000	\$ 400,000
Building	1,133,735	1,128,119
Furniture, fixtures and equipment	<u>322,769</u>	<u>289,783</u>
	1,856,504	1,817,902
Accumulated depreciation	<u>(571,046)</u>	<u>(514,536)</u>
Premises and equipment, net	<u>\$ 1,285,458</u>	<u>\$ 1,303,366</u>

Depreciation expense for the years ended December 31, 2023 and December 31, 2022 was \$56,510 and \$60,945, respectively.

(8) Deposits

Deposit account balances at December 31, are summarized as follows:

	<u>2023</u>	<u>2022</u>
Non-interest bearing demand deposits	\$ 16,110,957	\$ 21,951,118
Interest - bearing demand	47,692,755	93,693,119
Savings	99,576	185,417
Time Deposits	<u>382,594,552</u>	<u>155,011,570</u>
 Total Deposits	 <u>\$ 446,497,840</u>	 <u>\$ 270,841,224</u>

Time deposits that exceed \$250,000 at December 31, 2023 and 2022 were approximately \$106,120,054 and \$51,870,000 respectively. At December 31, 2023 and 2022 brokered time deposits were \$170,510,100 and \$45,004,000, respectively.

At December 31, 2023, the scheduled maturities of time deposits are as follows:

<u>Year Ending December 31,</u>	
2024	\$ 377,378,600
2025	3,586,673
2026	71,043
2027	72,163
2028	<u>1,486,073</u>
	<u>\$ 382,594,552</u>

Overdrafts included in loans were \$2,522 and \$414 at December 31, 2023 and 2022, respectively.

(9) Leases

The Company has a lease for a satellite office in Alpharetta, Georgia which expires in October 2024. The lease is included as an asset on the Company's balance sheet and represents the Company's right to use the underlying asset for the lease term. The Company's obligation to make lease payments is included as a liability on the Company's balance sheet. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Because the rate implicit in the lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

As of December 31, 2023 and 2022, operating lease right-of-use assets were \$66,448 and \$142,972, net of accumulated amortization of \$131,776 and \$55,252. As of December 31, 2023, the right-of-use liability was \$75,967 and \$160,702.

Cash paid for the leased space totaled \$81,135 and \$80,967, including \$76,524 and \$55,252 of amortization expense, \$4,611 and \$25,715 of accretion of operating lease liabilities during the period ended December 31, 2023 and 2022, respectively. The remaining lease term will expire in the next year, and the discount rate is four percent.

(10) Other Borrowings

At December 31, 2023 and 2022 the Company did not have any borrowings or FHLB advances outstanding.

The aggregate of the FHLB advances is collateralized by a blanket floating lien on a portion of the Company's loan portfolio, portions of which can be used to cover any defaults on repayments of advances. To maintain availability with the FHLB, the Company has loans pledged as of December 31, 2023 and 2022 of approximately \$1,226,000 and \$14,211,000, respectively. As of December 31, 2023 and 2022 the Company had approximately \$838,400 and \$9,698,000 respectively, of available and unused FHLB advances on its lendable collateral.

At December 31, 2023 and 2022, the Company had Federal funds lines available and unused with correspondent banks totaling \$45,500,000 and \$60,500,000, respectively. These lines have various rates, terms, and maturities. At December 31, 2023, the Company had credit availability through the Federal Reserve Bank discount window. Access to this facility is secured by pledged loans of \$255,596,071 with a collateral value of \$226,263,466.

(11) Income Taxes

The total provision for income taxes in the statement of operations is as follows:

	<u>2023</u>	<u>2022</u>
Currently payable	\$ 2,333,407	\$ 2,116,445
Deferred income taxes	<u>115,993</u>	<u>(217,246)</u>
	<u>\$ 2,449,400</u>	<u>\$ 1,899,199</u>

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

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Tax provision at statutory rate	\$ 2,189,862	21.0 %	\$ 1,629,099	21.0 %
Differences resulting from:				
State income taxes	471,536	4.5	347,121	4.5
Other items, net	<u>(211,998)</u>	<u>(2.0)</u>	<u>(77,021)</u>	<u>(1.0)</u>
Provision for income taxes	<u>\$ 2,449,400</u>	<u>23.5 %</u>	<u>\$ 1,899,199</u>	<u>24.5 %</u>

The primary difference between the statutory rates and calculated amounts is permanent differences between items such as municipal tax-free interest, disallowed interest expense, and meals disallowance.

(11) Income Taxes (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The following summarizes the components of deferred taxes at December 31:

	<u>2023</u>	<u>2022</u>
Deferred income tax assets (liabilities)		
Allowance for credit losses	\$ 1,092,499	\$ 1,463,533
Pre-opening expense	-	1,926
Loan servicing asset	(244,814)	(331,835)
Depreciation	60,430	57,098
Stock options	135,194	135,194
Deferred loan fees	22,502	5,903
Nonaccrual interest	219,583	69,568
Securities available for sale	271,763	336,150
	<u>1,557,157</u>	<u>1,737,537</u>
Total gross deferred income tax assets		
Less valuation allowance	<u>-</u>	<u>-</u>
	<u>\$ 1,557,157</u>	<u>\$ 1,737,537</u>

The future tax consequences of the differences between the financial reporting and tax basis of the Company's assets and liabilities resulted in a net deferred tax asset. Management has performed an evaluation of future taxable income and determined that a valuation allowance is not necessary at December 31, 2023 as future taxable income is more likely than not to exceed the deferred tax asset. Deferred tax assets are a component of other assets on the consolidated balance sheets.

For the years ended December 31, 2023 and 2022, management believes there are no material amounts of uncertain tax positions. Additionally, there were no amounts of interest and penalties recognized in the balance sheet as of December 31, 2023 and 2022 or on the statements of income for the years ended December 31, 2023 and 2022. Further, returns remain subject to examination for a period of three years.

(12) Related Party Transactions

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. The Company had no related party loans at December 31, 2023 and 2022.

Deposits from directors, executive officers, principal stockholders, and their affiliates totaled approximately \$43,507,563 at December 31, 2023 and \$37,647,000 at December 31, 2022.

(13) Commitments And Contingencies

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not reflected in the accompanying consolidated financial statements. These commitments and contingent liabilities may include various guarantees, commitments to extend credit, and standby letters of credit. The Company does not anticipate any material losses as a result of these commitments and contingent liabilities. The Company also enters into various contracts for data processing services, Internet Banking, ATM/debit card processing and related network monitoring and support. These contracts generally expire after a term of sixty months and are cancelable by either party with a written notice subject to certain penalties.

The Company's nature of business is such that it ordinarily results in a certain amount of litigation. In the opinion of management for the Company, there is no litigation in which the outcome will have a material effect on the consolidated financial statements.

In 2022, there was pending litigation related to two loans which are claimed to have been fraudulently executed by an individual who was not authorized to do so by the borrowing company. In 2023, the litigation related to these loans was settled, and the Bank recognized \$1,503,369 in noninterest income for excess cash received in the settlement after all legal fees had been paid. There is no outstanding pending litigation as of December 31, 2023.

(14) Financial Instruments

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 can include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

The following commitments were outstanding at December 31:

	Contract Amount (In Thousands)	
	2023	2022
Commitments to extend credit	\$ 3,744	\$ 12,977
Standby letters of credit	25	-

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty.

(14) Financial Instruments (Continued)

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

The Company has cash deposits with financial institutions in excess of the insured limitation of the Federal Deposit Insurance Corporation. If any of these financial institutions were not to honor its contractual liability, the Company could incur losses. Management is of the opinion there is no material risk because of the financial strength of the institution.

(15) Fair Value

Financial Instruments Measured at Fair Value

The Company follows *ASC 820, Fair Value Measurement and Disclosures*. *ASC 820* defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. *ASC 820* applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, *ASC 820* does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, *ASC 820* establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Fair value is used on a recurring basis for assets and liabilities in which fair value is the primary basis of accounting. Examples of these include available for sale and trading securities and loans held for sale. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include certain loans held for sale accounted for on a lower cost or market basis, foreclosed real estate, collateral dependent impaired loans, and long-lived assets. Fair value is defined as 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. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value, which are in accordance with *ASC 820*.

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

(15) Fair Value (Continued)

Financial Instruments Measured at Fair Value (Continued)

Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following presents the assets and liabilities as of December 31 which are measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, and 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:

	<u>2023</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Recurring fair value measurements				
Securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	\$ 6,175,498	\$ -	\$ 6,175,498	\$ -
State and municipal securities	-	-	-	-
Mortgage-backed GSE residential	7,138,423	-	7,138,423	-
Total securities available for sale	<u>13,313,921</u>	<u>-</u>	<u>13,313,921</u>	<u>-</u>
Total recurring fair value measurements	<u>\$ 13,313,921</u>	<u>\$ -</u>	<u>\$ 13,313,921</u>	<u>\$ -</u>
Nonrecurring fair value measurements				
Foreclosed real estate	\$ 5,825,716	\$ -	\$ -	\$ 5,825,716
Individually Evaluated Collateral				
Dependent Loans	27,303,681	-	-	27,303,681
Total nonrecurring fair value measurements	<u>\$ 33,129,397</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,129,397</u>
			<u>2022</u>	
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Recurring fair value measurements				
Securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	\$ 6,125,530	\$ -	\$ 6,125,530	\$ -
State and municipal securities	564,368	-	564,368	-
Mortgage-backed GSE residential	8,233,403	-	8,233,403	-
Total securities available for sale	14,923,301	-	14,923,301	-
Total recurring fair value measurements	<u>\$ 14,923,301</u>	<u>\$ -</u>	<u>\$ 14,923,301</u>	<u>\$ -</u>
Nonrecurring fair value measurements				
Impaired loans	\$ 9,703,466	\$ -	\$ -	\$ 9,703,466
Total nonrecurring fair value measurements	<u>\$ 9,703,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,703,466</u>

(15) Fair Value (Continued)

Financial Instruments Measured at Fair Value (Continued)

The fair values of the Company's securities available for sale are determined using Level 2 inputs. For securities available for sale, the Company obtains fair value measurements from an independent pricing service. The fair value measurements are considered observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus payment spreads, credit information and the bond's terms and conditions, among other things. The investments in the Company's portfolio are generally not quoted on an exchange but are actively traded in the secondary institutional markets. Under certain circumstances adjustments are made to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis.

Loans are not measured at fair value on a recurring basis. However, impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may include real estate, or business assets including equipment, inventory, and accounts receivable. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers hired by the Company. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recent appraised value. Such adjustments are usually significant, which results in a Level 3 classification. All other impaired loan measurements are based on the present value of expected future cash flows discounted at the applicable effective interest rate and, thus, are not fair value measurements.

The value of business equipment is based on an appraisal by qualified licensed appraisers hired by the Company if significant, or the equipment's net book value on the business' financial statements.

Inventory and accounts receivable collateral are valued based on independent field examiner review or aging reports. Appraised and reported values may be discounted based on management's expertise and knowledge of the client and the client's business, which would result in classification as level 3. Impaired loans are evaluated at least on a quarterly basis for additional impairment and adjusted accordingly.

Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at the lower of carrying value or fair value less selling costs. Fair value is based upon independent market prices or appraised values of the property. When the fair value of the property is based on an observable market price or a current appraised value, the foreclosed real estate is recorded as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the property requires reduction for estimated selling costs or is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed real estate as a nonrecurring Level 3 measurement.

(16) Employee Benefits

The Company has a 401(k)-plan covering all employees. Contributions of \$103,046 and \$83,866 relating to this plan were charged to operations for 2023 and 2022, respectively.

(17) Stock Based Compensation

Stock Options

During 2008, the Company adopted an Employee Incentive Stock Plan (the Stock Plan). The Stock Plan offers stock awards to key employees to encourage continued employment by facilitating their purchase of an equity interest in the Company. These awards are granted at the discretion of the Board of Directors at an exercise price determined by the Board at the grant date. Options awarded under the Stock Plan have a term of ten years from the date of grant and vest ratably over three years, unless otherwise stated in the award agreement. A total of 191,000 shares have been reserved under the Stock Plan.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. No amounts were recorded as option related compensation expense during the years ended December 31, 2023 and 2022. There were no remaining unrecognized compensation costs as of December 31, 2023.

No stock options were granted during 2023 or 2022. As of December 31, 2023 and 2022, there were 154,582 options outstanding at a weighted average exercise price of \$8.85, all of which were fully exercisable as of December 31, 2023.

(18) Regulatory Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available-for-sale securities, if any, is not included in computing regulatory capital. Management believes as of December 31, 2023 the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

(18) Regulatory Matters (Continued)

The Bank's actual capital amounts (in thousands) and ratios as of December 31 are presented in the following table:

2023	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 52,278	30.40%	\$ 7,739	4.50%	\$ 11,178	6.5%
Total Capital (to Risk Weighted Assets)	\$ 54,463	31.67%	\$ 13,758	8.00%	\$ 17,197	10.0%
Tier I Capital (to Risk Weighted Assets)	\$ 52,278	30.40%	\$ 10,318	6.00%	\$ 13,757	8.0%
Tier I Capital (to Average Assets)	\$ 52,278	10.38%	\$ 20,146	4.00%	\$ 25,182	5.0%

2022	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 51,442	30.27%	\$ 7,648	4.5%	\$ 11,048	6.5%
Total Capital (to Risk Weighted Assets)	\$ 53,614	31.54%	\$ 13,597	8.0%	\$ 16,997	10.0%
Tier I Capital (to Risk Weighted Assets)	\$ 51,442	30.27%	\$ 10,198	6.0%	\$ 13,597	8.0%
Tier I Capital (to Average Assets)	\$ 51,442	16.04%	\$ 12,828	4.0%	\$ 16,036	5.0%

(19) Limitation On Distributions

Dividends paid by the Bank are the primary source of funds available to the Company. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. These restrictions are based on the level of regulatory classified assets, the prior years' net earnings, and the ratio of equity capital to total assets.

(20) Other Operating Expenses

Significant components of noninterest expenses are as follows:

	<u>2023</u>	<u>2022</u>
Loan related expenses	\$ 96,053	\$ 157,180
SBA servicing fees	225,972	305,382
Professional services	100,236	182,924
Software and information technology services	257,197	288,459
Supervisory assessments	286,367	182,513
Other expenses	<u>582,900</u>	<u>433,905</u>
	<u>\$ 1,548,725</u>	<u>\$ 1,550,363</u>

(21) Subsequent Events

The Company assessed events that have occurred subsequent to December 31, 2023 through March 26, 2024 for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require adjustment to or disclosure in the consolidated financial statements which were issued on March 26, 2024.