

**FSBH CORP
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

FSBH CORP AND SUBSIDIARY
CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
FSBH CORP
and Subsidiary
Bradenton, Florida**

Opinion

We have audited the accompanying consolidated financial statements of FSBH CORP and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FSBH CORP and Subsidiary as of December 31, 2022 and 2021, 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. 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 FSBH CORP and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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 FSBH CORP and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about FSBH CORP and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Mauldin & Jenkins, LLC

Albany, Georgia
March 31, 2023

FSBH CORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2022 AND 2021

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Cash and due from banks	\$ 2,488,933	\$ 1,892,075
Interest-bearing deposits in banks	50,681,283	79,603,014
Securities available for sale, at fair value	4,481,132	71,933,866
Securities held to maturity, at amortized cost (fair value of \$58,992,932)	69,373,895	-
Restricted equity securities, at cost	295,020	252,820
Loans	163,541,251	121,218,543
Less allowance for loan losses	1,850,716	1,755,518
Loans, net	161,690,535	119,463,025
Premises and equipment, net	8,229,053	8,050,102
Foreclosed assets	54,339	475,130
Bank owned life insurance	4,694,822	4,575,680
Accrued interest receivable	1,064,006	687,082
Deferred tax assets, net	3,069,152	2,245,210
Other assets	1,481,371	569,735
	\$ 307,603,541	\$ 289,747,739
<u>Liabilities and Stockholders' Equity</u>		
Deposits		
Noninterest-bearing	\$ 97,776,882	\$ 89,883,314
Interest-bearing	186,729,157	179,776,752
Total deposits	284,506,039	269,660,066
Accrued interest payable	89,538	52,137
Other liabilities	1,039,565	239,950
Total liabilities	285,635,142	269,952,153
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock, par value \$5; 10,000,000 shares authorized; none issued	-	-
Common stock, par value \$5; 30,000,000 shares authorized; 3,008,071 and 2,478,253 shares issued and outstanding, respectively	15,040,355	12,391,265
Capital surplus	20,463,827	18,514,281
Retained deficit	(8,368,954)	(9,931,653)
Accumulated other comprehensive loss	(5,166,829)	(1,178,307)
Total stockholders' equity	21,968,399	19,795,586
	\$ 307,603,541	\$ 289,747,739

See Notes to Consolidated Financial Statements.

FSBH CORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Interest income		
Interest and fees on loans	\$ 7,830,840	\$ 8,233,546
Interest on taxable securities	1,572,676	697,907
Interest on nontaxable securities	17,913	2,638
Interest on federal funds sold and deposits in banks	1,273,240	88,519
Total interest income	10,694,669	9,022,610
Interest expense		
Interest on deposits	644,454	662,448
Net interest income	10,050,215	8,360,162
Recovery of loan losses	(63,716)	-
Net interest income after recovery of loan losses	10,113,931	8,360,162
Noninterest income		
Service charges on deposit accounts	881,521	790,152
Bank owned life insurance	126,914	96,769
Gain on sales of premises and equipment	32,380	-
Other operating income	54,021	42,150
Total noninterest income	1,094,836	929,071
Noninterest expenses		
Salaries and employee benefits	5,382,040	4,756,857
Equipment and occupancy	1,271,502	1,093,607
Legal and professional	261,557	228,868
Data processing	768,001	661,408
Other operating expense	1,457,402	1,477,434
Total noninterest expenses	9,140,502	8,218,174
Income before income tax expense (benefits)	2,068,265	1,071,059
Income tax expense (benefits)	505,566	(1,852,441)
Net income	\$ 1,562,699	\$ 2,923,500
Basic and diluted earnings per share	\$ 0.57	\$ 1.18

See Notes to Consolidated Financial Statements.

FSBH CORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Net income	\$ 1,562,699	\$ 2,923,500
Other comprehensive income (loss):		
Net unrealized holding losses on securities available for sale arising during the year, net of tax benefits of \$1,446,036 and \$404,513, respectively	(4,338,108)	(1,213,539)
Reclassification adjustment for amortization of unrealized holding losses included in accumulated other comprehensive income (loss) from the transfer of securities available for sale to held to maturity, net of tax benefits of \$116,529 and \$-, respectively	349,586	-
Other comprehensive loss	(3,988,522)	(1,213,539)
Comprehensive income (loss)	\$ (2,425,823)	\$ 1,709,961

See Notes to Consolidated Financial Statements.

FSBH CORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2022 AND 2021

	Common Stock		Capital Surplus	Retained Deficit	Accumulated Other Comprehensive	Total Stockholders' Equity
	Shares	Par Value			Income (Loss)	
Balance, December 31, 2020	2,478,253	\$ 12,391,265	\$ 18,514,281	\$ (12,855,153)	\$ 35,232	\$ 18,085,625
Net income	-	-	-	2,923,500	-	2,923,500
Other comprehensive loss	-	-	-	-	(1,213,539)	(1,213,539)
Balance, December 31, 2021	2,478,253	12,391,265	18,514,281	(9,931,653)	(1,178,307)	19,795,586
Net income	-	-	-	1,562,699	-	1,562,699
Issuance of common stock, net of stock issuance costs	529,818	2,649,090	1,949,546	-	-	4,598,636
Other comprehensive loss	-	-	-	-	(3,988,522)	(3,988,522)
Balance, December 31, 2022	<u>3,008,071</u>	<u>\$ 15,040,355</u>	<u>\$ 20,463,827</u>	<u>\$ (8,368,954)</u>	<u>\$ (5,166,829)</u>	<u>\$ 21,968,399</u>

See Notes to Consolidated Financial Statements.

FSBH CORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING ACTIVITIES		
Net income	\$ 1,562,699	\$ 2,923,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	496,232	395,571
Recovery of loan losses	(63,716)	-
Provision for deferred taxes, net	505,565	(1,852,441)
Net gain on sales of premises and equipment	(32,380)	-
Net gain (loss) on sales of foreclosed assets	(4,868)	27,780
Write-downs on foreclosed assets	-	26,300
(Increase) decrease in interest receivable	(376,924)	91,177
Increase (decrease) in interest payable	37,401	(37,687)
Increase in bank owned life insurance	(119,142)	(96,769)
Other prepaids, deferrals and accruals, net	(112,021)	(150,941)
Total adjustments	330,147	(1,597,010)
Net cash provided by operating activities	1,892,846	1,326,490
INVESTING ACTIVITIES		
Decrease (increase) in interest-bearing deposits in bank	28,921,731	(43,009,131)
Purchases of securities available for sale	-	(48,329,199)
Purchases of securities held to maturity	(11,962,682)	-
Proceeds from calls and principal paydowns on securities available for sale	2,900,214	10,369,758
Proceeds from calls and principal paydowns on securities held to maturity	1,823,278	-
Net (increase) decrease in restricted equity securities	(42,200)	11,400
(Increase) decrease in loans, net	(41,840,383)	1,555,598
Proceeds from sales of foreclosed assets	102,248	385,207
Proceeds from sales of premises and equipment	80,500	-
Purchase of bank owned life insurance	-	(3,000,000)
Purchase of premises and equipment	(723,303)	(2,410,380)
Net cash used in investing activities	(20,740,597)	(84,426,747)
FINANCING ACTIVITIES		
Increase in deposits, net	14,845,973	83,305,363
Proceeds from issuance of common stock, net of issuance costs	4,598,636	-
Net cash provided by financing activities	19,444,609	83,305,363
Net increase in cash and due from banks	596,858	205,106
Cash and due from banks at beginning of year	1,892,075	1,686,969
Cash and due from banks at end of year	\$ 2,488,933	\$ 1,892,075
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 607,053	\$ 700,135
NONCASH TRANSACTIONS		
Principal balances of loans transferred to foreclosed assets	\$ 8,975	\$ 19,540
Internally financed sales of foreclosed assets	\$ 332,386	\$ 300,000

See Notes to Consolidated Financial Statements.

FSBH CORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

FSBH CORP (the “Company”) is a bank holding company whose business is presently conducted by its subsidiary bank, First Southern Bank (the “Bank”).

During 2022, the Company was incorporated for the purposes of acquiring all of the outstanding shares of the common stock in the Bank for shares of common stock in the Company on a share-for-share basis. The \$5 par value common stock of the Bank was converted into \$5 par value common stock of the Company. As a result of this combination, the Bank became a wholly owned subsidiary of the Company. This business combination was accounted for as a pooling of interest. The financial statements of 2021, which were not originally presented on a consolidated basis, have been restated to reflect the consolidated financial statements of the Company and the Bank on a pooling of interest basis as if the Company had been in existence prior to 2021.

The Bank is a Georgia state-chartered, commercial bank with operations in Waycross, Patterson, Blackshear, and Jesup, Georgia, and Bradenton, Stuart, and Sebring, Florida. The Bank provides a full range of banking services to individual and corporate customers in these markets and in the surrounding counties. The Bank is subject to the regulations of certain federal and state agencies and is periodically examined by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, First Southern Bank.

All material intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation and Accounting Estimates

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Accounting Estimates (continued)

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term.

The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through March 31, 2023, the date these financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

Cash, Due from Banks, and Cash Flows

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

During 2020, the Board of Governors of the Federal Reserve System reduced the Bank's reserve requirement ratios to zero percent for the year ended December 31, 2022 and 2021. The Federal Reserve Bank does not have plans to reimplement a reserve requirement in the near future, but did reserve the right to require a reserve requirement at a future date.

Securities

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Equity Securities

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs of loans are recognized at the time the loan is placed on the books. Because net loan origination fees and costs are not significant and the majority of loans have maturities of one year or less, the results of operations are not materially different than the results which would be obtained by accounting for all loan fees and costs in accordance with generally accepted accounting principles.

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

Allowance for Loan Losses

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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

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

Troubled Debt Restructurings

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment

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

	<u>Years</u>
Buildings	39
Furniture and equipment	3-7

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.

Advertising Costs

Advertising costs are expensed as incurred.

Foreclosed Assets

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed assets and subsequent write-downs to the value are expensed.

Income Taxes

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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

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 consolidated balance sheet, such items, along with net income, are components of comprehensive income (loss).

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Adoption of Lease Accounting Standards

On January 1, 2022, the Company adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. Management adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

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

Adoption of the leasing standard resulted in the recognition of an operating right-of-use asset of \$957,620, and an operating lease liability of \$957,620 as of January 1, 2022. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's consolidated income statements. Prior periods were not restated and continue to be presented under legacy GAAP. Further disclosure about the Company's leasing activities are presented in Note 6.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES

The amortized cost and fair value of securities available for sale and held to maturity are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2022:				
U.S. Government and federal agencies	\$ 2,013,229	\$ 153	\$ (65,352)	\$ 1,948,030
Corporate debt securities	250,000	-	(9,522)	240,478
Mortgage-backed securities - GSE residential	2,557,501	-	(264,877)	2,292,624
	\$ 4,820,730	\$ 153	\$ (339,751)	\$ 4,481,132
Securities Held to Maturity				
December 31, 2022:				
Debt securities:				
U.S. Treasury securities	\$ 7,612,856	\$ -	\$ (693,169)	\$ 6,919,687
U.S. Government and federal agencies	38,119,696	-	(6,813,292)	31,306,404
Mortgage-backed securities - GSE residential	23,641,343	-	(2,874,502)	20,766,841
Total debt securities	\$ 69,373,895	\$ -	\$ (10,380,963)	\$ 58,992,932
Securities Available for Sale				
December 31, 2021:				
U.S. Treasury securities	\$ 5,108,686	\$ -	\$ (79,155)	\$ 5,029,531
U.S. Government and federal agencies	36,086,769	26,141	(1,129,653)	34,983,257
Corporate debt securities	250,000	11,182	-	261,182
Mortgage-backed securities - GSE residential	32,059,487	60,658	(460,249)	31,659,896
	\$ 73,504,942	\$ 97,981	\$ (1,669,057)	\$ 71,933,866

There were no securities held to maturity as of December 31, 2021.

The Company reassessed classification of all investments held as of March 31, 2022 and transferred twenty-three securities with a fair value of \$58,768,377 from available for sale to held to maturity. The transfer occurred at fair value. The related unrealized loss of \$7,015,621 included in other comprehensive income (loss) remained in other comprehensive income (loss), to be amortized out of other comprehensive income (loss) with an offsetting entry to interest income as a yield adjustment through earnings over the remaining term of the securities. No gain or loss was recorded at the time of transfer.

The amortized cost and fair value of securities as of December 31, 2022 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES (CONTINUED)

	<u>Securities Available for Sale</u>		<u>Securities Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 1,469,959	\$ 1,453,193	\$ -	\$ -
Due from one to five years	250,000	240,478	2,947,053	2,852,342
Due from five to fifteen years	543,270	494,837	37,666,953	31,520,824
Due after fifteen years	-	-	5,118,546	3,852,925
Mortgage-backed securities - GSE residential	2,557,501	2,292,624	23,641,343	20,766,841
	<u>\$ 4,820,730</u>	<u>\$ 4,481,132</u>	<u>\$ 69,373,895</u>	<u>\$ 58,992,932</u>

Securities with a carrying value of approximately \$35,077,000 and \$22,814,000 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The Company had no sales of securities available for sale or held to maturity during the years ended December 31, 2022 and 2021.

Restricted Equity Securities

Restricted equity securities consist of the following:

	<u>Years Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Federal Home Loan Bank stock	\$ 144,900	\$ 102,600
First National Bankers Bankshares stock	150,120	150,220
	<u>\$ 295,020</u>	<u>\$ 252,820</u>

The Company has an investment in the common stock of the Federal Home Loan Bank of Atlanta and First National Bankers Bankshares at December 31, 2022 and 2021. These investments are accounted for by the cost method, which represents par value, and are made for long-term business affiliation reasons. In addition, these investments are subject to restrictions relating to the sale, transfer, or other disposition. Dividends are recognized in income when declared. The estimated fair value of the investments was approximately \$295,020 and \$252,820, respectively, as of December 31, 2022 and 2021 and, therefore, are not considered impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES (CONTINUED)

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of securities, with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position.

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Values	Unrealized Losses
Available for Sale Securities						
December 31, 2022:						
U.S. Government and						
federal agencies	\$ 494,837	\$ (48,433)	\$ 907,485	\$ (16,919)	\$ 1,402,322	\$ (65,352)
Corporate debt securities	240,478	(9,522)	-	-	240,478	(9,522)
Mortgage-backed securities -						
GSE residential	2,292,624	(264,877)	-	-	2,292,624	(264,877)
Total temporarily impaired securities	<u>\$ 3,027,939</u>	<u>\$ (322,832)</u>	<u>\$ 907,485</u>	<u>\$ (16,919)</u>	<u>\$ 3,935,424</u>	<u>\$ (339,751)</u>
Held to Maturity Securities						
December 31, 2022:						
Debt securities:						
U.S. Treasury securities	\$ 2,852,344	\$ (94,710)	\$ 4,067,343	\$ (598,459)	\$ 6,919,687	\$ (693,169)
U.S. Government and federal agencies	7,366,809	(1,633,191)	23,939,595	(5,180,101)	31,306,404	(6,813,292)
Mortgage-backed securities -						
GSE residential	-	-	20,766,841	(2,874,502)	20,766,841	(2,874,502)
Total debt securities	<u>\$ 10,219,153</u>	<u>\$ (1,727,901)</u>	<u>\$ 48,773,779</u>	<u>\$ (8,653,062)</u>	<u>\$ 58,992,932</u>	<u>\$ (10,380,963)</u>
Available for Sale Securities						
December 31, 2021:						
U.S. Treasury securities	\$ 5,029,531	\$ (79,155)	-	-	\$ 5,029,531	\$ (79,155)
U.S. Government and federal agencies	17,839,422	(186,930)	15,473,108	(942,723)	33,312,530	(1,129,653)
Mortgage-backed securities -						
GSE residential	24,010,214	(395,648)	4,207,455	(64,601)	28,217,669	(460,249)
Total temporarily impaired securities	<u>\$ 46,879,167</u>	<u>\$ (661,733)</u>	<u>\$ 19,680,563</u>	<u>\$ (1,007,324)</u>	<u>\$ 66,559,730</u>	<u>\$ 1,669,057</u>

There were no held to maturity securities in an unrealized loss position as of December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES (CONTINUED)

Temporarily Impaired Securities (Continued)

U.S. Treasury obligations. The unrealized losses on the three investments at December 31, 2022 in U.S. Treasury obligations were caused by interest rate increases. The contractual terms of the investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2022.

U.S. Government and federal agency obligations. The unrealized losses on the twenty-three investments at December 31, 2022 in U.S. Government obligations and direct obligations of the U.S. government agencies were caused by interest rate increases. The contractual terms of the investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2022.

GSE residential mortgage-backed securities. The unrealized losses on the Company's investments in twenty-two GSE mortgage-backed securities at December 31, 2022 were caused by interest rate increases. The Company purchased the investments at discounts relative to their face amount, and the contractual cash flows of the investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2022.

Corporate debt securities. The unrealized loss on one investment in a corporate debt security was caused by interest rate increases. The contractual term of the investment does not permit the issuer to settle the security at a price less than the amortized cost basis of the investment. Because the Company does not intend to sell the investment and it is not likely that the Company will be required to sell the investment before recovery of the amortized cost basis, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

Portfolio Segmentation

The composition of loans is summarized as follows:

	December 31,	
	2022	2021
Real estate:		
Construction and development	\$ 14,259,376	\$ 11,184,636
Residential	46,725,516	32,162,859
Commercial	68,014,374	45,962,024
Farmland	11,472,301	11,521,634
Commercial	19,792,889	17,256,924
Consumer	3,276,795	3,130,466
	163,541,251	121,218,543
Allowance for loan losses	(1,850,716)	(1,755,518)
Loans, net	\$ 161,690,535	\$ 119,463,025

The loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are three loan portfolio segments that include real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Commercial and consumer are separate loan classes. Classes within the real estate portfolio segment include construction and development, residential, commercial, and farmland.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Portfolio Segmentation (Continued)

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

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

Credit Risk Management

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

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios. To insure problem credits are identified on a timely basis, several specific portfolio reviews occur each quarter to assess the larger adversely rated credits for proper risk rating and accrual status.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Management (Continued)

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2022 and 2021. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	<u>Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:					
December 31, 2022					
Beginning balance	\$ 249,985	\$ 1,871	\$ 13,534	\$ 1,490,128	\$ 1,755,518
Charge-offs	-	-	(22,583)	-	(22,583)
Recoveries	175,000	-	6,497	-	181,497
Provision (recovery)	(226,706)	(628)	8,082	155,536	(63,716)
Ending balance	<u>\$ 198,279</u>	<u>\$ 1,243</u>	<u>\$ 5,530</u>	<u>\$ 1,645,664</u>	<u>\$ 1,850,716</u>
Ending balance - individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance - collectively evaluated for impairment	<u>\$ 198,279</u>	<u>\$ 1,243</u>	<u>\$ 5,530</u>	<u>\$ 1,645,664</u>	<u>\$ 1,850,716</u>
Loans:					
Ending balance	<u>\$ 140,471,567</u>	<u>\$ 19,792,889</u>	<u>\$ 3,276,795</u>	<u>\$ -</u>	<u>\$ 163,541,251</u>
Ending balance - individually evaluated for impairment	<u>\$ 571,074</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 571,074</u>
Ending balance - collectively evaluated for impairment	<u>\$ 139,900,493</u>	<u>\$ 19,792,889</u>	<u>\$ 3,276,795</u>	<u>\$ -</u>	<u>\$ 162,970,177</u>
Allowance for loan losses:					
December 31, 2021					
Beginning balance	\$ 203,869	\$ 873,307	\$ 12,852	\$ 623,216	\$ 1,713,244
Charge-offs	-	-	(15,498)	-	(15,498)
Recoveries	-	51,816	5,956	-	57,772
Provision (recovery)	46,116	(923,252)	10,224	866,912	-
Ending balance	<u>\$ 249,985</u>	<u>\$ 1,871</u>	<u>\$ 13,534</u>	<u>\$ 1,490,128</u>	<u>\$ 1,755,518</u>
Ending balance - individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance - collectively evaluated for impairment	<u>\$ 249,985</u>	<u>\$ 1,871</u>	<u>\$ 13,534</u>	<u>\$ 1,490,128</u>	<u>\$ 1,755,518</u>
Loans:					
Ending balance	<u>\$ 100,831,153</u>	<u>\$ 17,256,924</u>	<u>\$ 3,130,466</u>	<u>\$ -</u>	<u>\$ 121,218,543</u>
Ending balance - individually evaluated for impairment	<u>\$ 119,045</u>	<u>\$ 45,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,991</u>
Ending balance - collectively evaluated for impairment	<u>\$ 100,712,108</u>	<u>\$ 17,210,978</u>	<u>\$ 3,130,466</u>	<u>\$ -</u>	<u>\$ 121,053,552</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Management (Continued)

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

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

“Watch”: Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or in the Company’s credit position.

“Substandard”: Loans in this risk grade are inadequately protected by the borrower’s current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

“Doubtful”: Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts; conditions; and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined. The Company had no loans classified as doubtful at December 31, 2022 or 2021.

“Loss”: Loans in this risk grade are considered to be noncollectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, the Company typically does not maintain a recorded investment in loans within this category. The Company had no loans classified as loss at December 31, 2022 or 2021.

The following tables summarize the risk category of the Company’s loan portfolio based upon on the most recent analysis performed:

	<u>Pass</u>	<u>Watch</u>	<u>Substandard</u>	<u>Total</u>
December 31, 2022:				
Real estate mortgages:				
Construction and development	\$ 14,242,814	\$ -	\$ 16,562	\$ 14,259,376
Residential	46,538,811	122,670	64,035	46,725,516
Commercial	66,718,553	1,295,821	-	68,014,374
Farmland	11,407,162	65,139	-	11,472,301
Commercial	18,883,714	909,175	-	19,792,889
Consumer	3,253,221	23,574	-	3,276,795
Total	<u>\$ 161,044,275</u>	<u>\$ 2,416,379</u>	<u>\$ 80,597</u>	<u>\$ 163,541,251</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Management (Continued)

	Pass	Watch	Substandard	Total
December 31, 2021:				
Real estate mortgages:				
Construction and development	\$ 11,157,723	\$ -	\$ 26,913	\$ 11,184,636
Residential	31,827,430	107,965	227,464	32,162,859
Commercial	43,601,585	2,360,439	-	45,962,024
Farmland	11,417,281	104,353	-	11,521,634
Commercial	16,343,041	867,937	45,946	17,256,924
Consumer	3,090,610	33,960	5,896	3,130,466
Total	<u>\$ 117,437,670</u>	<u>\$ 3,474,654</u>	<u>\$ 306,219</u>	<u>\$ 121,218,543</u>

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on nonaccrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following table presents the aging of the recorded investment in loans as of December 31, 2022 and 2021:

	<u>Past Due Status (Accruing Loans)</u>					<u>Nonaccrual</u>	<u>Total</u>
	<u>Current</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>		
December 31, 2022:							
Real estate mortgages:							
Construction and development	\$ 14,259,376	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,259,376
Residential	46,723,212	-	-	-	-	2,304	46,725,516
Commercial	68,014,374	-	-	-	-	-	68,014,374
Farmland	11,472,301	-	-	-	-	-	11,472,301
Commercial	19,792,889	-	-	-	-	-	19,792,889
Consumer	3,276,795	-	-	-	-	-	3,276,795
Total	<u>\$ 163,538,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,304</u>	<u>\$ 163,541,251</u>
December 31, 2021:							
Real estate mortgages:							
Construction and development	\$ 11,184,636	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,184,636
Residential	32,003,905	-	-	-	-	158,954	32,162,859
Commercial	45,962,024	-	-	-	-	-	45,962,024
Farmland	11,521,634	-	-	-	-	-	11,521,634
Commercial	17,210,978	-	-	-	-	45,946	17,256,924
Consumer	3,128,802	-	-	-	-	1,664	3,130,466
Total	<u>\$ 121,011,979</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,564</u>	<u>\$ 121,218,543</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Impaired Loans

A loan held for investment is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) from the borrower in accordance with the contractual term of the loan. The following tables detail the impaired loans, by portfolio class as of December 31, 2022 and 2021:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
December 31, 2022:				
With no related allowance recorded:				
Real estate mortgages:				
Construction and development	\$ -	\$ -	\$ -	\$ -
Residential	-	-	-	-
Commercial	571,074	571,074	-	774,424
Farmland	-	-	-	-
Commercial	-	-	-	-
Consumer	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total with no related allowance recorded	<u>\$ 571,074</u>	<u>\$ 571,074</u>	<u>\$ -</u>	<u>\$ 774,424</u>
With an allowance recorded:				
Real estate mortgages:				
Construction and development	\$ -	\$ -	\$ -	\$ -
Residential	-	-	-	-
Commercial	-	-	-	-
Farmland	-	-	-	-
Commercial	-	-	-	-
Consumer	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total with an allowance recorded	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total impaired loans	<u>\$ 571,074</u>	<u>\$ 571,074</u>	<u>\$ -</u>	<u>\$ 774,424</u>

Interest income recognized on impaired loans for the year ended December 31, 2022 was approximately \$41,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Impaired Loans (Continued)

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
December 31, 2021:				
With no related allowance recorded:				
Real estate mortgages:				
Construction and development	\$ -	\$ -	\$ -	\$ -
Residential	119,045	119,045	-	123,151
Commercial	-	-	-	-
Farmland	-	-	-	-
Commercial	45,946	45,946	-	123,352
Consumer	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total with no related allowance recorded	<u>\$ 164,991</u>	<u>\$ 164,991</u>	<u>\$ -</u>	<u>\$ 246,503</u>
With an allowance recorded:				
Real estate mortgages:				
Construction and development	\$ -	\$ -	\$ -	\$ -
Residential	-	-	-	-
Commercial	-	-	-	-
Farmland	-	-	-	-
Commercial	-	-	-	-
Consumer	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total with an allowance recorded	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total impaired loans	<u>\$ 164,991</u>	<u>\$ 164,991</u>	<u>\$ -</u>	<u>\$ 246,503</u>

Interest income recognized on impaired loans for the year ended December 31, 2021 was approximately \$19,500.

Troubled Debt Restructurings

At December 31, 2022 and 2021, impaired loans included loans that were classified as TDRs. The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Company considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the borrower is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the borrower has declared or is in the process of declaring bankruptcy; and (iv) the borrower's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructurings (Continued)

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the borrower's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Company generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt; (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk; (iii) a temporary period of interest-only payments; and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. As of December 31, 2022 and 2021, there was \$571,074 and \$629,694, respectively, in loans considered restructured that were not already on nonaccrual. Of the nonaccrual loans at December 31, 2022 and 2021, there were no loans meeting the criteria for restructured. A loan is placed back on accrual status when both principal and interest are current and it is probable that management will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The following table summarizes the loans that were modified as a TDR during the year ended December 31, 2022:

	Troubled-Debt Restructurings		
Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	
December 31, 2022:			
Real estate:			
Commercial	1	\$ 571,074	\$ 571,074

There were no loans modified during the year ended December 31, 2021.

The Company did not have any loans modified in a TDR over the last twelve months that subsequently defaulted at December 31, 2022 or 2021.

Related Party Loans

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

	2022	2021
Balance, beginning of year	\$ 2,770,615	\$ 2,412,234
Advances	13,204	543,019
Repayments	(2,107,037)	(184,638)
Balance, end of year	\$ 676,782	\$ 2,770,615

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. FORECLOSED ASSETS

A summary of foreclosed assets is presented as follows:

	Years Ended December 31,	
	2022	2021
Balance, beginning of year	\$ 475,130	\$ 1,194,877
Additions	8,975	19,540
Disposals	(429,766)	(712,987)
Write-downs	-	(26,300)
Balance, end of year	\$ 54,339	\$ 475,130

Income and expenses applicable to foreclosed assets include the following:

	Years Ended December 31,	
	2022	2021
Net (gain) loss on sales of foreclosed assets	\$ (4,868)	\$ 27,780
Write-downs on foreclosed assets	-	26,300
	\$ (4,868)	\$ 54,080

There was no residential real estate included in foreclosed assets at December 31, 2022 or 2021. There were no residential real estate properties in the process of foreclosure at December 31, 2022 or 2021.

NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2022	2021
Land	\$ 2,016,956	\$ 1,826,999
Buildings	7,233,865	7,208,164
Furniture, fixtures, and equipment	3,855,275	3,495,379
Construction in progress	12,524	-
	13,118,620	12,530,542
Accumulated depreciation	(4,889,567)	(4,480,440)
	\$ 8,229,053	\$ 8,050,102

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. LEASES

Lease Arrangements

The Company enters into leases in the normal course of business for financial institutions. The Company has two building leases for existing branch locations. The leases have remaining terms of one hundred and ninety-eight months and one hundred and sixty-nine months, respectively.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has elected not to recognize leases with original lease terms of twelve months or less (short-term leases) on the Company's consolidated balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent their obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the implicit rate is not known. The Company's incremental borrowing rate is based on the prime rate that would have been used at the time of lease commencement, adjusted for the lease term and other factors.

Right-of-use asset and lease liability, and the associated balance sheet classifications, are as follows:

	2022
Classification	
Assets:	
Other assets	\$ 911,705
Liabilities:	
Other liabilities	\$ (914,895)

Total operating lease cost and rent expense was \$86,538 and \$47,708 for the years ended December 31, 2022 and 2021, respectively.

Lease Obligations

Future undiscounted lease payments for the Company's operating lease with an initial term of one year or more as of December 31, 2022 are as follows:

	Operating Lease
2023	\$ 69,228
2024	70,128
2025	71,028
2026	71,028
2027	71,028
Thereafter	765,346
Total undiscounted lease payments	1,117,786
Less imputed interest	202,891
Net lease liability	\$ 914,895

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. LEASES (CONTINUED)

Lease Obligations (Continued)

Information related to lease terms and discount rate is summarized as follows:

	2022
Weighted-average remaining lease terms (years):	
Operating leases	15.55
Weighted-average discount rates:	
Operating leases	2.84%

Cash flow information related to lease liabilities is summarized as follows:

	2022
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from lease agreements	\$ 66,459

NOTE 7. EMPLOYEE AND DIRECTOR BENEFIT PLANS

Profit Sharing Plan

The Company has a 401(k) Employee Profit Sharing Plan available to all eligible employees, subject to certain minimum age and service requirements. The contributions charged to expense for the years ended December 31, 2022 and 2021 were \$140,744 and \$129,734, respectively.

Stock Options

The Bank has outstanding stock options issued under a 2021 Omnibus Equity Incentive stock option plan. The options vest over a ten year period and expire ten years from the date of grant.

A summary of option activity as of December 31, 2022, and changes during the year then ended is presented below:

	Number	Weighted-Average Exercise Price
Options outstanding, beginning of year	-	\$ -
Granted	227,000	8.78
Options outstanding, end of year	227,000	\$ 8.78
Exercisable at December 31, 2022	227,000	\$ 8.78
Weighted-average remaining contractual life	10 years	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. EMPLOYEE AND DIRECTOR BENEFIT PLANS (CONTINUED)

Share-Based Compensation Expense

The fair value of each stock option was estimated on the date of grant using a Black-Scholes-Merton valuation model that incorporated various assumptions. Expected volatilities were based on an average of publicly traded community banks. The Bank considered historical data and peer group data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted was based on the short-cut method and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the awards was based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of stock options were based upon the following weighted-average assumptions for the year ended December 31, 2022:

	<u>2022</u>
Dividend yield	0.0%
Weighted-average volatility	66.92%
Expected life in years	6.5 years
Annual rate of forfeiture for stock warrants	0.0%
Risk-free interest rate	3.92%

The weighted-average grant-date fair value of stock options granted during the year ended December 31, 2022 was \$4.30.

As of December 31, 2022, there was approximately \$977,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted. The cost is expected to be recognized over a weighted average period of ten years.

NOTE 8. DEPOSITS

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2022 and 2021 was approximately \$15,129,000 and \$6,590,000, respectively. The scheduled maturities of time deposits at December 31, 2021 are as follows:

2023	\$ 34,245,636
2024	2,590,269
2025	137,129
2026	144,290
2027	75,328
	<u>\$ 37,192,652</u>

At December 31, 2022 and 2021, overdraft demand deposits reclassified to loans totaled \$26,296 and \$23,286, respectively.

NOTE 9. OTHER BORROWINGS

The Company has available unused lines of credit with various financial institutions totaling approximately \$36,774,000 at December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. INCOME TAXES

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

	Years Ended December 31,	
	2022	2021
Current	\$ -	\$ -
Deferred	505,566	250,321
Change in valuation allowance for deferred taxes	-	(2,102,762)
Total income tax expense (benefit)	\$ 505,566	\$ (1,852,441)

The Company's income tax expense (benefit) 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:

	Years Ended December 31,	
	2022	2021
Tax expense at statutory federal rate	\$ 434,336	\$ 224,922
Other	71,230	25,399
Change in valuation allowance for deferred taxes	-	(2,102,762)
Income tax expense (benefit)	\$ 505,566	\$ (1,852,441)

The components of deferred income taxes are as follows:

	Years Ended December 31,	
	2022	2021
Deferred tax assets:		
Loan loss reserves	\$ 462,679	\$ 438,880
Nonaccrual interest	5,857	34,879
Foreclosed assets	-	53,325
Net operating loss carryforward	906,405	1,287,781
Accrued liabilities	119,706	117,272
Unrealized loss on securities available for sale	1,722,276	392,769
	3,216,923	2,324,906
Deferred tax liabilities:		
Depreciation	147,771	79,696
Net deferred tax assets	\$ 3,069,152	\$ 2,245,210

During 2020, the Company returned to profitability and during 2021 management determined it expected the Company to remain profitable for the foreseeable future; and therefore, reversed its deferred tax valuation allowance of \$2,102,762.

The federal income tax returns of the Company for 2021, 2020, and 2019 are subject to examination by the IRS, generally for three years after they were filed. At December 31, 2022, the Company had available net operating loss carryforwards of approximately \$3,455,300 and \$4,519,800 for federal and state income tax purposes, respectively. If unused, the carryforwards will expire beginning in 2035.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and financial standby letters of credit. They involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

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

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Commitments to extend credit	<u>\$ 41,507,360</u>	<u>\$ 18,353,446</u>
Letters of credit	<u>\$ 244,500</u>	<u>\$ 224,500</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party.

Financial standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

At December 31, 2022 and 2021, the carrying amount of liabilities related to the Company's obligation to perform under financial standby letters of credit was insignificant. The Company has not been required to perform on any financial standby letters of credit, and the Company has not incurred any losses on financial standby letters of credit for the years ended December 31, 2022 and 2021.

Contingencies

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. CONCENTRATIONS OF CREDIT RISK

Concentration by Geographic Location

The Company originates primarily commercial, residential, and consumer loans to customers in Ware, Pierce, Wayne, and surrounding counties in Georgia, as well as in Highlands, Manatee, Martin, and surrounding counties in Florida. The ability of the majority of the Company's customers to honor their contractual obligations is dependent on the local economies in these areas.

Concentration by Collateral

Eighty-six percent (86%) of the Company's loan portfolio is concentrated in loans secured by real estate. A substantial portion of these loans are secured by real estate located in the Company's primary market areas. In addition, a substantial portion of the other real estate owned is located in those same markets. Accordingly, the ultimate collectability of the Company's loan portfolio and recovery of the carrying amount of other real estate owned are susceptible to changes in market conditions in the Company's market areas. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Company, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of the lesser of 25% of the Company's statutory capital base, or approximately \$7,069,500.

At various times throughout the year, the Company maintains cash balances with other financial institutions. The Company monitors the capital adequacy of these financial institutions on a quarterly basis.

NOTE 13. REGULATORY MATTERS

The Company is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2022, no dividends could be declared or paid without regulatory approval.

The Company is also subject to various regulatory capital requirements administered by the federal Comptroller of the Currency. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Management believes as of December 31, 2022 that the Company meets all capital adequacy requirements to which it is subject.

Quantitative measures established by regulation to ensure capital adequacy required the Company to maintain minimum amounts and ratios of total common equity Tier 1, Tier 1, and total capital to risk-weighted assets, and of Tier 1 capital to average assets.

As of December 31, 2022, the most recent notifications from the Company's primary regulator categorized the Company as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Company's category.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. REGULATORY MATTERS (CONTINUED)

The Company's actual and required capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	December 31, 2022:					
Total Capital to Risk Weighted Assets	\$ 28,150,000	14.70%	\$ 15,315,000	8.00%	\$ 19,144,000	10.00%
Tier 1 Capital to Risk Weighted Assets	\$ 26,299,000	13.74%	\$ 11,486,000	6.00%	\$ 15,315,000	8.00%
CET1 Capital to Risk Weighted Assets	\$ 26,299,000	13.74%	\$ 8,615,000	4.50%	\$ 12,444,000	6.50%
Tier 1 Capital to Average Assets	\$ 26,299,000	8.30%	\$ 12,667,000	4.00%	\$ 15,834,000	5.00%
December 31, 2021:						
Total Capital to Risk Weighted Assets	\$ 21,417,000	14.98%	\$ 11,436,000	8.00%	\$ 14,295,000	10.00%
Tier 1 Capital to Risk Weighted Assets	\$ 19,661,000	13.75%	\$ 8,577,000	6.00%	\$ 11,436,000	8.00%
CET1 Capital to Risk Weighted Assets	\$ 19,661,000	13.75%	\$ 6,433,000	4.50%	\$ 9,292,000	6.50%
Tier 1 Capital to Average Assets	\$ 19,661,000	6.94%	\$ 11,329,000	4.00%	\$ 14,161,000	5.00%

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Hierarchy

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

	Fair Value Measurements			
	Total Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022:				
U.S. Treasury securities	\$ -	\$ -	\$ -	\$ -
U.S. Government and federal agencies	1,948,030	-	1,948,030	-
Corporate debt securities	240,478	-	240,478	-
Mortgage-backed securities - GSE residential	2,292,624	-	2,292,624	-
Available for sale securities	\$ 4,481,132	\$ -	\$ 4,481,132	\$ -
December 31, 2021:				
U.S. Treasury securities	\$ 5,029,531	\$ -	\$ 5,029,531	\$ -
U.S. Government and federal agencies	34,983,257	-	34,983,257	-
Corporate debt securities	261,182	-	261,182	-
Mortgage-backed securities - GSE residential	31,659,896	-	31,659,896	-
Available for sale securities	\$ 71,933,866	\$ -	\$ 71,933,866	\$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

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

	Fair Value Measurements Using			Total Losses
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2022				
Impaired loans	\$ -	\$ -	\$ -	\$ -
Foreclosed assets	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -
 December 31, 2021				
Impaired loans	\$ -	\$ -	\$ -	\$ -
Foreclosed assets	-	-	51,300	(21,550)
Total	\$ -	\$ -	\$ 51,300	\$ (21,550)

Impaired Loans

Loans considered impaired under ASC 310-10-35, *Receivables*, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less estimated selling costs if the loan is collateral dependent.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Foreclosed Assets

Foreclosed assets, consisting of properties obtained through foreclosure or in satisfaction of loans, are initially recorded at the lower of the loan's carrying amount or the fair value less estimated costs to sell upon transfer of the loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value less estimated costs to sell. Fair values are generally based on third-party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

Quantitative Disclosures for Level 3 Fair Value Measurements

The Company had no Level 3 assets measured at fair value on a recurring basis at December 31, 2022 or 2021.

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021, the significant unobservable inputs used in the fair value measurements are presented below:

	<u>Carrying Amount</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input</u>
December 31, 2022			
Nonrecurring:			
Impaired loans	\$ -	Discounted appraisal	Appraisal discounts – generally 10%
Foreclosed assets	\$ -	Discounted appraisal	Appraisal discounts – generally 10%
December 31, 2021			
Nonrecurring:			
Impaired loans	\$ -	Discounted appraisal	Appraisal discounts – generally 10%
Foreclosed assets	\$ 51,300	Discounted appraisal	Appraisal discounts – generally 10%

NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

	<u>2022</u>	<u>2021</u>
Noninterest income:		
Service charges on deposit accounts	\$ 881,521	\$ 790,152
Bank owned life insurance (a)	126,914	96,769
Gain on sales premises and equipment (a)	32,380	-
Other operating income	54,021	42,150
Total noninterest income	<u>\$ 1,094,836</u>	<u>\$ 929,071</u>

(a) Not within scope of ASC 606.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

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

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

Other operating income: Other operating income consists primarily of safe deposit box rental income, wire transfer fees, and other miscellaneous income. Safe deposit box rental income is recognized on a monthly basis as the Bank's performance obligation for these services are satisfied. Wire transfer fees and other miscellaneous income are typically recognized when received.

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheet as of December 31, 2022 and statements of income, and cash flows of FSBH CORP for the year ended December 31, 2022.

CONDENSED BALANCE SHEETS

	<u>December 31, 2022</u>
Assets	
Investment in subsidiaries	<u>\$ 22,038,060</u>
Liabilities	
Other liabilities	<u>\$ 69,661</u>
Stockholders' equity	<u>21,968,399</u>
Total liabilities and stockholders' equity	<u>\$ 22,038,060</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

CONDENSED STATEMENT OF OPERATIONS

	<u>December 31, 2022</u>
Expenses	
Other operating expenses	<u>\$ 69,661</u>
Loss before equity in undistributed earnings of subsidiary	<u>(69,661)</u>
Equity in undistributed earnings of subsidiary	<u>1,632,360</u>
Net income	<u>\$ 1,562,699</u>

CONDENSED STATEMENT OF CASH FLOWS

	<u>December 31, 2022</u>
OPERATING ACTIVITIES	
Net income	\$ 1,562,699
Adjustments to reconcile net income to net cash provided by operating activities:	
Equity in undistributed earnings of subsidiary	(1,632,360)
Other operating activities	<u>69,661</u>
Net cash provided by operating activities	<u>-</u>
Net increase in cash	-
Cash at beginning of year	<u>-</u>
Cash at end of year	<u>\$ -</u>