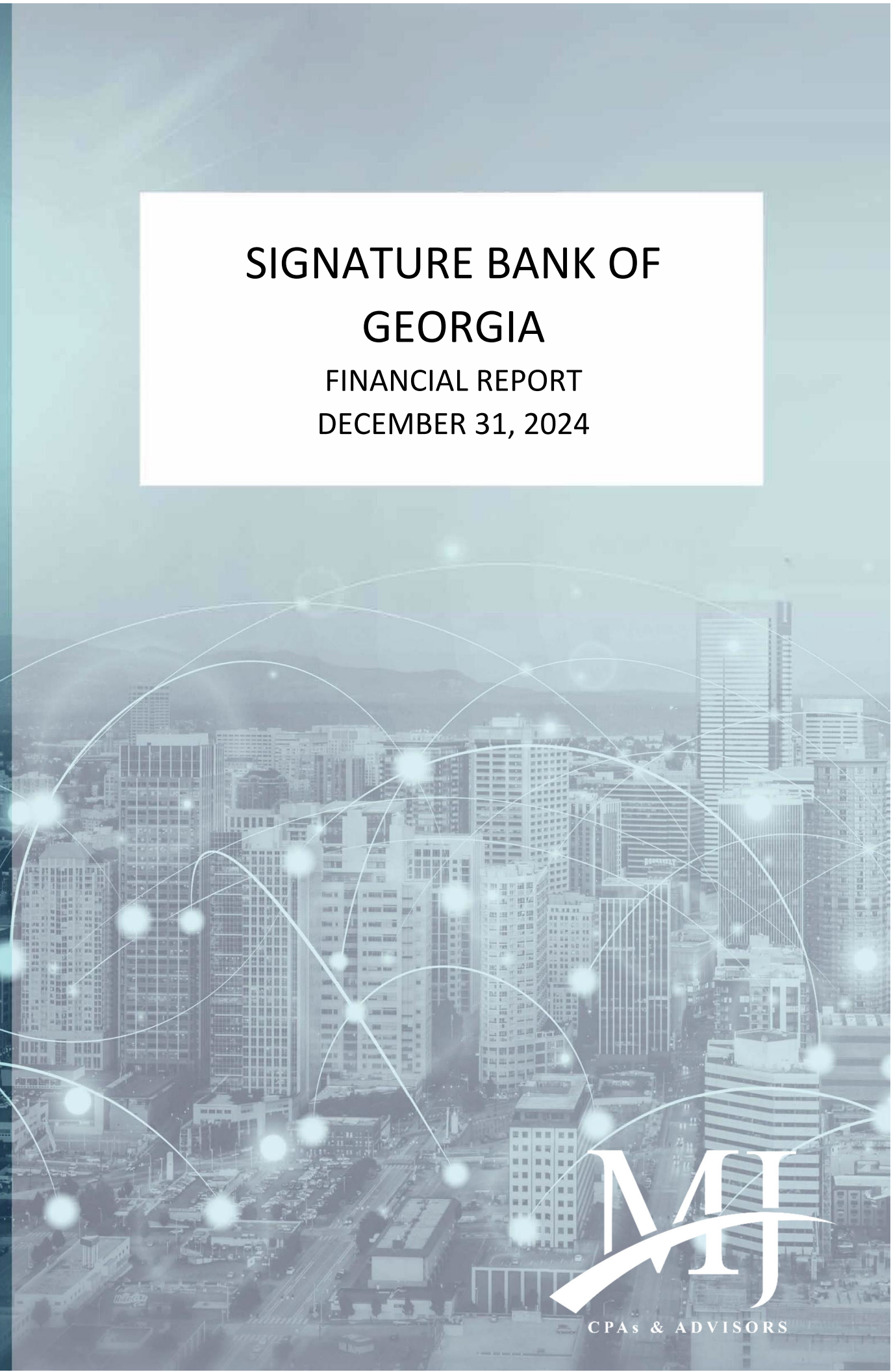


GOING FURTHER

SIGNATURE BANK OF
GEORGIA
FINANCIAL REPORT
DECEMBER 31, 2024



CPAs & ADVISORS

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Independent Auditor's Report

**To the Board of Directors and Stockholders of
Signature Bank of Georgia
Sandy Springs, Georgia**

Opinion

We have audited the accompanying financial statements of **Signature Bank of Georgia**, which comprise the balance sheets as of December 31, 2024 and 2023 and the related statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Signature Bank of Georgia as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Signature Bank of Georgia, 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Signature Bank of Georgia's ability to continue as a going concern within one year after the date that the 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 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 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 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 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 Signature Bank of Georgia'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Signature Bank of Georgia'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

Atlanta, Georgia
April 17, 2025

Signature Bank of Georgia

BALANCE SHEETS

DECEMBER 31, 2024 AND 2023

<u>Assets</u>	<u>2024</u>	<u>2023</u>
Cash and due from banks	\$ 1,250,224	\$ 1,559,233
Interest-bearing deposits in banks	16,479,982	19,813,108
Securities available for sale, at fair value	26,360,930	29,583,817
Restricted equity securities, at cost	395,700	140,500
Loans, net of deferred fees	191,764,590	165,293,387
Less allowance for credit losses	2,204,707	2,088,214
Loans, net	<u>189,559,883</u>	<u>163,205,173</u>
Premises and equipment, net	1,381,771	832,874
Other real estate owned	2,375,000	2,743,500
Other assets	<u>7,856,613</u>	<u>8,017,270</u>
Total assets	<u>\$ 245,660,103</u>	<u>\$ 225,895,475</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 56,558,144	\$ 85,967,806
Interest-bearing	148,772,537	106,962,634
Total deposits	<u>205,330,681</u>	<u>192,930,440</u>
Federal Home Loan Bank advances	5,000,000	-
Other liabilities	1,905,434	1,008,601
Total liabilities	<u>212,236,115</u>	<u>193,939,041</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$2; 10,000,000 shares authorized, 2,575,731 shares issued and outstanding	5,151,462	5,143,639
Surplus	50,433,588	50,163,893
Accumulated deficit	(19,071,946)	(20,420,699)
Accumulated other comprehensive loss	(3,089,116)	(2,930,399)
Total stockholders' equity	<u>33,423,988</u>	<u>31,956,434</u>
Total liabilities and stockholders' equity	<u>\$ 245,660,103</u>	<u>\$ 225,895,475</u>

See Notes to Financial Statements.

Signature Bank of Georgia

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Interest income		
Loans, including fees	\$ 14,148,418	\$ 11,295,182
Securities	1,002,427	1,050,197
Interest-bearing deposits in banks	713,486	1,201,540
Total interest income	15,864,331	13,546,919
Interest expense		
Deposits	5,295,941	2,581,635
Other borrowings	242,495	14,863
Total interest expense	5,538,436	2,596,498
Net interest income	10,325,895	10,950,421
Provision for credit losses	293,316	506,002
Net interest income after provision for credit losses	10,032,579	10,444,419
Other income		
Service charges on deposit accounts	54,562	49,682
Other service charges and fees	133,768	136,555
Net gain on sale of securities available for sale	-	14,957
Net gain on sale of loans	1,961,264	1,689,809
Other operating income	458,566	265,712
Total other income	2,608,160	2,156,715
Other expenses		
Salaries and employee benefits	7,153,927	5,781,234
Occupancy and equipment expenses	442,834	511,404
Loan collection and repossession expenses	137,935	195,289
Net loss on sale and write-downs of other real estate owned	92,125	413,450
Other operating expenses	3,465,165	3,297,812
Total other expenses	11,291,986	10,199,189
Income before income tax expense	1,348,753	2,401,945
Income tax expense	-	-
Net income	\$ 1,348,753	\$ 2,401,945
Basic earnings per common share	\$ 0.52	\$ 0.93
Diluted earnings per common share	\$ 0.52	\$ 0.93

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Net income	\$ 1,348,753	\$ 2,401,945
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale arising during period, net of tax expense (benefit) of \$(42,190) and \$97,119, respectively	(158,717)	365,353
Reclassification adjustment for gains realized in net income, net of tax expense of \$- and \$3,141, respectively	<u>-</u>	<u>(11,816)</u>
Other comprehensive income (loss)	(158,717)	353,537
Comprehensive income	<u>\$ 1,190,036</u>	<u>\$ 2,755,482</u>

See Notes to Financial Statements.

STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2024 AND 2023

	Common Stock		Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Par Value				
Balance, December 31, 2022	28,073,200	\$ 20,672,133	\$ 27,459,596	\$ (22,351,605)	\$ (3,283,936)	\$ 22,496,188
Adoption of ASU 2016-13	-	-	-	(471,039)	-	(471,039)
Issuance of common stock	7,777,777	6,999,999	-	-	-	6,999,999
Stock offering expense	-	-	(53,011)	-	-	(53,011)
Exercise of stock options	96,250	62,563	-	-	-	62,563
Reverse stock split	(33,379,319)	(25,166,787)	25,166,787	-	-	-
Change in par value	-	2,567,908	(2,567,908)	-	-	-
Conversion of fractional shares	7,823	7,823	(7,823)	-	-	-
Stock compensation expense	-	-	166,252	-	-	166,252
Net income	-	-	-	2,401,945	-	2,401,945
Other comprehensive income	-	-	-	-	353,537	353,537
Balance, December 31, 2023	<u>2,575,731</u>	<u>5,143,639</u>	<u>50,163,893</u>	<u>(20,420,699)</u>	<u>(2,930,399)</u>	<u>31,956,434</u>
Par value correction	-	7,823	(7,823)	-	-	-
Stock compensation expense	-	-	277,518	-	-	277,518
Net income	-	-	-	1,348,753	-	1,348,753
Other comprehensive loss	-	-	-	-	(158,717)	(158,717)
Balance, December 31, 2024	<u>2,575,731</u>	<u>\$ 5,151,462</u>	<u>\$ 50,433,588</u>	<u>\$ (19,071,946)</u>	<u>\$ (3,089,116)</u>	<u>\$ 33,423,988</u>

Signature Bank of Georgia

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
OPERATING ACTIVITIES		
Net income	\$ 1,348,753	\$ 2,401,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and software amortization	111,521	103,891
Amortization and accretion of securities available for sale	(78,061)	(54,836)
Provision for credit losses	293,316	506,002
Gain on sale of securities available for sale	-	(14,957)
Gain on sale of loans	(1,961,264)	(1,689,809)
Loss on disposal of premises, equipment, and software	915	19,366
Loss on sale of other real estate owned	-	1,000
Write-down of other real estate owned	92,125	412,450
(Increase) decrease in interest receivable	23,530	(198,726)
Increase in interest payable	102,916	37,053
Stock-based compensation	277,518	166,252
Net other operating activities	688,318	(835,419)
Net cash provided by operating activities	<u>899,587</u>	<u>854,212</u>
INVESTING ACTIVITIES		
(Increase) decrease in interest-bearing deposits in banks	3,333,126	(729,458)
Purchase of securities available for sale	(999,375)	-
Proceeds from sales of securities available for sale	-	2,932,088
Proceeds from maturities, calls, and paydowns of securities available for sale	4,099,416	2,247,781
Purchase of restricted equity securities	(255,200)	(34,800)
Net increase in loans	(24,559,470)	(29,979,549)
Purchase of premises, equipment, and software	(227,334)	(225,856)
Proceeds from the sale of other real estate owned	-	1,199,000
Net cash used in investing activities	<u>(18,608,837)</u>	<u>(24,590,794)</u>
FINANCING ACTIVITIES		
Net increase in deposits	12,400,241	15,825,742
Proceeds from Federal Home Loan Bank advances	5,000,000	-
Proceeds from issuance of common stock	-	6,999,999
Stock offering costs	-	(53,011)
Exercise of stock options	-	62,563
Net cash provided by financing activities	<u>17,400,241</u>	<u>22,835,293</u>
Net decrease in cash and due from banks	(309,009)	(901,289)
Cash and due from banks at beginning of year	<u>1,559,233</u>	<u>2,460,522</u>
Cash and due from banks at end of year	<u>\$ 1,250,224</u>	<u>\$ 1,559,233</u>

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 5,435,520	\$ 2,559,445
NONCASH TRANSACTIONS		
Transfer from other real estate owned to other assets	\$ 276,375	\$ -
Lease accounting under ASU 2016-02 <i>Leases (Topic 842)</i> and related increase (decrease) to premises and equipment, net, and other liabilities	\$ 462,915	\$ (262,613)

See Notes to Financial Statements.

Signature Bank of Georgia

Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Signature Bank of Georgia (the "Bank") is a state-chartered bank headquartered in Sandy Springs, Fulton County, Georgia. The Bank provides a full range of banking services in its primary market area of Fulton, Gwinnett, and DeKalb Counties and the surrounding counties.

Basis of Presentation and Accounting Estimates

In preparing the financial statements in conformity 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 and the disclosure of contingent 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 credit losses, deferred taxes, the valuation of other real estate owned, the fair value of financial instruments, and contingent assets and liabilities.

The Bank has evaluated all transactions, events, and circumstances for consideration or disclosure through April 17, 2025, the date these financial statements were available to be issued and has reflected or disclosed those items within the 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 include cash on hand, cash items in process of collection and amounts due from banks. Cash flows from interest-bearing deposits in banks, loans, and deposits are reported net.

Securities

All debt securities are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the trade date.

Signature Bank of Georgia

Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities (Continued)

The Bank has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest in other assets in the consolidated balance sheets. Accrued interest receivable on debt securities totaled \$155,184 and \$186,743 as of December 31, 2024 and 2023, respectively. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the years ended December 31, 2024 and 2023.

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

Restricted Equity Securities

The Bank is required to maintain an investment in capital stock of the Federal Home Loan Bank (FHLB). Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2024 and 2023, restricted equity securities consist solely of FHLB stock.

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 deferred fees and costs on originated loans and the allowance for credit losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield over the life of the loan using the straight-line method.

Signature Bank of Georgia

Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and 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 accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis or cost-recovery method until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses – Loans

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

The Bank estimates the ACL on loans based on the underlying loans' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Bank has policies in place to reverse accrued interest in a timely manner. Therefore, the Bank has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans totaled \$810,768 and \$802,739 at December 31, 2024 and 2023, respectively.

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

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

Signature Bank of Georgia

Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

Discounted Cash Flow (DCF) Methodology

DCF models, while not widely adopted as a means to account for allowance for loan and lease loss under ASC 450-20 (superseded), have been accepted as a best practice for adherence to other analogous accounting standard objectives. For example, fair value measurement (ASC 820) and purchased credit impaired (ASC 310-30) both inherently require an understanding and estimate of lifetime credit loss. Forward-focused cash flow models are commonly deployed to accommodate both fair value and purchased credit impaired requirements. Management has elected to use this approach after analysis and consideration. Below are a few of the key decision points that contributed to the election:

- DCF models, being periodic in nature, allow for effective incorporation of a reasonable and supportable forecast in a directionally consistent and objective manner.
- The analysis aligns well with other calculations and actions outside the ACL estimation, which will mitigate model risk in other areas and allow for symmetrical application. For example, fair value (exit price notion), profitability analysis, interest rate risk calculations, asset-liability management, stress testing, and other risk management tools utilize DCF modeling.
- Peer data is available for certain inputs, such as loss rate, if first-party data is not available or meaningful. This is made possible by the periodic nature of the model.

In order to reduce the complexity of the model, management has elected to perform cash flow modeling without the present value component. In other words, the reserve determined by the cash flow analysis is simply the sum of expected losses, rather than a comparison of the loan's basis to the present value of cash flows. No discounting is performed in the reserve calculation. Additionally, expected losses are calculated via a gross loss rate and recovery rate assumption in lieu of separate probability of default and loss given default inputs.

Signature Bank of Georgia

Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

Individually Evaluated Assets

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

Charge-Offs and Recoveries

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

Loan Commitments and Financial Instruments

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

Signature Bank of Georgia

Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Commitments and Financial Instruments (Continued)

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

Premises and Equipment

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

The useful lives of premises and equipment are generally as follows:

Buildings and leasehold improvements	39 years
Furniture and equipment	3 to 7 years

Leases

Leases are classified as operating or finance leases at the lease commencement date. The Bank leases certain locations and equipment. The Bank records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability. The discount rate used in determining the lease liability is based upon the risk-free rate as of the date of commencement or renewal. The Bank does not record leases on the balance sheets that are classified as short-term (less than one year).

At lease inception, the Bank determines the lease term by considering the minimum lease term and all optional renewal periods that the Bank is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Bank's leases do not contain residual value guarantees or material variable lease payments that will impact the Bank's ability to pay dividends or cause the Bank to incur additional expenses.

The Bank has elected to treat property leases that include both lease and nonlease components as a single component and account for it as a lease.

Signature Bank of Georgia

Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned

Other real estate owned represents properties acquired through or in lieu of foreclosure and is initially recorded at the lower of cost or fair value less estimated costs to sell. Any write down to fair value at the time of transfer to other real estate owned is charged to the allowance for credit 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 other real estate owned and subsequent adjustments to the value are expensed.

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 Bank - 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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Bank accounts for income taxes in accordance with income tax accounting guidance. This guidance relates to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Bank 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.

Signature Bank of Georgia

Notes to 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 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets 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.

Stock-Based Compensation

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

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options. The Bank recognized \$277,518 and \$166,252 in stock-based compensation expense for the years ended December 31, 2024 and 2023, respectively.

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Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. The weighted-average number of common shares for the years ended December 31, 2024, and 2023 was 2,575,731. The number of shares outstanding for 2023 and the earnings per share reported on the statements of income have been adjusted for the reverse stock split for comparability reasons. Diluted earnings per share are computed by dividing net income by the sum of the weighted-average number of shares of common stock outstanding and potential common shares. Potential common shares consist of stock options.

Comprehensive Income

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

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 15. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Revenue Recognition

The Bank accounts for revenue in accordance with applicable revenue recognition guidance, including ASU 2014-09 *Revenue from Contracts with Customers* (ASC Topic 606) and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. The majority of the Bank's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as these activities are subject to other GAAP discussed elsewhere within the disclosures. The Bank's services that fall within the scope of ASC 606 are presented within other income and are recognized as revenue as the Bank satisfies its obligation to the customer. Services within the scope of ASC 606 primarily include service charges on deposits, interchange income and other fees such as ATM fees. Refer to Note 16 for further discussion on the Bank's accounting policies for revenue sources within the scope of ASC 606.

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Notes to Financial Statements

NOTE 2. SECURITIES

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 21, 2024:				
U.S. Government agency securities	\$ 14,242,397	\$ 4,124	\$ (1,685,545)	\$ 12,560,976
Municipal securities	7,664,952	-	(1,429,031)	6,235,921
Mortgage-backed GSE residential securities	8,363,854	-	(799,821)	7,564,033
	<u>\$ 30,271,203</u>	<u>\$ 4,124</u>	<u>\$ (3,914,397)</u>	<u>\$ 26,360,930</u>
December 31, 2023:				
U.S. Treasury securities	\$ 1,996,534	\$ -	\$ (6,925)	\$ 1,989,609
U.S. Government agency securities	15,355,693	9,194	(1,681,316)	13,683,571
Municipal securities	7,652,770	-	(1,274,972)	6,377,798
Mortgage-backed GSE residential securities	8,288,186	-	(755,347)	7,532,839
	<u>\$ 33,293,183</u>	<u>\$ 9,194</u>	<u>\$ (3,718,560)</u>	<u>\$ 29,583,817</u>

The amortized cost and fair value of debt securities as of December 31, 2024 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalty. Therefore, these securities are not included in the maturity categories in the following summary.

	<u>Securities Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year	\$ -	\$ -
Due from one to five years	5,287,680	4,829,239
Due from five to ten years	7,169,901	5,918,573
Due after ten years	9,449,768	8,049,085
Mortgage-backed securities	8,363,854	7,564,033
	<u>\$ 30,271,203</u>	<u>\$ 26,360,930</u>

Securities with a carrying value of \$1,625,873 and \$802,812 were pledged at December 31, 2024 and 2023, respectively, to secure credit availability with the Federal Reserve Bank and for other purposes required or permitted by law.

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Notes to Financial Statements

NOTE 2. SECURITIES

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

	<u>Years Ended December 31,</u>	
	<u>2024</u>	<u>2023</u>
Gross gains	\$ -	\$ 15,905
Gross losses	-	(948)
Net gains	<u>\$ -</u>	<u>\$ 14,957</u>

The following table shows the gross unrealized losses and fair value of the Bank's investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2024, and 2023.

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>		<u>Total Unrealized Losses</u>
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	
December 31, 2024					
U.S. Government agency securities	\$ 555,829	\$ (13,984)	\$ 11,574,676	\$ (1,671,561)	\$ (1,685,545)
Municipal securities	374,535	(27,561)	5,861,386	(1,401,470)	(1,429,031)
Mortgage-backed GSE residential securities	3,158,672	(61,074)	4,405,361	(738,747)	(799,821)
	<u>\$ 4,089,036</u>	<u>\$ (102,619)</u>	<u>\$ 21,841,423</u>	<u>\$ (3,811,778)</u>	<u>\$ (3,914,397)</u>
December 31, 2023					
U.S. Treasury securities	\$ 1,989,609	\$ (6,925)	\$ -	\$ -	\$ (6,925)
U.S. Government agency securities	308,862	(4,611)	12,567,060	(1,676,705)	(1,681,316)
Municipal securities	-	-	6,377,798	(1,274,972)	(1,274,972)
Mortgage-backed GSE residential securities	2,496,664	(36,033)	5,036,175	(719,314)	(755,347)
	<u>\$ 4,795,135</u>	<u>\$ (47,569)</u>	<u>\$ 23,981,033</u>	<u>\$ (3,670,991)</u>	<u>\$ (3,718,560)</u>

As of December 31, 2024, the Bank's available-for-sale security portfolio consisted of 78 securities, 75 of which were in an unrealized loss position. At December 31, 2024, the Bank held 40 U.S. Government agency securities, 10 municipal securities, and 25 GSE mortgage-backed securities that were in an unrealized loss position.

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Notes to Financial Statements

NOTE 2. SECURITIES (Continued)

As of December 31, 2024 and 2023, no ACL has been recognized on available-for-sale securities in an unrealized loss position as management does not believe any of the securities have losses due to reasons of credit quality. This is based upon an analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to available-for-sale securities and in consideration of historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, the Bank does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that they will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

NOTE 3. LOANS

Portfolio Segmentation

	December 31,	
	2024	2023
Real Estate:		
Construction and land development	\$ 44,192,535	\$ 37,878,054
Residential	7,533,418	5,664,625
Commercial and other	125,846,874	109,767,530
Commercial	14,656,059	12,264,579
Consumer and other	14,342	36,163
	192,243,228	165,610,951
Net deferred fees	(478,638)	(317,564)
Allowance for credit losses	(2,204,707)	(2,088,214)
Loans, net	\$ 189,559,883	\$ 163,205,173

Included above are \$44,008,911 and \$37,277,834 of interest only loans at December 31, 2024, and 2023, respectively. For the majority of these loans, interest is due monthly and principal is due at maturity. These loans require greater monitoring by management due to the fact that credit problems encountered by the borrower could be disguised for a period of time.

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Notes to Financial Statements

NOTE 3. LOANS (Continued)

Portfolio Segmentation (Continued)

For purposes of the disclosures required by ASC 326, the loan portfolio was disaggregated into portfolio segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which the Bank develops and documents a systematic method for determining its allowance for credit losses. The three loan portfolio segments are real estate, commercial, and consumer and other. A class is generally determined based on the initial measurement attribute and the Bank's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land development, residential, and commercial and other. The commercial and consumer and other segments have not been further disaggregated into classes.

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

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

- Construction and land development loans 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 loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. This portfolio class includes 1-4 family mortgages secured by first and junior liens as well as 1-4 family open-end lines such as home equity lines of credit (HELOCs).
- Commercial real estate mortgage loans include owner-occupied commercial real estate loans and loans secured by income-producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rental income derived from the properties. Also included in this class are loans secured by farmland. These loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. SBA loans secured by real estate are also included within this category. These loans are partially guaranteed by the U.S. Government.

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Notes to Financial Statements

NOTE 3. LOANS (Continued)

Portfolio Segmentation (Continued)

Commercial - The commercial loan portfolio segment includes commercial and industrial 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. SBA loans not secured by real estate are included within this category. These loans are partially guaranteed by the U.S. Government.

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

Nonaccrual and Past Due Loans

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged to interest income. Interest on loans that are classified as nonaccrual is subsequently applied to principal until the loans are returned to accrual status. The Bank's loan policy states that a nonaccrual loan may be returned to accrual status when: (i) none of its principal and interest is due and unpaid, and the Bank expects repayment of the remaining contractual principal and interest, or (ii) it otherwise becomes well secured and in the process of collection. Restoration to accrual status on any given loan must be supported by a well-documented credit evaluation of the borrower's financial condition and the prospects for full repayment. There was no interest income recognized on nonaccrual loans during the years ended December 31, 2024 and 2023. Past due loans are accruing loans whose principal or interest is past due 30 days or more.

The following tables provide a summary of current, accruing past due, and nonaccrual loans by portfolio class as of December 31, 2024 and 2023. In accordance with ASU 2016-13, nonaccrual loans are disaggregated based on whether an allowance for credit losses has been recorded.

	Past Due Status (Accruing Loans)				Nonaccrual with an ACL	Nonaccrual without an ACL	Total
	Current	30-89 Days	90+ Days	Total Past Due			
December 31, 2024:							
Real estate:							
Construction and							
land development	\$ 44,192,535	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,192,535
Residential	7,533,418	-	-	-	-	-	7,533,418
Commercial and other	125,846,874	-	-	-	-	-	125,846,874
Commercial	14,656,059	-	-	-	-	-	14,656,059
Consumer and other	14,342	-	-	-	-	-	14,342
Total	\$192,243,228	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 192,243,228

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Notes to Financial Statements

NOTE 3. LOANS (Continued)

Nonaccrual and Past Due Loans (Continued)

	Past Due Status (Accruing Loans)				Nonaccrual with an ACL	Nonaccrual without an ACL	Total
	Current	30-89 Days	90+ Days	Total Past Due			
December 31, 2023:							
Real estate:							
Construction and land development	\$ 37,878,054	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,878,054
Residential	5,664,625	-	-	-	-	-	5,664,625
Commercial and other	109,767,530	-	-	-	-	-	109,767,530
Commercial	12,264,579	-	-	-	-	-	12,264,579
Consumer and other	36,163	-	-	-	-	-	36,163
Total	\$ 165,610,951	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 165,610,951

Collateral Dependent Loans

Collateral dependent loans are loans where repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. If the Bank determines that foreclosure is probable, these loans are written down to the lower of cost or collateral value less estimated costs to sell. When repayment is expected to be from the operation of the collateral, the allowance for credit losses is calculated as the amount by which the amortized cost basis of the financial asset exceeds the present value of expected cash flows from the operation of the collateral. The Bank may, in the alternative, measure the allowance for credit loss as the amount by which the amortized cost basis of the financial asset exceeded the estimated fair value of the collateral. The following table shows individually evaluated collateral dependent loans by class and collateral type as of December 31, 2024. There were no individually evaluated collateral dependent loans with related allowance for credit losses as of December 31, 2023.

	<u>Business Assets</u>	<u>Total</u>
December 31, 2024:		
Real estate:		
Construction and land development	\$ -	\$ -
Residential	-	-
Commercial and other	-	-
Commercial	342,275	342,275
Consumer and other	-	-
Total	\$ 342,275	\$ 342,275

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Notes to Financial Statements

NOTE 3. LOANS (Continued)

Credit Risk Management

Risk management and the executive management team as a whole are involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio, and the estimation of inherent credit losses in the loan portfolio. This process also assists in the prompt identification of problem credits. The Bank has implemented many processes and procedures to manage the portfolios and reduce risk.

The Bank's credit risk management process includes defined policies, accountability, and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by loan policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the loan 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 and, on an ongoing basis, monitoring the credit of the portfolios, including a complete review of all relationships over \$500,000 on an annual basis. Any problem credits (Grade 6-9) are reviewed on an ongoing basis regardless of size or loan purpose and are reported at least quarterly to the Board. To ensure problem credits are identified on a timely basis, independent loan reviews are performed annually to assess the larger adversely rated credits for proper risk rating, accrual status and, if necessary, to ensure such individual credits are properly graded by management. All loans are graded on a nine-point scale and reviewed periodically for compliance with the defined criteria for each grade level.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports by past due status, grade, and accrual status are reviewed by the executive management, loan committee and the Board of Directors.

The following presents credit quality indicators for the loan portfolio segments and classes as of December 31, 2024 and 2023. These categories are utilized to develop the associated allowance for loan losses using historical losses adjusted for current economic conditions and other qualitative factors and are defined as follows:

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Notes to Financial Statements

NOTE 3. LOANS (Continued)

Credit Risk Management (Continued)

- Pass - includes loans with low or average risk qualities where the probability of default is considered low.
- Other Assets Especially Mentioned (OAEM) - includes loans that exhibit potential weaknesses that merit management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the assets or in the institution's credit position at some future date. OAEM assets are not considered adversely classified as they do not expose the Bank to sufficient risk to warrant adverse classification.
- Substandard - includes loans that are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins, and/or unperfected collateral positions. These loans are considered adversely classified, and the possibility of some loss of principal or interest exists if deficiencies are not corrected.

The following tables present the amortized cost basis of loans by loan class, risk category and origination year, and the current year gross write-off by loan segment and origination year, based on the analysis performed as of December 31, 2024 and 2023. There were no loans rated doubtful or loss as of December 31, 2024 and 2023.

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Notes to Financial Statements

NOTE 3. LOANS (Continued)

Credit Risk Management (Continued)

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans	Total
	2024	2023	2022	Prior		
As of December 31, 2024						
Real Estate:						
Construction and development						
Pass	\$ 2,956,151	\$ 3,843,151	\$ 2,016,442	\$ -	\$ 35,376,791	\$ 44,192,535
OAEM	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total construction and development	<u>\$ 2,956,151</u>	<u>\$ 3,843,151</u>	<u>\$ 2,016,442</u>	<u>\$ -</u>	<u>\$ 35,376,791</u>	<u>\$ 44,192,535</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Residential						
Pass	\$ 797,520	\$ 2,051,021	\$ -	\$ 1,041,153	\$ 3,643,724	\$ 7,533,418
OAEM	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total residential	<u>\$ 797,520</u>	<u>\$ 2,051,021</u>	<u>\$ -</u>	<u>\$ 1,041,153</u>	<u>\$ 3,643,724</u>	<u>\$ 7,533,418</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commercial and other						
Pass	\$ 24,597,244	\$ 34,130,410	\$ 23,437,909	\$ 38,705,269	\$ 4,527,819	\$ 125,398,651
OAEM	-	-	-	448,223	-	448,223
Substandard	-	-	-	-	-	-
Total commercial and other	<u>\$ 24,597,244</u>	<u>\$ 34,130,410</u>	<u>\$ 23,437,909</u>	<u>\$ 39,153,492</u>	<u>\$ 4,527,819</u>	<u>\$ 125,846,874</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,098</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,098</u>
Commercial						
Pass	\$ 3,173,309	\$ 1,415,081	\$ 1,138,986	\$ 2,281,127	\$ 6,361,792	\$ 14,370,295
OAEM	-	-	-	153,853	-	153,853
Substandard	-	-	-	131,911	-	131,911
Total commercial, financial, and agricultural	<u>\$ 3,173,309</u>	<u>\$ 1,415,081</u>	<u>\$ 1,138,986</u>	<u>\$ 2,566,891</u>	<u>\$ 6,361,792</u>	<u>\$ 14,656,059</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,026</u>	<u>\$ -</u>	<u>\$ 33,026</u>
Consumer and other						
Pass	\$ -	\$ 5,753	\$ 3,717	\$ 4,015	\$ 857	\$ 14,342
OAEM	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total consumer and other	<u>\$ -</u>	<u>\$ 5,753</u>	<u>\$ 3,717</u>	<u>\$ 4,015</u>	<u>\$ 857</u>	<u>\$ 14,342</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,997</u>	<u>\$ -</u>	<u>\$ 24,997</u>
Total						
Pass	\$ 31,524,224	\$ 41,445,416	\$ 26,597,054	\$ 42,031,564	\$ 49,910,983	\$ 191,509,241
OAEM	-	-	-	602,076	-	602,076
Substandard	-	-	-	131,911	-	131,911
Total loans	<u>\$ 31,524,224</u>	<u>\$ 41,445,416</u>	<u>\$ 26,597,054</u>	<u>\$ 42,765,551</u>	<u>\$ 49,910,983</u>	<u>\$ 192,243,228</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,098</u>	<u>\$ 58,023</u>	<u>\$ -</u>	<u>\$ 87,121</u>

Signature Bank of Georgia

Notes to Financial Statements

NOTE 3. LOANS (Continued)

Credit Risk Management (Continued)

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans	Total
	2023	2022	2021	Prior		
As of December 31, 2023						
Real Estate:						
Construction and development						
Pass	\$ 4,553,553	\$ 3,287,652	\$ 1,110,555	\$ -	\$ 28,926,294	\$ 37,878,054
OAEM	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total construction and development	<u>\$ 4,553,553</u>	<u>\$ 3,287,652</u>	<u>\$ 1,110,555</u>	<u>\$ -</u>	<u>\$ 28,926,294</u>	<u>\$ 37,878,054</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Residential						
Pass	\$ 1,746,902	\$ 48,653	\$ -	\$ 963,079	\$ 2,598,963	\$ 5,357,597
OAEM	307,028	-	-	-	-	307,028
Substandard	-	-	-	-	-	-
Total residential	<u>\$ 2,053,930</u>	<u>\$ 48,653</u>	<u>\$ -</u>	<u>\$ 963,079</u>	<u>\$ 2,598,963</u>	<u>\$ 5,664,625</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commercial and other						
Pass	\$ 39,505,353	\$ 26,322,197	\$ 11,370,802	\$ 28,478,414	\$ 861,677	\$ 106,538,443
OAEM	2,764,114	-	-	464,973	-	3,229,087
Substandard	-	-	-	-	-	-
Total commercial and other	<u>\$ 42,269,467</u>	<u>\$ 26,322,197</u>	<u>\$ 11,370,802</u>	<u>\$ 28,943,387</u>	<u>\$ 861,677</u>	<u>\$ 109,767,530</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,639</u>	<u>\$ -</u>	<u>\$ 39,639</u>
Commercial						
Pass	\$ 2,705,582	\$ 1,404,038	\$ 912,381	\$ 2,370,920	\$ 4,871,658	\$ 12,264,579
OAEM	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total commercial, financial, and agricultural	<u>\$ 2,705,582</u>	<u>\$ 1,404,038</u>	<u>\$ 912,381</u>	<u>\$ 2,370,920</u>	<u>\$ 4,871,658</u>	<u>\$ 12,264,579</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,972</u>	<u>\$ -</u>	<u>\$ 228,972</u>
Consumer and other						
Pass	\$ 8,095	\$ 7,015	\$ -	\$ 1,810	\$ 19,243	\$ 36,163
OAEM	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total consumer and other	<u>\$ 8,095</u>	<u>\$ 7,015</u>	<u>\$ -</u>	<u>\$ 1,810</u>	<u>\$ 19,243</u>	<u>\$ 36,163</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total						
Pass	\$ 48,519,485	\$ 31,069,555	\$ 13,393,738	\$ 31,814,223	\$ 37,277,835	\$ 162,074,836
OAEM	3,071,142	-	-	464,973	-	3,536,115
Substandard	-	-	-	-	-	-
Total loans	<u>\$ 51,590,627</u>	<u>\$ 31,069,555</u>	<u>\$ 13,393,738</u>	<u>\$ 32,279,196</u>	<u>\$ 37,277,835</u>	<u>\$ 165,610,951</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,611</u>	<u>\$ -</u>	<u>\$ 268,611</u>

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Notes to Financial Statements

NOTE 3. LOANS (Continued)

Allowance for Credit Losses

The allowance for credit losses represents an allowance for expected losses over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals or modifications. The Bank segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio.

The following tables detail the change in the allowance for credit losses for the years ended December 31, 2024 and 2023 by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

December 31, 2024:	Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for credit losses:					
Balance, beginning of year	\$ 1,879,272	\$ 208,316	\$ 626	\$ -	\$ 2,088,214
Provision (reallocation)	32,625	15,189	24,518	93,692	166,024
Loans charged-off	(29,098)	(33,026)	(24,997)	-	(87,121)
Recoveries	-	37,590	-	-	37,590
Ending Balance	\$ 1,882,799	\$ 228,069	\$ 147	\$ 93,692	\$ 2,204,707

December 31, 2023:	Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for credit losses:					
Balance, beginning of year	\$ 618,847	\$ 148,787	\$ 364	\$ 743,520	\$ 1,511,518
Adoption of ASU 2016-13	158,521	17,572	53	-	176,146
Provision (reallocation)	1,101,904	222,905	209	(743,520)	581,498
Loans charged-off	(39,639)	(228,972)	-	-	(268,611)
Recoveries	39,639	48,024	-	-	87,663
Ending Balance	\$ 1,879,272	\$ 208,316	\$ 626	\$ -	\$ 2,088,214

Modifications to Borrowers Experiencing Financial Difficulty

The Bank periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness, or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of the modification. When principal forgiveness is provided, the amount of principal forgiveness is charged-off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan. A modified loan is tracked for at least 12 months following the modifications granted.

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Notes to Financial Statements

NOTE 3. LOANS (Continued)

Modifications to Borrowers Experiencing Financial Difficulty (Continued)

The following table shows the amortized cost basis of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted as of December 31, 2024. There were no loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2023.

	<u>Payment Deferral</u>	<u>Term Extension</u>	<u>Interest Rate Reduction</u>	<u>Combination Deferral and Extension</u>	<u>Total</u>
December 31, 2024:					
Real estate:					
Residential	\$ -	\$ 64,824	\$ -	\$ -	\$ 64,824
Total	\$ -	\$ 64,824	\$ -	\$ -	\$ 64,824

The terms of the modification noted above for the year ended December 31, 2024 included the reamortization of the loan's principal and interest payments through the new maturity date in 2034. The loan was performing in accordance with its modified terms at December 31, 2024.

No loans that were modified in the last twelve months to borrowers experiencing financial difficulty had a payment default during the years ended December 31, 2024 and 2023.

Related-Party Loans

In the ordinary course of business, the Bank has granted loans to certain related parties, including directors, executive officers, 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:

	<u>Years Ended December 31,</u>	
	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 5,600,455	\$ 155,513
Advances	3,788,918	5,650,455
Repayments	(6,638,154)	(205,513)
Change in related parties	(1,344,500)	-
Balance, end of year	\$ 1,406,719	\$ 5,600,455

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Notes to Financial Statements

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment is summarized as follows:

	December 31,	
	2024	2023
Buildings and leasehold improvements	\$ 809,369	\$ 813,739
Furniture and equipment	770,371	860,760
Right of use assets	556,655	93,740
	2,136,395	1,768,239
Accumulated depreciation	(754,624)	(935,365)
	\$ 1,381,771	\$ 832,874

Depreciation expense, not including software amortization, totaled \$104,937 and \$94,494, respectively, for the years ended December 31, 2024 and 2023. Software costs of \$391,227 and \$442,057, net of accumulated amortization of \$359,829 and \$439,573, are included in other assets on the balance sheets as of December 31, 2024 and 2023, respectively.

Leases

The Bank leases its Sandy Springs banking facility and operations center under a noncancelable operating lease agreement with an original lease term of six years and renewal options totaling fifteen years. The lease was renewed effective June 1, 2024 and expires on May 31, 2027. The remaining renewal options were not considered in the right-of-use asset due to the uncertainty of renewal.

The Bank leases a loan production office (LPO) in Gwinnett County. The Bank entered into a noncancelable operating lease agreement with an unrelated third party for the LPO that was effective October 1, 2021 and expired September 30, 2023. The lease was renewed in 2023 and 2024 for one year each and now expires on September 30, 2025. The Bank has renewal options on this lease agreement through 2026. The remaining renewal options were not considered in the right-of-use asset due to the uncertainty of renewal.

The Bank has evaluated the leases above and determined them to be operating leases. The right-of-use assets and lease liabilities were measured and recorded with an assumed weighted-average discount rate of 5.33%, the federal funds rate at the date of lease commencement. The right of use assets, included within premises and equipment on the balance sheets, totaled \$556,655 and \$93,740 as of December 31, 2024 and 2023, respectively. The Bank's operating lease liabilities, included within other liabilities on the balance sheets, totaled \$556,655 and \$93,740 as of December 31, 2024 and 2023, respectively. The weighted-average remaining lease term for these leases at December 31, 2024 was 2.2 years.

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Notes to Financial Statements

NOTE 4. PREMISES AND EQUIPMENT

Leases (Continued)

Future minimum lease payments under operating leases, excluding any renewal options, are summarized as follows as of December 31, 2024:

2025	\$	265,916
2026		229,924
2027		96,591
Total future minimum lease payments		<u>592,431</u>
Less: imputed interest		<u>(35,776)</u>
Present value of operating lease liabilities	\$	<u><u>556,655</u></u>

Rental expense under all operating leases amounted to \$204,359 and \$284,319 for the years ended December 31, 2024 and 2023, respectively.

NOTE 5. OTHER REAL ESTATE OWNED

A summary of other real estate owned is presented as follows:

	Years Ended December 31,	
	2024	2023
Balance, beginning of year	\$ 2,743,500	\$ 4,355,950
Proceeds from externally financed sales	-	(1,199,000)
Loss on sale	-	(1,000)
Write-downs	(92,125)	(412,450)
Transfer to other assets	(276,375)	-
Balance, end of year	<u>\$ 2,375,000</u>	<u>\$ 2,743,500</u>

The Bank recorded a write-down on a foreclosed loan subject to a 75% SBA guarantee during 2024. Of the total write-down of \$368,500, 25% or \$92,125 was recorded as a loss on the statement of income, and 75% or \$276,375 was transferred to other assets as an SBA receivable.

At December 31, 2024 and 2023, there were no residential properties included in other real estate owned, and there were no residential properties in process of foreclosure reported as loans.

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Notes to Financial Statements

NOTE 6. OTHER ASSETS

A summary of other assets is presented as follows:

	December 31,	
	2024	2023
Accrued interest receivable	\$ 965,952	\$ 989,482
Deferred tax assets, net of valuation allowance	4,371,157	4,328,967
Prepaid assets	789,443	878,517
Servicing assets	997,278	635,859
Receivables	701,385	1,181,964
Other assets	31,398	2,481
	<u>\$ 7,856,613</u>	<u>\$ 8,017,270</u>

Included within receivables above as of December 31, 2024 and 2023 was an insurance claim receivable of approximately \$162,000 and \$381,000, respectively, related to a cybersecurity incident that occurred at the end of 2023. The amounts recorded represented management's estimate of the final proceeds to be received. Losses related to the incident of approximately \$219,000 and \$381,000 were recorded in other operating expenses during the years ended December 31, 2024 and 2023. Subsequent to December 31, 2024, the Bank reached a settlement with the insurance company in the amount of \$400,000. As a result, income of approximately \$238,000 related to settlement will be recorded in 2025.

NOTE 7. DEPOSITS

The major classifications of deposits are as follows:

	December 31,	
	2024	2023
Noninterest-bearing demand	\$ 56,558,144	\$ 85,967,806
Interest-bearing demand	122,716,371	97,939,113
Savings	820,025	1,413,380
Certificates of deposit of \$250,000 or more	11,950,948	3,458,315
Other certificates of deposit	13,285,193	4,151,826
	<u>\$ 205,330,681</u>	<u>\$ 192,930,440</u>

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Notes to Financial Statements

NOTE 7. DEPOSITS (Continued)

The scheduled maturities of time deposits at December 31, 2024 are as follows:

2025	\$ 22,400,958
2026	2,387,677
2027	121,308
2028	190,049
2029	136,149
	<u>\$ 25,236,141</u>

The Bank had no brokered deposits at December 31, 2024 and 2023. Overdraft demand deposit accounts reclassified to loans totaled \$4,014 and \$1,810 at December 31, 2024 and 2023, respectively. As of December 31, 2024 and 2023, related-party deposits totaled \$16,208,183 and \$17,513,534, respectively. At December 31, 2024, the Bank had a concentration of deposits to two unrelated parties totaling \$29,775,911. At December 31, 2023, the Bank had a concentration of deposits to three unrelated parties totaling \$32,666,541.

NOTE 8. FEDERAL HOME LOAN BANK ADVANCES AND AVAILABLE LINES OF CREDIT

As of December 31, 2024 and 2023, the Bank had credit availability with the Federal Home Loan Bank ("FHLB") that totaled \$60,211,250 and \$57,240,750, respectively. At December 31, 2024, the Bank had one FHLB advance outstanding in the amount of \$5,000,000. The advance is a fixed rate credit bearing interest at 4.60%, with interest due monthly and all principal and interest outstanding due at the maturity date of April 14, 2025. Loans pledged to this line totaled \$58,044,370 at December 31, 2024. No advances were outstanding and no assets were pledged as of December 31, 2023.

The Bank also had credit availability through the Federal Reserve Bank as of December 31, 2024 and 2023. Securities pledged to this line totaled \$1,625,873 and \$802,812 at December 31, 2024 and 2023, respectively. No advances were outstanding at December 31, 2024 and 2023.

The Bank also had available unsecured federal funds lines of credit with three financial institutions totaling \$15,000,000 at December 31, 2024 and 2023. There were no advances outstanding on these lines at December 31, 2024 and 2023.

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Notes to Financial Statements

NOTE 9. CAPITAL RAISE, REVERSE STOCK SPLIT, AND PAR VALUE CHANGE

Capital Raise

During 2023, the Bank conducted a capital raise with a maximum number of shares to be issued of 7,777,777 at a stock price of \$0.90 per share. The capital raise was fully subscribed and all new shares were issued as of June 30, 2023. Proceeds received from the capital raise totaled \$6,999,999. Stock offering expenses of \$53,011 were recorded as an offset to capital surplus.

Reverse Stock Split and Par Value Change

Subsequent to the completion of the capital raise, the Board of Directors and shareholders of the Bank approved a 1-for-14 reverse stock split, whereby one new share would be exchanged for every fourteen shares held. The reverse stock split was completed as of August 31, 2023. As a result of the reverse stock split, the total number of shares outstanding was reduced from 35,947,227 to 2,575,731, which includes 7,823 fractional shares that were converted to whole shares.

Concurrent with the reverse stock split, the Board of Directors and shareholders of the Bank approved a change in the stock's par value from \$1.00 per share to \$2.00 per share.

NOTE 10. STOCK-BASED COMPENSATION

Stock Options

The Bank has a stock option plan which grants key employees and Directors options to purchase shares of common stock of the Bank. Option prices and terms are determined by a committee appointed by the Board of Directors. The plan provides for a total of 183,126 options to be issued.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes, option-pricing model with the weighted-average assumptions listed in the table below. Expected volatility is a calculated value based on expected volatility of similar entities. The expected term of options granted is based on the shortcut method and represents the period of time that the options granted are expected to be outstanding. Expected dividends are based on dividend trends and the market price of the Bank's stock price at grant. Historical data is used to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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Notes to Financial Statements

NOTE 10. STOCK-BASED COMPENSATION (Continued)

Stock Options (Continued)

There were no stock options issued during the year ended December 31, 2024. The following table presents information about stock options issued during the year ended December 31, 2023:

	<u>2023</u>
Dividend yield	0.00%
Expected life	6.5 years
Weighted-average risk-free interest rate	4.20%
Weighted-average expected volatility	67.66%

Other pertinent information related to stock options for the year ended December 31, 2024 is as follows:

	<u>Number</u>	<u>Weighted-Average Exercise Price</u>
Options outstanding, beginning of year	156,254	\$ 12.11
Forfeited options	(40,596)	12.60
Options outstanding, end of year	<u>115,658</u>	11.93
Exercisable, end of year	<u>69,436</u>	11.43
Weighted-average fair value of options granted during the year		\$ -
Weighted-average remaining contractual life		6.95 years

Other pertinent information related to stock options for the year ended December 31, 2023 is as follows:

	<u>Number</u>	<u>Weighted-Average Exercise Price</u>
Options outstanding, beginning of year	896,331	\$ 0.79
Granted before reverse stock split	155,000	0.90
Exercised before reverse stock split	(96,250)	0.65
Forfeited before reverse stock split	(20,000)	0.95
Expired before reverse stock split	(9,250)	0.65
Revaluation after reverse stock split	(859,700)	11.22
Granted after reverse stock split	<u>90,123</u>	12.60
Options outstanding, end of year	<u>156,254</u>	12.11
Exercisable, end of year	<u>43,175</u>	10.64
Weighted-average fair value of options granted during the year		\$ 8.35
Weighted-average remaining contractual life		8.37 years

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Notes to Financial Statements

NOTE 10. STOCK-BASED COMPENSATION (Continued)

Stock Options (Continued)

Information pertaining to options outstanding at December 31, 2024 is as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$8.40	13,143	1.06 years	\$ 8.40	13,143	\$ 8.40
\$9.80	5,000	4.16 years	\$ 9.80	5,000	\$ 9.80
\$11.48	18,733	5.63 years	\$ 11.48	18,733	\$ 11.48
\$12.60	59,884	8.71 years	\$ 12.60	19,961	\$ 12.60
\$13.30	18,898	7.55 years	\$ 13.30	12,599	\$ 13.30
	<u>115,658</u>			<u>69,436</u>	

At December 31, 2024, unrecognized compensation cost related to stock-based payments totaled \$317,033, which is to be expensed over 1.5 years. At December 31, 2024 and 2023, the aggregate intrinsic value of options outstanding and of options exercisable was insignificant.

NOTE 11. INCOME TAXES

Income taxes consist of the following:

	Years Ended December 31,	
	2024	2023
Current	\$ -	\$ -
Deferred	458,559	630,312
Adjustment for adoption of ASU 2016-13	-	(119,152)
Change in valuation allowance	(458,559)	(511,160)
Income tax expense	<u>\$ -</u>	<u>\$ -</u>

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Notes to Financial Statements

NOTE 11. INCOME TAXES (Continued)

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

	Years Ended	
	December 31,	
	2024	2023
Income tax at statutory federal rate	\$ 283,238	\$ 504,408
State tax	49,053	88,778
Adjustment for adoption of ASU 2016-13	-	(119,152)
Change in tax rates	65,518	-
Other	60,750	37,126
Change in valuation allowance	(458,559)	(511,160)
Income tax expense	\$ -	\$ -

The components of deferred income taxes are as follows:

	December 31,	
	2024	2023
Deferred income tax assets:		
Net operating loss carryforward	\$ 5,037,720	\$ 5,628,012
Deferred loan fees	119,852	80,329
Other real estate owned	83,416	60,962
Credit loss reserves on loans	255,142	215,746
Credit loss reserves on unfunded commitments	86,812	55,498
Securities available for sale	821,157	778,967
Other	686	535
	6,404,785	6,820,049
Valuation allowance	(2,022,539)	(2,481,098)
	4,382,246	4,338,951
Deferred income tax liabilities:		
Depreciation	11,089	9,984
	11,089	9,984
Net deferred income taxes	\$ 4,371,157	\$ 4,328,967

At December 31, 2024, the Bank has available net operating loss carryforwards of \$19,696,615 for federal income tax purposes and \$22,310,831 for state income tax purposes. If unused, the carryforwards will expire beginning in 2029.

The federal income tax returns for the Bank for 2021, 2022, and 2023 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

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Notes to Financial Statements

NOTE 12. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Bank 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 consist of commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Bank'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 Bank uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments. A summary of the Bank's commitments is as follows:

	December 31,	
	2024	2023
Commitments to extend credit	\$ 54,625,058	\$ 36,852,350
Standby letters of credit	165,112	-
	<u>\$ 54,790,170</u>	<u>\$ 36,852,350</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 Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client 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 clients. Collateral held varies as specified above and is required in instances which the Bank deems necessary.

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Notes to Financial Statements

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

Loan Commitments (Continued)

The following table details activity in the allowance for credit losses for unfunded commitments for the years ended December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 219,398	\$ -
Adoption of ASU 2016-13	-	294,894
Provision (credit provision) for credit losses	<u>127,292</u>	<u>(75,496)</u>
Balance, end of year	<u>\$ 346,690</u>	<u>\$ 219,398</u>

Contingencies

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

NOTE 13. CONCENTRATIONS OF CREDIT

The Bank originates primarily commercial, residential, and construction loans to customers in Fulton, Gwinnett, and DeKalb Counties and the surrounding counties. The ability of the majority of the Bank's customers to honor their contractual obligations is dependent on the economy in these areas and the metropolitan Atlanta area.

Ninety-two percent of the Bank's loan portfolio is concentrated in loans secured by commercial and residential real estate, of which a substantial portion is secured by real estate located in the Bank's primary market areas. Accordingly, the ultimate collectability of the Bank's loan portfolio is susceptible to changes in real estate conditions in the Bank's primary market areas. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Bank, as a matter of policy, does not generally extend new credit to any single borrower or group of related borrowers in excess of 25% of statutory capital, as defined, or approximately \$8,878,000.

NOTE 14. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2024, no dividends could be declared without regulatory approval.

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Notes to Financial Statements

NOTE 14. REGULATORY MATTERS (Continued)

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, the Bank is subject to an institution-specific capital buffer which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. The Bank's capital conservation buffer at December 31, 2024 was 9.0992%. Management believes, as of December 31, 2024 and 2023, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2024, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
December 31, 2024:						
Total Capital to Risk-Weighted Assets	\$ 35,515	17.10%	\$ 16,616	8.00%	\$ 20,770	10.00%
Tier 1 Capital to Risk-Weighted Assets	\$ 32,963	15.87%	\$ 12,462	6.00%	\$ 16,616	8.00%
CET 1 Capital to Risk-Weighted Assets	\$ 32,963	15.87%	\$ 9,347	4.50%	\$ 13,501	6.50%
Tier 1 Capital to Average Assets	\$ 32,963	13.67%	\$ 9,647	4.00%	\$ 12,058	5.00%
December 31, 2023:						
Total Capital to Risk-Weighted Assets	\$ 33,431	19.98%	\$ 13,388	8.00%	\$ 16,735	10.00%
Tier 1 Capital to Risk-Weighted Assets	\$ 31,337	18.73%	\$ 10,041	6.00%	\$ 13,388	8.00%
CET 1 Capital to Risk-Weighted Assets	\$ 31,337	18.73%	\$ 7,531	4.50%	\$ 10,878	6.50%
Tier 1 Capital to Average Assets	\$ 31,337	14.36%	\$ 8,727	4.00%	\$ 10,909	5.00%

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Notes to Financial Statements

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. 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 Bank'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.

Fair Value Hierarchy

In accordance with fair value guidance, the Bank 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.

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Notes to Financial Statements

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value Hierarchy (Continued)

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. There were no transfers between fair value levels during the years ended December 31, 2024 and 2023.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
December 31, 2024				
Securities available for sale:				
U.S. Government agency securities	\$ -	\$ 12,560,976	\$ -	\$ 12,560,976
Municipal securities	-	6,235,921	-	6,235,921
Mortgage-backed GSE residential securities	-	7,564,033	-	7,564,033
	<u>\$ -</u>	<u>\$ 26,360,930</u>	<u>\$ -</u>	<u>\$ 26,360,930</u>
December 31, 2023				
Securities available for sale:				
U.S. Treasury securities	\$ -	\$ 1,989,609	\$ -	\$ 1,989,609
U.S. Government agency securities	-	13,683,571	-	13,683,571
Municipal securities	-	6,377,798	-	6,377,798
Mortgage-backed GSE residential securities	-	7,532,839	-	7,532,839
	<u>\$ -</u>	<u>\$ 29,583,817</u>	<u>\$ -</u>	<u>\$ 29,583,817</u>

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Notes to Financial Statements

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets Measured at Fair Value on a Recurring Basis (Continued)

Securities Available for Sale

Where quoted prices are available in an active market, the Bank classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, fair values are estimated using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Bank classifies those securities in Level 3.

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances, adjustments are made to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. 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
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2024				
Other real estate owned	\$ -	\$ -	\$ 2,375,000	\$ 2,375,000
Total	\$ -	\$ -	\$ 2,375,000	\$ 2,375,000
December 31, 2023				
Other real estate owned	\$ -	\$ -	\$ 2,743,500	\$ 2,743,500
Total	\$ -	\$ -	\$ 2,743,500	\$ 2,743,500

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Notes to Financial Statements

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis (Continued)

Other Real Estate Owned: Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans, is recorded at the fair value less estimated costs to sell upon transfer of the loans to foreclosed assets. Subsequently, other real estate owned is carried at the lower of the carrying value or fair value less 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, and/or changes in market conditions from the date of the most recent appraisal. Such discounts, which typically constitute zero to ten percent of the appraised value, are inherently subjective and thus are considered significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a write-down is recognized in other expense.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

Cash, Due from Banks, and Interest-Bearing Deposits in Banks: The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

Securities Available for Sale: Securities available for sale are carried at fair value using the methods and assumptions described above under Assets Measured at Fair Value on a Recurring Basis.

Restricted Equity Securities: The carrying amount of restricted equity securities with no readily determinable fair value approximates fair value.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair value for fixed rate loans are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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Notes to Financial Statements

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value of Financial Instruments (Continued)

Deposits: The fair values disclosed for demand deposits (for example, interest and noninterest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank Advances: Current market rates for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. Fair value of long-term debt is based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Credit-Related Instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The carrying amount and estimated fair value of the Bank's financial instruments were as follows:

	December 31,			
	2024		2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash, due from banks, and interest-bearing deposits in banks	\$ 17,730,206	\$ 17,730,206	\$ 21,372,341	\$ 21,372,341
Securities available for sale	26,360,930	26,360,930	29,583,817	29,583,817
Restricted equity securities	395,700	395,700	140,500	140,500
Loans, net	189,559,883	185,748,914	163,205,173	158,368,424
Accrued interest receivable	965,952	965,952	989,482	989,482
Financial liabilities:				
Deposits	205,330,681	205,499,714	192,930,440	192,778,779
Federal Home Loan Bank advances	5,000,000	5,014,382	-	-
Accrued interest payable	150,642	150,642	47,726	47,726

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Notes to Financial Statements

NOTE 16. REVENUE FROM CONTRACTS WITH CUSTOMERS

Substantially all of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within service charges on deposit accounts and other service charges and fees on the statements of income. The following table presents the Bank's sources of revenue from contracts with customers for the years ended December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Service charges on deposit accounts	\$ 54,562	\$ 49,682
Other service charges and fees	<u>133,768</u>	<u>136,555</u>
Total revenue from contracts with customers	<u>\$ 188,330</u>	<u>\$ 186,237</u>

Service charges on deposit accounts: Revenue from service charges on deposit accounts is earned through cash management, overdraft, nonsufficient funds, and other deposit-related services. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Other service charges and fees: Other service charges and fees include revenues generated from ATM fees and interchange fees from consumer credit and debit cards. ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. 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.