

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2023

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

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Hutchins Clenney Rumsey Huckaby | PC
Certified Public Accountants & Advisors

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors
Thomasville Bancshares, Inc.
Thomasville, Georgia

Report on the Financial Statements and Internal Control

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated financial statements of Thomasville Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Thomasville Bancshares, Inc. and Subsidiary as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited Thomasville Bancshares, Inc. and Subsidiary's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the applicable regulatory reporting, as of December 31, 2023 and 2022, based on criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Thomasville Bancshares, Inc. and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023 and 2022, based on criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Basis for Opinions

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

Because management's assessment and our audits were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audits of Thomasville Bancshares, Inc. and Subsidiary's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and controls over the preparation of schedules equivalent to basic financial statements in accordance with the instructions for the applicable regulatory reporting.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting included in the FDIC Part 363 Management Report.

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

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness 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 to be 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 of financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- 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 Thomasville Bancshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

An institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the institution are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the institution's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Hutchins Clenney Ramsey Huckaby, P.C.

Albany, Georgia
March 5, 2024

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

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

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Cash and due from banks	\$ 6,700,074	\$ 7,804,217
Interest-bearing deposits in other banks	140,343,256	63,435,442
Securities available for sale, at fair value	57,537,617	181,118,402
Restricted equity securities, at cost	4,579,750	4,527,950
Other equity securities, at cost	240,000	240,000
Loans held for sale	-	339,150
 Loans	 1,418,033,144	 1,266,393,854
Less allowance for credit losses	30,634,148	32,428,952
Loans, net	1,387,398,996	1,233,964,902
 Premises and equipment, net	 16,154,683	 15,122,389
Bank owned life insurance	10,477,719	10,214,169
Goodwill	4,009,759	4,009,759
Accrued interest receivable	8,383,449	6,983,380
Other assets	10,552,127	10,478,857
	\$ 1,646,377,430	\$ 1,538,238,617
<u>Liabilities and Stockholders' Equity</u>		
Deposits		
Noninterest-bearing	\$ 282,133,686	\$ 305,790,265
Interest-bearing	1,142,164,111	1,020,646,519
Total deposits	1,424,297,797	1,326,436,784
Federal Home Loan Bank borrowings	63,454,854	77,391,314
Note payable	-	1,600,000
Accrued interest payable	1,377,230	311,331
Allowance for credit losses on unfunded commitments	4,254,000	-
Other liabilities	1,513,042	1,583,303
Total liabilities	1,494,896,923	1,407,322,732
Commitments and contingencies (Note 14)		
Stockholders' equity		
Preferred stock, par value \$1.00; 2,000,000 shares authorized; 340,644 and 346,577 issued and outstanding, respectively	340,644	346,577
Common stock, par value \$1.00; 10,000,000 shares authorized; 6,309,989 and 6,047,297 issued and outstanding, respectively	6,309,989	6,047,297
Paid-in capital	13,654,890	14,884,102
Retained earnings	131,189,982	110,942,538
Accumulated other comprehensive loss	(14,998)	(1,304,629)
Total stockholders' equity	151,480,507	130,915,885
	\$ 1,646,377,430	\$ 1,538,238,617

See Notes to Consolidated Financial Statements.

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

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

	2023	2022
Interest income		
Interest and fees on loans	\$ 82,261,247	\$ 56,345,042
Interest on taxable securities	3,464,619	2,229,510
Interest on deposits in other banks	5,005,044	1,507,120
Total interest income	90,730,910	60,081,672
Interest expense		
Interest on deposits	27,999,175	5,420,350
Interest on other borrowings	2,344,674	1,047,697
Total interest expense	30,343,849	6,468,047
Net interest income	60,387,061	53,613,625
Provision for credit losses	2,500,000	7,050,000
Net interest income after provision for credit losses	57,887,061	46,563,625
Noninterest income		
Trust and investment services	16,001,997	15,794,493
Service charges on deposit accounts	460,202	444,725
Other service charges, commissions and fees	1,411,900	1,254,785
Data processing fees	-	201,121
Mortgage origination fees	294,730	684,192
Gain on sale of Texas fiduciary division	-	2,415,800
Other income	804,254	566,715
Total noninterest income	18,973,083	21,361,831
Noninterest expense		
Salaries and employee benefits	19,255,903	19,152,861
Equipment	1,125,559	1,425,145
Occupancy	1,117,474	1,025,151
Regulatory assessment	1,307,572	1,202,090
Data processing	2,990,706	2,032,565
Advertising and marketing	884,911	782,478
Legal and accounting	508,444	426,778
Losses on sales of securities available for sale	761,066	2,710,628
Other operating expense	5,788,233	6,266,552
Total noninterest expense	33,739,868	35,024,248
Income before income taxes	43,120,276	32,901,208
Applicable income taxes	9,573,468	7,109,045
Net income	\$ 33,546,808	\$ 25,792,163
Basic earnings per share	\$ 5.30	\$ 4.17
Diluted earnings per share	\$ 5.13	\$ 3.87

See Notes to Consolidated Financial Statements.

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

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

	2023	2022
Net income	\$ 33,546,808	\$ 25,792,163
Other comprehensive income (loss):		
Net unrealized holding gains (losses) on securities available for sale arising during the year, net of tax (expense) benefit of \$(255,236) and \$1,017,677, respectively	726,442	(2,896,464)
Reclassification adjustment for losses on sales of securities available for sale included in net income, net of tax benefit of \$197,877 and \$704,763, respectively	<u>563,189</u>	<u>2,005,865</u>
Total other comprehensive income (loss)	<u>1,289,631</u>	<u>(890,599)</u>
Comprehensive income	<u>\$ 34,836,439</u>	<u>\$ 24,901,564</u>

See Notes to Consolidated Financial Statements.

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

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

	Preferred Stock		Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive	Total
	Shares	Par Value	Shares	Par Value			Income (Loss)	
Balance, December 31, 2021	348,822	\$ 348,822	6,035,572	\$ 6,035,572	\$ 13,656,182	\$ 96,338,579	\$ (414,030)	\$ 115,965,125
Net income	-	-	-	-	-	25,792,163	-	25,792,163
Common stock cash dividend declared, \$1.75 per share	-	-	-	-	-	(10,580,191)	-	(10,580,191)
Preferred stock cash dividend declared, \$1.75 per share	-	-	-	-	-	(608,013)	-	(608,013)
Sale of common stock	-	-	11,725	11,725	750,801	-	-	762,526
Other comprehensive loss	-	-	-	-	-	-	(890,599)	(890,599)
Stock-based compensation	-	-	-	-	430,151	-	-	430,151
Repurchase and retirement of preferred stock	(2,245)	(2,245)	-	-	(143,682)	-	-	(145,927)
Grant of restricted stock	-	-	-	-	190,650	-	-	190,650
Balance, December 31, 2022	<u>346,577</u>	<u>346,577</u>	<u>6,047,297</u>	<u>6,047,297</u>	<u>14,884,102</u>	<u>110,942,538</u>	<u>(1,304,629)</u>	<u>130,915,885</u>
Net income	-	-	-	-	-	33,546,808	-	33,546,808
Common stock cash dividend declared, \$2.00 per share	-	-	-	-	-	(12,615,813)	-	(12,615,813)
Preferred stock cash dividend declared, \$2.00 per share	-	-	-	-	-	(683,551)	-	(683,551)
Sale of common stock	-	-	14,182	14,182	877,155	-	-	891,337
Other comprehensive income	-	-	-	-	-	-	1,289,631	1,289,631
Deferred compensation plan distribution of restricted stock	-	-	248,510	248,510	(248,510)	-	-	-
Tax withheld on deferred compensation plan distribution	-	-	-	-	(1,492,010)	-	-	(1,492,010)
Repurchase and retirement of preferred stock	(5,933)	(5,933)	-	-	(365,847)	-	-	(371,780)
Balance, December 31, 2023	<u>340,644</u>	<u>\$ 340,644</u>	<u>6,309,989</u>	<u>\$ 6,309,989</u>	<u>\$ 13,654,890</u>	<u>\$ 131,189,982</u>	<u>\$ (14,998)</u>	<u>\$ 151,480,507</u>

See Notes to Consolidated Financial Statements.

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

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

	2023	2022
OPERATING ACTIVITIES		
Net income	\$ 33,546,808	\$ 25,792,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit loss	2,500,000	7,050,000
Provision for deferred taxes	(1,518)	(1,845,129)
Depreciation, accretion and amortization, net	(919,790)	145,314
Stock-based compensation	-	430,151
Tax withheld on deferred compensation plan distribution	(1,492,010)	-
Increase in interest receivable	(1,400,069)	(2,784,936)
Increase in bank owned life insurance	(263,550)	(214,169)
Increase in interest payable	1,065,899	144,565
Decrease in taxes receivable	53,770	772,869
Gain on sales of foreclosed assets	-	(24,517)
Loss on sales of securities available for sale	761,066	2,710,628
Gain on disposal of premises and equipment	(10,393)	(43,786)
Net decrease in loans held for sale	339,150	1,122,007
Net other operating activities	(623,262)	241,790
Total adjustments	9,293	7,704,787
Net cash provided by operating activities	33,556,101	33,496,950
INVESTING ACTIVITIES		
(Increase) decrease in interest-bearing deposits in banks, net	(76,907,814)	112,357,976
Purchases of securities available for sale	(79,844,414)	(205,248,668)
Proceeds from sales of securities available for sale	47,175,000	92,233,558
Proceeds from maturities of securities available for sale	159,000,000	66,000,000
Purchase of bank owned life insurance	-	(5,000,000)
Increase in loans, net	(151,705,729)	(140,225,388)
Net change in restricted equity securities	(51,800)	(1,620,400)
Proceeds from sales of premises and equipment	11,400	72,560
Purchase of premises and equipment	(1,881,633)	(1,673,537)
Net cash used in investing activities	(104,204,990)	(83,103,899)
FINANCING ACTIVITIES		
Net increase in deposits	97,861,013	31,537,968
Repayment of Federal Home Loan Bank borrowings	(33,936,460)	(6,532,294)
Proceeds from Federal Home Loan Bank borrowings	20,000,000	35,000,000
Repayment of note payable	(1,600,000)	-
Sale of common stock	891,337	762,526
Issuance of restricted stock	-	190,650
Repurchase and retirement of preferred stock	(371,780)	(145,927)
Dividends paid	(13,299,364)	(11,188,204)
Net cash provided by financing activities	69,544,746	49,624,719
Net increase (decrease) in cash and due from banks	(1,104,143)	17,770
Cash and due from banks at beginning of year	7,804,217	7,786,447
Cash and due from banks at end of year	\$ 6,700,074	\$ 7,804,217
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 29,277,950	\$ 6,323,482
Income taxes	\$ 8,473,853	\$ 9,710,559
NONCASH TRANSACTIONS		
Net change in unrealized losses on securities available for sale	\$ (1,742,745)	\$ 1,203,512
Transfer from loans to foreclosed assets	\$ 25,635	\$ 97,793
Internally financed sales of foreclosed assets	\$ -	\$ 122,310

See Notes to Consolidated Financial Statements.

THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Thomasville Bancshares, Inc. (the “Company”) is a one-bank holding company whose principal activity is the ownership and management of its wholly-owned commercial bank subsidiary, Thomasville National Bank (the “Bank”). The Bank has two locations in Thomasville, Thomas County, Georgia, one location on St. Simons Island, Glynn County, Georgia that was opened during 2010 and operates as St. Simons Bank & Trust, a division of Thomasville National Bank, and one location in Tallahassee, Leon County, Florida which opened during 2020 and operates as Tallahassee National Bank, a division of Thomasville National Bank. The Bank provides a full range of banking services to individual and corporate customers in its primary market areas of Thomas County and Glynn County, Georgia as well as Leon County, Florida and the surrounding counties. The Bank also offers trust and money management services through TNB Financial Services, a division of the Bank.

Basis of Presentation and Accounting Estimates

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

In preparing the consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 tax assets, the valuation of foreclosed assets, credit impairments of securities and the fair value of financial instruments.

The determination of the adequacy of the allowance for credit losses is based on estimates that are susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on credits and the valuation of foreclosed real estate, management obtains independent appraisals for significant collateral.

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

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

The Company has evaluated all transactions, events and circumstances for consideration or disclosure through March 5, 2024, the date these financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Due from Banks and Cash Flows

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

During 2020, the Federal Reserve Bank no longer required the Company to maintain a reserve requirement. This remains unchanged as of December 31, 2023. The Federal Reserve Bank does not have plans to reimplement the reserve requirement in the near future, but reserves the right to increase the reserve percentage at a future date.

Interest-Bearing Deposits in Other Banks

Interest-bearing deposits in other banks are primarily overnight funds or funds which mature within one year and are carried at cost.

Investment Securities

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

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

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method. The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest in other assets in the consolidated balance sheets. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the years ended December 31, 2023 and 2022. Accrued interest receivable on debt securities totaled \$51,936 and \$774,040 as of December 31, 2023 and 2022, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Equity Securities

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

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value ("LOCOM"). For loans carried at LOCOM, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party quoted prices.

Loans

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

Allowance for Credit Losses – Loans

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

The Company estimates the ACL on loans based on the underlying loans' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans totaled \$8,293,516 and \$6,048,867 at December 31, 2023 and 2022, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses – Loans (Continued)

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

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

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

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

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

Prior to the adoption of ASU 2016-13, the ACL was an amount that represented a reserve for probable incurred losses in the loan portfolio. The ACL was evaluated on a regular basis by management and was based upon management's periodic review of various risks in the loan portfolio highlighted by historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation was inherently subjective as it required estimates that were susceptible to significant revision as more information became available. The ACL evaluation did not include the effects of expected losses on specific loans or groups of loans that were related to future events or expected changes in economic conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Loan Commitments and Financial Instruments

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation computed principally by the straight-line method over the estimated useful lives of the assets. Expenditures for improvements of the Company's premises and equipment are capitalized and depreciated over their estimated useful lives. Repairs and maintenance are expensed in the period incurred. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the Company's income statement. The estimated useful lives of the Company's premises and equipment are as follows:

Building	39 years
Furniture and equipment	3-7 years

Transfers of Financial Assets

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

Advertising Costs

Advertising costs are expensed as incurred.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets and liabilities acquired in a business combination or acquisition. Goodwill is not amortized over an estimated useful life, but rather is tested annually for impairment, or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. Current accounting guidance allows the Company to assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The Company is no longer required to calculate the fair value of a reporting unit unless the Company determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount.

If necessary, the quantitative goodwill impairment test is performed in two steps. The first step is used to identify potential impairment and the second step, if required, measures the amount of impairment by comparing the carrying amount of goodwill to its implied fair value. In the event of impairment, the amount by which the carrying amount exceeds the fair value would be charged to earnings.

The Company assessed the qualitative and quantitative factors and determined it was not more likely than not that its fair value was less than its carrying amount.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed Assets

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed assets and subsequent adjustments to the value are expensed. Foreclosed assets totaled \$25,635 at December 31, 2023 and is included in other assets on the consolidated balance sheet. There were no foreclosed assets held at December 31, 2022.

Trust and Money Management

Property and funds held by the Company and the Bank in a fiduciary or other capacity for the benefit of its customers are not included in the accompanying consolidated financial statements since such items are not assets of the Company. Income earned from fees charged against trust assets, including money management services, are recognized in the Company's consolidated income statements.

Income Taxes

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

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

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. The market price of the Company's common stock at the date of grant is used for restricted stock awards and stock grants. The guidance also requires the tax benefits associated with these stock-based payments to be classified as financing activities in the consolidated statements of cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share

Basic earnings per share are computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share are computed by dividing net income by the sum of the weighted-average number of shares of common stock outstanding and potential common shares that are dilutive. Potential common shares consist of preferred stock, stock options and restricted stock.

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

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The majority of the Company's revenues come from interest income and other sources, including loans and securities, that are not subject to Topic 606. Services within the scope of Topic 606 include service charges on deposit accounts, trust and investment service fees, data processing fees, debit card and ATM fees and investment product fees, all of which are presented within noninterest income. The Company enters into various contracts with customers to provide these traditional banking services on a routine basis. The Company's performance obligations are generally service-related and provided on a daily, monthly or quarterly basis. The performance obligations are generally satisfied as services are rendered and the fees are collected at such time, or shortly thereafter. It is not typical for contracts to require significant judgment to determine the transaction price. See Note 18 for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

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

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

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

Adoption of New Accounting Standards

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

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company did not record a change to retained earnings as of January 1, 2023 for the cumulative effect of adopting ASC 326.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2023:				
U. S. Government and federal agencies	\$ 57,557,884	\$ 26,014	\$ (46,281)	\$ 57,537,617
Total securities	\$ 57,557,884	\$ 26,014	\$ (46,281)	\$ 57,537,617
December 31, 2022:				
U. S. Government and federal agencies	\$ 163,848,669	\$ -	\$ (1,591,137)	\$ 162,257,532
U.S. Government sponsored enterprise securities	19,032,745	-	(171,875)	18,860,870
Total securities	\$ 182,881,414	\$ -	\$ (1,763,012)	\$ 181,118,402

There were no held to maturity securities as of December 31, 2023 and 2022.

The amortized cost and fair value of securities available for sale as of December 31, 2023 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year	\$ 57,557,884	\$ 57,537,617

Securities with a carrying value of approximately \$57,145,000 and \$176,040,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Based on the pledging requirements, the Company was over pledged by approximately \$7,896,000 and \$24,780,000 as of December 31, 2023 and 2022, respectively. In prior years, the Company entered into standby letters of credit with the Federal Home Loan Bank ("FHLB") to secure certain public deposits in lieu of pledging securities. There were no letters of credit at December 31, 2023. The letters of credit totaled \$60,000,000 at December 31, 2022.

Total losses on sales of securities available for sale for the years ended December 31, 2023 and 2022, respectively, were approximately \$761,000 and \$2,711,000. There were no gains on sales of securities available for sale for the years ended December 31, 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES (CONTINUED)

Temporarily Impaired Securities

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

<u>Description of Securities</u>	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2023:						
U. S. Government and federal agencies	\$ 34,437,123	\$ (46,281)	\$ -	\$ -	\$ 34,437,123	\$ (46,281)
Total temporarily impaired securities	\$ 34,437,123	\$ (46,281)	\$ -	\$ -	\$ 34,437,123	\$ (46,281)
December 31, 2022:						
U. S. Government and federal agencies	\$ 162,257,532	\$ (1,591,137)	\$ -	\$ -	\$ 162,257,532	\$ (1,591,137)
U.S. Government sponsored enterprise securities	18,860,870	(171,875)	-	-	18,860,870	(171,875)
Total temporarily impaired securities	\$ 181,118,402	\$ (1,763,012)	\$ -	\$ -	\$ 181,118,402	\$ (1,763,012)

At December 31, 2023, the Company's available for sale securities consisted of three securities in an unrealized loss position.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES (CONTINUED)

Restricted Equity Securities

Restricted equity securities consist of the following:

	December 31,	
	2023	2022
Restricted equity securities:		
FHLB stock	\$ 4,133,200	\$ 4,081,400
Federal Reserve Bank stock	446,550	446,550
	4,579,750	4,527,950
Other equity securities:		
United National Bank stock	240,000	240,000
	\$ 4,819,750	\$ 4,767,950

The Company's investments in the Federal Home Loan Bank ("FHLB") and Federal Reserve Bank stock are accounted for by the cost method, which represents par value, and are made for long-term business affiliation reasons. In addition, these investments are subject to restrictions relating to sale, transfer, or other disposition. Dividends are recognized in income when declared. The estimated fair value of the investments was approximately \$4,133,000; \$447,000; and \$240,000; respectively, as of December 31, 2023 and, therefore, are not considered impaired.

NOTE 3. LOANS

Portfolio Segmentation

The composition of loans, excluding loans held for sale, is summarized as follows:

	December 31,	
	2023	2022
Commercial real estate:		
Non-farm, non-residential	\$ 344,291,666	\$ 311,661,259
Multifamily, construction and development	177,630,491	153,051,557
Farmland	95,682,862	81,539,141
1-4 family residential:		
First liens	491,303,534	424,900,339
Junior liens	42,601,768	28,609,262
Commercial	244,294,172	237,589,089
Consumer and other	18,320,405	24,355,788
Government obligations	3,908,246	4,687,419
Total loans	1,418,033,144	1,266,393,854
Allowance for credit losses	(30,634,148)	(32,428,952)
Loans, net	\$ 1,387,398,996	\$ 1,233,964,902

The Company has pledged certain loans secured by 1-4 family mortgages and commercial real estate loans under a collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled \$456,131,244 and \$254,016,514 at December 31, 2023 and 2022, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (CONTINUED)

Portfolio Segmentation (Continued)

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are five loan portfolio segments that include commercial and residential real estate, commercial, consumer and government obligations. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan and an entity's method for monitoring and assessing credit risk. Commercial, consumer and other and government obligations are separate classes. Classes within the commercial real estate portfolio segment include non-farm, non-residential, multifamily, construction and development and farmland. Classes within residential real estate segment include first liens and junior liens.

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

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

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

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

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

Government obligations - The government obligation loan portfolio segment includes loans made to municipalities and development authorities. Loans in this portfolio are repaid through tax revenue and private donations. They are guaranteed by the respective government authority.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (CONTINUED)

Allowance for Credit Losses

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

December 31, 2023	Commercial Real Estate	1-4 Family Residential	Commercial	Consumer and Other	Government Obligations	Unallocated	Total
Allowance for credit losses:							
Beginning balance	\$ 11,381,955	\$ 7,980,147	\$ 4,727,288	\$ 529,408	\$ 88,152	\$ 7,722,002	\$ 32,428,952
Cumulative change in accounting principal	-	-	-	-	-	(3,754,000)	(3,754,000)
Charge-offs	-	-	(99,589)	(36,206)	-	-	(135,795)
Recoveries	46,648	-	37,120	11,223	-	-	94,991
Provision (recovery)	1,855,463	3,220,716	(291,120)	(79,610)	(8,903)	(2,696,546)	2,000,000
Ending balance	\$ 13,284,066	\$ 11,200,863	\$ 4,373,699	\$ 424,815	\$ 79,249	\$ 1,271,456	\$ 30,634,148
Ending balance - Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance - Collectively evaluated for impairment	\$ 13,284,066	\$ 11,200,863	\$ 4,373,699	\$ 424,815	\$ 79,249	\$ 1,271,456	\$ 30,634,148
Loans:							
Ending balance	\$ 617,605,019	\$ 533,905,302	\$ 244,294,172	\$ 18,320,405	\$ 3,908,246	\$ -	\$ 1,418,033,144
Ending balance - Individually evaluated for impairment	\$ -	\$ 219,999	\$ 76,134	\$ -	\$ -	\$ -	\$ 296,133
Ending balance - Collectively evaluated for impairment	\$ 617,605,019	\$ 533,685,303	\$ 244,218,038	\$ 18,320,405	\$ 3,908,246	\$ -	\$ 1,417,737,011
December 31, 2022							
Allowance for credit losses:							
Beginning balance	\$ 11,644,802	\$ 8,132,207	\$ 4,505,291	\$ 566,013	\$ 124,147	\$ 525,056	\$ 25,497,516
Charge-offs	-	-	(69,006)	(69,538)	-	-	(138,544)
Recoveries	10,350	3,475	-	6,155	-	-	19,980
Provision (recovery)	(273,197)	(155,535)	291,003	26,778	(35,995)	7,196,946	7,050,000
Ending balance	\$ 11,381,955	\$ 7,980,147	\$ 4,727,288	\$ 529,408	\$ 88,152	\$ 7,722,002	\$ 32,428,952
Ending balance - Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance - Collectively evaluated for impairment	\$ 11,381,955	\$ 7,980,147	\$ 4,727,288	\$ 529,408	\$ 88,152	\$ 7,722,002	\$ 32,428,952
Loans:							
Ending balance	\$ 546,251,957	\$ 453,509,601	\$ 237,589,089	\$ 24,355,788	\$ 4,687,419	\$ -	\$ 1,266,393,854
Ending balance - Individually evaluated for impairment	\$ -	\$ 55,650	\$ -	\$ -	\$ -	\$ -	\$ 55,650
Ending balance - Collectively evaluated for impairment	\$ 546,251,957	\$ 453,453,951	\$ 237,589,089	\$ 24,355,788	\$ 4,687,419	\$ -	\$ 1,266,338,204

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (CONTINUED)

Credit Quality Indicators

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

“Superior”: Loans which are made to the best customers as judged by overall relationship. These loans are secured by virtually risk-free collateral, and have no structural or documentation weaknesses.

“Good”: Loans which would be considered satisfactory (listed below) and are additionally enhanced by the quality of the collateral or by the customer’s overall relationship with the Company.

“Satisfactory”: Loans which are considered to be satisfactory, having no identifiable risk of collection and conforming in all aspects to the lending policy. Documentation exceptions are minimal, are in the process of being corrected, and are not of a type that could subsequently introduce loan-loss risk.

“Watch”: Loans that have begun to show some signs of deterioration, such as late payments, negative trends in financial statements, yet continue to be well secured and, in the Company’s view, do not represent any significant loss to the Company.

“Special Mention”: A “special mention asset” has potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company’s credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification. Conditions suggesting a special mention classification include:

- Adverse economic or market conditions which, in the future, may affect the borrower’s ability to repay.
- An adverse trend in the borrower’s financial condition that has not yet reached the point where the original payment terms are jeopardized.
- A business that is vulnerable to economic adversity due to technical obsolescence or from competitive pressures.
- A business that is too dependent on a restricted customer base, a very narrow market segment or other limitations on future sales and collections.

“Substandard”: Substandard loans are defined as being inadequately protected by current sound net worth, paying capacity of the borrower or pledged collateral. Loans are normally classified as substandard when they have unsatisfactory characteristics causing more than acceptable levels of risk. A substandard loan normally has one or more well-defined weaknesses that could jeopardize the repayment of the debt. Examples of substandard loans are listed below:

- Cash flow deficiencies which jeopardize future loan payments.
- Sale of non-collateral assets has become a primary source of loan repayment.
- The relationship has deteriorated to the point that sale of collateral is now the primary source of repayment (unless this was the original source of repayment. If the collateral is under Thomasville National Bank’s control, is cash or is highly marketable, then a more appropriate classification might be special mention.)
- The borrower is bankrupt, or for any other reason, future repayment is dependent upon court action.

“Substandard/Impaired”: Substandard/impaired loans are defined as loans with weaknesses inherent in the substandard classification and where collection or liquidation in full is highly questionable. For a loan to be classified as substandard/impaired, there must be specific ending factors which prevent the Loan Officer from determining the amount of loss contained in the credit. Included in the substandard totals on the following page, \$296,133 and \$55,650 were classified as substandard/impaired at December 31, 2023 and 2022, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (CONTINUED)

Credit Quality Indicators (Continued)

“Doubtful/Impaired”: Loans classified doubtful/impaired have all the weaknesses inherent in those classified substandard/impaired with the added characteristic that the weaknesses make collections or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

“Loss”: Loans considered uncollectible and of such little value that their continuance as an active asset is not warranted are classified as loss loans. This rating does not mean that the asset has no recovery or salvage value, but rather that the asset should be charged off now even though partial or full recovery may be possible in the future.

Based on the most recent analysis performed the risk category of loans by class of loans is as follows as of December 31, 2023:

As of December 31, 2023:	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Real estate:							
Commercial – Non-farm, non-residential							
Risk Rating							
Pass	\$ 64,362,976	\$ 57,559,042	\$ 49,794,306	\$ 131,179,876	\$ 12,377,261	\$ -	\$ 315,273,461
Watch	-	-	510,529	28,396,579	-	-	28,907,108
Substandard	-	-	-	111,097	-	-	111,097
Total commercial – non-farm, non-residential	\$ 64,362,976	\$ 57,559,042	\$ 50,304,835	\$ 159,687,552	\$ 12,377,261	\$ -	\$ 344,291,666
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial – Multifamily, construction, and development							
Risk Rating							
Pass	\$ 62,581,368	\$ 50,053,345	\$ 16,932,879	\$ 28,661,998	\$ 19,400,901	\$ -	\$ 177,630,491
Watch	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total commercial – multifamily, construction, and development	\$ 62,581,368	\$ 50,053,345	\$ 16,932,879	\$ 28,661,998	\$ 19,400,901	\$ -	\$ 177,630,491
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial - Farmland							
Risk rating							
Pass	\$ 15,620,946	\$ 6,400,474	\$ 14,559,736	\$ 31,799,421	\$ 26,810,039	\$ -	\$ 95,190,616
Watch	-	-	-	247,939	244,307	-	492,246
Substandard	-	-	-	-	-	-	-
Total commercial - farmland	\$ 15,620,946	\$ 6,400,474	\$ 14,559,736	\$ 32,047,360	\$ 27,054,346	\$ -	\$ 95,682,862
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1-4 family residential-first liens							
Risk Rating							
Pass	\$ 90,836,450	\$ 97,298,755	\$ 105,775,237	\$ 119,040,781	\$ 72,367,470	\$ -	\$ 485,318,693
Watch	-	174,215	177,042	1,947,704	-	-	2,298,961
Substandard	98,859	200,594	1,230,296	1,936,599	219,532	-	3,685,880
Total 1-4 family first liens	\$ 90,935,309	\$ 97,673,564	\$ 107,182,575	\$ 122,925,084	\$ 72,587,002	\$ -	\$ 491,303,534
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1-4 family residential-junior liens							
Risk Rating							
Pass	\$ 6,490,477	\$ 3,373,993	\$ 1,009,346	\$ 2,879,430	\$ 28,485,139	\$ -	\$ 42,238,385
Watch	-	-	-	-	229,986	-	229,986
Substandard	-	-	22,956	-	110,441	-	133,397
Total 1-4 family residential junior liens	\$ 6,490,477	\$ 3,373,993	\$ 1,032,302	\$ 2,879,430	\$ 28,825,566	\$ -	\$ 42,601,768
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (CONTINUED)

Credit Quality Indicators (Continued)

As of December 31, 2023:	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	Prior			
Commercial							
Risk Rating							
Pass	\$ 32,800,262	\$ 59,315,828	\$ 27,964,400	\$ 41,622,524	\$ 81,303,375	\$ -	\$ 243,006,389
Watch	-	64,246	28,134	839,277	250,550	-	1,182,207
Substandard	27,113	-	53,463	-	25,000	-	105,576
Total commercial	<u>\$ 32,827,375</u>	<u>\$ 59,380,074</u>	<u>\$ 28,045,997</u>	<u>\$ 42,461,801</u>	<u>\$ 81,578,925</u>	<u>\$ -</u>	<u>\$ 244,294,172</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Consumer and other							
Risk Rating							
Pass	\$ 4,329,047	\$ 3,560,153	\$ 2,913,576	\$ 2,972,764	\$ 4,387,023	\$ -	\$ 18,162,533
Watch	-	22,624	19,931	23,907	25,812	-	92,274
Substandard	24,210	40,288	-	1,070	-	-	65,568
Total consumer and other	<u>\$ 4,353,257</u>	<u>\$ 3,623,065</u>	<u>\$ 2,933,507</u>	<u>\$ 2,997,741</u>	<u>\$ 4,412,835</u>	<u>\$ -</u>	<u>\$ 18,320,405</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Government obligations							
Risk Rating							
Pass	\$ -	\$ -	\$ -	\$ 3,908,246	\$ -	\$ -	\$ 3,908,246
Watch	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total government obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,908,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,908,246</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following table summarizes the risk category of the Company's loan portfolio based upon the most recent analysis performed as of December 31, 2022:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2022						
Real estate:						
Commercial:						
Non-farm, non-residential	\$ 282,377,117	\$ 1,144,686	\$ 28,026,991	\$ 112,465	\$ -	\$ 311,661,259
Multifamily, construction and development	153,051,557	-	-	-	-	153,051,557
Farmland	81,052,395	486,746	-	-	-	81,539,141
1-4 family residential:						
First liens	420,211,228	3,409,078	-	1,280,033	-	424,900,339
Junior liens	28,600,884	8,378	-	-	-	28,609,262
Commercial	236,018,042	1,254,165	-	316,882	-	237,589,089
Consumer and other	24,292,820	16,011	-	46,957	-	24,355,788
Government obligations	4,687,419	-	-	-	-	4,687,419
Total	<u>\$ 1,230,291,462</u>	<u>\$ 6,319,064</u>	<u>\$ 28,026,991</u>	<u>\$ 1,756,337</u>	<u>\$ -</u>	<u>\$ 1,266,393,854</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (CONTINUED)

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on nonaccrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables provide a summary of current, accruing past due, and nonaccrual loans by portfolio class as of December 31, 2023:

	<u>Past Due Status (Accruing Loans)</u>				Nonaccrual with an ACL	Nonaccrual without an ACL	Total
	Current	30-89 Days	90+ Days	Total Past Due			
December 31, 2023							
Real estate:							
Commercial:							
Non-farm,							
non-residential	\$ 344,291,666	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 344,291,666
Multifamily, construction							
and development	177,630,491	-	-	-	-	-	177,630,491
Farmland	95,682,862	-	-	-	-	-	95,682,862
1-4 family residential:							
First liens	488,941,980	1,682,760	266,428	1,949,188	192,367	219,999	491,303,534
Junior liens	42,357,032	244,736	-	244,736	-	-	42,601,768
Commercial	244,129,719	54,267	10,249	64,516	23,803	76,134	244,294,172
Consumer and other	18,282,211	38,194	-	38,194	-	-	18,320,405
Government obligations	3,908,246	-	-	-	-	-	3,908,246
Total	<u>\$ 1,415,224,207</u>	<u>\$ 2,019,957</u>	<u>\$ 276,677</u>	<u>\$ 2,296,634</u>	<u>\$ 216,170</u>	<u>\$ 296,133</u>	<u>\$ 1,418,033,144</u>

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

	<u>Past Due Status (Accruing Loans)</u>				Total Past Due	Nonaccrual	Total
	Current	30-59 Days	60+ 89 Days	90+ Days			
December 31, 2022							
Real estate:							
Commercial:							
Non-farm,							
non-residential	\$ 311,079,592	\$ 581,667	\$ -	\$ -	\$ 581,667	\$ -	\$ 311,661,259
Multifamily, construction							
and development	153,051,557	-	-	-	-	-	153,051,557
Farmland	81,539,141	-	-	-	-	-	81,539,141
1-4 family residential:							
First liens	423,524,542	530,354	91,285	266,428	888,067	487,730	424,900,339
Junior liens	28,609,262	-	-	-	-	-	28,609,262
Commercial	237,354,162	-	220,813	-	220,813	14,114	237,589,089
Consumer and other	24,298,327	13,596	-	-	13,596	43,865	24,355,788
Government obligations	4,687,419	-	-	-	-	-	4,687,419
Total	<u>\$ 1,264,144,002</u>	<u>\$ 1,125,617</u>	<u>\$ 312,098</u>	<u>\$ 266,428</u>	<u>\$ 1,704,143</u>	<u>\$ 545,709</u>	<u>\$ 1,266,393,854</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (CONTINUED)

Collateral-Dependent Loans

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

	<u>Balance</u>	<u>Allowance for Credit Losses</u>
Real estate:		
1-4 family residential:		
First liens	\$ 219,999	\$ -
Commercial	<u>76,134</u>	<u>-</u>
Total	<u>\$ 296,133</u>	<u>\$ -</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (CONTINUED)

Impaired Loans

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2022					
With no related allowance recorded:					
Real estate:					
Commercial:					
Non-farm, non-residential	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily, construction and development	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 family residential:					
First liens	55,650	82,874	-	58,950	-
Junior liens	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer and other	-	-	-	-	-
Government obligations	-	-	-	-	-
Total	<u>\$ 55,650</u>	<u>\$ 82,874</u>	<u>\$ -</u>	<u>\$ 58,950</u>	<u>\$ -</u>
With an allowance recorded:					
Real estate:					
Commercial:					
Non-farm, non-residential	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily, construction and development	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 family residential:					
First liens	-	-	-	-	-
Junior liens	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer and other	-	-	-	-	-
Government obligations	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total impaired loans	<u>\$ 55,650</u>	<u>\$ 82,874</u>	<u>\$ -</u>	<u>\$ 58,950</u>	<u>\$ -</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (CONTINUED)

Modified Loans (Formerly Troubled Debt Restructurings)

When borrowers are experiencing financial difficulty, the Company may make certain loan modifications as part of its loss mitigation strategies to maximize expected payment. All loan modifications, renewals, and refinancings where borrowers are experiencing financial difficulty are evaluated for modified loan classification. To be classified as a modified loan, the modifications must be in the form of providing an interest rate reduction relative to the current interest rate, principal forgiveness, or an other-than-insignificant payment delay or extension of the maturity of the loan. A modified loan is tracked for twelve months following the modifications granted.

There were no modified loans in the years ended December 31, 2023 and 2022.

Related Party Loans

In the ordinary course of business, the Company 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:

	Years Ended December 31,	
	2023	2022
Balance, beginning of year	\$ 28,627,377	\$ 23,858,834
Advances	317,365	7,595,437
Repayments	(2,062,525)	(2,826,894)
Balance, end of year	\$ 26,882,217	\$ 28,627,377

NOTE 4. FORECLOSED ASSETS

A summary of foreclosed assets is presented as follows:

	December 31,	
	2023	2022
Balance, beginning of year	\$ -	\$ -
Additions	25,635	97,793
Internally financed sales	-	(122,310)
Gain on sales	-	24,517
Balance, end of year	\$ 25,635	\$ -

There were no foreclosures in process at December 31, 2023 or 2022. There were no residential real estate properties held at December 31, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2023	2022
Land	\$ 4,143,316	\$ 4,003,220
Buildings	14,508,141	12,982,495
Furniture and equipment	6,405,790	5,837,311
Projects in progress (estimated costs to complete \$72,000)	44,150	445,453
	25,101,397	23,268,479
Accumulated depreciation	(8,946,714)	(8,146,090)
	\$ 16,154,683	\$ 15,122,389

Depreciation expense was \$848,330 and \$827,927 for the years ended December 31, 2023 and 2022, respectively.

Leases

The Bank leases two branch offices, one condo and equipment under non-cancelable operating leases. One of the lease agreements expired in 2023. The remaining leases will expire by 2028.

Rent expense under all operating leases amounted to \$53,873 and \$65,297 for the years ended December 31, 2023 and 2022, respectively.

Future minimum lease payments on non-cancelable operating leases are summarized as follows:

2024	\$ 50,400
2025	50,839
2026	51,283
2027	38,245
2028	21,600
Total	\$ 212,367

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. GOODWILL

Following is a summary of the goodwill balance:

	December 31,	
	2023	2022
Goodwill	\$ 4,009,759	\$ 4,009,759

NOTE 7. DEPOSITS

The following is a summary of deposits by type:

	December 31,	
	2023	2022
Noninterest-bearing demand deposits	\$ 282,133,686	\$ 305,790,265
Interest-bearing demand deposits	372,074,226	405,067,914
Savings accounts	51,634,640	62,346,814
Money market accounts	406,231,272	416,526,368
Certificates of deposits	312,223,973	136,705,423
Total deposits	\$ 1,424,297,797	\$ 1,326,436,784

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2023 and 2022 was approximately \$129,972,000 and \$50,011,000, respectively. The scheduled maturities of time deposits at December 31, 2023 are as follows:

2024	\$ 248,891,556
2025	47,187,163
2026	7,440,748
2027	3,284,474
2028	4,886,042
Thereafter	533,990
	\$ 312,223,973

At December 31, 2023 and 2022, the Company held brokered time deposits from CEDE & Company in the amount of \$81,182,000 and \$22,000,000, respectively. These brokered deposits totaled approximately 5.7% of total deposits at December 31, 2023.

At December 31, 2023 and 2022, overdraft deposit accounts reclassified to loans totaled \$785,515 and \$784,072, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. FEDERAL HOME LOAN BANK BORROWINGS

Federal Home Loan Bank borrowings consist of the following:

	December 31,	
	2023	2022
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 2.57% maturing September 2025.	\$ 2,250,000	\$ 2,583,333
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 3.79% maturing August 2033.	169,167	186,667
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 2.46% maturing September 2024.	225,000	525,000
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 2.92% maturing November 2029.	591,669	691,667
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 2.77% maturing February 2035.	558,333	608,333
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 3.30% maturing May 2031.	1,045,000	1,105,000
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 2.67% maturing January 2031.	944,444	1,077,778
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 2.17% maturing June 2033.	563,725	622,549
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 1.67% maturing August 2026.	333,333	458,333
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 1.96% maturing August 2024.	190,476	476,190
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 3.61% maturing June 2033.	181,250	193,750
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 2.84% maturing August 2023.	-	1,333,333
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 2.00% maturing October 2031.	3,700,000	3,833,333
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 1.54% maturing February 2027.	7,444,444	8,111,111
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 1.64% maturing February 2030.	10,000,000	10,000,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. FEDERAL HOME LOAN BANK BORROWINGS (CONTINUED)

	December 31,	
	2023	2022
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 1.42% maturing February 2027.	\$ 10,000,000	\$ 10,000,000
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 0.98% maturing July 2033.	737,180	814,104
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 1.80% maturing January 2032.	4,520,833	4,770,833
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 4.57% maturing December 2023.	-	30,000,000
Federal Home Loan Bank advance with principal and interest payable monthly at a fixed rate of 4.86% maturing March 2026.	20,000,000	-
	<u>\$ 63,454,854</u>	<u>\$ 77,391,314</u>

Contractual maturities of Federal Home Loan Bank borrowings as of December 31, 2023 are as follows:

2024	\$ 2,432,889
2025	3,600,747
2026	21,642,413
2027	16,336,856
2028	892,413
Thereafter	<u>18,549,536</u>
Total	<u>\$ 63,454,854</u>

Advances from the Federal Home Loan Bank are secured by certain qualifying loans with a lendable collateral value of approximately \$279,455,000 as of December 31, 2023.

The Company and the Bank have available unused lines of credit with various financial institutions, including FHLB, totaling approximately \$350,515,000 at December 31, 2023.

NOTE 9. NOTE PAYABLE

Note payable consists of the following:

	December 31,	
	2023	2022
Note payable with United National Bank at a fixed rate of 2.75% maturing January 2023.	\$ -	\$ 1,600,000

Note payable was a \$3,000,000 commercial draw note secured by 480,000 shares of Thomasville National Bank stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. OTHER COMPENSATION AND BENEFIT PLANS

Profit-Sharing Plan

The Company has a profit sharing plan, as well as a savings plan, administered under the provisions of the Internal Revenue Code Section 401(k). During the calendar years 2023 and 2022, the Company contributed approximately \$3,694,000 and \$3,192,000, respectively, to the above plans.

Deferred Compensation Plan

In March 1996, the Board of Directors of the Company approved a deferred compensation plan (the “Plan”) for the Company’s and Bank’s directors and certain officers which grants to each person restricted shares of the Company’s common stock for attending Board/Committee meetings and for bonuses. Shares of restricted stock granted pursuant to the Plan shall not vest until the earlier to occur of: (a) the retirement of a director from the Company’s Board of Directors or (b) a change in control of the Company. On several occasions, shares of restricted stock have been awarded to executive officers of the Company and its subsidiary. These shares vest only upon the officers’ retirement, resignation or upon a change in control. For the year ended December 31, 2023, there were no shares of restricted stock awarded. There were no shares of restricted stock forfeited for the years ended December 31, 2023. As of December 31, 2023, the Company elected to terminate the Plan and issue all shares to Company directors and officers.

NOTE 11. STOCK-BASED COMPENSATION PLANS

Restricted Stock

On January 1, 2013, the Company adopted an Officer Stock Plan (“2013 Plan”) in which it could grant common stock for restricted stock grants to benefit Company officers. Under the 2013 Plan, the Board may authorize additional shares from time to time in its sole discretion. The 2013 Plan initially reserved 6,000 shares of common stock for restricted stock grants. An additional 37,885 shares of common stock for restricted stock grants were authorized since the original authorization.

The restricted stock would vest at the earlier of the fifth anniversary of the effective date of the grant or the date the officer reached retirement age. Vested shares would be issued upon the earlier of the date the officer reached retirement age, a change of control of the Company or the termination of employment as an officer due to death or disability or by the Company without cause or by the officer with good reason.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. STOCK-BASED COMPENSATION PLANS (CONTINUED)

Restricted Stock (Continued)

Restricted stock grants were made at the discretion of the Board of Directors. Compensation expense for restricted stock was based on the market price of the Company stock at the time of the grant and amortized on a straight-line basis over the vesting period which was five years for all grants issued. Recipients of restricted stock did not pay any cash consideration to the Company for the shares. The restriction is based upon continuous service. Restricted stock consisted of the following:

	December 31, 2023		December 31, 2022	
	Restricted Shares	Weighted Average Market Price at Grant	Restricted Shares	Weighted Average Market Price at Grant
Balance, beginning of year	37,315	\$ 36.07	34,715	\$ 34.09
Granted	-	-	2,600	65.00
Issued	(37,315)	(36.07)	-	-
Forfeited	-	-	-	-
Balance, end of year	-	\$ -	37,315	\$ 36.07

There was no unearned compensation related to these restricted shares as of December 31, 2023 or 2022. During 2022, the Board voted to end the restricted shares program. The expensing of the remaining grants were accelerated in 2022. Total compensation expense recognized for the restricted shares granted to officers for the year ending December 31, 2022 was \$430,151.

The deferred compensation plan distributions was \$1,740,520 for the year ending December 31, 2023. Of this distribution, \$1,492,010 was related to tax withholdings from employees who received shares and elected to have the Company withhold the tax owed on the earnings from shares received. This distribution encompasses both the officer plan noted above and the directors plan noted in Note 10.

NOTE 12. INCOME TAXES

The components of income tax expense are as follows:

	Years Ended December 31,	
	2023	2022
Current		
Federal	\$ 8,700,889	\$ 8,061,067
State	874,097	893,107
Deferred		
Federal	(1,518)	(1,845,129)
Total income tax expense	\$ 9,573,468	\$ 7,109,045

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

	Years Ended December 31,	
	2023	2022
Tax provision at statutory federal rate	\$ 9,055,258	\$ 6,909,254
Tax-exempt income	(32,470)	(36,943)
State income taxes, net of federal tax benefit	775,672	705,555
Other	(224,992)	(468,821)
Income tax expense	\$ 9,573,468	\$ 7,109,045

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. INCOME TAXES (CONTINUED)

The components of deferred income taxes, included in other assets, are as follows:

	Years Ended December 31,	
	2023	2022
Deferred tax assets:		
Allowance for credit losses	\$ 7,990,878	\$ 8,431,528
Allowance for credit losses—unfunded commitments	1,080,040	-
Deferred compensation	-	495,004
Nonaccrual interest	13,542	15,511
Securities available for sale	5,269	458,383
	9,089,729	9,400,426
Deferred tax liabilities:		
Depreciation	598,782	468,933
Goodwill	961,504	950,454
	1,560,286	1,419,387
Net deferred tax assets	\$ 7,529,443	\$ 7,981,039

The federal income tax returns of the Company are subject to examination by the IRS, generally for three years after they were filed.

NOTE 13. EARNINGS PER SHARE

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

	Years Ended December 31,	
	2023	2022
Net income	\$ 33,546,808	\$ 25,792,163
Less dividends on preferred stock	683,551	608,013
Net income available to common stockholders	\$ 32,863,257	\$ 25,184,150
Weighted-average number of common shares outstanding	6,202,841	6,043,638
Effect of dilutive options, restricted shares and preferred shares	340,644	626,861
Weighted average number of common shares outstanding used to calculate dilutive earnings per share	6,534,485	6,670,499

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. COMMITMENTS AND CONTINGENCIES

Loan Commitments

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

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

	December 31,	
	2023	2022
Commitments to extend credit	\$ 400,444,000	\$ 346,090,000
Standby letters of credit	6,510,000	5,925,000
Total	<u>\$ 406,954,000</u>	<u>\$ 352,015,000</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

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

At December 31, 2023 and 2022, the carrying amount of liabilities related to the Company's obligation to perform under standby letters of credit was insignificant. The Company has not been required to perform on any standby letters of credit, and the Company has not incurred any losses on financial standby letters of credit for the year ended December 31, 2023.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Loan Commitments (Continued)

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

	<u>Allowance for Credit Losses – Unfunded Commitments</u>
December 31, 2023	
Beginning balance	\$ -
Adjustment to allowance for the adoption of ASU 2016-13	3,754,000
Change in unfunded commitments	500,000
Ending balance	<u>\$ 4,254,000</u>

Contingencies

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

NOTE 15. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, commercial real estate, residential real estate, construction and development and consumer loans to customers in Thomas, Glynn and Leon counties and surrounding counties. The ability of the majority of the Company's customers to honor their contractual obligations is dependent on the local economy.

Eighty-one percent (81%) of the Company's loan portfolio is concentrated in loans secured by real estate primarily in the Company's market area. Accordingly, the ultimate collectability of the Company's loan portfolio is susceptible to changes in market conditions in the Company's market areas. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Company, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of 15% of the Bank's Tier 1 capital plus the allowance for credit losses, or approximately \$27,216,000.

As of December 31, 2023, there were nine borrowers who participated in the Company's Supplemental Legal Lending Limit Program (the "Program"). Under the Program, the Company may participate the debt of a single borrower in excess of 10% over the normal legal lending limit. The aggregate amount of debt participated in the Program, for all borrowers, may not exceed 10% of capital. Five of these borrowers have related total debt exceeding 15% of capital at December 31, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2023, approximately \$47,318,000 of retained earnings were available for dividend declaration without regulatory approval.

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 consolidated 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 their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios of Total, Tier 1 and CET1 capital to risk-weighted assets, as defined, and of Tier 1 capital to average assets. Management believes, as of December 31, 2023, the Company and Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2023, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, CET1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's categories. Prompt corrective action provisions are not applicable to bank holding companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. REGULATORY MATTERS (CONTINUED)

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of December 31, 2023						
Total Capital Ratio (total capital to risk weighted assets)						
Thomasville National Bank	\$ 164,300	11.71%	\$ 112,203	8.00%	\$ 140,254	10.00%
Core Capital Ratio (Tier 1 capital to risk weighted assets)						
Thomasville National Bank	\$ 146,554	10.45%	\$ 84,153	6.00%	\$ 112,203	8.00%
CET1 Ratio (common equity Tier 1 capital to risk weighted assets)						
Thomasville National Bank	\$ 146,554	10.45%	\$ 63,114	4.50%	\$ 91,165	6.50%
Leverage Ratio (Tier 1 capital to average assets)						
Thomasville National Bank	\$ 146,554	9.05%	\$ 64,757	4.00%	\$ 80,947	5.00%
As of December 31, 2022						
Total Capital Ratio (total capital to risk weighted assets)						
Thomasville National Bank	\$ 143,374	11.66%	\$ 98,337	8.00%	\$ 122,921	10.00%
Core Capital Ratio (Tier 1 capital to risk weighted assets)						
Thomasville National Bank	\$ 127,798	10.40%	\$ 73,752	6.00%	\$ 98,337	8.00%
CET1 Ratio (common equity Tier 1 capital to risk weighted assets)						
Thomasville National Bank	\$ 127,798	10.40%	\$ 55,314	4.50%	\$ 79,899	6.50%
Leverage Ratio (Tier 1 capital to average assets)						
Thomasville National Bank	\$ 127,798	8.33%	\$ 61,382	4.00%	\$ 76,727	5.00%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

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

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

Fair Value Hierarchy

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The following table presents financial assets measured at fair value on a recurring basis:

	Assets Measured at Fair Value	Fair Value Measurements		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Securities available for sale				
U.S. Government and federal agencies	\$ 57,537,617	\$ -	\$ 57,537,617	\$ -
Total assets at fair value	\$ 57,537,617	\$ -	\$ 57,537,617	\$ -
December 31, 2022				
Securities available for sale				
U.S. Government and federal agencies	\$ 162,257,532	\$ -	\$ 162,257,532	\$ -
U.S. Government sponsored enterprise securities	18,860,870	-	18,860,870	-
Total securities available for sale	181,118,402	-	181,118,402	-
Loans held for sale	339,150	339,150	-	-
Total assets at fair value	\$ 181,457,552	\$ 339,150	\$ 181,118,402	\$ -

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

	Fair Value Measurements Using			Total Losses
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2023				
Collateral-dependent loans	\$ -	\$ -	\$ 296,133	\$ 96,738
Total	\$ -	\$ -	\$ 296,133	\$ 96,738
December 31, 2022				
Impaired loans	\$ -	\$ -	\$ 55,650	\$ -
Total	\$ -	\$ -	\$ 55,650	\$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Quantitative Disclosures for Level 3 Fair Value Measurements

The Company had no Level 3 assets measured at fair value on a recurring basis at December 31, 2023 and 2022.

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2023 and 2022, the significant unobservable inputs used in the fair value measurements are presented below.

	<u>Carrying Amount</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input</u>
December 31, 2023			
Nonrecurring:			
Collateral-dependent loans	\$ 296,133	Appraisal and discounted cash flow	Appraisal and cash flow discounts
December 31, 2022			
Nonrecurring:			
Impaired loans	\$ 55,650	Appraisal and discounted cash flow	Appraisal and cash flow discounts

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

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

Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities: Where quoted prices are available in an active market, management 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, management estimates fair values 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. 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, management classifies those securities in Level 3.

Equity Securities and Other Equity Securities: Fair values for other investments are considered to be their cost as they are redeemed at par value.

Loans Held for Sale: The carrying amount of loans held for sale approximates 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 values for certain mortgage loans (for example, 1-4 family residential) and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securities securitization transactions, adjusted for differences in loan characteristics. Fair value for other loans (for example, commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using market interest rates for comparable loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. FAIR VALUE OF ASSETS AND LIABILITIES (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). The carrying amounts of variable-rate, fixed-term money market accounts, and certificates of deposit approximate their fair values at the reporting date. 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.

Note Payable: The carrying amount of the note payable approximates fair value.

Federal Home Loan Bank Borrowings: The carrying amount of variable rate borrowings approximates fair value. The fair value of fixed rate Federal Home Loan Bank borrowings is estimated based on discounted contractual cash flows using the current incremental borrowing rates for similar type borrowing arrangements.

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 Company's financial instruments were as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2023 using:			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, due from banks, interest-bearing deposits in other banks	\$ 146,815,624	\$ 146,815,624	\$ -	\$ -	\$ 146,815,624
Securities available for sale	57,537,617	-	57,537,617	-	57,537,617
Restricted equity securities	4,579,750	-	4,579,750	-	4,579,750
Other equity securities	240,000	-	240,000	-	240,000
Loans, net	1,387,398,996	-	-	1,361,871,967	1,361,871,967
Accrued interest receivable	8,383,449	-	89,933	8,293,516	8,383,449
Financial liabilities					
Deposits	\$ 1,424,297,797	\$ -	\$ -	\$ 1,424,427,382	\$ 1,424,427,382
Federal Home Loan Bank borrowings	63,454,854	-	-	60,401,345	60,401,345
Accrued interest payable	1,377,230	-	-	1,377,230	1,377,230

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Carrying Amount	Fair Value Measurements at December 31, 2022 using:			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, due from banks, interest-bearing deposits in other banks	\$ 71,239,659	\$ 71,239,659	\$ -	\$ -	\$ 71,239,659
Securities available for sale	181,118,402	-	181,118,402	-	181,118,402
Restricted equity securities	4,527,950	-	4,527,950	-	4,527,950
Other equity securities	240,000	-	240,000	-	240,000
Loans, net	1,233,964,902	-	-	1,213,079,016	1,213,079,016
Loans held for sale	339,150	339,150	-	-	339,150
Accrued interest receivable	6,983,380	-	934,513	6,048,867	6,983,380
Financial liabilities					
Deposits	\$ 1,326,436,784	\$ -	\$ -	\$ 1,328,613,885	\$ 1,328,613,885
Federal Home Loan Bank borrowings	77,391,314	-	-	72,939,435	72,939,435
Note payable	1,600,000	-	1,600,000	-	1,600,000
Accrued interest payable	311,331	-	-	311,331	311,331

NOTE 18. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2023 and 2022. Items outside the scope of ASC 606 are noted as such.

	For the Years Ended December 31,	
	2023	2022
Noninterest income		
Trust and investment services	\$ 16,001,997	\$ 15,794,493
Service charges on deposit accounts		
Account service charges	192,064	193,655
Overdraft fees	262,198	245,970
Other	5,940	5,100
Other service charges, commissions and fees	1,411,900	1,254,785
Data processing fees	-	201,121
Mortgage origination fees (b)	294,730	684,192
Gain on sale of Texas fiduciary division	-	2,415,800
Other income (a)	804,254	566,715
	<u>\$ 18,973,083</u>	<u>\$ 21,361,831</u>

(a) The other income category includes gain on sales of foreclosed assets, net of write-downs, of \$24,517 as of December 31, 2022. This category also includes safe deposit box rent as of December 31, 2023 and 2022 of \$30,829 and \$28,543, respectively, which is within the scope of ASC 606; the remaining balance of \$773,425 and \$513,655 as of December 31, 2023 and 2022, respectively, represents dividend income and miscellaneous income, which is outside the scope of ASC 606.

(b) Not within scope at ASC 606.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

A description of the Company's significant revenue streams accounted for under ASC 606 follows:

Trust and investment service fees: The Company earns fees from asset management and fiduciary services provided to clients of TNB Financial Services. The fees are recognized monthly and a receivable is recorded until commissions are generally paid by the 15th of the following month. Trust fees are billed in arrears or in advance and are recognized as revenues as the Company's performance obligations are satisfied. Certain fees are based on a percentage of assets invested or under management and are recognized as the service is performed and constraints regarding the uncertainty of the amount of fees are resolved. The Company also receives revenues from the sale of mutual funds and annuities and securities brokerage fees. Such revenues are generally recognized at the time of transaction execution. Mutual fund and other distribution fees are recognized upon initial placement of customer funds as well as in future periods as such customers continue to hold amounts in those mutual funds.

Service charges on deposit accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which are related primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Other service charges, commissions, and fees: The Company earns fees from its deposit customers for transaction-based services. Transaction-based fees, which includes services such as ATM use fees, wire transfer fees, check order fees and credit card fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request.

Data processing fees: The Company earns fees from nightly processing of transactions for other community financial institutions. Data processing fees are billed in arrears and are recognized as revenues as the Company's performance obligations are satisfied.

Gain on sale of Texas fiduciary division: The Company records a gain or loss from the sale of bank owned assets when control of the property transfers to the buyer, which generally occurs at the time proceeds are received. In determining the gain or loss on the sale, the Company nets the proceeds on the sale against the remaining book value of the property and recognizes the difference as a gain or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19. PARENT COMPANY FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS DECEMBER 31, 2023 AND 2022

	2023	2022
Assets		
Cash	\$ 660,389	\$ 2,572,987
Investment in subsidiary	150,549,528	130,503,532
Other equity securities, at cost	240,000	240,000
Other assets	30,590	17,469
	\$ 151,480,507	\$ 133,333,988
Liabilities		
Note payable	\$ -	\$ 1,600,000
Other liabilities	-	818,103
	-	2,418,103
Stockholders' equity	151,480,507	130,915,885
Total liabilities and stockholders' equity	\$ 151,480,507	\$ 133,333,988

CONDENSED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Income		
Dividends from subsidiary	\$ 14,799,366	\$ 11,188,204
Dividends, other	54,000	45,600
Other income	17,571	7,736
Total income	14,870,937	11,241,540
Expenses		
Interest expense	11,244	34,566
Other expense	85,459	84,149
Total expenses	96,703	118,715
Income before income tax benefit and equity in undistributed income of subsidiary	14,774,234	11,122,825
Income tax benefit	(16,209)	(22,460)
Income before equity in undistributed income of subsidiary	14,790,443	11,145,285
Equity in undistributed income of subsidiary	18,756,365	14,646,878
Net income	\$ 33,546,808	\$ 25,792,163

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19. PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

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

	2023	2022
OPERATING ACTIVITIES		
Net income	\$ 33,546,808	\$ 25,792,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed income of subsidiary	(18,756,365)	(14,646,878)
Stock-based compensation	-	430,151
Tax withheld on deferred compensation plan distribution	(1,492,010)	-
Other operating activities	(831,224)	773,356
Net cash provided by operating activities	12,467,209	12,348,792
FINANCING ACTIVITIES		
Dividends paid	(13,299,364)	(11,188,204)
Sale of common stock, net	891,337	762,526
Issuance of restricted stock	-	190,650
Repayment of note payable	(1,600,000)	-
Repurchase and retirement of preferred stock	(371,780)	(145,927)
Net cash used in financing activities	(14,379,807)	(10,380,955)
Net increase (decrease) in cash	(1,912,598)	1,967,837
Cash at beginning of year	2,572,987	605,150
Cash at end of year	\$ 660,389	\$ 2,572,987