

**SIGNATURE BANK OF GEORGIA**

**FINANCIAL REPORT**

**DECEMBER 31, 2022**

# **SIGNATURE BANK OF GEORGIA**

## **FINANCIAL REPORT DECEMBER 31, 2022**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Signature Bank of Georgia as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Signature Bank of Georgia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Signature Bank of Georgia's ability to continue as a going concern for a reasonable period of time.

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

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
April 25, 2023

**SIGNATURE BANK OF GEORGIA**  
**BALANCE SHEETS**  
**DECEMBER 31, 2022 AND 2021**

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Cash and due from banks	\$ 2,460,522	\$ 2,798,569
Interest-bearing deposits in banks	19,083,650	62,001,523
Securities available for sale	34,246,378	23,914,992
Restricted equity securities, at cost	105,700	96,900
 Loans, net of deferred fees	 133,804,976	 112,085,261
Less allowance for loan losses	1,511,518	952,663
Loans, net	132,293,458	111,132,598
 Premises and equipment, net	 984,720	 1,307,984
Other real estate owned	4,355,950	4,623,040
Other assets	7,019,940	5,284,358
 <b>Total assets</b>	 <b>\$ 200,550,318</b>	 <b>\$ 211,159,964</b>
 <u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 92,633,061	\$ 99,491,189
Interest-bearing	84,471,637	86,899,104
Total deposits	177,104,698	186,390,293
 Other liabilities	 949,432	 996,992
<b>Total liabilities</b>	<b>178,054,130</b>	<b>187,387,285</b>
 Commitments and contingencies		
 Stockholders' equity:		
Common stock, par value \$1; 35,000,000 shares authorized, 28,073,200 issued and outstanding	28,073,200	28,073,200
Discount on common stock	(7,401,067)	(7,401,067)
Surplus	27,459,596	27,402,112
Accumulated deficit	(22,351,605)	(24,422,392)
Accumulated other comprehensive income (loss)	(3,283,936)	120,826
<b>Total stockholders' equity</b>	<b>22,496,188</b>	<b>23,772,679</b>
 <b>Total liabilities and stockholders' equity</b>	 <b>\$ 200,550,318</b>	 <b>\$ 211,159,964</b>

**See Notes to Financial Statements.**

**SIGNATURE BANK OF GEORGIA**  
**STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>Interest income</b>		
Loans, including fees	\$ 6,986,527	\$ 5,731,579
Securities	715,717	415,544
Interest-bearing deposits in banks	612,495	88,125
<b>Total interest income</b>	<b>8,314,739</b>	<b>6,235,248</b>
<b>Interest expense</b>		
Deposits	441,347	619,037
Other borrowings and federal funds purchased	2,222	62,808
<b>Total interest expense</b>	<b>443,569</b>	<b>681,845</b>
<b>Net interest income</b>	<b>7,871,170</b>	<b>5,553,403</b>
<b>Provision for loan losses</b>	<b>506,000</b>	<b>-</b>
<b>Net interest income after provision for loan losses</b>	<b>7,365,170</b>	<b>5,553,403</b>
<b>Other income</b>		
Service charges on deposit accounts	46,715	31,822
Other service charges and fees	160,142	107,366
Net loss on sale of securities available for sale	(92)	-
Net gain on sale of loans	1,508,358	1,511,401
Other operating income	291,319	158,924
<b>Total other income</b>	<b>2,006,442</b>	<b>1,809,513</b>
<b>Other expenses</b>		
Salaries and employee benefits	4,033,235	3,316,385
Occupancy and equipment expenses	429,107	414,335
Loan collection and repossession expenses	141,127	101,408
Net loss on sale and writedowns of other real estate owned	267,090	607,627
Other operating expenses	2,430,265	2,141,807
<b>Total other expenses</b>	<b>7,300,824</b>	<b>6,581,562</b>
<b>Income before income tax benefit</b>	<b>2,070,787</b>	<b>781,354</b>
<b>Income tax benefit</b>	<b>-</b>	<b>(2,955,336)</b>
<b>Net income</b>	<b>\$ 2,070,787</b>	<b>\$ 3,736,690</b>
<b>Basic earnings per common share</b>	<b>\$ 0.07</b>	<b>\$ 0.13</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.07</b>	<b>\$ 0.13</b>

See Notes to Financial Statements.

**SIGNATURE BANK OF GEORGIA**  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>Net income</b>	<b>\$ 2,070,787</b>	<b>\$ 3,736,690</b>
<b>Other comprehensive loss:</b>		
Unrealized holding losses on securities available for sale arising during period, net of tax benefit of \$905,082 and \$148,365, respectively	<b>(3,404,835)</b>	<b>(363,195)</b>
Reclassification adjustment for losses realized in net income, net of tax benefit of \$19 and \$0, respectively	<u>73</u>	<u>-</u>
<b>Other comprehensive loss</b>	<b><u>(3,404,762)</u></b>	<b><u>(363,195)</u></b>
<b>Comprehensive income (loss)</b>	<b><u><u>\$ (1,333,975)</u></u></b>	<b><u><u>\$ 3,373,495</u></u></b>

**See Notes to Financial Statements.**

**SIGNATURE BANK OF GEORGIA**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	Common Stock		Capital	Accumulated	Accumulated Other Comprehensive	Total
	Shares	Par Value	Surplus	Deficit	Income (Loss)	Stockholders' Equity
<b>Balance, December 31, 2020</b>	28,073,200	\$ 20,672,133	\$ 27,365,079	\$ (28,159,082)	\$ 484,021	\$ 20,362,151
Stock compensation expense	-	-	37,033	-	-	37,033
Net income	-	-	-	3,736,690	-	3,736,690
Other comprehensive loss	-	-	-	-	(363,195)	(363,195)
<b>Balance, December 31, 2021</b>	28,073,200	\$ 20,672,133	\$ 27,402,112	\$ (24,422,392)	\$ 120,826	\$ 23,772,679
Stock compensation expense	-	-	57,484	-	-	57,484
Net income	-	-	-	2,070,787	-	2,070,787
Other comprehensive loss	-	-	-	-	(3,404,762)	(3,404,762)
<b>Balance, December 31, 2022</b>	<u>28,073,200</u>	<u>\$ 20,672,133</u>	<u>\$ 27,459,596</u>	<u>\$ (22,351,605)</u>	<u>\$ (3,283,936)</u>	<u>\$ 22,496,188</u>

**See Notes to Financial Statements.**



**SIGNATURE BANK OF GEORGIA**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 2,070,787	\$ 3,736,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and software amortization	121,677	149,579
Amortization and accretion of securities available for sale	37,988	112,978
Provision for loan losses	506,000	-
Provision for deferred taxes	-	(2,955,336)
Loss on sale of securities available for sale	92	-
Gain on sale of loans	(1,508,358)	(1,511,401)
Loss on disposal of premises, equipment and software	-	305
Loss on sale of other real estate owned	-	242,425
Writedown of other real estate owned	267,090	365,202
Increase in interest receivable	(169,392)	(63,673)
Decrease in interest payable	(32,772)	(25,796)
Stock based compensation	57,484	37,033
Net other operating activities	(437,151)	91,684
	<u>913,445</u>	<u>179,690</u>
Net cash provided by operating activities		
<b>INVESTING ACTIVITIES</b>		
Decrease in interest-bearing deposits in banks	42,917,873	1,916,626
Purchase of securities available for sale	(18,124,059)	(11,876,731)
Proceeds from sales of securities available for sale	499,629	-
Proceeds from maturities, calls, and paydowns of securities available for sale	2,945,139	4,451,187
(Purchase) redemption of restricted equity securities	(8,800)	171,800
Net increase in loans	(20,158,502)	(7,658,832)
Purchase of premises, equipment and software	(37,177)	(41,254)
Proceeds from sale of premises, equipment and software	-	879
Proceeds from the sale of other real estate owned	-	203,775
	<u>8,034,103</u>	<u>(12,832,550)</u>
Net cash provided by (used in) investing activities		
<b>FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	(9,285,595)	16,744,276
Repayments of other borrowings	-	(3,000,000)
	<u>(9,285,595)</u>	<u>13,744,276</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash and due from banks	(338,047)	1,091,416
Cash and due from banks at beginning of year	2,798,569	1,707,153
Cash and due from banks at end of year	<u>\$ 2,460,522</u>	<u>\$ 2,798,569</u>

**See Notes to Financial Statements.**

**SIGNATURE BANK OF GEORGIA**  
**STATEMENTS OF CASH FLOWS (Continued)**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	\$ 476,342	\$ 707,641
<b>NONCASH TRANSACTIONS</b>		
Lease accounting under ASU 2016-02 <i>Leases (Topic 842)</i> and related increase (decrease) to premises and equipment, net and other liabilities	\$ (270,304)	\$ 545,907

**See Notes to Financial Statements.**

# **SIGNATURE BANK OF GEORGIA**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Nature of Operations**

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

#### **Basis of Presentation and Accounting Estimates**

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

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

The Bank has evaluated all transactions, events, and circumstances for consideration or disclosure through April 25, 2023, the date these financial statements were available to be issued, and has reflected or disclosed those items within the financial statements and related footnotes as deemed appropriate.

#### **Cash, Due From Banks and Cash Flows**

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

#### **Securities**

All debt securities are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive loss.

The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the settlement date.

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

#### **Restricted Equity Securities**

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

## NOTES TO FINANCIAL STATEMENTS

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

#### Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less deferred fees and costs on originated loans and the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield over the life of the loan using the straight-line method.

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

A loan is considered impaired when it is probable, based on current information and events, the Bank will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Impaired loans will be measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

#### Allowance for Loan Losses

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

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

While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

## NOTES TO FINANCIAL STATEMENTS

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

#### Allowance for Loan Losses (Continued)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience. The allowance allocated to each homogeneous loan pool represents the total of the loss allocation factors for each respective risk grade of that pool times the outstanding balance of non-impaired loans in the pool. The allowance also includes an additional qualitative reserve capturing internal and external process factors. The qualitative factors considered by management include, among other factors, the effects of changes in (1) the level and trends in past due loans; (2) the level and trends in charge-offs and recoveries; (3) the volume of the portfolio and terms of loans; (4) lending policies and procedures for underwriting, collection, charge-off and recovery; (5) the experience, ability and depth of lending management and staff; (6) local, regional and national economic conditions; (7) industry conditions; (8) credit concentrations; and (9) other factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

There were no significant changes in the Bank's allowance for loan loss methodology for the years ended December 31, 2022 and 2021.

#### Troubled Debt Restructurings

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

#### Premises and Equipment

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

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

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

#### Leases

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

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

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

#### Other Real Estate Owned

Other real estate owned represents properties acquired through or in lieu of foreclosure and is initially recorded at the lower of cost or fair value less estimated costs to sell. Any write down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent adjustments to the value are expensed.

#### Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

## NOTES TO FINANCIAL STATEMENTS

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

#### Income Taxes

The Bank accounts for income taxes in accordance with income tax accounting guidance. This guidance relates to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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

#### Stock-Based Compensation

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

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards and stock grants. The Bank recognized \$57,484 and \$37,033 in stock-based compensation expense for the years ended December 31, 2022 and 2021, respectively.

#### Earnings Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. The weighted average number of common shares for the years ended December 31, 2022 and 2021 was 28,073,200. Diluted earnings per share are computed by dividing net income by the sum of the weighted-average number of shares of common stock outstanding and potential common shares. Potential common shares consist of stock options.

## NOTES TO FINANCIAL STATEMENTS

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

#### Comprehensive Income (Loss)

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

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

#### Revenue Recognition

The Bank accounts for revenue in accordance with applicable revenue recognition guidance, including ASU 2014-09 Revenue from Contracts with Customers (ASC Topic 606) and all subsequent amendments to the ASU (collectively, “ASC 606”), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. The majority of the Bank’s revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as these activities are subject to other GAAP discussed elsewhere within the disclosures. The Bank’s services that fall within the scope of ASC 606 are presented within other income and are recognized as revenue as the Bank satisfies its obligation to the customer. Services within the scope of ASC 606 primarily include service charges on deposits, interchange income and other fees such as ATM fees. Refer to Note 14 for further discussion on the Bank’s accounting policies for revenue sources within the scope of ASC 606.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 2. SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2022:</b>				
U.S. Treasury securities	\$ 2,985,687	\$ 14,313	\$ -	\$ 3,000,000
U.S. Government agency securities	18,589,924	59,517	(2,036,474)	16,612,967
Municipal securities	7,641,425	-	(1,496,686)	6,144,739
Mortgage-backed GSE residential securities	9,186,223	24,601	(722,152)	8,488,672
	<u>\$ 38,403,259</u>	<u>\$ 98,431</u>	<u>\$ (4,255,312)</u>	<u>\$ 34,246,378</u>
<b>December 31, 2021:</b>				
U.S. Treasury securities	\$ 499,392	\$ 7,249	\$ -	\$ 506,641
U.S. Government agency securities	12,433,355	150,039	(92,776)	12,490,618
Municipal securities	5,440,307	107,473	(50,874)	5,496,906
Mortgage-backed GSE residential securities	5,388,993	95,912	(64,078)	5,420,827
	<u>\$ 23,762,047</u>	<u>\$ 360,673</u>	<u>\$ (207,728)</u>	<u>\$ 23,914,992</u>

The amortized cost and fair value of debt securities as of December 31, 2022 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalty. Therefore, these securities are not included in the maturity categories in the following summary.

	<b>Securities Available for Sale</b>	
	Amortized Cost	Fair Value
Due within one year	\$ -	\$ -
Due from one to five years	6,326,271	6,207,961
Due from five to ten years	9,331,154	7,928,773
Due after ten years	13,559,611	11,620,972
Mortgage-backed securities	9,186,223	8,488,672
	<u>\$ 38,403,259</u>	<u>\$ 34,246,378</u>

As of December 31, 2022 and 2021, restricted equity securities consist solely of FHLB stock.

As of December 31, 2022 and 2021, the Bank had not pledged securities for any purpose.

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

	<b>Years Ended December 31,</b>	
	2022	2021
Gross gains	\$ -	\$ -
Gross losses	(92)	-
Total net losses	<u>\$ (92)</u>	<u>\$ -</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (Continued)

#### Temporarily Impaired Securities

The following tables show the gross unrealized losses and fair value of securities, aggregated by category and length of time that securities were in a continuous unrealized loss position at December 31, 2022 and 2021.

	Less Than Twelve Months		Over Twelve Months		Total
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Losses
<b>December 31, 2022</b>					
U.S. Government agency securities	\$ 7,467,263	\$ (579,075)	\$ 6,084,407	\$ (1,457,399)	\$ (2,036,474)
Municipal securities	3,905,162	(654,352)	2,239,577	(842,334)	(1,496,686)
Mortgage-backed GSE residential securities	3,551,071	(252,827)	2,144,352	(469,325)	(722,152)
<b>Total temporarily impaired securities</b>	<b>\$ 14,923,496</b>	<b>\$ (1,486,254)</b>	<b>\$ 10,468,336</b>	<b>\$ (2,769,058)</b>	<b>\$ (4,255,312)</b>
<b>December 31, 2021</b>					
U.S. Government agency securities	\$ 6,019,738	\$ (92,776)	\$ -	\$ -	\$ (92,776)
Municipal securities	1,894,684	(50,874)	-	-	(50,874)
Mortgage-backed GSE residential securities	1,981,134	(48,021)	664,826	(16,057)	(64,078)
<b>Total temporarily impaired securities</b>	<b>\$ 9,895,556</b>	<b>\$ (191,671)</b>	<b>\$ 664,826</b>	<b>\$ (16,057)</b>	<b>\$ (207,728)</b>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation.

At December 31, 2022, 69 of the 83 debt securities have unrealized losses with an aggregate depreciation of 14.35% from the Bank's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond agencies have occurred, and industry analysts' reports. The unrealized losses were primarily the result of interest rate increases. No credit issues have been identified that cause management to believe the declines in market value are other than temporary.

There were unrealized losses on thirty-eight investments in U.S. government agency securities, ten investments in state and municipal securities, and twenty-one investments in mortgage-backed securities at December 31, 2022. Because the Bank does not intend to sell the investments and it is more likely than not that the Bank will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. LOANS

#### Portfolio Segmentation

The composition of loans is summarized as follows:

	December 31,	
	2022	2021
Real Estate:		
Construction and land development	\$ 19,118,291	\$ 16,245,831
Residential	4,071,274	4,523,970
Commercial and other	100,395,795	80,083,881
Commercial	10,478,471	11,350,844
Consumer and other	34,096	83,233
	<u>134,097,927</u>	<u>112,287,759</u>
Net deferred fees	(292,951)	(202,498)
Allowance for loan losses	(1,511,518)	(952,663)
Loans, net	<u>\$ 132,293,458</u>	<u>\$ 111,132,598</u>

Included above are \$19,019,564 and \$15,140,977 of interest only loans at December 31, 2022 and 2021, respectively. For the majority of these loans, interest is due monthly and principal is due at maturity. These loans require greater monitoring by management due to the fact that credit problems encountered by the borrower could be disguised for a period of time.

For purposes of the disclosures required by ASC 310, the loan portfolio was disaggregated into portfolio segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which the Bank develops and documents a systematic method for determining its allowance for credit losses. The three loan portfolio segments are real estate, commercial, and consumer and other. A class is generally determined based on the initial measurement attribute and the Bank's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land development, residential, and commercial and other. The commercial and consumer and other segments have not been further disaggregated into classes.

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

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

- Construction and land development loans are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.
- Residential loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. This portfolio class includes 1-4 family mortgages secured by first and junior liens as well as 1-4 family open-end lines such as home equity lines of credit (HELOCs).

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. LOANS (Continued)

#### Portfolio Segmentation (Continued)

- Commercial real estate mortgage loans include owner-occupied commercial real estate loans and loans secured by income-producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rental income derived from the properties. Also included in this class are loans secured by farmland. These loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. SBA loans secured by real estate are also included within this category. These loans are partially guaranteed by the U.S. Government.

Commercial - The commercial loan portfolio segment includes commercial and industrial loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations. SBA loans not secured by real estate are included within this category. These loans are partially guaranteed by the U.S. Government.

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

#### Credit Risk Management

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

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

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting and, on an ongoing basis, monitoring the credit of the portfolios, including a complete review of all relationships over \$500,000 on an annual basis. Any problem credits (grade 6-9) are reviewed on an ongoing basis regardless of size or loan purpose and are reported at least quarterly to the Board. To ensure problem credits are identified on a timely basis, independent loan reviews are performed annually to assess the larger adversely rated credits for proper risk rating, accrual status and, if necessary, to ensure such individual credits are properly graded by management. All loans are graded on a nine-point scale and reviewed periodically for compliance with the defined criteria for each grade level.

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. LOANS (Continued)

#### Credit Risk Management (Continued)

The following presents credit quality indicators for the loan portfolio segments and classes as of December 31, 2022 and 2021. These categories are utilized to develop the associated allowance for loan losses using historical losses adjusted for current economic conditions and other qualitative factors and are defined as follows:

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

The following tables summarize by risk category the Bank's loan portfolio based upon the most recent analysis performed as of December 31, 2022 and 2021. There were no loans rated doubtful or loss as of December 31, 2022 and 2021.

	Pass	OAEM	Substandard	Total
<b>December 31, 2022:</b>				
<b>Real estate:</b>				
Construction and land development	\$ 19,118,291	\$ -	\$ -	\$ 19,118,291
Residential	4,071,274	-	-	4,071,274
Commercial and other	99,914,802	480,993	-	100,395,795
Commercial	10,282,352	-	196,119	10,478,471
Consumer and other	34,096	-	-	34,096
<b>Total</b>	<b>\$ 133,420,815</b>	<b>\$ 480,993</b>	<b>\$ 196,119</b>	<b>\$ 134,097,927</b>

December 31, 2021:

Real estate:

Construction and land development	\$ 16,245,831	\$ -	\$ -	\$ 16,245,831
Residential	4,523,970	-	-	4,523,970
Commercial and other	79,587,628	496,253	-	80,083,881
Commercial	10,888,598	-	462,246	11,350,844
Consumer and other	83,233	-	-	83,233
<b>Total</b>	<b>\$ 111,329,260</b>	<b>\$ 496,253</b>	<b>\$ 426,246</b>	<b>\$ 112,287,759</b>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. LOANS (Continued)

#### Credit Risk Management (Continued)

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

	Real Estate	Commercial	Consumer	Unallocated	Total
<b>December 31, 2022:</b>					
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 425,232	\$ 152,261	\$ 724	\$ 374,446	\$ 952,663
Provision (re-allocation)	193,615	(56,329)	(360)	369,074	506,000
Charge-offs	-	-	-	-	-
Recoveries	-	52,855	-	-	52,855
Ending balance	<u>\$ 618,847</u>	<u>\$ 148,787</u>	<u>\$ 364</u>	<u>\$ 743,520</u>	<u>\$ 1,511,518</u>
Ending balance - individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance - collectively evaluated for impairment	<u>\$ 618,847</u>	<u>\$ 148,787</u>	<u>\$ 364</u>	<u>\$ 743,520</u>	<u>\$ 1,511,518</u>
<b>Loans:</b>					
Ending balance	<u>\$ 123,585,360</u>	<u>\$ 10,478,471</u>	<u>\$ 34,096</u>		<u>\$ 134,097,927</u>
Ending balance - individually evaluated for impairment	<u>\$ -</u>	<u>\$ 195,952</u>	<u>\$ -</u>		<u>\$ 195,952</u>
Ending balance - collectively evaluated for impairment	<u>\$ 123,585,360</u>	<u>\$ 10,282,519</u>	<u>\$ 34,096</u>		<u>\$ 133,901,975</u>
<b>December 31, 2021:</b>					
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 696,441	\$ 272,428	\$ 1,359	\$ 134,104	\$ 1,104,332
Provision (re-allocation)	(271,209)	31,502	(635)	240,342	-
Charge-offs	-	(151,669)	-	-	(151,669)
Recoveries	-	-	-	-	-
Ending balance	<u>\$ 425,232</u>	<u>\$ 152,261</u>	<u>\$ 724</u>	<u>\$ 374,446</u>	<u>\$ 952,663</u>
Ending balance - individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance - collectively evaluated for impairment	<u>\$ 425,232</u>	<u>\$ 152,261</u>	<u>\$ 724</u>	<u>\$ 374,446</u>	<u>\$ 952,663</u>
<b>Loans:</b>					
Ending balance	<u>\$ 100,853,682</u>	<u>\$ 11,350,844</u>	<u>\$ 83,233</u>		<u>\$ 112,287,759</u>
Ending balance - individually evaluated for impairment	<u>\$ -</u>	<u>\$ 462,246</u>	<u>\$ -</u>		<u>\$ 462,246</u>
Ending balance - collectively evaluated for impairment	<u>\$ 100,853,682</u>	<u>\$ 10,888,598</u>	<u>\$ 83,233</u>		<u>\$ 111,825,513</u>

## NOTES TO 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. The following tables include an aging analysis of days past due for each portfolio segment and class as of December 31, 2022 and 2021:

		Past Due Status (Accruing Loans)					
		Current	30-89 Days	90+ Days	Total Past Due	Non-Accrual	Total
December 31, 2022:							
Real estate:							
Construction and land development	\$	19,118,291	\$ -	\$ -	\$ -	\$ -	\$ 19,118,291
Residential		4,071,274	-	-	-	-	4,071,274
Commercial and other		100,395,795	-	-	-	-	100,395,795
Commercial		10,282,519	-	-	-	195,952	10,478,471
Consumer and other		34,096	-	-	-	-	34,096
Total	\$	133,901,975	\$ -	\$ -	\$ -	\$ 195,952	\$ 134,097,927
December 31, 2021:							
Real estate:							
Construction and land development	\$	16,245,831	\$ -	\$ -	\$ -	\$ -	\$ 16,245,831
Residential		4,523,970	-	-	-	-	4,523,970
Commercial and other		80,083,881	-	-	-	-	80,083,881
Commercial		10,888,598	-	-	-	462,246	11,350,844
Consumer and other		83,233	-	-	-	-	83,233
Total	\$	111,825,513	\$ -	\$ -	\$ -	\$ 462,246	\$ 112,287,759

#### Impaired Loans

The following tables present details related to the Bank's impaired loans as of December 31, 2022 and 2021. Individually selected loans are evaluated for impairment on an individual basis. Loans that have been fully charged-off are not included in the table. The related allowance represents reserves needed to cover any collateral shortfall discovered upon individual evaluation of each loan deemed impaired. The tables show impaired loans with and without specific reserves as of December 31, 2022 and 2021.

		<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized in Year</u>
<b>December 31, 2022:</b>						
<b>With no allowance recorded:</b>						
Commercial	\$	195,952	\$	261,493	\$	-
<b>Total with no allowance recorded</b>		<b>195,952</b>		<b>261,493</b>		<b>-</b>
<b>With an allowance recorded:</b>						
Commercial		-		-		-
<b>Total with an allowance recorded</b>		<b>-</b>		<b>-</b>		<b>-</b>
<b>Total impaired loans</b>	<b>\$</b>	<b>195,952</b>	<b>\$</b>	<b>261,493</b>	<b>\$</b>	<b>-</b>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. LOANS (Continued)

#### Impaired Loans (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Year
December 31, 2021:					
With no allowance recorded:					
Commercial	\$ 462,246	\$ 659,344	\$ -	\$ 631,068	\$ -
Total with no allowance recorded	462,246	659,344	-	631,068	-
With an allowance recorded:					
Commercial	-	-	-	-	-
Total with an allowance recorded	-	-	-	-	-
Total impaired loans	\$ 462,246	\$ 659,344	\$ -	\$ 631,068	\$ -

#### Troubled Debt Restructurings

At December 31, 2022 and 2021, impaired loans included loans that were classified as troubled debt restructurings “TDRs”. The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the Bank has granted a concession that it would not otherwise consider.

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

The Bank considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Bank include the borrower's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Bank generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. There were \$0 and \$254,717 in restructured loans on nonaccrual at December 31, 2022 and 2021, respectively. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Bank will be able to collect all amounts due (both principal and interest) according to the terms of the new loan agreement.

There were no loans modified as a TDR during the years ended December 31, 2022 and 2021.

The Bank has no additional commitments to lend additional funds to any of the related debtors whose terms have been modified in a TDR. There were no TDRs that defaulted within twelve months of the restructure date during the years ended December 31, 2022 and 2021.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 3. LOANS (Continued)

#### Related Party Loans

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

	Years Ended December 31,	
	2022	2021
Balance, beginning of year	\$ 55,297	\$ 74,244
Advances	230,216	110,200
Repayments	(130,000)	(129,147)
Balance, end of year	<u>\$ 155,513</u>	<u>\$ 55,297</u>

### NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment is summarized as follows:

	December 31,	
	2022	2021
Buildings and leasehold improvements	\$ 732,415	\$ 732,415
Furniture and equipment	922,619	893,077
Right of use assets	356,353	626,648
	<u>2,011,387</u>	<u>2,252,140</u>
Accumulated depreciation	(1,026,667)	(944,156)
	<u>\$ 984,720</u>	<u>\$ 1,307,984</u>

Depreciation expense, not including software amortization, totaled \$121,676 and \$107,028, respectively, for the years ended December 31, 2022 and 2021. Software costs of \$477,304 and \$475,979, net of accumulated amortization of \$466,653 and \$433,788, are included in other assets on the balance sheets as of December 31, 2022 and 2021, respectively.

#### Leases

The Bank leases its Sandy Springs banking facility and operations center under a noncancelable operating lease agreement with an original lease term of six years and renewal options totaling fifteen years. The lease was renewed effective June 1, 2021 and expires on May 31, 2024. The remaining renewal options were not considered in the right-of-use asset due to the uncertainty of renewal.

The Bank leases a loan production office (LPO) in Gwinnett County. The Bank entered into a noncancelable operating lease agreement with an unrelated third party for the LPO that was effective October 1, 2018 and expired September 30, 2021. The lease was renewed in 2021 for one year and again in 2022 for an additional year, and now expires on September 30, 2023. The bank has renewal options on this lease agreement through 2026. The remaining renewal options were not considered in the right-of-use asset due to the uncertainty of renewal.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. PREMISES AND EQUIPMENT (Continued)

#### Leases (Continued)

The Bank has evaluated the leases above and determined them to be operating leases. The right-of-use assets and lease liabilities were measured and recorded with an assumed weighted average discount rate of 0.08%, the federal funds rate at the date of adoption. The right of use assets, included within premises and equipment on the balance sheets, totaled \$356,353 and \$626,648 as of December 31, 2022 and 2021, respectively. The Bank's operating lease liabilities, included within other liabilities on the balance sheets, totaled \$356,353 and \$626,648 as of December 31, 2022 and 2021, respectively. The weighted average remaining lease term for these leases at December 31, 2022 was 1.3 years.

Future minimum lease payments under operating leases, excluding any renewal options, are summarized as follows as of December 31, 2022:

2023	\$ 264,487
2024	92,836
Total future minimum lease payments	357,323
Less: imputed interest	(970)
Present value of operating lease liabilities	<u>\$ 356,353</u>

Rental expense, net of rental income, under all operating leases amounted to \$245,603 and \$217,733 for the years ended December 31, 2022 and 2021, respectively.

### NOTE 5. OTHER REAL ESTATE OWNED

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

	<u>Years Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 4,623,040	\$ 5,434,442
Proceeds from externally financed sales	-	(203,775)
Writedowns	(267,090)	(365,202)
Loss on sale	-	(242,425)
Balance, end of year	<u>\$ 4,355,950</u>	<u>\$ 4,623,040</u>

At December 31, 2022 and 2021, there were no residential properties included in other real estate owned, and there were no residential properties in process of foreclosure reported as loans.

### NOTE 6. DEPOSITS

The major classifications of deposits are as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Noninterest-bearing demand	\$ 92,633,061	\$ 99,491,189
Interest-bearing demand	72,861,788	64,400,501
Savings	2,904,493	1,298,322
Certificates of deposit of \$250,000 or more	5,015,163	6,665,166
Other certificates of deposit	3,690,193	14,535,115
	<u>\$ 177,104,698</u>	<u>\$ 186,390,293</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. DEPOSITS (Continued)

The scheduled maturities of time deposits at December 31, 2022 are as follows:

2023	\$ 5,037,896
2024	2,189,889
2025	1,401,463
2026	43,804
2027	32,304
	<u>\$ 8,705,356</u>

The Bank had no brokered deposits at December 31, 2022 and 2021. Overdraft demand deposit accounts reclassified to loans totaled \$4,073 and \$1,050 at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, related party deposits totaled \$25,845,171 and \$15,168,846, respectively. At December 31, 2022 and 2021, the Bank had a concentration of deposits to one unrelated party totaling \$20,184,171 and \$15,602,535, respectively.

### NOTE 7. OTHER BORROWINGS AND AVAILABLE LINES OF CREDIT

The Bank had no borrowings outstanding as of December 31, 2022 and 2021.

The Bank has credit availability with the Federal Home Loan Bank (“FHLB”) that totaled \$52,050,750 at December 31, 2022. The Bank would be required to pledge loans or securities to access the credit availability with the FHLB. No loans or securities were pledged as of December 31, 2022.

The Bank also has available unsecured federal funds lines of credit with two financial institutions totaling \$10,000,000 at December 31, 2022 and a line of credit for repurchase transactions with another financial institution totaling \$5,000,000 at December 31, 2022. There were no advances outstanding on these lines at December 31, 2022.

### NOTE 8. STOCK-BASED COMPENSATION

#### Stock Options

The Bank has a stock option plan which grants key employees and Directors options to purchase shares of common stock of the Bank. Option prices and terms are determined by a committee appointed by the Board of Directors. The plan provides for a total of 1,750,000 options to purchase common shares of the Bank.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8. STOCK-BASED COMPENSATION (Continued)

#### Stock Options (Continued)

Other pertinent information related to the options is as follows:

	Years Ended December 31,			
	2022		2021	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
Under option, beginning of year	629,517	\$ 0.71	634,517	\$ 0.71
Granted	274,564	0.95	-	-
Exercised	-	-	-	-
Forfeited	(7,750)	0.68	(5,000)	0.70
Expired	-	-	-	-
Options outstanding, end of year	<u>896,331</u>	<u>0.79</u>	<u>629,517</u>	<u>0.71</u>
Exercisable, end of year	<u>534,345</u>	<u>0.70</u>	<u>447,339</u>	<u>0.67</u>
Weighted-average fair value of options granted during the year		\$ 0.61		\$ -
Weighted-average remaining contractual life		5.7 years		5.9 years

Information pertaining to options outstanding at December 31, 2022 is as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$0.65	105,500	0.5 years	\$ 0.65	105,500	\$ 0.65
\$0.60	184,000	3.1 years	\$ 0.60	184,000	\$ 0.60
\$0.70	70,000	6.2 years	\$ 0.70	70,000	\$ 0.70
\$0.82	262,267	7.6 years	\$ 0.82	174,845	\$ 0.82
\$0.95	<u>274,564</u>	9.5 years	\$ 0.95	-	\$ 0.95
	<u>896,331</u>			<u>534,345</u>	

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8. STOCK-BASED COMPENSATION (Continued)

#### Stock Options (Continued)

The following table presents information about stock options issued during the year ended December 31, 2022. There were no stock options issued during the year ended December 31, 2021.

	2022
Dividend yield	0.00%
Expected life	6.5 years
Weighted average risk-free interest rate	2.93%
Weighted average expected volatility	67.20%

At December 31, 2022, unrecognized compensation cost related to stock-based payments totaled \$60,844, which is to be expensed over two years. At December 31, 2022 and 2021, the aggregate intrinsic value of options outstanding and of options exercisable was insignificant.

### NOTE 9. INCOME TAXES

Income taxes consist of the following:

	Years Ended December 31,	
	2022	2021
Current	\$ -	\$ -
Deferred	524,956	199,438
Change in valuation allowance	(524,956)	(3,154,774)
Income tax benefit	<u>\$ -</u>	<u>\$ (2,955,336)</u>

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

	Years Ended December 31,	
	2022	2021
Income tax at statutory federal rate	\$ 434,865	\$ 164,084
State tax	77,455	26,962
Other	12,636	8,392
Change in valuation allowance	(524,956)	(3,154,774)
Income tax benefit	<u>\$ -</u>	<u>\$ (2,955,336)</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. INCOME TAXES (Continued)

The components of deferred income taxes are as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Deferred income tax assets:		
Net operating loss carryforward	\$ 6,300,069	\$ 7,051,747
Deferred loan fees	74,104	51,223
Other real estate owned	159,941	92,380
Loan loss reserves	24,096	-
Securities available for sale	872,945	-
Other	515	444
	<u>7,431,670</u>	<u>7,195,794</u>
Valuation allowance	<u>(2,992,258)</u>	<u>(3,517,214)</u>
	<u>4,439,412</u>	<u>3,678,580</u>
Deferred income tax liabilities:		
Depreciation	16,467	24,681
Loan loss reserves	-	103,899
Securities available for sale	-	32,118
	<u>16,467</u>	<u>160,698</u>
Net deferred income taxes	<u>\$ 4,422,945</u>	<u>\$ 3,517,882</u>

At December 31, 2022, the Bank has available net operating loss carryforwards of \$24,622,447 for federal income tax purposes and \$26,291,529 for state income tax purposes. If unused, the carryforwards will expire beginning in 2028.

The federal income tax returns for the Bank for 2019, 2020, and 2021 are subject to examination by the IRS, generally for three years after they are filed.

### NOTE 10. COMMITMENTS AND CONTINGENCIES

#### Loan Commitments

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10. COMMITMENTS AND CONTINGENCIES (Continued)

#### Loan Commitments (Continued)

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

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
Commitments to extend credit	\$ 40,787,842	\$ 33,085,039
Standby letters of credit	20,000	49,631
	<u>\$ 40,807,842</u>	<u>\$ 33,134,670</u>

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

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

#### Contingencies

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

### NOTE 11. CONCENTRATIONS OF CREDIT

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

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

The Bank, as a matter of policy, does not generally extend new credit to any single borrower or group of related borrowers in excess of 25% of statutory capital, as defined, or approximately \$5,935,000.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 12. 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, 2022, no dividends could be declared 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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, the Bank is subject to an institution-specific capital buffer which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. The Bank's capital conservation buffer at December 31, 2022 was 8.0687%. Management believes, as of December 31, 2022 and 2021, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2022, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
<b>December 31, 2022:</b>						
Total Capital to Risk Weighted Assets	\$ 23,742	16.07%	\$ 11,821	8.00%	\$ 14,776	10.00%
Tier 1 Capital to Risk Weighted Assets	\$ 22,230	15.05%	\$ 8,866	6.00%	\$ 11,821	8.00%
CET 1 Capital to Risk Weighted Assets	\$ 22,230	15.05%	\$ 6,649	4.50%	\$ 9,604	6.50%
Tier 1 Capital to Average Assets	\$ 22,230	11.01%	\$ 8,077	4.00%	\$ 10,097	5.00%
<b>December 31, 2021:</b>						
Total Capital to Risk Weighted Assets	\$ 21,055	16.62%	\$ 10,136	8.00%	\$ 12,669	10.00%
Tier 1 Capital to Risk Weighted Assets	\$ 20,102	15.87%	\$ 7,602	6.00%	\$ 10,136	8.00%
CET 1 Capital to Risk Weighted Assets	\$ 20,102	15.87%	\$ 5,702	4.50%	\$ 8,235	6.50%
Tier 1 Capital to Average Assets	\$ 20,102	9.56%	\$ 8,409	4.00%	\$ 10,512	5.00%



## NOTES TO FINANCIAL STATEMENTS

### NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES

#### Determination of Fair Value

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

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

#### Fair Value Hierarchy

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There were no transfers between fair value levels during the years ended December 31, 2022 and 2021.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

#### Assets Measured at Fair Value on a Recurring Basis

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

		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
<b>December 31, 2022</b>					
<b>Assets</b>					
Securities available for sale	\$	-	\$ 34,246,378	\$ -	\$ 34,246,378
<b>December 31, 2021</b>					
<b>Assets</b>					
Securities available for sale	\$	-	\$ 23,914,992	\$ -	\$ 23,914,992

#### *Securities Available for Sale*

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

#### Assets Measured at Fair Value on a Nonrecurring Basis

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

		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
<b>December 31, 2022</b>					
Impaired loans	\$	-	\$ -	\$ -	\$ -
Other real estate owned		-	-	4,355,950	(267,090)
<b>Total</b>	<b>\$</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 4,355,950</b>	<b>\$ (267,090)</b>
<b>December 31, 2021</b>					
Impaired loans	\$	-	\$ -	\$ -	\$ -
Other real estate owned		-	-	4,623,040	(365,202)
<b>Total</b>	<b>\$</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 4,623,040</b>	<b>\$ (365,202)</b>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

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

**Impaired Loans:** The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allocation is established within the allowance for loan losses. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Bank records the impaired loan as nonrecurring Level 2. When an appraised value is used or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the impaired loan as nonrecurring Level 3.

**Other Real Estate Owned:** Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans, is recorded at the fair value less estimated costs to sell upon transfer of the loans to foreclosed assets. Subsequently, other real estate owned is carried at the lower of the carrying value or fair value less costs to sell. Fair values are generally based on third party appraisals of the property and are classified within level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal. Such discounts, which typically constitute zero to ten percent of the appraised value, are inherently subjective and thus are considered significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a write-down is recognized in other expense.

#### Fair Value of Financial Instruments

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

#### Fair Value of Financial Instruments (Continued)

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

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

		December 31,			
		2022		2021	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash, due from banks, and interest-bearing deposits in banks	\$	21,544,172	\$ 21,544,172	\$ 64,800,092	\$ 64,800,092
Securities available for sale		34,246,378	34,246,378	23,914,992	23,914,992
Restricted equity securities		105,700	105,700	96,900	96,900
Loans, net		132,293,458	125,836,215	111,132,598	110,648,796
Accrued interest receivable		790,756	790,756	621,363	621,363
Financial liabilities:					
Deposits		177,104,698	177,006,504	186,390,293	186,243,109
Accrued interest payable		10,674	10,674	43,445	43,445

### NOTE 14. REVENUE FROM CONTRACTS WITH CUSTOMERS

Substantially all of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within service charges on deposit accounts and other service charges and fees on the statements of income. The following table presents the Bank's sources of revenue from contracts with customers for the years ended December 31, 2022 and 2021.

	2022	2021
Service charges on deposit accounts	\$ 46,715	\$ 31,822
Other service charges and fees	160,142	107,366
Total revenue from contracts with customers	<u>\$ 206,857</u>	<u>\$ 139,188</u>

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

**Other service charges and fees:** Other service charges and fees include revenues generated from ATM fees and interchange fees from consumer credit and debit cards. ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month.