

**MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES  
DUBLIN, GEORGIA**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF  
DECEMBER 31, 2023 AND 2022 AND  
INDEPENDENT AUDITOR'S REPORT**

**MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES**

**CONTENTS**

Independent Auditor’s Report.....	1
Consolidated Balance Sheets .....	4
Consolidated Statements of Income.....	6
Consolidated Statements of Comprehensive Income.....	7
Consolidated Statements of Changes in Shareholders’ Equity .....	8
Consolidated Statements of Cash Flows .....	9
Supplementary Information to Consolidated Statements of Cash Flows.....	10
Notes to Consolidated Financial Statements .....	11



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### Independent Auditor's Report

Board of Directors  
Morris State Bancshares, Inc.  
Dublin, Georgia 31021

#### ***Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting***

We have audited the consolidated financial statements of Morris State Bancshares, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years ended 2023, 2022, and 2021, 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 Morris State Bancshares, Inc. and its subsidiaries as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years ended 2023, 2022, and 2021 in accordance with accounting principles generally accepted in the United States of America.

We also have audited Morris State Bancshares, Inc.'s internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Morris State Bancshares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control – Integrated Framework (2013)*, issued by the 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 Audit of the Consolidated Financial Statements and Internal Control Over Financial Reporting section of our report. We are required to be independent of Morris State Bancshares, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Change in Accounting Principle***

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated 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 accompanying Management's Report on Internal Control Over Financial Reporting.

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 Morris State Bancshares, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

***Auditor's Responsibilities for the Audits of the Consolidated 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 consolidated 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 consolidated 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 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Morris State Bancshares, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

***Definition and Inherent Limitations of Internal Control Over Financial Reporting***

An entity'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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. An entity'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 entity; (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 entity 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 entity's assets that could have a material effect on the consolidated 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.

*Richards, Cauley + Associates, LLC*

Dublin, Georgia  
March 20, 2024

**MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31**

**ASSETS**

	<b>2023</b>	<b>2022</b>
<b>Cash and Cash Equivalents</b>		
Cash and Due from Banks	\$ 32,305,873	\$ 39,272,386
Federal Funds Sold	17,268,446	21,007,642
	<b>49,574,319</b>	<b>60,280,028</b>
Interest-Bearing Time Deposits in Other Banks	100,000	100,000
Debt Securities Available for Sale, at Fair Value	7,875,780	-
Debt Securities Held to Maturity, at Cost,		
Net of Allowance for Credit Losses of \$87,440 in 2023	240,205,635	259,677,508
Federal Home Loan Bank Stock, Restricted, at Cost	1,029,600	1,578,400
Equity Investment, at Cost	3,500,000	3,500,000
Loans Held for Sale	-	1,939,500
Loans, Net of Unearned Income	1,063,772,222	1,049,948,789
Allowance for Credit Losses - Loans	(14,291,923)	(13,629,255)
<b>Loans, Net</b>	<b>1,049,480,299</b>	<b>1,038,259,034</b>
Bank Premises and Equipment, Net	13,188,353	13,865,942
Right of Use Asset for Operating Lease, Net	1,126,156	1,529,545
Goodwill	9,361,704	9,361,704
Intangible Assets, Net	1,679,990	2,023,540
Other Real Estate and Foreclosed Assets	3,611,235	3,715,202
Accrued Interest Receivable	6,424,087	5,341,616
Cash Surrender Value of Life Insurance	15,230,065	14,333,544
Investment in Tax Credits	10,806,898	3,936,336
Other Assets	11,711,587	8,306,989
	<b>73,140,075</b>	<b>62,414,418</b>
<b>Total Assets</b>	<b>\$ 1,424,905,708</b>	<b>\$ 1,425,809,388</b>

See accompanying notes which are an integral part of these consolidated financial statements.

**MORRIS STATE BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<b>2023</b>	<b>2022</b>
<b>Deposits</b>		
Noninterest Bearing	\$ 297,373,659	\$ 329,828,789
Interest Bearing	910,959,803	876,627,708
<b>Total Deposits</b>	<b>1,208,333,462</b>	<b>1,206,456,497</b>
<b>Liabilities</b>		
Other Borrowed Funds	27,151,284	48,826,681
Lease Liability for Operating Lease	1,126,156	1,529,545
Accrued Interest Payable	1,016,318	148,977
Accrued Expenses and Other Liabilities	9,145,272	3,911,285
<b>Total Liabilities</b>	<b>1,246,772,492</b>	<b>1,260,872,985</b>
<b>Shareholders' Equity</b>		
Common Stock, \$1 Par Value, Authorized 10,000,000 Shares, 2,179,210 Issued and 2,115,920 Outstanding in 2023 and 2,169,557 Issued and 2,112,644 Outstanding in 2022	2,179,210	2,169,557
Paid-In Capital Surplus	41,635,204	40,928,731
Retained Earnings	135,107,041	121,426,245
Accumulated Other Comprehensive Income	1,968,846	2,608,086
Treasury Stock, at Cost 63,290 Shares in 2023 and 56,912 Shares in 2022	(2,757,085)	(2,196,216)
<b>Total Shareholders' Equity</b>	<b>178,133,216</b>	<b>164,936,403</b>
 <b>Total Liabilities and Shareholders' Equity</b>	 <b>\$ 1,424,905,708</b>	 <b>\$ 1,425,809,388</b>

See accompanying notes which are an integral part of these consolidated financial statements.

**MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Interest and Dividend Income</b>			
Loans, Including Fees	\$ 62,022,894	\$ 53,034,139	\$ 51,885,652
Interest on Debt Securities	8,196,152	7,294,294	5,895,358
Income on Federal Funds Sold	627,235	186,056	74,911
Income on Time Deposits Held in Other Banks	11,433	5,881	3,436
Other Interest and Dividend Income	1,502,077	1,012,196	304,083
<b>Total Interest and Dividend Income</b>	<b>72,359,791</b>	<b>61,532,566</b>	<b>58,163,440</b>
<b>Interest Expense</b>			
Deposits	18,599,665	4,530,637	2,338,787
Interest on Other Borrowed Money	2,148,020	1,745,537	1,563,855
Interest on Federal Funds Purchased	842	3,221	72
<b>Total Interest Expense</b>	<b>20,748,527</b>	<b>6,279,395</b>	<b>3,902,714</b>
<b>Net Interest Income Before Provision for Loan Losses</b>	<b>51,611,264</b>	<b>55,253,171</b>	<b>54,260,726</b>
Provision for Credit Losses - Debt Securities Held to Maturity	(8,561)	-	-
Provision for Credit Losses - Loans	800,000	5,100,000	2,000,000
Provision for Credit Losses - Off Balance Sheet Credit Exposures	(340,964)	-	-
Provision for Credit Losses	450,475	5,100,000	2,000,000
<b>Net Interest Income After Provision for Credit Losses</b>	<b>51,160,789</b>	<b>50,153,171</b>	<b>52,260,726</b>
<b>Noninterest Income</b>			
Service Charges on Deposit Accounts	2,143,963	2,417,800	1,983,697
Other Service Charges, Commissions and Fees	1,526,333	1,439,536	1,532,664
Gain on Sales of Loans	-	-	37,683
Increase in CSV of Life Insurance	384,867	355,593	357,508
Other Income	753,550	379,926	601,072
<b>Total Noninterest Income</b>	<b>4,808,713</b>	<b>4,592,855</b>	<b>4,512,624</b>
<b>Noninterest Expenses</b>			
Salaries	13,494,877	14,351,568	14,407,754
Employee Benefits	4,347,422	4,674,727	4,269,912
Net Occupancy Expense	2,855,872	3,019,729	2,751,349
Equipment Rental and Depreciation of Equipment	138,050	94,992	115,044
Impairment Recognized on Other Real Estate Held for Sale	314,562	-	188,500
Loss (Gain) on Sales and Calls of Securities	-	326	(299,870)
Loss (Gain) on Sales of Foreclosed Assets and Other Real Estate	7,221	(608,935)	(26,110)
Loss (Gain) on Sales of Premises and Equipment	54,269	201,009	-
Other Expenses	13,276,107	10,893,040	9,138,597
<b>Total Noninterest Expenses</b>	<b>34,488,380</b>	<b>32,626,456</b>	<b>30,545,176</b>
<b>Income Before Income Taxes</b>	<b>21,481,122</b>	<b>22,119,570</b>	<b>26,228,174</b>
Provision for Income Taxes	(2,148,933)	(1,010,940)	(2,263,886)
<b>Net Income</b>	<b>\$ 19,332,189</b>	<b>\$ 21,108,630</b>	<b>\$ 23,964,288</b>
<b>Earnings Per Common Share</b>			
Basic	\$ 9.14	\$ 9.98	\$ 11.40
Diluted	\$ 9.14	\$ 9.98	\$ 11.40

See accompanying notes which are an integral part of these consolidated financial statements.



**MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31**

	2023	2022	2021
<b>Net Income</b>	<b>\$ 19,332,189</b>	<b>\$ 21,108,630</b>	<b>\$ 23,964,288</b>
<b>Other Comprehensive Income (Loss)</b>			
Unrealized Holding Losses on Available for Sale Debt Securities	(10,605)	(76,067)	(3,468,546)
Reclassification Adjustment for Amortization of Unrealized Holding Losses From the Transfer of Securities From Available for Sale to Held to Maturity	(793,883)	(932,206)	-
Reclassification Adjustment for (Gains) Losses Realized in Income	-	326	(299,870)
<b>Net Unrealized Gains (Losses)</b>	<b>(809,165)</b>	<b>(1,007,947)</b>	<b>(3,768,416)</b>
Tax Effect	169,925	211,669	791,399
Total Other Comprehensive Loss	(639,240)	(796,278)	(2,977,017)
<b>Total Comprehensive Income</b>	<b>\$ 18,692,949</b>	<b>\$ 20,312,352</b>	<b>\$ 20,987,271</b>

See accompanying notes which are an integral part of these consolidated financial statements.

**MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021**

	Common Stock	Paid-In Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
<b>Balance - December 31, 2020</b>	\$ 2,144,766	\$ 39,292,064	\$ 83,266,070	\$ 6,381,381	\$ (1,665,197)	\$ 129,419,084
Issuance of Common Stock	14,382	1,057,075	-	-	-	1,071,457
Purchase of Treasury Stock	-	-	-	-	(28,347)	(28,347)
Net Income	-	-	23,964,288	-	-	23,964,288
Other Comprehensive Loss	-	-	-	(2,977,017)	-	(2,977,017)
Cash Dividends	-	-	(3,190,523)	-	-	(3,190,523)
<b>Balance - December 31, 2021</b>	2,159,148	40,349,139	104,039,835	3,404,364	(1,693,544)	148,258,942
Issuance of Common Stock	6,582	558,136	-	-	-	564,718
Issuance of Restricted Stock, Net	3,827	(95,230)	-	-	-	(91,403)
Stock Based Compensation Expense	-	116,686	-	-	-	116,686
Purchase of Treasury Stock	-	-	-	-	(502,672)	(502,672)
Net Income	-	-	21,108,630	-	-	21,108,630
Other Comprehensive Loss	-	-	-	(796,278)	-	(796,278)
Cash Dividends	-	-	(3,722,220)	-	-	(3,722,220)
<b>Balance - December 31, 2022</b>	2,169,557	40,928,731	121,426,245	2,608,086	(2,196,216)	164,936,403
Cumulative Change in						
Accounting Principle	-	-	(1,926,890)	-	-	(1,926,890)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	2,169,557	40,928,731	119,499,355	2,608,086	(2,196,216)	163,009,513
Issuance of Common Stock	4,040	377,740	-	-	-	381,780
Issuance of Restricted Stock, Net	5,613	43,234	-	-	-	48,847
Stock Based Compensation Expense	-	285,499	-	-	-	285,499
Purchase of Treasury Stock	-	-	-	-	(560,869)	(560,869)
Net Income	-	-	19,332,189	-	-	19,332,189
Other Comprehensive Loss	-	-	-	(639,240)	-	(639,240)
Cash Dividends	-	-	(3,724,503)	-	-	(3,724,503)
<b>Balance - December 31, 2023</b>	<b>\$ 2,179,210</b>	<b>\$ 41,635,204</b>	<b>\$ 135,107,041</b>	<b>\$ 1,968,846</b>	<b>\$ (2,757,085)</b>	<b>\$ 178,133,216</b>

See accompanying notes which are an integral part of these consolidated financial statements.

**MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Cash Flows from Operating Activities</b>			
Net Income	\$ 19,332,189	\$ 21,108,630	\$ 23,964,288
Adjustments to Reconcile Net Income to			
Net Cash Provided (Used) by Operating Activities			
Provision for Credit Losses	450,475	5,100,000	2,000,000
Depreciation	844,810	915,340	946,891
Impairment Recognized on Other Real Estate Held for Sale	314,562	-	188,500
(Gain) Loss on Sales of Foreclosed Assets,			
Other Real Estate and Property, Net	61,490	(407,926)	(26,110)
Gain on Sales of Loans	-	-	(37,683)
Net Amortization on Debt Securities	1,283,723	1,015,422	1,705,817
(Gain) Loss on Sales/Calls of Debt Securities	-	326	(299,870)
Deferred Tax	(784,565)	(402,680)	(1,051,467)
Increase in CSV Life Insurance	(384,867)	(355,593)	(357,508)
Amortization of Intangible Assets	343,550	345,850	347,987
Amortization of Operating Lease Right-of-Use Assets	403,389	382,388	286,016
Amortization of Operating Lease Liabilities	(403,389)	(382,388)	(286,016)
Amortization of Investment in Tax Credit	2,733,248	405,126	129,452
Stock Based Compensation Expense	285,499	116,686	-
Changes in			
Loans Held for Sale	1,939,500	700,563	2,914,883
Accrued Income and Other Assets	(3,117,035)	(3,062,450)	827,729
Accrued Expenses and Other Liabilities	3,568,508	(2,927,681)	3,233,478
Net Cash Provided by Operating Activities	<u>26,871,087</u>	<u>22,551,613</u>	<u>34,486,387</u>
<b>Cash Flows from Investing Activities</b>			
Net Change in Loans to Customers	(14,533,888)	(128,521,540)	(98,551,385)
Proceeds from Sales of Loans	-	-	384,456
Net Change in Interest-Bearing Time Deposits in Other Banks	-	250,000	-
Purchase of Available Sale Securities	(7,866,369)	-	(88,288,319)
Proceeds from Sales of Available for Sale Securities	-	-	7,555,952
Proceeds from Maturities/Calls/Paydowns of Available for Sale Securities	-	-	38,128,266
Purchase of Held to Maturity Securities	-	(30,211,429)	(753,369)
Proceeds from Maturities/Calls/Paydowns of Held to Maturity Securities	17,284,259	24,611,602	239,327
Proceeds from Redemption of Federal Home Loan Bank Stock	548,800	-	275,400
Purchase of Federal Home Loan Bank Stock	-	(954,100)	-
Purchase of Investment Tax Credit	(8,806,764)	(3,147,349)	(1,323,564)
Purchase of CSV Life Insurance	(511,654)	-	-
Property and Equipment Expenditures	(221,490)	(413,672)	(536,785)
Proceeds from Sales of Property and Equipment	-	369,972	-
Proceeds from Sales of Other Real Estate and Repossessed Assets	306,937	905,491	270,505
Net Cash Used by Investing Activities	<u>(13,800,169)</u>	<u>(137,111,025)</u>	<u>(142,599,516)</u>
<b>Cash Flows from Financing Activities</b>			
Net Change in Deposits	1,876,965	(17,747,949)	137,017,433
Proceeds from Other Borrowed Funds	-	20,000,000	-
Repayment of Other Borrowed Funds	(21,750,000)	-	-
Purchase of Treasury Stock	(560,869)	(502,672)	(28,347)
Proceeds from Issuance of Common Stock	381,780	564,718	1,071,457
Cash Dividends Paid	(3,724,503)	(3,722,220)	(3,190,523)
Net Cash Provided (Used) by Financing Activities	<u>(23,776,627)</u>	<u>(1,408,123)</u>	<u>134,870,020</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(10,705,709)</u>	<u>(115,967,535)</u>	<u>26,756,891</u>
<b>Cash and Cash Equivalents, Beginning</b>	<u>60,280,028</u>	<u>176,247,563</u>	<u>149,490,672</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 49,574,319</u>	<u>\$ 60,280,028</u>	<u>\$ 176,247,563</u>

See accompanying notes which are an integral part of these consolidated financial statements.

**MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Cash Payments</b>			
Interest on Deposits	<u>\$ 17,729,107</u>	<u>\$ 4,529,247</u>	<u>\$ 2,475,199</u>
Interest on Borrowings	<u>\$ 2,152,079</u>	<u>\$ 1,740,641</u>	<u>\$ 1,563,004</u>
Income Taxes	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 650,000</u>
<b>Noncash Items</b>			
Changes in Unrealized Gain/Loss on Securities Available for Sale	<u>\$ (809,165)</u>	<u>\$ (1,007,947)</u>	<u>\$ (3,768,416)</u>
Transfer of Loans to Other Real Estate and Foreclosed Assets	<u>\$ 531,508</u>	<u>\$ 235,897</u>	<u>\$ 5,749,910</u>
Transfer of Other Real Estate and Foreclosed Assets to Loans	<u>\$ -</u>	<u>\$ 1,556,235</u>	<u>\$ 126,174</u>
Initial Recognition of Operating Lease Right-of-Use Assets	<u>\$ -</u>	<u>\$ 672,107</u>	<u>\$ 884,834</u>
Initial Recognition of Operating Lease Liabilities	<u>\$ -</u>	<u>\$ (672,107)</u>	<u>\$ (884,834)</u>
Transfer of Securities from Available for Sale to Held to Maturity	<u>\$ -</u>	<u>\$ 244,979,034</u>	<u>\$ -</u>
Issuance of Restricted Stock, Net of Forfeitures	<u>\$ 48,847</u>	<u>\$ (91,403)</u>	<u>\$ -</u>

See accompanying notes which are an integral part of these consolidated financial statements.

# MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) Summary of Significant Accounting Policies

The accounting and reporting policies of Morris State Bancshares, Inc. and its Subsidiaries, collectively known as (the Company), conform with generally accepted accounting principles in the United States of America (GAAP) and with general practices within the banking industry. The following is a description of the more significant of those policies the Company follows in preparing and presenting its financial statements.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Morris State Bancshares, Inc. and its wholly owned subsidiaries, Morris Bank (the Bank) and IMOR Properties LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

#### *Reporting Entity*

The Company was formed on July 1, 1989, as Morris State Bancshares, Inc., and operates as a bank holding company with one bank subsidiary. At December 31, 2023, the Company owned 100 percent of Morris Bank, Dublin, Georgia. The Bank provides a variety of financial services to individuals and small businesses through its offices in middle Georgia. The Bank offers a full range of commercial and personal loan products. The Bank makes loans to individuals for purposes such as home mortgage financing, personal vehicles and various consumer purchases and other personal and family needs. The Bank makes commercial loans to businesses for purposes such as providing equipment and machinery purchases, commercial real estate purchases and working capital. The Bank offers a full range of deposit services that are typically available from financial institutions, including Negotiable Order of Withdrawal (NOW) accounts, demand, savings, and other time deposits. In addition, retirement accounts such as Individual Retirement Accounts are available. All deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to the maximum amount currently permitted by law.

During 2015, the Company established IMOR Properties, LLC with 100 percent ownership. IMOR Properties, LLC was established by the Company as a subsidiary for holding real property.

#### *Changes in Accounting Principles and Effects of New Accounting Pronouncements*

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 costs. 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). 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 costs 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.

## (1) Summary of Significant Accounting Policies (Continued)

### *Changes in Accounting Principles and Effects of New Accounting Pronouncements(Continued)*

The transition adjustment of the adoption of CECL included no net change in the allowance for credit losses on loans, and an increase in the allowance for credit losses on off-balance sheet exposure of \$2,340,824, which is recorded within accrued expenses and other liabilities. The Company recorded an allowance for credit losses for held to maturity securities of \$98,277, which is presented as a reduction to held to maturity securities outstanding. The Company recorded a net decrease to retained earnings of \$1,926,890 as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted below, net of the applicable deferred tax assets recorded.

The following table illustrates the impact of ASC 326.

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
<b>Assets</b>			
Allowance for credit losses on debt securities held-to-maturity			
Commercial Mortgage Backed Securities	\$ 44,256	\$ -	\$ 44,256
State, County and Municipal Securities	41,412	-	41,412
Other Debt Securities	10,333	-	10,333
	<u>96,001</u>	<u>-</u>	<u>96,001</u>
<b>Loans</b>			
Allowance for Credit Losses on Loans			
Commercial	2,925,886	2,925,886	-
Commercial Real Estate	7,433,855	7,433,855	-
Consumer	376,394	376,394	-
Residential Real Estate	2,261,464	2,261,464	-
Agiculture	619,863	619,863	-
Other	11,793	11,793	-
	<u>13,629,255</u>	<u>13,629,255</u>	<u>-</u>
Deferred Tax Assets	<u>4,065,126</u>	<u>3,645,826</u>	<u>419,300</u>
<b>Liabilities</b>			
Allowance for Credit Losses on Off-Balance Sheet Exposure			
	<u>2,250,189</u>	<u>-</u>	<u>2,250,189</u>
<b>Equity</b>			
Retained Earnings	<u>\$ 119,499,355</u>	<u>\$ 121,426,245</u>	<u>\$ (1,926,890)</u>

## **(1) Summary of Significant Accounting Policies (Continued)**

### *Changes in Accounting Principles and Effects of New Accounting Pronouncements(Continued)*

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosure*, which eliminated the recognition and measurement guidance for Troubled Debt Restructurings (TDR) by creditors in ASC 310-40. The ASU also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. The amendments in the ASU are effective for fiscal years beginning after December 15, 2022. The Company adopted ASU 2022-02 using the prospective method. As a result, the Company will continue to apply legacy TDR guidance to the existing pool of TDR designated loans until those loans are settled. The adoption of this standard did not have a material effect on the Company’s operating results or financial condition.

### *Acquisition Accounting*

Acquisitions are accounted for under the purchase method of accounting. Purchased assets and assumed liabilities are recorded at their estimated fair values as of the purchase date. Any identifiable intangible assets are also recorded at fair value. When the fair value of the assets purchased exceeds the fair value of liabilities assumed, it results in a “bargain purchase gain.” If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available.

All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity). Because deposit liabilities and the related customer relationship intangible assets may be exchanged in a sale or exchange transaction, the intangible asset associated with the depositor relationship is considered identifiable.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date and prohibit the carryover of the related allowance for credit losses. When the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The Company must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for credit losses. Subsequent increases in cash flows result in a reversal of the provision for credit losses to the extent of prior provisions and adjust accretable discount if no prior provisions have been made. This increase in accretable discount will have a positive impact on interest income. In addition, purchased loans without evidence of credit deterioration are also handled under this method.

## **(1) Summary of Significant Accounting Policies (Continued)**

### *Debt Securities*

The classification of debt securities is determined at the date of purchase. Gains or losses on the sale of debt securities are recognized on a specific identification basis.

Debt securities available for sale, are recorded at fair value with unrealized gains or losses excluded from earnings and reported as a component of shareholders' equity. Debt securities available for sale will be used as a part of the Company's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, and other factors.

Held to maturity debt securities, are stated at cost, net of the amortization of premium and the accretion of discount and the allowance for credit losses. The Company intends and has the ability to hold such securities on a long-term basis or until maturity.

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. Mortgage-backed securities are carried at unpaid principal balances, adjusted for unamortized premiums and unearned discounts.

The market value of debt securities is generally based on quoted market prices. If a quoted market price is not available, market value is estimated using quoted market prices for similar debt securities.

Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

### Allowance for Credit Losses - Available for Sale Debt Securities

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

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

Accrued interest receivable on available for sale debt securities has been excluded from the estimate of credit losses.



## **(1) Summary of Significant Accounting Policies (Continued)**

### *Allowance for Credit Losses – Held to Maturity Debt Securities*

The Company measures expected credit losses on held to maturity debt securities on a collective basis by major security type. The Company classifies the held to maturity portfolio into the following major security types: mortgage backed residential and commercial as well as nonmortgage backed US treasury securities, state, county, and municipal securities and other. Nearly all the mortgage backed are residential and commercial debt securities either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. The remaining mortgage-backed debt securities, all state, county and municipal securities and all corporate debt securities are evaluated for credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Accrued interest receivable on held to maturity debt securities has been excluded from the estimate of credit losses.

### *Loans and Interest Income*

Loans are stated at the amount of unpaid principal, reduced by net deferred loan fees, unearned discounts, and a valuation allowance for possible credit losses. Interest on simple interest installment loans and other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are generally placed on nonaccrual status when full payment of principal or interest is in doubt, or when they are past due 90 days as to either principal or interest. Senior management may grant a waiver from nonaccrual status if a past due loan is well secured and in process of collection. A nonaccrual loan may be restored to accrual status when all principal and interest amounts contractually due, including payments in arrears, are reasonably assured of repayment within a reasonable period, and there is a sustained period of performance by the borrower in accordance with the contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

### *Allowance for Credit Losses - Loans*

The allowance for credit losses (ACL) is available to absorb losses inherent in the credit extension process. The entire allowance is available to absorb losses related to the loan and lease portfolio. Credit exposures deemed to be uncollectible are charged against the allowance for credit losses. Recoveries of previously charged-off amounts are credited to the allowance for credit losses. Additions to the allowance for credit losses are made by charges to the provision for credit losses.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. For the collectively evaluated pools, the Company segments the loan portfolio by call report classification. The Company utilizes the remaining life method for estimating credit losses for each of the loan pools.

## **(1) Summary of Significant Accounting Policies (Continued)**

### *Allowance for Credit Losses – Loans (Continued)*

Loans that do not share risk characteristics are evaluated on an individual loan basis. Loans evaluated individually are excluded from the collectively evaluated pool. An ACL for an individually evaluated loan is recorded when the amortized cost basis of the loan exceeds the discounted estimated cash flows using the loan's initial effective interest rate or the fair value, less estimated costs to sell, of the collateral for certain collateral dependent loans.

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 either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or 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.

### *Allowance for Credit Losses on Off-Balance Sheet Credit Exposures*

The Company maintains an allowance for off-balance sheet credit exposures, which would include any unadvanced amounts on lines of credit and any letters of credit provided to borrowers. The allowance is carried as a liability and is included in accrued expenses and other liabilities on the Company's consolidated balance sheet. The liability was \$1,909,225 and \$0 as of December 31, 2023 and 2022, respectively. Adjustments to the allowance for credit losses for off-balance sheet exposures is recorded through the provision for credit losses - off-balance sheet credit exposures.

The Company follows the same methodology as the allowance for credit losses for loans when calculating the allowance for off-balance sheet credit exposures, with the exception of estimating the likelihood that funding will occur. Using the weighted average remaining maturity method, a historical loss ratio and qualitative factor are combined to produce an adjusted loss ratio, which is multiplied by the amount at risk for each loan pool. The allocations are summed to arrive at the total allowance for off-balance sheet credit exposures.

### *Premises and Equipment*

Land is carried at cost. Other premises and equipment are stated at cost, less accumulated depreciation. Depreciation is charged to operating expenses over the estimated useful lives of the assets and is computed on the straight-line method. In general, estimated lives for buildings are up to 40 years, furniture, and equipment (including vehicles) useful lives range from five to 20 years, and the lives of software and computer related equipment range from three to five years. Leasehold improvements are amortized over the life of the related lease, or the related assets, whichever is shorter. Expenditures for major improvements of the Company's premises and equipment are capitalized and depreciated over their estimated useful lives. Minor repairs, maintenance and improvements are charged to operations as 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 earnings.

## **(1) Summary of Significant Accounting Policies (Continued)**

### *Goodwill and Intangible Assets*

Goodwill represents the excess of cost over the fair value of the net assets purchased in business combinations. Goodwill is required to be tested annually for impairment or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of an impairment, the amount by which the carrying amount exceeds the fair value is charged to earnings. At December 31, 2023, the Company's annual testing identified no impairment; accordingly, no impairment was recorded for the year.

Intangible assets consist of core deposit premiums acquired in connection with business combinations and are based on the established value of acquired customer deposits. The core deposit premium is initially recognized based on a valuation performed as of the consummation date and is amortized over an estimated useful life of ten years. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

### *Other Real Estate*

Real estate properties acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cost basis. After acquisition, foreclosed real estate is carried at the lower of carrying amount or fair value less estimated selling costs. Fair value is estimated through current appraisals, where practical, or an inspection and a comparison of the property securing the loan with similar properties in the area by a licensed appraiser, a real estate broker or management. Subsequent provisions for losses, which may result from the ongoing periodic valuations of these properties, are charged to expense in the period in which they are identified. Carrying costs, such as maintenance and taxes, are charged to expense as incurred.

### *Cash Surrender Value of Life Insurance (BOLI)*

The Bank has purchased life insurance on the lives of certain Bank officers. The beneficial aspects of these life insurance policies are tax-free earnings and a tax-free death benefit, which are realized by the Bank as the owner of the policies. The cash surrender value of these policies is included as an asset on the balance sheets, and any increases in cash surrender value are recorded as noninterest income in the consolidated statements of income

### *Leases*

Leases are classified as operating or finance leases at the lease commencement date. The Company leases certain locations and equipment. The Company records leases on the balance sheet in the form of a lease liability for the present value of the future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment on the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal.

## **(1) Summary of Significant Accounting Policies (Continued)**

### *Income Taxes*

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Investment tax credits are accounted for by the flow-through method whereby they reduce income taxes currently payable and the provision for income taxes in the period the assets giving rise to such credits are placed in service. To the extent such credits are not currently utilized on the Company's tax return, deferred tax assets, subject to considerations about the need for a valuation allowance, are recognized for the carryforward amount.

The Company recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The amount of unrecognized tax benefits is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination.

The Company recognizes interest and penalties related to income tax matters in income tax expense.

### *Cash and Cash Equivalents*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, highly liquid debt instruments purchased with an original maturity of three months or less, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

### *Securities Sold Under Agreement to Repurchase*

Securities sold under agreement to repurchase are secured borrowings from customers and are treated as financing activities which are carried at the amounts at which the securities will be subsequently reacquired as specified in the respective agreements. The Bank had no such items outstanding as of December 31, 2023 or 2022.

### *Use of Estimates*

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

## **(1) Summary of Significant Accounting Policies (Continued)**

### *Use of Estimates (Continued)*

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

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

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.

### *Advertising Costs*

It is the policy of the Company to expense advertising costs as they are incurred. The Company does not engage in any direct-response advertising and accordingly has no advertising costs reported as assets on its consolidated balance sheets. Amounts charged to advertising expense for the years ended December 31, 2023, 2022 and 2021 were \$831,379, \$885,724, and \$822,515, respectively.

### *Stock Compensation Plans*

The Company has a 401(k) and employee stock ownership plan covering substantially all of its employees meeting age and length of service requirements. Contributions to the plan are made at the discretion of the board of directors. The Company also has a stock ownership plan which grants stocks to selected executives and other key employees. Stock grants under this plan vest over a period of three or five years. In 2018 the Company adopted an equity incentive plan. Under this plan, the Company has granted equity incentive units, stock appreciation rights, as well as, restricted stock units.

### *Earnings Per Common Share*

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed conversion. Potentially dilutive common shares are limited to preferred shares outstanding that would be converted to common shares upon change in control of the Company. As such, the average number of common shares outstanding used to calculate diluted earnings per share equals the total number of common and preferred shares outstanding less any shares held in treasury.

## (1) Summary of Significant Accounting Policies (Continued)

### *Earnings Per Common Share*

Earnings per common share have been computed based on the following for the years ended December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net Income Applicable to Common Shares	<u>\$ 19,332,189</u>	<u>\$ 21,108,630</u>	<u>\$ 23,964,288</u>
Average Number of Common Shares Outstanding	<u>2,116,078</u>	<u>2,115,032</u>	<u>2,102,359</u>
Effect of Dilutive Options, Warrants, Etc.	<u>-</u>	<u>-</u>	<u>-</u>
Average Number of Common Shares Outstanding Used to Calculate Diluted Earnings Per Common Share	<u>2,116,078</u>	<u>2,115,032</u>	<u>2,102,359</u>

### *Comprehensive Income*

GAAP generally requires that recognized revenues, expenses, gains, and losses be included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheets, such items along with net earnings, are components of comprehensive income. The adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (*ASC*) *Topic 220, Comprehensive Income*, had no effect on the Company's net income or shareholders' equity. The Company presents comprehensive income in a separate consolidated statement of comprehensive income.

### *Reclassifications*

Certain accounts in the 2022 consolidated financial statements have been reclassified to conform to the presentation of current-year consolidated financial statements.

### *Federal Home Loan Bank Stock*

Investment in stock of a Federal Home Loan Bank (FHLB) is required for every federally insured institution that utilizes its services. FHLB stock is considered restricted, as defined in FASB *ASC Topic 320, Investments - Debt and Equity Securities*; accordingly, the provisions of *ASC Topic 320* are not applicable to this investment. The FHLB stock is reported in the consolidated financial statements at cost. Dividend income is recognized when earned.

### *Equity Investment*

In December 2020, the Bank made a \$3,500,000 perpetual investment in The Change Company. The Change Company is a Community Reinvestment Act (CRA) credit origination firm, that will assist the Bank in meeting its CRA requirements. The Bank's investment is less than 20 percent and has been recorded at cost.

## (2) Debt Securities

Debt equity securities have been classified in the consolidated balance sheets according to management's intent. The following table reflects the amortized cost and estimated market values of investments in debt securities held at December 31, 2023. In addition, gross unrealized gains and gross unrealized losses are disclosed as of December 31, 2023.

The book and market values of securities available for sale were:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Market Value</u>
Nonmortgage Backed Debt Securities				
U.S. Treasury Securities	<u>\$ 3,911,434</u>	<u>\$ -</u>	<u>\$ (10,614)</u>	<u>\$ 3,900,820</u>
Mortgage Backed Debt Securities				
Commercial Mortgage Backed Securities	<u>3,974,951</u>	<u>9</u>	<u>-</u>	<u>3,974,960</u>
	<u><u>\$ 7,886,385</u></u>	<u><u>\$ 9</u></u>	<u><u>\$ (10,614)</u></u>	<u><u>\$ 7,875,780</u></u>

As of December 31, 2022, the Company had no debt securities classified as available for sale.

In January 2022, the Company transferred the entire investment portfolio with an estimated fair value of \$244,979,034 from the available for sale to held to maturity classification. The transfer of debt securities into the held to maturity category was recorded at fair value on the date of transfer. The net unrealized gains on the transfer date are included in accumulated other comprehensive income and are being accreted over the remaining lives of the securities. This accretion is expected to offset the amortization of the related premium created by the investment securities transfer into the held to maturity classification, with no expected impact on future net income.

The book and market values of securities held to maturity as of December 31 were as follows:

	<u>2023</u>				
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Market Value</u>	<u>Allowance for Credit Losses</u>
Nonmortgage Backed Debt Securities of					
U.S. Treasury Securities	\$ 18,568,874	\$ -	\$ (1,514,440)	\$ 17,054,434	\$ -
State, County, and Municipal Securities	125,879,085	17,210	(26,748,689)	99,147,606	47,478
Other Debt Securities	15,169,014	-	(1,339,915)	13,829,099	9,223
Total Nonmortgage Backed Debt Securities	<u>159,616,973</u>	<u>17,210</u>	<u>(29,603,044)</u>	<u>130,031,139</u>	<u>56,701</u>
Residential Mortgage Backed Securities	21,454,758	-	(2,738,908)	18,715,850	-
Commercial Mortgage Backed Securities	59,221,344	-	(7,451,288)	51,770,056	30,739
Total Mortgage Backed Securities	<u>80,676,102</u>	<u>-</u>	<u>(10,190,196)</u>	<u>70,485,906</u>	<u>30,739</u>
	<u><u>\$ 240,293,075</u></u>	<u><u>\$ 17,210</u></u>	<u><u>\$ (39,793,240)</u></u>	<u><u>\$ 200,517,045</u></u>	<u><u>\$ 87,440</u></u>

Amortized costs presented above include \$2,502,581 of unamortized gains related to the transfer from available for sale to held to maturity.

**(2) Debt Securities (Continued)**

	2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
Nonmortgage Backed Debt Securities of				
U.S. Treasury Securities	\$ 20,649,350	\$ -	\$ (1,568,490)	\$ 19,080,860
State, County, and Municipal Securities	128,721,879	33,230	(26,235,422)	102,519,687
Other Debt Securities	15,231,731	16,590	(896,728)	14,351,593
<b>Total Nonmortgage Backed Debt Securities</b>	<b>164,602,960</b>	<b>49,820</b>	<b>(28,700,640)</b>	<b>135,952,140</b>
Residential Mortgage Backed Securities	22,812,779	-	(2,288,508)	20,524,271
Commercial Mortgage Backed Securities	72,261,769	45,426	(3,609,122)	68,698,073
<b>Total Mortgage Backed Securities</b>	<b>95,074,548</b>	<b>45,426</b>	<b>(5,897,630)</b>	<b>89,222,344</b>
	<b>\$ 259,677,508</b>	<b>\$ 95,246</b>	<b>\$ (34,598,270)</b>	<b>\$ 225,174,484</b>

Amortized costs presented above include \$3,296,464 of unamortized gains related to the transfer from available for sale to held to maturity.

The book and market values of pledged securities were \$77,944,342 and \$66,589,388 at December 31, 2023, respectively and \$85,028,733 and \$77,680,520 at December 31, 2022, respectively.

The proceeds from sales/calls of securities and the associated gains and losses are as follows as of December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Proceeds	\$ -	\$ -	\$ 7,555,952
Gross Gains	-	-	383,391
Gross Losses	-	326	83,521

Taxable interest income on securities was \$6,362,885, \$5,267,862 and \$4,395,513 for the years ended December 31, 2023, 2022 and 2021, respectively. Interest income exempt from Federal income tax was \$1,833,267, \$2,026,432 and \$1,499,845 for the years ended December 31, 2023, 2022 and 2021 respectively.



## (2) Debt Securities (Continued)

The amortized cost and estimated market value of debt securities for available for sale and held to maturity at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	2023	
	Available for Sale	
	Amortized Cost	Estimated Market Value
Nonmortgage Backed Securities		
Due In One Year or Less	\$ 992,719	\$ 991,055
Due After One Year Through Five Years	2,918,715	2,909,765
Due After Five Years Through Ten Years	-	-
Due After Ten Years	-	-
Total Nonmortgage Backed Securities	3,911,434	3,900,820
Mortgage Backed Securities		
Commercial Mortgage Backed Securities	3,974,951	3,974,960
	\$ 7,886,385	\$ 7,875,780
	2023	
	Held to Maturity	
	Amortized Cost	Estimated Market Value
Nonmortgage Backed Securities		
Due In One Year or Less	\$ 5,421,410	\$ 5,321,957
Due After One Year Through Five Years	32,420,201	30,092,624
Due After Five Years Through Ten Years	32,756,002	28,213,318
Due After Ten Years	89,019,360	66,403,240
Total Nonmortgage Backed Securities	159,616,973	130,031,139
Mortgage Backed Securities		
Residential Mortgage Backed Securities	21,454,758	18,715,850
Commercial Mortgage Backed Securities	59,221,344	51,770,056
Total Mortgage Backed Securities	80,676,102	70,485,906
	\$ 240,293,075	\$ 200,517,045

## (2) Debt Securities (Continued)

As of December 31, 2023, the Company held three available for sale U.S. Treasury Securities with an unrealized loss of \$10,614 for less than twelve months.

The market value is established by an independent pricing service as of the approximate dates indicated. The differences between the book value and market value reflect current interest rates and represent the potential loss (or gain) had the portfolio been liquidated on that date. Security losses (or gains) are realized only in the event of dispositions prior to maturity.

At December 31, 2023 and 2022, the Company did not hold investment securities of any single issuer, other than obligations of the U. S. Treasury and other U. S. Government agencies, whose aggregate book value exceeded ten percent of shareholders' equity.

Information pertaining to securities with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	<b>2023</b>			
	<b>Less Than Twelve Months</b>		<b>Twelve Months Or More</b>	
	<b>Unrealized Losses</b>	<b>Estimated Market Value</b>	<b>Unrealized Losses</b>	<b>Estimated Market Value</b>
<b>Securities Held to Maturity</b>				
Nonmortgage Backed Debt Securities of				
U.S. Treasury Securities	\$ -	\$ -	\$ 1,514,440	\$ 17,054,434
State, County and Municipal Securities	36,521	3,630,004	26,712,168	94,802,099
Other Debt Securities	373,740	3,376,260	966,175	8,952,840
<b>Total Nonmortgage Backed Debt Securities</b>	<b>410,261</b>	<b>7,006,264</b>	<b>29,192,783</b>	<b>120,809,373</b>
Mortgage Backed Securities				
Residential Mortgage Backed Securities	-	-	2,738,908	18,715,850
Commercial Mortgage Backed Securities	1,637,042	20,498,955	5,814,246	23,451,098
<b>Total Mortgage Backed Securities</b>	<b>1,637,042</b>	<b>20,498,955</b>	<b>8,553,154</b>	<b>42,166,948</b>
	<b>\$ 2,047,303</b>	<b>\$ 27,505,219</b>	<b>\$ 37,745,937</b>	<b>\$ 162,976,321</b>
	<b>2022</b>			
	<b>Less Than Twelve Months</b>		<b>Twelve Months Or More</b>	
	<b>Unrealized Losses</b>	<b>Estimated Market Value</b>	<b>Unrealized Losses</b>	<b>Estimated Market Value</b>
<b>Securities Held To Maturity</b>				
Nonmortgage Backed Debt Securities of				
U.S. Treasury Securities	\$ 610,901	\$ 12,564,297	\$ 957,589	\$ 6,516,563
State, County and Municipal Securities	5,632,382	36,440,981	20,603,040	64,131,606
Other Debt Securities	681,707	6,914,027	215,021	2,170,976
<b>Total Nonmortgage Backed Debt</b>	<b>6,924,990</b>	<b>55,919,305</b>	<b>21,775,650</b>	<b>72,819,145</b>
Mortgage Backed Securities				
Residential Mortgage Backed Securities	1,538,379	15,766,873	750,129	4,757,399
Commercial Mortgage Backed Securities	1,548,156	23,009,290	2,060,966	13,236,378
	3,086,535	38,776,163	2,811,095	17,993,777
	<b>\$ 10,011,525</b>	<b>\$ 94,695,468</b>	<b>\$ 24,586,745</b>	<b>\$ 90,812,922</b>

## (2) Debt Securities (Continued)

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. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2023, the Company held 225 debt securities that had unrealized losses with aggregate depreciation of 17.0 percent from the Company's amortized cost basis.

As of December 31, 2023, the Company held fourteen U.S. treasury security, forty-two commercial mortgage-backed securities and thirty residential mortgage-backed securities that were in an unrealized loss position, all of which were issued by U.S. government sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired at December 31, 2023.

As of December 31, 2023, the Company held one hundred and twenty-four state, county, and municipal securities that were in an unrealized loss position. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired at December 31, 2023.

As of December 31, 2023, the Company held fifteen corporate bonds that were in an unrealized loss position. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired at December 31, 2023.

As of December 31, 2023, the allowance for credit losses on available for sale debt securities was \$-0-.

The table below presents a rollforward for the year ended December 31, 2023 of the allowance for credit losses on held to maturity debt securities:

	<u>State, County, &amp; Municipal</u>	<u>Other Debt Securities</u>	<u>Mortgage- Backed Commercial</u>	<u>Total</u>
Beginning Balance, January 1, 2023	\$ -	\$ -	\$ -	\$ -
Impact of Adopting ASC 326	41,412	10,333	44,256	96,001
Additions for Securities for which no Previous Expected Credit Losses were Recognized	-	-	-	-
Provisions for Credit Losses	6,066	(1,110)	(13,517)	(8,561)
Charge-Offs of Securities	-	-	-	-
Recoveries	-	-	-	-
Ending Balance, December 31, 2023	<u>\$ 47,478</u>	<u>\$ 9,223</u>	<u>\$ 30,739</u>	<u>\$ 87,440</u>

## (2) Debt Securities (Continued)

The Company monitors the credit quality of the debt securities held to maturity through the use of credit ratings. The Company monitors the credit ratings on a quarterly basis. The following table summarizes the amortized cost of debt securities held to maturity at December 31, 2023, aggregated by credit quality indicators.

	<u>December 31, 2023</u>
Aaa	\$ 98,578,958
Aa1/Aa2/Aa3	77,907,130
A1/A2	12,114,043
Not Rated	51,692,944
Total	<u>\$ 240,293,075</u>

## (3) Loans and Allowance for Credit Losses

The Company engages in a full complement of lending activities, including real estate-related loans, commercial and industrial loans, and consumer installment loans. The majority of its lending activities are concentrated in real estate loans. While risk of loss in the Company's portfolio is primarily tied to the credit quality of the various borrowers, risk of loss may increase due to factors beyond the Company's control, such as local, regional and/or national economic downturns. General conditions in the real estate market may also impact the relative risk in the real estate portfolio.

Loans are stated at unpaid balances, net of unearned income and deferred loan fees. Balances within the major loans' receivable categories at December 31 are presented in the following table:

	<u>2023</u>	<u>2022</u>
Commercial	\$ 85,069,477	\$ 90,718,062
Commercial Real Estate	660,253,001	624,107,229
Consumer	15,816,539	20,943,524
Residential Real Estate	254,441,118	264,478,706
Agriculture	46,720,320	48,748,650
Other	1,741,142	1,821,098
Total Loans	<u>1,064,041,597</u>	<u>1,050,817,269</u>
Other		
Loans Held for Sale	-	1,939,500
Overdraft, In-Process and Suspense Accounts	<u>(269,375)</u>	<u>(868,480)</u>
Total Other	<u>(269,375)</u>	<u>1,071,020</u>
Gross Loans	1,063,772,222	1,051,888,289
Allowance for Credit Losses	<u>(14,291,923)</u>	<u>(13,629,255)</u>
Net Loans	<u>\$ 1,049,480,299</u>	<u>\$ 1,038,259,034</u>

Overdrafts included in loans were \$186,701 and \$219,378 at December 31, 2023 and 2022, respectively.

### (3) Loans and Allowance for Credit Losses (Continued)

*Commercial Loans* - Loans in this segment are generally made to businesses and are typically secured by business assets, equipment, inventory, and accounts receivable. Repayment is expected from the cash flows of the business entity. A weakened economy and decreased consumer spending will have a negative impact on the credit quality in this portfolio segment.

*Commercial Real Estate Loans* - Loans in this segment include all mortgages and other liens on commercial real estate. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn will have an effect on the credit quality in this portfolio segment.

*Consumer Loans* - Loans in this segment include unsecured loans, cash value loans and auto loans. Loans in these categories are primarily dependent on the credit quality of the borrower. The overall health of the economy, including unemployment rates in the Company's market area will have an effect on the credit quality of this portfolio segment.

*Residential Real Estate Loans* - Loans in this segment include all mortgages and other liens on residential real estate, as well as vacant land designated as residential real estate. Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality of this portfolio segment.

*Agriculture loans* - Loans in this segment include loans to finance agricultural production and other loans to farmers. The overall health of the economy will have an effect on the credit quality of this portfolio segment.

*Other loans* - Loans in this segment do not belong in the other categories previously described. Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality of the segment.

#### *Allowance for Credit Losses*

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	2023						Total
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	
<b>Allowance for Credit Losses</b>							
Beginning Balance	\$ 2,925,886	\$ 7,433,855	\$ 376,394	\$ 2,261,464	\$ 619,863	\$ 11,793	\$ 13,629,255
Chargeoffs	(278,568)	-	(329,708)	-	(629)	-	(608,905)
Recoveries	258,781	96,782	95,910	20,100	-	-	471,573
Provisions	(280,132)	773,254	166,318	213,347	(73,988)	1,201	800,000
Ending Balance	<u>\$ 2,625,967</u>	<u>\$ 8,303,891</u>	<u>\$ 308,914</u>	<u>\$ 2,494,911</u>	<u>\$ 545,246</u>	<u>\$ 12,994</u>	<u>\$ 14,291,923</u>

### 3) Loans and Allowance for Credit Losses (Continued)

#### Allowance for Credit Losses

Prior to the adoption of ASU 2016-13, the Company calculated allowance for loan losses under the incurred loss methodology.

	2022						Total
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	
<b>Allowance for Credit Losses</b>							
Beginning Balance	\$ 3,694,303	\$ 5,755,938	\$ 544,306	\$ 1,398,873	\$ 601,994	\$ 13,002	\$ 12,008,416
Chargeoffs	(3,579,749)	-	(294,367)	(42,728)	-	-	(3,916,844)
Recoveries	217,685	-	130,762	89,236	-	-	437,683
Provisions	2,593,647	1,677,917	(4,307)	816,083	17,869	(1,209)	5,100,000
Ending Balance	<u>\$ 2,925,886</u>	<u>\$ 7,433,855</u>	<u>\$ 376,394</u>	<u>\$ 2,261,464</u>	<u>\$ 619,863</u>	<u>\$ 11,793</u>	<u>\$ 13,629,255</u>
<b>Period-End Amount Allocated to</b>							
Individually Evaluated for Impairment	\$ 2,341	\$ 405,466	\$ -	\$ 99,174	\$ -	\$ -	\$ 506,981
Collectively Evaluated for Impairment	2,923,545	7,028,389	376,394	2,162,290	619,863	11,793	13,122,274
Ending Balance	<u>\$ 2,925,886</u>	<u>\$ 7,433,855</u>	<u>\$ 376,394</u>	<u>\$ 2,261,464</u>	<u>\$ 619,863</u>	<u>\$ 11,793</u>	<u>\$ 13,629,255</u>
<b>Loans</b>							
Individually Evaluated for Impairment	\$ 254,393	\$ 5,440,480	\$ -	\$ 1,300,369	\$ 202,370	\$ -	\$ 7,197,612
Collectively Evaluated for Impairment	90,463,669	618,666,749	20,943,524	263,178,337	48,546,280	1,821,098	1,043,619,657
Ending Balance	<u>\$ 90,718,062</u>	<u>\$ 624,107,229</u>	<u>\$ 20,943,524</u>	<u>\$ 264,478,706</u>	<u>\$ 48,748,650</u>	<u>\$ 1,821,098</u>	1,050,817,269
Loans Held for Sale							1,939,500
Overdraft, In-Process and Suspense Accounts							(868,480)
<b>Total Loans</b>							<u>\$ 1,051,888,289</u>

#### Nonaccrual and Past Due Loans

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged to interest income. Interest on loans that are classified as nonaccrual is recognized when received. Past due loans are loans, whose principal or interest is 30 days or more past due. In some cases, where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the original contractual terms.

### (3) Loans and Allowance for Credit Losses (Continued)

#### Nonaccrual and Past Due Loans (Continued)

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged to interest income. Interest on loans that are classified as nonaccrual is recognized when received. Past due loans are loans, whose principal or interest is 30 days or more past due. In some cases, where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the original contractual terms.

The following tables present an analysis of past due loans and loans accounted for on a nonaccrual basis as of December 31:

	2023						
	Current and < 30 Days Past Due	Past Due and Still Accruing			Total Accruing Past Due	Nonaccrual	Total Loans
		30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due			
Commercial	\$ 84,702,315	\$ 293,480	\$ 19,081	\$ -	\$ 312,561	\$ 239,429	\$ 85,069,477
Commercial Real Estate	658,645,170	1,289,810	9,632	-	1,299,442	1,470,041	660,253,001
Consumer	15,483,605	263,857	26,642	-	290,499	98,524	15,816,539
Residential Real Estate	251,597,270	2,345,879	82,925	-	2,428,804	789,661	254,441,118
Agriculture	46,696,194	-	-	-	-	24,126	46,720,320
Other	1,741,142	-	-	-	-	-	1,741,142
Total	<u>\$ 1,058,865,696</u>	<u>\$ 4,193,026</u>	<u>\$ 138,280</u>	<u>\$ -</u>	<u>\$ 4,331,306</u>	<u>\$ 2,621,781</u>	<u>1,064,041,597</u>
Loans Held for Sale							-
Overdraft, In-process and Suspense Accounts							<u>(269,375)</u>
							<u>\$ 1,063,772,222</u>
	2022						
	Current and < 30 Days Past Due	Past Due and Still Accruing			Total Accruing Past Due	Nonaccrual	Total Loans
		30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due			
Commercial	\$ 90,061,059	\$ 242,627	\$ 100,026	\$ -	\$ 342,653	\$ 314,350	\$ 90,718,062
Commercial Real Estate	621,415,736	1,214,430	99,900	-	1,314,330	1,377,163	624,107,229
Consumer	20,389,169	267,842	105,556	-	373,398	180,957	20,943,524
Residential Real Estate	262,069,691	579,423	173,528	-	752,951	1,656,064	264,478,706
Agriculture	48,546,280	-	-	-	-	202,370	48,748,650
Other	1,821,098	-	-	-	-	-	1,821,098
Total	<u>\$ 1,044,303,033</u>	<u>\$ 2,304,322</u>	<u>\$ 479,010</u>	<u>\$ -</u>	<u>\$ 2,783,332</u>	<u>\$ 3,730,904</u>	<u>1,050,817,269</u>
Loans Held for Sale							1,939,500
Overdraft, In-process and Suspense Accounts							<u>(868,480)</u>
							<u>\$ 1,051,888,289</u>

### (3) Loans and Allowance for Credit Losses (Continued)

#### *Nonaccrual and Past Due Loans (Continued)*

The following table presents the amortized cost basis of loans on non-accrual status:

<u>December 31, 2023</u>	<u>Non-Accrual Loans with No Allowance</u>	<u>Non-Accrual Loans with An Allowance</u>	<u>Total Non-Accrual Loans</u>
Commercial	\$ 239,429	\$ -	\$ 239,429
Commercial Real Estate	1,397,470	72,571	1,470,041
Consumer	98,524	-	98,524
Residential Real Estate	789,661	-	789,661
Agriculture	24,126	-	24,126
Other	-	-	-
	<u>\$ 2,549,210</u>	<u>\$ 72,571</u>	<u>\$ 2,621,781</u>

#### *Impaired Loans*

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



### (3) Loans and Allowance for Credit Losses (Continued)

#### Impaired Loans (Continued)

The following is a summary of information pertaining to interest income on impaired loans as of December 31:

	2022		
	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans	Interest Income Recognized on Cash Basis on Impaired Loans
Commercial	\$ 188,783	\$ 10,287	\$ 9,075
Commercial Real Estate	5,542,724	212,481	216,148
Consumer	-	-	-
Residential Real Estate	911,722	61,298	54,973
Agriculture	204,930	11,941	-
<b>Total</b>	<b>\$ 6,848,159</b>	<b>\$ 296,007</b>	<b>\$ 280,196</b>

  

	2021		
	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans	Interest Income Recognized on Cash Basis on Impaired Loans
Commercial	\$ 160,243	\$ 10,893	\$ 9,970
Commercial Real Estate	7,095,864	245,117	259,589
Consumer	-	-	-
Residential Real Estate	579,227	17,444	9,928
Agriculture	286,542	(5,858)	-
<b>Total</b>	<b>\$ 8,121,876</b>	<b>\$ 267,596</b>	<b>\$ 279,487</b>

The following is an analysis of information pertaining to impaired loans as of December 31, 2022:

	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial	\$ 254,393	\$ -	\$ 254,393	\$ 254,393	\$ 2,341
Commercial Real Estate	5,440,480	74,849	5,365,631	5,440,480	405,466
Consumer	-	-	-	-	-
Residential Real Estate	1,300,369	691,252	609,117	1,300,369	99,174
Agriculture	202,370	202,370	-	202,370	-
<b>Total</b>	<b>\$ 7,197,612</b>	<b>\$ 968,471</b>	<b>\$ 6,229,141</b>	<b>\$ 7,197,612</b>	<b>\$ 506,981</b>

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net, due to immateriality.

### (3) Loans and Allowance for Credit Losses (Continued)

#### *Collateral Dependent Loans*

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

The following tables presents the Company's collateral dependent loans and related ACL as of December 31, 2023:

	Amortized Cost Basis Of Loans Determined To Be Collateral Dependent	Related Allowance for Credit Losses
Commercial Real Estate	\$ 1,429,722	\$ 171,649
Residential Real Estate	391,850	-
Total	<u>\$ 1,821,572</u>	<u>\$ 171,649</u>

#### *Credit Quality Indicators*

The Company uses a nine-category risk grading system to assign a risk grade to each loan in the portfolio. The following is a description of the general characteristics of the grades:

##### Grade 1 - Excellent Risk

Loans in this category are considered to have very little, if any, credit risk. The following characteristics are common for loans in this category:

- Loan is fully secured by cash or cash equivalents.
- Loan is secured by marketable securities with no less than a 25 percent margin.
- There are no material exceptions to the Company's loan policy.
- Alternative sources of cash exist, such as commercial paper market, capital market, internal liquidity, or other bank lines.
- Borrower is a national or regional company with excellent cash flow which covers all debt service requirements and a significant portion of capital expenditures.
- Balance sheet strength and liquidity are excellent and exceed industry norms.
- Financial trends are positive.
- Borrower is a market leader within the industry, and industry performance is excellent.
- Borrower is of unquestioned strength. Financial wherewithal is known.
- Borrower exhibits excellent liquidity, net worth, cash flow, and leverage.

### **(3) Loans and Allowance for Credit Losses (Continued)**

#### Grade 2 - High Quality

Loans in this category are considered to be an excellent credit risk with minimal risk of loss. The following characteristics are common for loans in this category:

- Loan is secured by marketable securities with margin below 25 percent.
- There are no material exceptions to the Company's loan policy.
- Borrower has stable and reliable cash flow and above-average liquidity.
- Borrower exhibits moderate risk from exposure to contingent liabilities.
- Borrower has strong, stable financial trends.
- Borrower has strong cash flow which covers all debt service requirements and some portion of capital expenditures.
- Alternative sources of repayment are evident and financial ratios are comparable to or exceed the industry norms.
- Borrower holds a prominent position in the industry or local economy.
- Borrower's industry's performance is above average.
- Management is strong in most areas and with good back-up depth.

#### Grade 3 - Average Risk

Loans in this category are considered to be of normal risk and of average quality. The following characteristics are common for loans in this category:

- Borrower has reliable cash flow, but alternative sources of repayment would require sale of assets that may be considered illiquid.
- Borrower's financial position has been leveraged to an average degree or individual has an average net worth position considering income and debt.
- Cash flow is adequate to cover all debt service requirements but not capital expenditures.
- Balance sheet may be leveraged but still comparable to the industry.
- Financial trends are stable to mixed over long-term, but no significant concerns exist at this time.
- Borrower's industry has a generally stable outlook and may have some cyclical characteristics.
- Borrower holds an average position in the industry or local economy.
- Management is considered capable and stable.
- Start-up venture with experienced management, adequate capitalization, and favorable performance versus projections.

#### Grade 4 - Acceptable

Loans in this category are considered to be of above-average risk or of below-average quality. The following characteristics are common for loans in this category:

- Borrower's sources of income or cash flow have become unstable or limited.
- Borrower's income has declined due to current business or economic conditions.
- Borrower has a somewhat highly leveraged condition and limited capital.
- Moderate history of some degree of slow payment.
- Loan conditions require more frequent monitoring than the higher-graded loans.
- Stability is lacking in the primary repayment source, cash flow, credit history, or liquidity, however, the instability is manageable and considered temporary.
- Overall trends are not yet adverse.
- Loan involves speculative activity where the primary source for repayment is the activity itself and the borrower has limited ability to support the debt outside the successful completion of the activity.

### **(3) Loans and Allowance for Credit Losses (Continued)**

#### *Credit Quality Indicators (Continued)*

##### Grade 5 - Watch

Loans in this category have potential financial weaknesses, the loan officer may not have properly supervised the credit, or material collateral exceptions exist. This category includes loans which do not presently expose the Company to a sufficient degree of risk to warrant adverse classification but do possess credit deficiencies deserving of management's close attention. Failure to correct deficiencies could result in greater credit risk in the future. The following characteristics are common for loans in this category:

- There is a material exception to the Company's loan policy.
- Management has potential weakness and back-up depth is weak.
- Principal and interest are currently protected through sufficient cash flows, collateral values, or secondary repayment sources, but downward trends in profitability and cash flow are evident.
- Financial leverage is excessive, and margins and financial ratios fall below industry averages.
- Adequate financial statements are not produced and/or provided timely, or the borrower exhibits an uncooperative attitude.
- Moderate delinquency may exist from time to time.
- A loss may not be readily apparent, but sufficient problems have arisen to cause the lender to go to abnormal lengths to protect its position.

##### Grade 6 - Substandard

Loans in this category display a well-defined weakness or weaknesses that may jeopardize collection of the debt. Assets do not appear to possess any loss but exhibit more than a normal degree of risk. Lack of continued close attention on the part of the Company could result in deterioration and potential loss. The following characteristics are common for loans in this category:

- Cash flows are not sufficient to meet scheduled obligations and/or the financial strengths of the guarantors are questionable.
- Losses have eroded the net worth so that survivability of the business is in question.
- Primary and secondary sources of repayment are believed to offer marginal protection to the credit.
- Repayment of debt is likely to come from the liquidation of collateral or payments from guarantors.
- Past due problems are apparent.
- The loan has been placed on nonaccrual status and/or is in bankruptcy with current repayment history for less than three months.
- The value of the collateral is questionable or has declined significantly.

##### Grade 7 - Impaired

Loans in this category have been classified as impaired. The classification of impaired is based upon the likelihood that the Company will not be able to collect all principal and interest under the original terms of the note. The following characteristics are common for loans in this category:

- Loan has been placed on nonaccrual.
- Repayment of the debt is dependent upon the sale of collateral.
- The value of the collateral has declined such that its liquidation would not be sufficient to retire the debt.
- Repayment is dependent upon cash flows, and the cash flows are no longer sufficient to cover principal and interest payments under the terms of the debt.

### (3) Loans and Allowance for Credit Losses (Continued)

#### Credit Quality Indicators (Continued)

##### Grade 8 - Doubtful

Loans in this category have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable. The following characteristics are common for loans in this category:

- Borrower is having financial difficulties, and the collateral does not cover the loan balance.
- Loan is unsecured and repayment is highly questionable.
- Company's access or rights to the collateral is unclear (e.g., because the lender's lien is subordinate to substantial other liens or there is a dispute over title to the collateral).
- Business is on the verge of closing, being sold, or liquidated.

##### Grade 9 - Loss

Loans in this category are considered not collectible and of such little value that their continuance as active assets are not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The following tables present the loan portfolio by risk grade as of December 31:

	2023						Total
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	
Grade 1 (Excellent Risk)	\$ 4,518,300	\$ -	\$ 1,708,769	\$ -	\$ -	\$ -	\$ 6,227,069
Grade 2 (High Quality)	-	-	34,185	-	-	-	34,185
Grade 3 (Average Risk)	157,755	3,482,959	78,937	1,303,411	1,961,735	469,995	7,454,792
Grade 4 (Acceptable)	79,457,267	650,074,764	13,669,223	248,579,230	44,266,380	1,271,147	1,037,318,011
Grade 5 (Watch)	407,124	861,993	90,720	2,426,904	448,217	-	4,234,958
Grade 6 (Substandard)	325,624	265,925	229,312	1,237,423	43,988	-	2,102,272
Grade 7 (Impaired)	203,407	5,567,360	-	894,150	-	-	6,664,917
Grade 8 (Doubtful)	-	-	5,393	-	-	-	5,393
Grade 9 (Loss)	-	-	-	-	-	-	-
	<u>\$ 85,069,477</u>	<u>\$ 660,253,001</u>	<u>\$ 15,816,539</u>	<u>\$ 254,441,118</u>	<u>\$ 46,720,320</u>	<u>\$ 1,741,142</u>	<u>1,064,041,597</u>
Loans Held for Sale							-
Overdraft, In-Process, and Suspense Accounts							(269,375)
<b>Total Loans</b>							<u><b>\$ 1,063,772,222</b></u>
	2022						Total
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	
Grade 1 (Excellent Risk)	\$ 3,300,816	\$ -	\$ 1,123,074	\$ -	\$ 68,298	\$ -	\$ 4,492,188
Grade 2 (High Quality)	-	828	65,653	-	-	-	66,481
Grade 3 (Average Risk)	734,362	5,240,288	81,049	1,910,243	861,683	514,270	9,341,895
Grade 4 (Acceptable)	85,322,691	612,323,741	19,161,439	257,592,764	46,524,252	1,306,828	1,022,231,715
Grade 5 (Watch)	706,791	3,006,577	145,923	2,734,115	1,072,184	-	7,665,590
Grade 6 (Substandard)	397,010	261,399	366,386	941,215	19,862	-	1,985,872
Grade 7 (Impaired)	254,393	3,274,396	-	1,300,369	202,371	-	5,031,529
Grade 8 (Doubtful)	1,999	-	-	-	-	-	1,999
Grade 9 (Loss)	-	-	-	-	-	-	-
	<u>\$ 90,718,062</u>	<u>\$ 624,107,229</u>	<u>\$ 20,943,524</u>	<u>\$ 264,478,706</u>	<u>\$ 48,748,650</u>	<u>\$ 1,821,098</u>	<u>1,050,817,269</u>
Loans Held for Sale							1,939,500
Overdraft, In-Process and Suspense Accounts							(868,480)
<b>Total Loans</b>							<u><b>\$ 1,051,888,289</b></u>

### (3) Loans and Allowance for Credit Losses (Continued)

#### Credit Quality Indicators (Continued)

The following table presents the loan portfolio's amortized cost by class, risk grade and year of origination. Generally, current period renewals of credit are underwritten again at the point of renewal and considered current period originations for purpose of the table below. The Company had immaterial amounts of revolving loans which converted to term loans and the amortized cost basis of those loans are included in the applicable origination year.

	As of December 31, 2023					
	Term Loans By Year of Origination					Total
	2023	2022	2021	Prior	Revolving	
<b>Commercial</b>						
Grade 1	\$ 2,881,008	\$ 416,189	\$ 128,440	\$ 1,092,664	\$ -	\$ 4,518,301
Grade 3	-	11,489	-	146,266	-	157,755
Grade 4	26,583,842	27,797,397	13,644,633	11,431,394	-	79,457,266
Grade 5	93,098	158,897	120,008	35,122	-	407,125
Grade 6	57,946	110,917	138,280	18,481	-	325,624
Grade 7	-	94,873	108,533	-	-	203,406
Total	29,615,894	28,589,762	14,139,894	12,723,927	-	85,069,477
Gross Charge-offs	(278,568)	-	-	-	-	(278,568)
<b>Commercial Real Estate</b>						
Grade 3	-	100,000	-	3,382,959	-	3,482,959
Grade 4	146,401,156	217,295,927	153,030,656	133,347,025	-	650,074,764
Grade 5	608,315	-	-	253,678	-	861,993
Grade 6	9,632	167,642	46,725	41,957	-	265,956
Grade 7	195,499	160,208	462,434	4,749,219	-	5,567,360
Total	147,214,602	217,723,777	153,539,815	141,774,838	-	660,253,031
Gross Charge-offs	-	-	-	-	-	-
<b>Consumer</b>						
Grade 1	1,336,463	151,037	143,558	77,712	-	1,708,769
Grade 2	18,127	16,058	-	-	-	34,185
Grade 3	38,434	6,401	12,735	21,367	-	78,937
Grade 4	5,389,723	5,064,039	2,149,144	1,066,317	-	13,669,223
Grade 5	-	32,185	3,379	55,156	-	90,720
Grade 6	41,006	61,079	57,612	69,615	-	229,312
Grade 8	3,200	2,193	-	-	-	5,393
Total	6,826,953	5,332,992	2,366,428	1,290,167	-	15,816,539
Gross Charge-offs	(329,708)	-	-	-	-	(329,708)
<b>Residential Real Estate</b>						
Grade 3	-	-	-	1,303,411	-	1,303,411
Grade 4	70,256,839	74,624,912	56,988,215	46,709,264	-	248,579,230
Grade 5	1,528,761	175,392	260,641	462,109	-	2,426,903
Grade 6	124,517	148,195	223,307	741,404	-	1,237,423
Grade 7	391,850	-	-	502,301	-	894,151
Total	72,301,967	74,948,499	57,472,163	49,718,489	-	254,441,118
Gross Charge-offs	-	-	-	-	-	-
<b>Agriculture</b>						
Grade 3	1,252,054	-	-	709,681	-	1,961,735
Grade 4	10,341,996	5,805,420	13,174,964	14,944,000	-	44,266,380
Grade 5	351,333	-	9,102	87,781	-	448,216
Grade 6	-	-	-	43,988	-	43,988
Total	11,945,383	5,805,420	13,184,066	15,785,450	-	46,720,319
Gross Charge-offs	(629)	-	-	-	-	(629)
<b>Other</b>						
Grade 3	-	-	-	469,995	-	469,995
Grade 4	-	-	-	1,271,147	-	1,271,147
Total	-	-	-	1,741,142	-	1,741,142
Gross Charge-offs	-	-	-	-	-	-
Total	\$ 267,904,799	\$ 332,400,449	\$ 240,712,366	\$ 223,023,983	\$ -	\$ 1,064,041,597
Gross Charge-offs	\$ (608,905)	\$ -	\$ -	\$ -	\$ -	\$ (608,905)

### (3) Loans and Allowance for Credit Losses (Continued)

#### *Borrowers Experiencing Financial Difficulties*

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

The following table presents the amortized cost basis of loans modified to borrowers experiencing financial difficulty by portfolio type and by type of modification during the year ended December 31, 2023. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress to the amortized cost basis of each class of financing receivables is also presented below.

	Payment Delay	Combination Term Extension and Interest Rate Reduction	Total Modified	Total % Modification
Commercial	\$ -	\$ -	\$ -	0.00%
Commercial Real Estate	1,496,789	-	1,496,789	0.23%
Consumer	-	18,401	18,401	0.12%
Residential Real Estate	-	-	-	0.00%
Agriculture	-	-	-	0.00%
Other	-	-	-	0.00%
	<u>\$ 1,496,789</u>	<u>\$ 18,401</u>	<u>\$ 1,515,191</u>	<u>0.35%</u>

The Company does not have any commitments to lend additional funds to borrowers experiencing financial difficulty for which the Company has modified their loans.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 month:

	Current	30-59 Days Past Due	90+ Days Past Due	Nonaccrual	Total
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Real Estate	1,496,789	-	-	-	1,496,789
Consumer	-	-	-	18,401	18,401
Residential Real Estate	-	-	-	-	-
Agriculture	-	-	-	-	-
Other	-	-	-	-	-
	<u>\$ 1,496,789</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,401</u>	<u>\$ 1,515,191</u>

### (3) Loans and Allowance for Credit Losses (Continued)

#### *Borrowers Experiencing Financial Difficulties (Continued)*

The following table presents the financial effect by type of modifications made to borrowers experiencing financial difficulties:

<b>Payment Delay</b>	
	<b>Financial Effect</b>
<b>Commercial Real Estate</b>	6 month payment forbearance period

  

<b>Combination Term Extension and Interest Rate Reduction</b>	
	<b>Financial Effect</b>
<b>Consumer</b>	Added a weighted average of 3 years to the life of the loan; Reduced weighted average contractual interest from 8.95% to 5.00%
<b>Consumer</b>	Added a weighted average of 3 years to the life of the loan; Reduced weighted average contractual interest from 8.95% to 7.50%
<b>Consumer</b>	Added a weighted average of 3 years to the life of the loan; Reduced weighted average contractual interest from 10.75% to 8.00%

As of December 31, 2023, and 2022, the Company had a recorded investment in TDRs of \$4,731,669, and \$4,207,288, respectively. The Company had previous charge offs of \$-0- on such loans as of December 31, 2023 and 2022, respectively. The Company's allowance for credit losses included an allocation of \$292,281 and \$86,654 of specific allowance for those loans as of December 31, 2023, and 2022, respectively. The Company had no unfunded commitments to lend to customers with loans modified as TDRs as of December 31, 2023.

Prior to the adoption of ASU 2022-02, the Company elected to restructure or modify the terms of certain loans under certain conditions (i.e. troubled debt restructures or "TDRs"). In those circumstances it was beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable real estate market. When the Company modified the terms of a loan, the Company usually either reduced or deferred payments for a period of time. The Company did not forgive any material principal amounts on any loan modifications to date.

As of December 31, 2022 the Company had a recorded investment in troubled debt restructurings of \$4,207,288. The Company allocated no specific allowance for those loans at December 31, 2022 and had not committed to lend additional amounts on these loans. There was one loan with a recorded investment of \$173,528 modified as troubled debt restructurings during the year ended December 31, 2022. Additionally, there were no charge-offs related to troubled debt restructurings during the year ended December 31, 2022.



### (3) Loans and Allowance for Credit Losses (Continued)

#### *Borrowers Experiencing Financial Difficulties (Continued)*

The following table presents loans modified as TDRs by class of loan and type of modification that occurred during the year ended December 31, 2022:

	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification
Residential Real Estate			
Payment Modification Only	1	\$ 173,528	\$ 173,528

The loan described above did not increase the allowance for credit losses during the year ended December 31, 2022. The above loan resulted in no charge offs during the year ended December 31, 2022.

During the year ended December 31, 2022, the Company reported \$665,580 loans modified for which there was a payment default within the twelve months following the modification.

### (4) Allowance for Off-Balance Sheet Credit Exposure

The following table presents the balance in the allowance for off-balance sheet credit exposure based on portfolio segment as of December 31, 2023, and activity for the year ended December 31, 2023.

	Commercial	Commercial Real Estate	Consumer	2023 Residential Real Estate	Agriculture	Other	Total
Beginning Balance, prior to Adoption of ASC 326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Impact of adopting ASC 326	293,201	1,330,706	5,871	486,215	134,196	-	2,250,189
Provisions	<u>(44,428)</u>	<u>(201,638)</u>	<u>(890)</u>	<u>(73,675)</u>	<u>(20,333)</u>	<u>-</u>	<u>(340,964)</u>
Ending Balance	<u>\$ 248,773</u>	<u>\$ 1,129,068</u>	<u>\$ 4,981</u>	<u>\$ 412,540</u>	<u>\$ 113,863</u>	<u>\$ -</u>	<u>\$ 1,909,225</u>

## (5) Bank Premises and Equipment

Premises and equipment as of December 31 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 3,408,936	\$ 3,408,936
Buildings and Improvements	12,867,135	12,741,751
Leasehold Improvements	617,509	697,812
Equipment, Furniture and Fixtures	5,513,512	5,425,121
Vehicles	<u>169,839</u>	<u>169,838</u>
Total	22,576,931	22,443,458
Less: Accumulated Depreciation	<u>(9,388,578)</u>	<u>(8,577,516)</u>
Bank Premises and Equipment, Net	<u>\$ 13,188,353</u>	<u>\$ 13,865,942</u>

Depreciation included in operating expenses amounted to \$844,810, \$915,340, and \$946,891 for the years ended December 31, 2023, 2022 and 2021, respectively.

## (6) Leases

The Company has entered into operating leases for branch locations, storage, and equipment with terms extending through July 2027. These leases have initial terms of one to five years. The exercise of lease renewal options is at the sole discretion of the Company, which does not consider exercise of any lease renewal options reasonably certain. The lease agreements do not contain early termination options. No renewal options or early termination options have been included in the calculation of the operating right-of-use asset or operating lease liability.

At the commencement date of the lease, the Company recognizes a lease liability of the lease payments not yet paid. The Company also recognizes a right-of-use asset measured at the initial measurement of the lease liability. Lease expense is recognized on a straight-line basis over the lease term. At December 31, 2023, the Company had no leases classified as finance leases. The Company's right-of-use lease asset and lease liability also include leases for storage space and small equipment. Estimated minimum lease payments as of December 31, 2023, for each of the next five years are as follows:

2024	\$ 354,018
2025	346,898
2026	327,214
2027	98,026
2028 and After	<u>-</u>
	<u>\$ 1,126,156</u>

The weighted average remaining lease term was 39 months and 38 months as of December 31, 2023 and 2022, respectively. The Company recognized lease expenses of \$491,587, \$427,656, and \$354,391 for the years ended December 31, 2023, 2022, and 2021, respectively.

## (7) Goodwill and Intangible Assets

The Company recorded \$7,123,814 of goodwill on the acquisition of FMB Equibanc, Inc. (FMB) during 2019. Previously, the Company reported goodwill in the amount of \$2,237,890, primarily resulting from the acquisition of the CertusBank Warner Robins, Georgia branch, which resulted in total reported goodwill of \$9,361,704 for the years ended December 31, 2023 and 2022. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2023, the Company's management determined the reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

The Bank recorded a core deposit intangible asset of \$3,028,582 associated with the acquisition of FMB during 2019. The amortization period used for the core deposit intangible is 10 years. The intangible asset's carrying amount, accumulated amortization, and amortization expense for December 31, 2023, and the five succeeding years are as follows:

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
Amortizing Intangible Assets						
Core Deposit Premium						
Gross Carrying Amount	\$ 3,028,582	\$ 3,028,582	\$ 3,028,582	\$ 3,028,582	\$ 3,028,582	\$ 3,028,582
Accumulated Amortization	<u>(1,413,328)</u>	<u>(1,716,184)</u>	<u>(2,019,040)</u>	<u>(2,321,896)</u>	<u>(2,624,752)</u>	<u>(2,927,608)</u>
Net Carrying Value	<u>\$ 1,615,254</u>	<u>\$ 1,312,398</u>	<u>\$ 1,009,542</u>	<u>\$ 706,686</u>	<u>\$ 403,830</u>	<u>\$ 100,974</u>
Amortizing Expense	<u>\$ 302,856</u>	<u>\$ 302,856</u>	<u>\$ 302,856</u>	<u>\$ 302,856</u>	<u>\$ 302,856</u>	<u>\$ 302,856</u>

The Bank recorded a core deposit intangible asset of \$455,782 associated with the branch purchase from CertusBank during 2015. The amortization period used for the core deposit intangible is 10 years. The intangible asset's carrying amount, accumulated amortization, and amortization expense for December 31, 2023 and the five succeeding years are as follows:

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
Amortizing Intangible Assets						
Core Deposit Premium						
Gross Carrying Amount	\$ 455,782	\$ 455,782	\$ 455,782	\$ 455,782	\$ 455,782	\$ 455,782
Accumulated Amortization	<u>(391,046)</u>	<u>(429,216)</u>	<u>(455,782)</u>	<u>(455,782)</u>	<u>(455,782)</u>	<u>(455,782)</u>
Net Carrying Value	<u>\$ 64,736</u>	<u>\$ 26,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Amortizing Expense	<u>\$ 40,694</u>	<u>\$ 38,170</u>	<u>\$ 26,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## (8) Other Real Estate and Foreclosed Assets

Other real estate and foreclosed assets activity was as follows:

	<u>2023</u>	<u>2022</u>
Balances, Beginning	\$ 3,715,202	\$ 5,497,096
Loans Transferred to Other Real Estate and Foreclosed Assets	531,508	235,897
Sales of Other Real Estate and Foreclosed Assets	<u>(635,475)</u>	<u>(2,017,791)</u>
Balances, Ending	<u>\$ 3,611,235</u>	<u>\$ 3,715,202</u>

As of December 31, 2023 and 2022, there is no valuation allowance recorded against other real estate and foreclosed assets. At December 31, 2023 and 2022, foreclosed residential real estate properties included \$13,676 and \$-0- recorded as a result of obtaining physical possession of the property. At December 31, 2023, the Bank had no consumer mortgage loans secured by residential real estate for which formal foreclosure procedures were in process.

Activity in the valuation allowance was as follows:

	<u>2023</u>	<u>2022</u>
Balances, Beginning	\$ -	\$ 165,000
Provisions (Recoveries) Charged (Credited) to Expense	-	-
Reductions from Sales of Real Estate Owned	-	(165,000)
Direct Write-Downs	<u>-</u>	<u>-</u>
Balances, Ending	<u>\$ -</u>	<u>\$ -</u>

Expenses related to other real estate and foreclosed assets include:	<u>2023</u>	<u>2022</u>
Net Loss (Gain) on Sales	\$ 7,221	\$ (608,935)
Provisions Charged to Expense	314,562	-
Operating Expenses, Net of Rental Income	<u>174,142</u>	<u>288,537</u>
Total	<u>\$ 495,925</u>	<u>\$ (320,398)</u>

## **(9) Cash Surrender Value of Life Insurance**

The Bank has established a BOLI program under which single-premium, split-dollar, whole-life insurance contracts are purchased on certain eligible officers. Initial investments in the policies are nondeductible for income tax purposes and the related investment income and death benefits are nontaxable when received. Death benefits are divided among the Bank and beneficiaries designated by the insured officer. The cash surrender value of these policies was \$15,230,065 and \$14,333,544 at December 31, 2023 and 2022, respectively. Income earned on the cash surrender value of these policies was \$384,867, \$355,593, and \$357,508 for the years ended December 31, 2023, 2022 and 2021, respectively.

## **(10) Deposits**

The aggregate amount of time deposits that meet or exceed \$250,000 at December 31, 2023 and 2022 was \$84,377,550 and \$41,326,553, respectively. At December 31, 2023, the scheduled maturities of time deposits are as follows:

2024	\$	185,755,624
2025		24,789,720
2026		3,462,114
2027		1,802,820
2028		<u>2,530,526</u>
Total Time Deposits	\$	<u>218,340,804</u>

## **(11) Short-Term Borrowings**

The Bank had five lines of credit for federal funds purchased totaling \$40,000,000 with correspondent institutions as of December 31, 2023. At December 31, 2023 and 2022, there were no outstanding balances on these lines of credit.

## **(12) Subordinated Debentures**

On April 30, 2019, the Company acquired FMB by merger. In connection with such transaction, the Company assumed the obligations of FMB related to its prior issuance of trust preferred securities. In 2005, FMB's statutory trust subsidiary, FMB 2005 Capital Trust I, issued \$4,000,000 in principal amount of trust preferred securities at a rate per annum equal to the 3-month LIBOR plus 1.57 percent through a pool sponsored by a national brokerage firm. These trust preferred securities have a maturity of 30 years and are redeemable at the Company's option on any quarterly interest payment date.

On April 15, 2019, the Company completed the sale of \$10,000,000 in aggregate principal amount of its 6.25 percent Fixed-To-Floating Rate Subordinated Notes due 2029 (the 2029 subordinated notes). The 2029 subordinated notes will mature on April 15, 2029, and through April 14, 2024, will bear a fixed rate of interest of 6.25 percent per annum, payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year. Beginning December 15, 2024, the interest rate on the 2029 subordinated notes resets quarterly to a floating rate per annum equal to the then-current 3-month LIBOR plus 4.08 percent, payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year to the maturity date or earlier redemption. On any scheduled interest payment date beginning April 15, 2024, the Company may, at its option, redeem the 2029 subordinated notes, in whole or in part, at a redemption price equal to 100 percent of the principal amount plus accrued and unpaid interest.

## (12) Subordinated Debentures (Continued)

On July 22, 2020, the Company completed the sale of \$15,000,000 in aggregate principal amount of its 5.25 percent Fixed-To-Floating Rate Subordinated Notes due 2030 (the 2030 subordinated notes). The 2030 subordinated notes will mature on July 22, 2030, and through July 22, 2025 will bear a fixed rate of interest of 5.25 percent per annum, payable semiannually in arrears on June 30 and December 31 of each year. Beginning July 22, 2025, the interest rate on the 2030 subordinated notes resets quarterly to a floating rate per annum equal to the then-current LIBOR plus 4.92 percent, payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year to the maturity date or earlier redemption. On any scheduled interest payment date beginning July 22, 2025, the Company may, at its option, redeem the 2030 subordinated notes, in whole or in part, at a redemption price equal to 100 percent of the principal amount plus accrued and unpaid interest.

As of December 31, 2023 and 2022, the outstanding balance on subordinated debentures was \$27,374,000 and \$29,124,000, respectively. Unamortized debt placement costs were \$222,716 and \$297,319 as of December 31, 2023 and 2022, respectively.

## (13) Long-Term Borrowings

The Bank became a member of the Federal Home Loan Bank (FHLB) of Atlanta during 1998 establishing a Credit Availability of \$15,000,000. This agreement was modified in 2008 to increase credit availability to 20 percent of total assets. Amounts advanced against this line of credit were \$0- and \$20,000,000 at December 31, 2023 and 2022, respectively. In the event the Bank requests future advances, the Bank has pledged loans with a carrying value of \$168,227,598 and \$172,021,803 at December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, letters of credit issued by the FHLB totaling \$31,000,000 and \$25,000,000, respectively, were used to guarantee the Bank's performance related to a portion of its public fund deposit balances. The collateral discussed above is also pledged to secure the letters of credit.

Based on the pledged collateral and the Bank's holdings of FHLB stock, the Bank is eligible to borrow up to a total of \$351,498,250.

## (14) Income Taxes

The provision for income taxes for the years ended December 31 are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current Tax Expense	\$ 437,735	\$ 1,309,199	\$ 2,229,040
Deferred Tax Benefit	(784,565)	(402,680)	(1,051,467)
Change in Valuation Allowance	<u>2,495,763</u>	<u>104,421</u>	<u>1,086,313</u>
Net Provision for Income Taxes	<u>\$ 2,148,933</u>	<u>\$ 1,010,940</u>	<u>\$ 2,263,886</u>

## (14) Income Taxes (Continued)

Deferred income taxes are reflected for certain timing differences between book and taxable income and will be reduced in future years as these timing differences reverse. The reasons for the difference between the actual tax expense and tax computed at the federal income tax rate are as follows as of December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Tax on Pretax Income at Statutory Rate	\$ 4,511,036	\$ 4,645,110	\$ 5,507,916
Change Resulting from			
Tax Exempt Interest Income	(326,134)	(360,656)	(494,965)
State Income Taxes, Net of Federal Tax Benefit	183,899	203,631	694,319
Investment Tax Credits	(2,172,223)	(3,405,909)	(2,400,000)
Life Insurance Income	(79,397)	(74,675)	(75,077)
Other	31,752	3,439	(968,307)
Total	<u>\$ 2,148,934</u>	<u>\$ 1,010,940</u>	<u>\$ 2,263,886</u>
Net Effective Tax Rate	<u>10.00%</u>	<u>4.57%</u>	<u>8.63%</u>

The sources and tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Deferred Income Tax Assets		
Net Operating Loss Carryover	\$ 2,495,240	\$ 2,677,027
Provision for Credit Losses	4,357,197	3,645,826
Deferred Compensation	261,990	237,017
Deferred Loan Fees	93,883	96,788
Core Deposit	163,568	133,807
Other Real Estate	-	785,139
Tax Credit Carryover	1,829,175	-
Other	4,343	3,900
Total Deferred Tax Assets	<u>9,205,396</u>	<u>7,579,504</u>
Less: Valuation Allowance	<u>(5,172,790)</u>	<u>(2,677,027)</u>
Net Deferred Tax Assets	<u>4,032,606</u>	<u>4,902,477</u>
Deferred Income Tax Liabilities		
Unrealized Losses on Securities Available for Sale	(525,603)	(693,289)
Other Real Estate	(940,258)	-
Depreciation	(664,663)	(763,594)
Total Deferred Tax Liabilities	<u>(2,130,524)</u>	<u>(1,456,883)</u>
Net Deferred Tax Asset	<u>\$ 1,902,082</u>	<u>\$ 3,445,594</u>

## (14) Income Taxes (Continued)

Realization of deferred tax assets associated with net operating loss carryforwards and tax credit carryovers is dependent upon generating sufficient taxable income prior to their expiration. A valuation allowance to reflect management's estimate of the temporary deductible differences that may expire prior to their utilization has been recorded at year-end 2023.

At December 31, 2023, the Company had federal net operating loss carryforwards of approximately \$8,550,000 which expire at various dates from 2031 to 2039. The Company also had state operating loss carryforwards of approximately \$12,200,000 which expire at various dates from 2030 to 2039. A valuation allowance has been recorded against the deferred tax assets recognized for net operating losses because the recognition of the benefit is uncertain.

The Company and its subsidiaries are subject to U.S. federal income tax as well as tax of the state of Georgia. The Company is subject to examination by taxing authorities for years ended December 31, 2021, and thereafter.

## (15) Employee Benefit Plans

### *401(k) and Employee Stock Ownership Plan*

The Company adopted a 401(k) plan in 1996. Effective January 1, 2012, the 401(k) Plan was converted into a profit-sharing plan with a cash deferral feature of an employee stock ownership plan to form the KSOP. The Company made matching contributions to the plan totaling \$432,321, \$446,133, and \$420,375 for the years ended December 31, 2023, 2022, and 2021, respectively.

The Plan covers substantially all of its full-time employees meeting length of service requirements. Under the Plan, shares of stock in the Company are purchased on behalf of eligible employees. Contributions are made to the plan at management's discretion and allocated based on a percentage of salary. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The fair value of shares under the Plan are valued based upon an independent appraisal. As of December 31, 2023, the Plan owned 174,547 shares of stock. The amount of pension expense charged to operations for the years ended December 31, 2023, 2022 and 2021 were \$255,505, \$272,232, and \$149,475, respectively.

Shares held by the Plan were as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Shares Held by the Plan were as Follows		
Allocated to Participants	174,547	170,462
Unearned	<u>-</u>	<u>-</u>
Total KSOP Shares	<u>174,547</u>	<u>170,462</u>
Fair Value of Unearned Shares	<u>\$ -</u>	<u>\$ -</u>



## **(15) Employee Benefit Plans (Continued)**

### *Stock Grant Plans*

The Company initiated a Stock Grant Plan (Plan 1) on February 1, 2017, in which 6,000 shares of granted stock has a three-year vesting period. The fair value of each grant under Plan 1 was estimated on the date of grant using the same valuation model used for shares granted under the Plan. Under Plan 1, there were no stock grants outstanding as of December 31, 2023. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The Company recognized no expense for the portion of the stock value vested in the years ended December 31, 2023, 2022, and 2021. As of December 31, 2023, there was no unrecognized cost remaining related to nonvested shares granted under Plan 1.

The Company initiated a Stock Grant Plan (Plan 2) on September 25, 2019, in which 26,910 shares of granted stock has a three-year vesting period. The fair value of each grant under Plan 2 was estimated on the date of grant using the same valuation model used for shares granted under the Plan. The term for shares granted under Plan 2 expired as of December 31, 2023. Under Plan 2, there were no stock grants outstanding as of December 31, 2023. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The Company recognized \$-0-, \$292,025 and \$291,637 in expense for the portion of the stock value vested in 2023, 2022 and 2021, respectively. As of December 31, 2023, there was no unrecognized cost related to nonvested shares granted under Plan 2.

The Company initiated a Stock Grant Plan (Plan 3) on September 25, 2019, in which 16,364 shares of granted stock has a 5.22-year vesting period. The fair value of each grant under Plan 3 was estimated on the date of grant using the same valuation model used for shares granted under the Plan. The term for shares granted under Plan 3 was one year as of December 31, 2022. Under Plan 3, there were 2,726 stock grants outstanding as of December 31, 2023. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The Company recognized \$118,665, \$118,665, and \$118,253 in expense for the portion of the stock value vested in 2023, 2022, and 2021, respectively. As of December 31, 2023, there was \$118,595 of total unrecognized cost related to nonvested shares granted under Plan 3; that cost is expected to be recognized over a period of one year.

### *Deferred Compensation Plan*

In 2014, the Company commenced a salary continuation plan covering seven executive officers through individual contracts. Under this plan, the Company is committed to pay the individuals an annual benefit as defined in each individual contract. The officers vest zero percent during the first five years of service and 100 percent after five years of service. The benefit will be paid over a period of 15 years beginning at age 60 for one officer and 65 for the other officers.

In 2019, the Company commenced another salary continuation plan covering four executive officers. Under this plan, the Company is committed to pay the individuals an annual benefit as defined in the individual contract over a period of 15 years beginning at age 60 for two officers and age 65 for the other two officers. The officers vest zero percent during the first year of service and 100 percent after the first year of service.

In 2023, the Company commenced a third salary continuation plan covering one executive officer. Under this plan, the Company is committed to pay the individual an annual benefit defined in the individual contract over a period of five years beginning at age 65.

The liability accrued under these plans totaled \$979,400, and \$886,046 as of December 31, 2023 and 2022, respectively. Expense charged to operations totaled \$93,354, \$172,710, and \$150,509 for the years ended December 31, 2023, 2022 and 2021, respectively. No benefits were paid as of December 31, 2023 and 2022.

## (15) Employee Benefit Plans (Continued)

### *Equity Incentive Plans*

In September 2018, the Bank granted 22,550 equity incentive units (EIUs) to certain employees under the Morris Bank 2018 Equity Incentive Unit Plan (the 2018 EIU Plan). The 2018 EIU Plan permits the grant of equity incentive units to employees of the Bank to promote the long-term financial interests of the Bank including its growth and performance. A EIU granted under the 2018 EIU Plan entitles the recipient to receive cash in an amount equal to the excess of the per unit book value on the payment date, which shall be determined by the compensation committee of the board of directors, over the base value of the EIU. The payment date is defined as the earlier of (a) the last day of the third fiscal year of the Bank following the fiscal year in which the grant date occurred; (b) the last day of the fiscal year following the employee's death; or (c) the effective date of a change in control.

In October 2019, the Company granted 18,000 stock appreciation rights (SARs) to certain individuals under the Morris State Bancshares, Inc. 2019 Equity Incentive Plan. The SARs granted vest over six years. Once vested, the portion of the SARs that became vested may be exercised and will be converted to the right to receive a cash payment from the Company in an amount equal to the positive difference between the fair market value of the Company's common stock as of the exercise date and the initial value of the SAR.

The following table details activity in the equity incentive plans for the years ended December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Shares Outstanding at January 1	\$ 15,000	\$ 40,550	\$ 40,550
Granted	-	-	-
Forfeited	(1,000)		
Exercised	(1,000)	(25,550)	-
	<u>\$ 13,000</u>	<u>\$ 15,000</u>	<u>\$ 40,550</u>
Shares Outstanding at December 31			
	<u>\$ 353,737</u>	<u>\$ 466,523</u>	<u>\$ 946,141</u>
Liability at December 31			
	<u>\$ (67,887)</u>	<u>\$ 257,648</u>	<u>\$ 460,445</u>
Compensation Expense for the Years Ended December 31			

The initial value for the stock appreciation rights granted in 2019 was \$43.35 per SAR. The base value for the equity incentive units granted in 2018 was \$37.67.

## (15) Employee Benefit Plans (Continued)

### *Restricted Stock Units*

The Company grants restricted stock units (RSUs) to select senior officers across the Company under the Morris State Bancshares, Inc. 2019 Equity Incentive Plan. Forty percent of the RSUs vest over a three-year time period. The remaining sixty percent of the RSUs are performance vested awards that vest based on a combination of continued service and corporate performance results.

	<u>Number of Shares</u>	<u>Weighted-Average Measurement Date Fair Value</u>
Shares Outstanding at December 31, 2021	4,899	79.00
Granted	5,889	82.65
Canceled	-	79.00
	<hr/>	<hr/>
Shares Outstanding at December 31, 2022	10,788	81.48
Granted	5,868	-
Canceled	(1,676)	-
	<hr/>	<hr/>
Shares Outstanding at December 31, 2023	<u>14,980</u>	<u>\$ 79.00</u>

The Company recognized \$492,634, \$250,116, and \$82,026 of compensation expense related to the RSUs at December 31, 2023, 2022 and 2021, respectively. As of December 31, 2023, there was \$577,259 of total unrecognized cost related to nonvested RSUs. The unrecognized cost is expected to be recognized through 2025.

### *Endorsement Split Dollar Arrangement*

On February 3, 2021, the Bank entered into an endorsement split dollar arrangement with six of its officers. This plan is intended to be an employee welfare benefit plan as defined in ERISA, which is intended to provide death benefits solely to a select group of management. The Bank is the owner of the life insurance contracts. The officers are not entitled to any of the cash value and have no rights except to name a beneficiary for a portion of the death proceeds. Death benefits for five of the officers are \$75,000 each. The death benefit for one of the officers is \$425,000.

## (16) Limitation on Dividends

The board of directors of any state-chartered bank in Georgia may declare and pay cash dividends on its outstanding capital stock without any request for approval of the Bank's regulatory agency if the following conditions are met:

- Total adversely classified assets at the most recent examination of the Bank do not exceed 80 percent of Tier 1 Capital plus the allowance for credit losses as reflected at such examination,
- The aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50 percent of the net income that is attributable to the Bank, for the previous calendar year; and
- The ratio of Tier 1 Capital to Average Total Assets shall not be less than six percent.

As of December 31, 2023, the amount available for distribution as dividends in the subsequent year without regulatory consent was \$10,870,110.

## (17) Commitments and Contingencies

### *Credit-Related Financial Instruments*

As of December 31, 2023, the amount available for distribution as dividends in the subsequent year without regulatory consent was \$10,870,110.

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

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional 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.

The Bank does require collateral or other security to support financial instruments with credit risk as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Financial Instruments Whose Contract Amount Represent Credit Risk		
Commitments to Extend Credit	\$ 184,450,850	\$ 216,863,199
Standby Letters of Credit	<u>2,765,367</u>	<u>1,870,011</u>
Total	<u>\$ 187,216,217</u>	<u>\$ 218,733,210</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 Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. All letters of credit are due within one year of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

In the normal course of business, the Company enters into various contracts for data processing services, Internet banking, ATM/debit card processing and related network monitoring and support. These generally expire after a term of 36 to 84 months and are cancelable by either party with a written notice subject to certain penalties.

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

## (18) Related Party Transactions

In the ordinary course of business, the Company, through the Bank, has direct and indirect loans outstanding to or for the benefit of certain executive officers and directors. These loans were made on substantially the same terms as those prevailing, at the time made, for comparable loans to other persons and did not involve more than the normal risk of collectability or present other unfavorable features. The following is a summary of activity during the years ended December 31 with respect to such loans to these individuals:

	<u>2023</u>	<u>2022</u>
Balances, Beginning	\$ 19,025,699	\$ 19,126,133
New loans	2,579,322	7,888,999
Effect of Change in Composition of Related Party	(128,000)	-
Repayments	<u>(3,877,615)</u>	<u>(7,989,433)</u>
Balances, Ending	<u>\$ 17,599,406</u>	<u>\$ 19,025,699</u>

The Bank also had deposits from these related parties of approximately \$49,225,391 and \$29,739,293 at December 31, 2023 and 2022, respectively.

The Bank leases office space for its Warner Robins branch from Red Thunder Properties, LLC, of which a member of the Bank's board of directors is the managing member. On December 19, 2016, the organizers of Morris Bank entered into a lease agreement for office space located in Warner Robins, Georgia. This lease agreement includes a period of five years beginning December 16, 2016 and ending December 31, 2021. The Bank will have a total of three, five-year options to extend the original lease term for an aggregate term of 20 years. On January 1, 2022, the Bank elected to renew the lease for another five-year period. Monthly lease payments for the second five-year period were established at \$9,535, after which time, monthly lease payments may increase by no more than 10 percent of the price of the previous lease term.

## (19) Fair Values of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. 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 value is based on discounted cash flows or other valuation techniques. These 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 accounting standard for disclosures about the fair value of financial instruments excludes financial instruments not recorded at fair value and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

## **(19) Fair Values of Financial Instruments (Continued)**

The fair value hierarchy describes three levels of inputs that may be used to measure fair value:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon observable inputs other than Level 1 prices, such as 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 assets or liabilities.

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 assets or liabilities.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value:

### *Debt Securities Available for Sale*

The fair value of securities available for sale is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and municipal bonds. The Level 2 fair value pricing is provided by an independent third-party and is based upon similar securities in an active market. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain residual municipal securities and other less liquid securities.

*Collateral-Dependent Loans* – The fair value for collateral-dependent loans is estimated based on discounted cash flows or underlying collateral values, where applicable. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may include real estate, or business assets including equipment, inventory, and accounts receivable. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers hired by the Company. The value of business equipment is based on an appraisal by qualified licensed appraisers hired by the Company if significant, or the equipment's net book value on the business' financial statements. Inventory and accounts receivable collateral are valued based on independent field examiner review or aging reports. Appraised and reported values may be discounted based on management's expertise and knowledge of the client and the client's business, which would result in classification as Level 3.

### *Other Real Estate and Foreclosed Assets*

Other real estate and foreclosed assets are adjusted to fair value, less cost to sell, upon transfer of the loans to other real estate and foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the other real estate and foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the other real estate and foreclosed asset as nonrecurring Level 3.

## (19) Fair Values of Financial Instruments (Continued)

### Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 aggregated by the level in the fair value hierarchy within which those measurements fall.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Debt Securities Available for Sale				
U.S. Treasury Securities	\$ -	\$ 3,900,820	\$ -	\$ 3,900,820
Commercial Mortgage Backed Securities	3,974,960	-	-	3,974,960
<b>Total Debt Securities</b>	<b>\$ 3,974,960</b>	<b>\$ 3,900,820</b>	<b>\$ -</b>	<b>\$ 7,875,780</b>

There were no liabilities measured at fair value on a recurring basis as of December 31, 2023.

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2022.

	<u>Total</u>	<u>Commercial Mortgage Backed Securities</u>	<u>Other Debt Securities</u>
Balance - December 31, 2021	\$ 32,123,548	\$ 31,123,548	\$ 1,000,000
Transfers to Held to Maturity	(32,123,548)	(31,123,548)	(1,000,000)
Balance - December 31, 2022	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Unrealized Gains (Losses) Included in Net Income for the Year For Assets Held as of December 31, 2022	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## (19) Fair Values of Financial Instruments (Continued)

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

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents the Company's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, aggregated by the level in the fair value hierarchy within which those measurements fall.

	2023			
	Level 1	Level 2	Level 3	Total
Collateral-Dependent Loans	\$ -	\$ -	\$ 1,096,934	\$ 1,096,934
Other Real Estate and Foreclosed Assets	-	-	3,611,235	3,611,235
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,708,169</u>	<u>\$ 4,708,169</u>
	2022			
Impaired Loans	\$ -	\$ -	\$ 6,690,631	\$ 6,690,631
Other Real Estate and Foreclosed Assets	-	-	3,715,202	3,715,202
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,405,833</u>	<u>\$ 10,405,833</u>

The following table shows significant unobservable inputs used in the fair value measurement of Level 3 assets and liabilities as of December 31:

Measurements	Fair Value at 2023	Valuation Technique	Unobservable Inputs	Range
Nonrecurring				
Collateral-Dependent Loans	\$ 1,096,934	Third party appraisals and loan pricing	Collateral discounts, estimated selling expenses, and discount rates	0.00 -100
Other Real Estate and Foreclosed Assets	3,611,235	Third party appraisals	Collateral discounts, estimated selling expenses, and discount rates	10.00 -39.09
	Fair Value at 2022	Valuation Technique	Unobservable Inputs	Range
Nonrecurring				
Impaired Loans	\$ 6,900,631	Third party appraisals, discounted cash flows, and loan pricing	Collateral discounts, estimated selling expenses, and discount rates	0.00-100
Other Real Estate and Foreclosed Assets	3,715,202	Third party appraisals	Collateral discounts, estimated selling expenses, and discount rates	10.00-39.09



## (20) Credit Risk Concentration

The Bank grants agribusiness, commercial and residential loans to customers. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the area's economic stability. The primary trade area for the Bank is generally that area within fifty miles in each direction.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit in excess of the legal lending limit to any single borrower or group of related borrowers.

The Company's bank subsidiary maintains its cash at several financial institutions located in the Southeast. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law and permanently raised the FDIC coverage limit to \$250,000. The Company had uninsured balances of \$9,051,939 as of December 31, 2023.

The Company maintains a cash balance in an account held with the Federal Home Loan Bank (FHLB). The FHLB is not a financial institution, and as a result, funds held are not subject to FDIC coverage. As of December 31, 2023, the Company had an outstanding balance of \$980,912 with the FHLB, which is entirely uninsured.

The Company also maintains an account with the Federal Reserve Bank of Atlanta. Although funds held by this institution are not insured with the FDIC, funds are backed by the full faith and credit of the United States Government. As of December 31, 2023, the Company had an outstanding balance of \$16,291,130 with the Federal Reserve Bank, which is backed by the full faith and credit of the United States Government.

Pandemics, natural disasters such as extreme weather conditions, hurricanes, floods, and other acts of nature, and geopolitical events involving civil unrest, changes in government regimes, terrorism, or military conflict could adversely affect our business operations and those of our customers and have significant negative impacts upon economic conditions and cause substantial damage and loss to real and personal property. These pandemics, natural disasters and geopolitical events could impair our borrowers' ability to service their loans, decrease the level and duration of deposits by customers, erode the value of loan collateral, and result in an increase in the amount of our nonperforming loans and a higher level of nonperforming assets (including real estate owned), net charge-offs, and provision for loan losses, and could materially and adversely affect our business, financial condition, results of operations, and the value of our common stock.

## (21) Operating Income and Expenses

Components of other operating expenses greater than one percent of total interest income and other income for the years ended December 31, are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Data Processing	\$ 3,803,567	\$ 3,640,803	\$ 3,223,252
Legal and Accounting Fees	1,052,494	995,245	799,590
Business Development	671,172	838,834	711,319

There were no components of other operating income greater than one percent of total interest income and other income for the years ended December 31, 2023, 2022 and 2021.

## (22) Regulatory Matters

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 Bank's 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 the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amount and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in as of January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in at a rate of 0.625 percent per year from 0.0 percent in 2015 to 2.50 percent on January 1, 2019. The Company and its bank subsidiaries have elected to exclude the net unrealized gain or loss on available for sale securities, if any, in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based, Tier I capital and Common Equity Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2023, the Bank meets all capital adequacy requirements to which it is subject. As of December 31, 2023, the most recent notification from regulatory agencies 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 I risk-based, Common Equity Tier I risk-based, and Tier I leverage ratios as set forth in the table. 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.

	<u>Actual</u>		<u>For Capital Adequacy</u>		<u>To Be Well Capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2023</b>						
Total Capital						
to Risk-Weighted Assets	\$ 189,831	14.55 %	\$ 104,372	8.00 %	\$ 130,465	10.00 %
Tier I Capital						
to Risk-Weighted Assets	173,543	13.30	78,279	6.00	104,372	8.00
Common Equity Tier I Capital						
to Risk-Weighted Assets	173,543	13.30	58,709	4.50	84,802	6.50
Tier I Capital						
to Average Assets	173,543	12.41	55,946	4.00	69,933	5.00
<b>As of December 31, 2022</b>						
Total Capital						
to Risk-Weighted Assets	\$ 183,016	14.24 %	\$ 102,818	8.00 %	\$ 128,522	10.00 %
Tier I Capital						
to Risk-Weighted Assets	169,387	13.18	77,111	6.00	102,815	8.00
Common Equity Tier I Capital						
to Risk-Weighted Assets	169,387	13.18	57,833	4.50	83,537	6.50
Tier I Capital						
to Average Assets	169,387	12.18	55,628	4.00	69,535	5.00

## (23) Segment Reporting

Reportable segments are strategic business units that offer different products and services. Reportable segments are managed separately because each segment appeals to different markets and, accordingly, requires different technology and marketing strategies.

The Company and its subsidiaries do not have any separately reportable operating segments. The entire operations of the Company are managed as one operation.

## (24) Subsequent Events

The Company performed an evaluation of subsequent events through March 20, 2024, the date upon which the Company's financial statements were available to be issued.

## (25) Condensed Financial Statements (Parent Company Only)

Condensed parent company financial information on Morris State Bancshares, Inc. at December 31, is as follows:

### Balance Sheets

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Cash in Subsidiary	\$ 17,867,617	\$ 9,209,828
Investment in Subsidiaries, at Equity in Underlying Net Assets	186,860,407	183,686,618
Goodwill	388,816	388,816
Other Assets	209,514	489,188
<b>Total Assets</b>	<u>\$ 205,326,354</u>	<u>\$ 193,774,450</u>
<b>Liabilities</b>		
Notes Payable or Other Borrowed Funds	\$ 27,151,284	\$ 28,826,681
Accrued Expenses	41,854	11,366
<b>Total Liabilities</b>	<u>27,193,138</u>	<u>28,838,047</u>
<b>Shareholders' Equity</b>		
Common Stock, \$1 Par Value, Authorized 10,000,000 Shares, 2,179,210 Issued and 2,115,920 Outstanding in 2023 and 2,169,557 Issued and 2,112,644 Outstanding in 2022	2,179,210	2,169,557
Paid-in Capital Surplus	41,635,204	40,928,731
Retained Earnings	135,107,041	121,426,245
Accumulated Other Comprehensive Income	1,968,846	2,608,086
Treasury Stock, at Cost 63,290 Shares in 2023 and 56,912 Shares in 2022	<u>(2,757,085)</u>	<u>(2,196,216)</u>
Total Shareholders' Equity	<u>178,133,216</u>	<u>164,936,403</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 205,326,354</u>	<u>\$ 193,774,450</u>

**(25) Condensed Financial Statements (Parent Company Only) (Continued)****Statements of Income and Retained Earnings**

	<b>Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Revenues</b>			
Dividend Income	\$ 16,000,000	\$ 6,500,000	\$ 6,000,000
Interest Income	49,712	4,137	8,284
Other	-	-	57
<b>Total Revenues</b>	<b>16,049,712</b>	<b>6,504,137</b>	<b>6,008,341</b>
<b>Expenses</b>			
Interest Expense	1,708,164	1,629,759	1,563,855
Other	749,278	887,605	654,441
<b>Total Expenses</b>	<b>2,457,442</b>	<b>2,517,364</b>	<b>2,218,296</b>
<b>Income Before Equity Income of Subsidiary</b>	<b>13,592,270</b>	<b>3,986,773</b>	<b>3,790,045</b>
Equity in Undistributed Income of Subsidiaries	5,739,919	17,121,857	20,174,243
<b>Net Income</b>	<b>19,332,189</b>	<b>21,108,630</b>	<b>23,964,288</b>
<b>Retained Earnings, Beginning</b>	<b>121,426,245</b>	<b>104,039,835</b>	<b>83,266,070</b>
Cumulative Change in Accounting Principle	(1,926,890)	-	-
Balance at January 1, 2023 (as adjusted for change in accounting principle)	119,499,355	104,039,835	83,266,070
Stock and Cash Dividends	(3,724,503)	(3,722,220)	(3,190,523)
<b>Retained Earnings, Ending</b>	<b>\$ 135,107,041</b>	<b>\$ 121,426,245</b>	<b>\$ 104,039,835</b>

**(25) Condensed Financial Statements (Parent Company Only) (Continued)****Statements of Cash Flows**

	<b>Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Cash Flows from Operating Activities</b>			
<b>Net Income</b>	<b>\$ 19,332,189</b>	<b>\$ 21,108,630</b>	<b>\$ 23,964,288</b>
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities			
Equity in Undistributed Income of Subsidiary	<b>(5,739,919)</b>	(17,121,857)	(20,174,243)
Stock Based Compensation Expense	<b>285,499</b>	116,686	-
Net Change in Operating Assets and Liabilities			
Accrued Income and Other Assets	<b>354,276</b>	675,616	103,274
Changes in Accrued Expenses and Other Liabilities	<b>30,489</b>	63,050	52,854
	<b>14,262,534</b>	4,842,125	3,946,173
<b>Cash Flows from Financing Activities</b>			
Repayment of Other Borrowed Funds	<b>(1,750,000)</b>	-	-
Purchase of Treasury Stock	<b>(560,869)</b>	(502,672)	(28,347)
Proceeds from Issuance of Common Stock	<b>430,627</b>	564,718	1,071,457
Cash Dividends Paid	<b>(3,724,503)</b>	(3,722,220)	(3,190,523)
	<b>(5,604,745)</b>	(3,660,174)	(2,147,413)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>8,657,789</b>	1,181,951	1,798,760
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>9,209,828</b>	8,027,877	6,229,117
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 17,867,617</b>	<b>\$ 9,209,828</b>	<b>\$ 8,027,877</b>

The following additional information is related to the Holding Company's cash flows during the periods reported.

	<b>Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Cash Paid for Interest</b>			
Interest on Borrowings	<b>\$ 1,706,303</b>	<b>\$ 1,621,642</b>	<b>\$ 1,562,932</b>
<b>Noncash Items</b>			
Changes in Unrealized Loss on Investments	<b>\$ (809,165)</b>	<b>\$ (1,007,947)</b>	<b>\$ (3,768,416)</b>
Stock Grant Forfeitures	<b>\$ (61,842)</b>	<b>\$ (91,403)</b>	<b>\$ -</b>



## (27) Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ended December 31 are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Beginning Balance</b>	<b>\$ 2,608,086</b>	<b>\$ 3,404,364</b>	<b>\$ 6,381,381</b>
Other Comprehensive Loss Before Reclassification	(8,424)	(60,093)	(2,740,120)
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	-	319	(236,897)
Net Change in Unamortized Gains on Available for Sale Transferred into Held to Maturity	<u>(630,816)</u>	<u>(736,504)</u>	<u>-</u>
Net Current Period Other Comprehensive Loss	<u>(639,240)</u>	<u>(796,278)</u>	<u>(2,977,017)</u>
<b>Ending Balance</b>	<b><u>\$ 1,968,846</u></b>	<b><u>\$ 2,608,086</u></b>	<b><u>\$ 3,404,364</u></b>

## (28) Revenues from Contracts with Customers

The Company's revenue from contracts with customers within the scope of ASU 2014-09 included in noninterest income (expense) in the consolidated income statement is comprised of the following for the years ended December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Noninterest Income (Expense)			
Service Charges on Deposits	\$ 2,143,963	\$ 2,417,800	\$ 1,983,697
ATM Interchange Fees	2,259,696	2,115,529	1,865,114
Net Gains (Losses) on Sales of Other Real Estate	<u>(314,562)</u>	<u>615,944</u>	<u>28,877</u>
	<b><u>\$ 4,089,097</u></b>	<b><u>\$ 5,149,273</u></b>	<b><u>\$ 3,877,688</u></b>

A description of the Company's revenue streams accounted for under ASU 2014-09 is as follows:

**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 ATM use fees, 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 relate 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.

**ATM Interchange Fees:** The Company earns interchange fees from cardholder transactions conducted through the Visa/MasterCard or other payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

## **(28) Revenues from Contracts with Customers (Continued)**

Gains/Losses on Sales of Other Real Estate Owned (OREO): The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.