

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

**CONSOLIDATED FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2025 AND 2024 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

Independent Auditor's Report

Board of Directors
Morris State Bancshares, Inc. and Subsidiaries
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 ("the Company"), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years ended 2025, 2024, and 2023, 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 the Company as of December 31, 2025 and 2024, and the results of their operations and their cash flows for the years ended 2025, 2024, and 2023 in accordance with accounting principles generally accepted in the United States of America.

We also have audited the Company's internal control over financial reporting as of December 31, 2025, 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2025, 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 the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2025, the Company adopted new accounting guidance for Accounting Standards Update (ASU) 2023-02 *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of 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 the Company'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 consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the consolidated financial statement audits 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 the Company'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 consolidated 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.

Nichols, Cauley + Associates, LLC

Dublin, Georgia
March 16, 2026

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

ASSETS

	2025	2024
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 67,652,824	\$ 52,797,778
Federal Funds Sold	<u>24,222,527</u>	<u>42,064,131</u>
	<u>91,875,351</u>	<u>94,861,909</u>
Interest-Bearing Time Deposits in Other Banks	100,000	100,000
Debt Securities Available for Sale, at Fair Value	23,890,954	9,726,716
Debt Securities Held to Maturity, at Cost, Net of Allowance for Credit Losses of \$41,379 and \$66,390 in 2025 and 2024, respectively	186,027,966	215,836,502
Federal Home Loan Bank Stock, Restricted, at Cost	1,084,300	1,032,800
Equity Investment, at Cost	3,436,775	3,500,000
Loans Held for Sale	153,000	465,250
Loans, Net of Unearned Income	1,195,116,955	1,115,609,409
Allowance for Credit Losses - Loans	<u>(15,367,077)</u>	<u>(14,488,525)</u>
Loans, Net	<u>1,179,902,878</u>	<u>1,101,586,134</u>
Other Assets		
Bank Premises and Equipment, Net	14,915,617	12,780,014
Right of Use Asset for Operating Lease	565,759	776,979
Goodwill	9,361,704	9,361,704
Intangible Assets, Net	1,009,542	1,338,964
Other Real Estate and Foreclosed Assets	1,059,930	21,898
Accrued Interest Receivable	7,871,717	7,278,258
Cash Surrender Value of Life Insurance	16,035,115	15,653,587
Investment in Tax Credits, Net	4,256,006	7,906,077
Other Assets	<u>7,443,596</u>	<u>10,375,569</u>
Total Other Assets	<u>62,518,986</u>	<u>65,493,050</u>
Total Assets	<u><u>\$ 1,548,837,210</u></u>	<u><u>\$ 1,492,137,111</u></u>

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

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	2025	2024
Deposits		
Noninterest Bearing	\$ 349,945,425	\$ 324,991,598
Interest Bearing	971,332,345	939,896,740
Total Deposits	1,321,277,770	1,264,888,338
Other Liabilities		
Other Borrowed Funds	4,124,000	19,019,371
Lease Liability for Operating Lease	565,759	776,979
Accrued Interest Payable	2,873,679	2,111,092
Accrued Expenses and Other Liabilities	7,637,382	9,738,172
Total Liabilities	1,336,478,590	1,296,533,952
Shareholders' Equity		
Common Stock, \$1 Par Value, Authorized 50,000,000 Shares, 10,754,034 Issued and 10,637,606 Outstanding in 2025 and 10,688,723 Issued and 10,593,225 Outstanding in 2024	10,754,034	10,688,723
Paid-In Capital Surplus	35,086,553	33,841,059
Retained Earnings	169,413,275	153,010,395
Accumulated Other Comprehensive Income	920,257	1,422,711
Treasury Stock, at Cost 116,428 Shares in 2025 and 95,498 Shares in 2024	(3,815,499)	(3,359,729)
Total Shareholders' Equity	212,358,620	195,603,159
Total Liabilities and Shareholders' Equity	\$ 1,548,837,210	\$ 1,492,137,111

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Interest and Dividend Income			
Loans, Including Fees	\$ 82,322,208	\$ 72,415,765	\$ 62,022,894
Interest on Debt Securities	6,364,282	7,368,157	8,196,152
Income on Federal Funds Sold	1,043,787	851,717	627,235
Income on Time Deposits Held in Other Banks	11,975	16,524	11,433
Other Interest and Dividend Income	3,124,347	1,866,332	1,502,077
Total Interest and Dividend Income	<u>92,866,599</u>	<u>82,518,495</u>	<u>72,359,791</u>
Interest Expense			
Deposits	25,690,689	25,981,732	18,599,665
Interest on Other Borrowed Money	808,907	1,442,530	2,148,020
Interest on Federal Funds Purchased	827	296	842
Total Interest Expense	<u>26,500,423</u>	<u>27,424,558</u>	<u>20,748,527</u>
Net Interest Income Before Provision for Credit Losses	<u>66,366,176</u>	<u>55,093,937</u>	<u>51,611,264</u>
Provision for Credit Losses - Debt Securities Held to Maturity	(25,011)	(21,050)	(8,561)
Provision for Credit Losses - Loans	2,625,000	600,000	800,000
Provision for Credit Losses - Off Balance Sheet Credit Exposures	270,735	(33,492)	(340,964)
Provision for Credit Losses	<u>2,870,724</u>	<u>545,458</u>	<u>450,475</u>
Net Interest Income After Provision for Credit Losses	<u>63,495,452</u>	<u>54,548,479</u>	<u>51,160,789</u>
Noninterest Income			
Service Charges on Deposit Accounts	2,320,360	2,168,900	2,143,963
Other Service Charges, Commissions and Fees	1,499,019	1,489,018	1,526,333
Increase in Cash Value of Life Insurance	434,507	423,522	384,867
Gain on Sales and Calls of Securities	-	182	-
Loss on Sales of Other Real Estate and Foreclosed Assets	(2,326)	(9,681)	(7,221)
Gain (Loss) on Sales of Premises and Equipment	12,950	-	(54,269)
Other Income	3,633,445	736,475	753,550
Total Noninterest Income	<u>7,897,955</u>	<u>4,808,416</u>	<u>4,747,223</u>
Noninterest Expenses			
Salaries	15,656,073	14,246,133	13,494,877
Employee Benefits	5,412,909	5,414,342	4,347,422
Net Occupancy Expense	2,906,218	2,777,024	2,855,872
Equipment Rental and Depreciation of Equipment	152,782	166,192	138,050
Impairment Recognized on Other Real Estate Held for Sale	-	-	314,562
Other Expenses	12,322,294	13,737,967	13,276,107
Total Noninterest Expenses	<u>36,450,276</u>	<u>36,341,658</u>	<u>34,426,890</u>
Income Before Income Taxes	<u>34,943,131</u>	<u>23,015,237</u>	<u>21,481,122</u>
Provision for Income Taxes	(8,456,145)	(1,210,893)	(2,148,933)
Net Income	<u>\$ 26,486,986</u>	<u>\$ 21,804,344</u>	<u>\$ 19,332,189</u>
Earnings Per Common Share			
Basic	<u>\$ 2.49</u>	<u>\$ 2.06</u>	<u>\$ 1.83</u>
Diluted	<u>\$ 2.49</u>	<u>\$ 2.06</u>	<u>\$ 1.83</u>

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

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

	2025	2024	2023
Net Income	\$ 26,486,986	\$ 21,804,344	\$ 19,332,189
Other Comprehensive Income (Loss)			
Unrealized Holding Gains (Losses) on Available for Sale Debt Securities	33,408	37,361	(10,605)
Reclassification Adjustment for Amortization of Unrealized Holding Gains From the Transfer of Securities			
From Available for Sale to Held to Maturity	(669,425)	(728,489)	(798,560)
Reclassification Adjustment for Gains Included in Net Income	-	(182)	-
Net Unrealized Losses	(636,017)	(691,310)	(809,165)
Tax Effect	133,563	145,175	169,925
Total Other Comprehensive Loss	(502,454)	(546,135)	(639,240)
Total Comprehensive Income	\$ 25,984,532	\$ 21,258,209	\$ 18,692,949

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

MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2025, 2024 AND 2023

	Common Stock	Paid-In Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance - December 31, 2022	\$ 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)
Balance - December 31, 2023	2,179,210	41,635,204	135,107,041	1,968,846	(2,757,085)	178,133,216
Four for One Stock Split	8,466,299	(8,466,299)	-	-	-	-
Balance at December 31, 2023 (as adjusted for four for one stock split)	10,645,509	33,168,905	135,107,041	1,968,846	(2,757,085)	178,133,216
Issuance of Restricted Stock, Net	43,214	221,386	-	-	-	264,600
Stock Based Compensation Expense	-	450,768	-	-	-	450,768
Purchase of Treasury Stock	-	-	-	-	(602,644)	(602,644)
Net Income	-	-	21,804,344	-	-	21,804,344
Other Comprehensive Loss	-	-	-	(546,135)	-	(546,135)
Cash Dividends	-	-	(3,900,990)	-	-	(3,900,990)
Balance - December 31, 2024	10,688,723	33,841,059	153,010,395	1,422,711	(3,359,729)	195,603,159
Cumulative Change in Accounting Principle	-	-	(3,392,211)	-	-	(3,392,211)
Balance at January 1, 2025 (as adjusted for change in accounting principle)	10,688,723	33,841,059	149,618,184	1,422,711	(3,359,729)	192,210,948
Issuance of Common Stock	32,641	607,117	-	-	-	639,758
Issuance of Restricted Stock, Net	32,670	28,623	-	-	-	61,293
Stock Based Compensation Expense	-	609,754	-	-	-	609,754
Purchase of Treasury Stock	-	-	-	-	(455,770)	(455,770)
Net Income	-	-	26,486,986	-	-	26,486,986
Other Comprehensive Loss	-	-	-	(502,454)	-	(502,454)
Cash Dividends	-	-	(6,691,895)	-	-	(6,691,895)
Balance - December 31, 2025	<u>\$ 10,754,034</u>	<u>\$ 35,086,553</u>	<u>\$ 169,413,275</u>	<u>\$ 920,257</u>	<u>\$ (3,815,499)</u>	<u>\$ 212,358,620</u>

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities			
Net Income	\$ 26,486,986	\$ 21,804,344	\$ 19,332,189
Adjustments to Reconcile Net Income to			
Net Cash Provided (Used) by Operating Activities			
Provision for Credit Losses	2,870,724	545,458	450,475
Depreciation	812,476	779,265	844,810
Impairment Recognized on Other Real Estate	-	-	314,562
Impairment Recognized on Equity Investment	63,225	-	-
Loss on Sales of Other Real Estate and			
Foreclosed Assets	2,326	9,681	7,221
Net Amortization on Debt Securities	979,992	1,102,919	1,283,723
(Gain) Loss on Sales/Calls of Debt Securities	-	(182)	-
(Gain) Loss on Sales Premises and Equipment	(12,950)	-	54,269
Deferred Tax	(1,050,445)	1,068,588	(784,565)
Increase in CSV Life Insurance	(381,528)	(423,522)	(384,867)
Amortization of Intangible Assets	329,422	341,026	343,550
Amortization of Operating Lease Right-of-Use Assets	360,824	349,177	403,389
Amortization of Operating Lease Liabilities	(360,824)	(349,177)	(403,389)
Amortization of Investment in Tax Credit	158,804	2,920,825	2,733,248
Stock Based Compensation Expense	609,754	450,768	285,499
Changes in			
Loans Held for Sale	312,250	(465,250)	1,939,500
Accrued Income and Other Assets	4,032,116	(461,568)	(3,117,035)
Accrued Expenses and Other Liabilities	(1,628,820)	1,839,253	3,568,508
Net Cash Provided by Operating Activities	<u>33,584,332</u>	<u>29,511,605</u>	<u>26,871,087</u>
Cash Flows from Investing Activities			
Net Change in Loans to Customers	(82,573,063)	(48,878,858)	(14,533,888)
Purchase of Available Sale Securities	(19,841,244)	(3,950,625)	(7,866,369)
Proceeds from Maturities/ Calls/Paydowns of Available for Sale Securities	6,075,405	2,196,383	-
Purchase of Held to Maturity Securities	(2,911,060)	-	-
Proceeds from Maturities/Calls/Paydowns of Held to Maturity Securities	30,730,199	22,499,440	17,284,259
Proceeds from Redemption of Federal Home Loan Bank Stock	-	-	548,800
Purchase of Federal Home Loan Bank Stock	(51,500)	(3,200)	-
Purchase of Investment Tax Credit	-	-	(8,806,764)
Purchase of CSV Life Insurance	-	-	(511,654)
Property and Equipment Expenditures	(3,200,080)	(370,926)	(221,490)
Proceeds from Sales of Property and Equipment	264,951	-	-
Proceeds from Sales of Other Real Estate and Foreclosed Assets	53,977	217,929	306,937
Net Cash Used by Investing Activities	<u>(71,452,415)</u>	<u>(28,289,857)</u>	<u>(13,800,169)</u>
Cash Flows from Financing Activities			
Net Change in Deposits	56,389,432	56,554,876	1,876,965
Repayment of Other Borrowed Funds	(15,000,000)	(8,250,000)	(21,750,000)
Purchase of Treasury Stock	(455,770)	(602,644)	(560,869)
Proceeds from Issuance of Common Stock	639,758	264,600	381,780
Cash Dividends Paid	(6,691,895)	(3,900,990)	(3,724,503)
Net Cash Provided (Used) by Financing Activities	<u>34,881,525</u>	<u>44,065,842</u>	<u>(23,776,627)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,986,558)</u>	<u>45,287,590</u>	<u>(10,705,709)</u>
Cash and Cash Equivalents, Beginning	<u>94,861,909</u>	<u>49,574,319</u>	<u>60,280,028</u>
Cash and Cash Equivalents, Ending	<u>\$ 91,875,351</u>	<u>\$ 94,861,909</u>	<u>\$ 49,574,319</u>

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

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Cash Payments			
Interest on Deposits	<u>\$ (24,928,473)</u>	<u>\$ 24,884,367</u>	<u>\$ 17,729,107</u>
Interest on Borrowings	<u>\$ 809,363</u>	<u>\$ 1,445,416</u>	<u>\$ 2,152,079</u>
Federal Income Taxes	<u>\$ 10,000,000</u>	<u>\$ -</u>	<u>\$ 600,000</u>
State Income Taxes	<u>\$ 1,055,000</u>	<u>\$ -</u>	<u>\$ -</u>
Noncash Items			
Changes in Unrealized Loss on Securities Available for Sale	<u>\$ (669,425)</u>	<u>\$ (728,489)</u>	<u>\$ (798,560)</u>
Transfer of Loans to Other Real Estate and Foreclosed Assets	<u>\$ 1,094,335</u>	<u>\$ 192,582</u>	<u>\$ 531,508</u>
Transfer of Other Real Estate and Foreclosed Assets to Loans	<u>\$ -</u>	<u>\$ 3,554,309</u>	<u>\$ -</u>
Initial Recognition of Operating Lease Right-of-Use Assets	<u>\$ (149,604)</u>	<u>\$ -</u>	<u>\$ -</u>
Initial Recognition of Operating Lease Liabilities	<u>\$ 149,604</u>	<u>\$ -</u>	<u>\$ -</u>
Issuance of Restricted Stock, Net of Forfeitures	<u>\$ 61,293</u>	<u>\$ 264,600</u>	<u>\$ 48,847</u>

See accompanying notes which are an integral part of these 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, 2025, 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, 2025, the Company adopted Accounting Standards Update (ASU) 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323) Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (PAM)* which expands the use of the PAM to qualifying tax equity investments beyond low-income housing tax credits (LIHTC). The Company elected to apply PAM to all tax credit investments on a modified retrospective basis. As a result of this adoption, the Company recorded a cumulative-effect adjustment of \$3,392,211 to the opening balance of retained earnings as of January 1, 2025, representing the difference between the previous equity method carrying amounts and the new PAM basis.

(1) Summary of Significant Accounting Policies (Continued)

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

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, Accounting Standards Codification (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.

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 \$2,250,189, which is recorded within accrued expenses and other liabilities. The Company recorded an allowance for credit losses for held-to-maturity securities of \$96,001, 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.

(1) Summary of Significant Accounting Policies (Continued)

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

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
Assets			
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>
Loans			
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	-
Agriculture	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>
Liabilities			
Allowance for Credit Losses on Off-Balance Sheet Exposure			
	<u>2,250,189</u>	<u>-</u>	<u>2,250,189</u>
Equity			
Retained Earnings	<u>\$ 119,499,355</u>	<u>\$ 121,426,245</u>	<u>\$ (1,926,890)</u>

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.

(1) Summary of Significant Accounting Policies (Continued)

Acquisition Accounting(Continued)

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

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.

(1) Summary of Significant Accounting Policies (Continued)

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, 2025 and 2024, 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. Accrued interest receivable for available for sale debt securities is \$92,965.

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. Accrued interest receivable for held-to-maturity debt securities is \$1,670,234.

(1) Summary of Significant Accounting Policies (Continued)

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. Accrued interest receivable totaled \$6,104,441 and \$5,425,395 at December 31, 2025 and 2024, respectively, and is excluded from the estimate of credit losses.

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.

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 those options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

(1) Summary of Significant Accounting Policies (Continued)

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 \$2,146,468 and \$1,875,733 as of December 31, 2025 and 2024, 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.

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, 2025, 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.

(1) Summary of Significant Accounting Policies (Continued)

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.

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. During the years ended December 31, 2025, 2024 and 2023, the Bank recognized amortization expense of \$158,804, \$2,920,825, and \$2,733,248, respectively, in noninterest expense on the consolidated statements of income. In addition, the Company recorded a cumulative-effect adjustment of \$3,392,211 to the opening balance of retained earnings as of January 1, 2025 for the adoption of PAM.

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

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 required as specified in the respective agreements. The Bank had no such items outstanding as of December 31, 2025 or 2024.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

(1) Summary of Significant Accounting Policies (Continued)

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, 2025, 2024 and 2023 were \$949,195, \$883,743, and \$831,379, 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 represent 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.

Effective April 22, 2024, the Company recorded a stock split of four additional shares for every share issued and outstanding. Common stock, paid-in capital surplus, and all stock related to employee benefit plans have been restated to reflect the stock split as of December 31, 2023. There was no impact to total shareholders' equity. The per share amounts as of December 31, 2023 have been restated to reflect the April 22, 2024 stock split.

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Net Income Applicable to Common Shares	<u>\$ 26,486,986</u>	<u>\$ 21,804,344</u>	<u>\$ 19,332,189</u>
Average Number of Common Shares Outstanding	10,629,599	10,603,218	10,582,377
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>10,629,599</u>	<u>10,603,218</u>	<u>10,582,377</u>

(1) Summary of Significant Accounting Policies (Continued)

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 Company presents comprehensive income in a separate consolidated statement of comprehensive income.

Reclassifications

Certain accounts in the 2024 and 2023 consolidated financial statements have been reclassified to conform to the presentation of current-year consolidated financial statements. Reclassification had no effect on the 2024 or 2023 net income or shareholders' equity.

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 Financial Accounting Standards Board (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. As of December 31, 2025, the Bank recognized an impairment on the investment of \$63,225.

(2) Debt Securities

The following tables summarize the amortized cost, fair value, and allowance for credit losses of securities available for sale and securities held-to-maturity at December 31, 2025 and 2024 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

Available for Sale	2025				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Estimated Market Value
Nonmortgage Backed Debt Securities					
U.S. Treasury Securities	\$ 3,424,412	\$ 6,545	\$ -	\$ -	\$ 3,430,957
State, County, and Municipal Securities	447,328	13,049	-	-	460,377
Total Nonmortgage Backed Debt Securities	<u>3,871,740</u>	<u>19,594</u>	<u>-</u>	<u>-</u>	<u>3,891,334</u>
Mortgage Backed Debt Securities					
Residential Mortgage Backed Securities	12,463,249	66,191	-	-	12,529,440
Commercial Mortgage Backed Securities	7,495,801	75,359	(100,980)	-	7,470,180
Total Mortgage Backed Debt Securities	<u>19,959,050</u>	<u>141,550</u>	<u>(100,980)</u>	<u>-</u>	<u>19,999,620</u>
	<u>\$ 23,830,790</u>	<u>\$ 161,144</u>	<u>\$ (100,980)</u>	<u>\$ -</u>	<u>\$ 23,890,954</u>
Available for Sale	2024				
Nonmortgage Backed Debt Securities					
U.S. Treasury Securities	\$ 2,976,856	\$ 8,494	\$ -	\$ -	\$ 2,985,350
Mortgage Backed Debt Securities					
Commercial Mortgage Backed Securities	6,723,104	18,281	(19)	-	6,741,366
	<u>\$ 9,699,960</u>	<u>\$ 26,775</u>	<u>\$ (19)</u>	<u>\$ -</u>	<u>\$ 9,726,716</u>

(2) Debt Securities (Continued)

	2025				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value	Allowance for Credit Losses
Held-to-Maturity					
Nonmortgage Backed Debt Securities					
U.S. Treasury Securities	\$ 8,227,676	\$ -	\$ (501,862)	\$ 7,725,814	\$ -
State, County, and Municipal Securities	120,718,297	24,519	(19,152,213)	101,590,603	39,260
Other Debt Securities	6,035,535	-	(81,202)	5,954,333	1,828
Total Nonmortgage Backed Debt Securities	134,981,508	24,519	(19,735,277)	115,270,750	41,088
Mortgage Backed Debt Securities					
Residential Mortgage Backed Securities	20,557,641	22,467	(1,212,477)	19,367,631	-
Commercial Mortgage Backed Securities	30,530,196	-	(4,911,055)	25,619,141	291
Total Mortgage Backed Securities	51,087,837	22,467	(6,123,532)	44,986,772	291
	<u>\$ 186,069,345</u>	<u>\$ 46,986</u>	<u>\$ (25,858,809)</u>	<u>\$ 160,257,522</u>	<u>\$ 41,379</u>
Held-to-Maturity					
	2024				
Nonmortgage Backed Debt Securities					
U.S. Treasury Securities	\$ 14,765,232	\$ -	\$ (953,414)	\$ 13,811,818	\$ -
State, County, and Municipal Securities	123,672,092	18,129	(23,013,398)	100,676,823	46,223
Other Debt Securities	13,845,661	-	(594,704)	13,250,957	8,354
Total Nonmortgage Backed Debt Securities	152,282,985	18,129	(24,561,516)	127,739,598	54,577
Mortgage Backed Debt Securities					
Residential Mortgage Backed Securities	19,166,129	-	(2,051,560)	17,114,569	-
Commercial Mortgage Backed Securities	44,453,778	-	(6,336,552)	38,117,226	11,813
Total Mortgage Backed Securities	63,619,907	-	(8,388,112)	55,231,795	11,813
	<u>\$ 215,902,892</u>	<u>\$ 18,129</u>	<u>\$ (32,949,628)</u>	<u>\$ 182,971,393</u>	<u>\$ 66,390</u>

Amortized costs presented above include \$1,104,718 and \$1,774,143 of unamortized gains related to the transfer from available for sale to held-to-maturity as of December 31, 2025 and 2024, respectively.

The book and market values of pledged securities were \$63,109,760 and \$56,569,427 at December 31, 2025, respectively and \$70,155,510 and \$60,894,662 at December 31, 2024, respectively.

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

	2025	2024	2023
Proceeds	\$ 7,250,000	\$ 3,431,786	\$ -
Gross Gains	-	681	-
Gross Losses	-	499	-

(2) Debt Securities (Continued)

Taxable interest income on securities was \$4,947,770, \$5,964,050, and \$6,362,885 for the years ended December 31, 2025, 2024 and 2023, respectively. Interest income exempt from Federal income tax was \$1,416,512, \$1,404,107, and \$1,833,267 for the years ended December 31, 2025, 2024, and 2023, respectively.

The amortized cost and estimated market value of debt securities for available for sale and held-to-maturity at December 31, 2025, 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.

	2025	
	Available for Sale	
	Amortized Cost	Estimated Market Value
Nonmortgage Backed Debt Securities		
Due In One Year or Less	\$ 3,424,412	\$ 3,430,957
Due After Five Years Through Ten Years	447,328	460,377
Total Nonmortgage Backed Securities	<u>3,871,740</u>	<u>3,891,334</u>
Mortgage Backed Debt Securities		
Residential Mortgage Backed Securities	12,463,249	12,529,440
Commercial Mortgage Backed Debt Securities	<u>7,495,801</u>	<u>7,470,180</u>
Total Mortgage Backed Securities	<u>19,959,050</u>	<u>19,999,620</u>
	<u>\$ 23,830,790</u>	<u>\$ 23,890,954</u>
	2025	
	Held-to-Maturity	
	Amortized Cost	Estimated Market Value
Nonmortgage Backed Debt Securities		
Due In One Year or Less	\$ 10,147,529	\$ 10,091,054
Due After One Year Through Five Years	28,646,199	27,232,733
Due After Five Years Through Ten Years	24,447,825	21,631,190
Due After Ten Years	<u>71,739,955</u>	<u>56,315,773</u>
Total Nonmortgage Backed Debt Securities	<u>134,981,508</u>	<u>115,270,750</u>
Mortgage Backed Debt Securities		
Residential Mortgage Backed Debt Securities	20,557,641	19,367,631
Commercial Mortgage Backed Debt Securities	<u>30,530,196</u>	<u>25,619,141</u>
Total Mortgage Backed Debt Securities	<u>51,087,837</u>	<u>44,986,772</u>
	<u>\$ 186,069,345</u>	<u>\$ 160,257,522</u>

(2) Debt Securities (Continued)

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, 2025 and 2024, 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 available for sale securities with gross unrealized losses at December 31, 2025 and 2024, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	2025			
	Less Than Twelve Months		Twelve Months Or More	
	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value
Securities Available for Sale				
Mortgage Backed Debt Securities				
Residential Mortgage Backed Debt Securities	\$ 100,980	\$ 2,923,651	\$ -	\$ -
	2024			
	Less Than Twelve Months		Twelve Months Or More	
	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value
Securities Available for Sale				
Mortgage Backed Debt Securities				
Commercial Mortgage Backed Debt Securities	\$ 19	\$ 3,950,625	\$ -	\$ -

As of December 31, 2025, the Company held one available for sale Residential Mortgage-Backed Security with an unrealized loss of \$100,980 for less than twelve months. As of December 31, 2024, the Company held one available for sale Commercial Mortgage-Backed Security with an unrealized loss of \$19 for less than twelve months.

Management evaluates securities for credit 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, 2025, the Company held 169 debt securities that had unrealized losses with aggregate depreciation of 13.9 percent from the Company's amortized cost basis.

(2) Debt Securities (Continued)

As of December 31, 2025, the Company held four U.S. treasury security and fifty-five commercial 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 credit impaired at December 31, 2025.

As of December 31, 2025, the Company held one hundred and six, 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 credit impaired at December 31, 2025.

As of December 31, 2025, the Company held four 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 credit impaired at December 31, 2025.

As of December 31, 2025 and 2024, the allowance for credit losses on available for sale debt securities was \$-0-.

The table below presents a roll forward for the years ended December 31, 2025 and 2024 of the allowance for credit losses on held-to-maturity debt securities:

	State County, & Municipal	Other Debt Securities	Mortgage- Backed Commercial	Total
Beginning Balance, January 1, 2025	\$ 46,223	\$ 8,354	\$ 11,813	\$ 66,390
Provisions for Credit Losses	<u>(6,963)</u>	<u>(6,526)</u>	<u>(11,522)</u>	<u>(25,011)</u>
Ending Balance, December 31, 2025	<u>\$ 39,260</u>	<u>\$ 1,828</u>	<u>\$ 291</u>	<u>\$ 41,379</u>
Beginning Balance, January 1, 2024	\$ 47,478	\$ 9,223	\$ 30,739	\$ 87,440
Provisions for Credit Losses	<u>(1,255)</u>	<u>(869)</u>	<u>(18,926)</u>	<u>(21,050)</u>
Ending Balance, December 31, 2024	<u>\$ 46,223</u>	<u>\$ 8,354</u>	<u>\$ 11,813</u>	<u>\$ 66,390</u>

As of December 31, 2025 and 2024, there was no allowance for credit losses recorded on U.S Treasury securities or residential mortgage-backed securities. There were no securities charged off and no recoveries.

(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, aggregated by credit quality indicators.

	<u>2025</u>	<u>2024</u>
Aaa	\$ 22,075,159	\$ 89,767,185
Aa1/Aa2/Aa3	135,021,947	76,566,752
A1/A2/A3	10,376,513	11,263,819
Not Rated	<u>18,595,726</u>	<u>38,305,136</u>
Total	<u>\$ 186,069,345</u>	<u>\$ 215,902,892</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>2025</u>	<u>2024</u>
Commercial	\$ 70,249,881	\$ 81,213,055
Commercial Real Estate	796,452,215	734,216,165
Consumer	8,299,006	10,653,584
Residential Real Estate	259,249,547	245,438,826
Agriculture	55,969,522	43,898,640
Other	<u>7,257,952</u>	<u>423,718</u>
Total Loans	<u>\$ 1,197,478,123</u>	<u>1,115,843,988</u>
Other		
Loans Held for Sale	153,000	465,250
Overdraft, In-Process and Suspense Accounts	<u>(2,361,168)</u>	<u>(234,579)</u>
Total Other	<u>(2,208,168)</u>	<u>230,671</u>
Gross Loans	1,195,269,955	1,116,074,659
Allowance for Credit Losses	<u>(15,367,077)</u>	<u>(14,488,525)</u>
Net Loans	<u>\$ 1,179,902,878</u>	<u>\$ 1,101,586,134</u>

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

Overdrafts included in loans were \$192,491 and \$387,697 at December 31, 2025 and 2024, respectively.

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.

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

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.

The following tables present an analysis of past due loans and loans accounted for on a nonaccrual basis as of December 31, 2025 and 2024:

	2025						
	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	\$ 69,018,301	\$ 518,027	\$ 232,459	\$ -	\$ 750,486	\$ 481,094	\$ 70,249,881
Commercial Real Estate	786,572,570	3,225,209	5,294,729	-	8,519,938	1,359,707	796,452,215
Consumer	8,118,314	132,456	19,831	-	152,287	28,405	8,299,006
Residential Real Estate	257,703,478	894,718	229,648	-	1,124,366	421,703	259,249,547
Agriculture	55,616,591	72,496	280,435	-	352,931	-	55,969,522
Other	7,257,952	-	-	-	-	-	7,257,952
Total	\$ 1,184,287,206	\$ 4,842,906	\$ 6,057,102	\$ -	\$ 10,900,008	\$ 2,290,909	\$ 1,197,478,123
Loans Held for Sale							153,000
Overdraft, In-process and Suspense Accounts							(2,361,168)
							\$ 1,195,269,955

	2024						
	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	\$ 79,499,060	\$ 537,652	\$ 426,227	\$ -	\$ 963,879	\$ 750,116	\$ 81,213,055
Commercial Real Estate	730,376,349	1,081,144	-	-	1,081,144	2,758,672	734,216,165
Consumer	10,460,271	111,433	13,839	-	125,272	68,041	10,653,584
Residential Real Estate	243,162,735	1,043,827	288,680	-	1,332,507	943,584	245,438,826
Agriculture	43,858,402	-	-	-	-	40,238	43,898,640
Other	423,718	-	-	-	-	-	423,718
Total	\$ 1,107,780,535	\$ 2,774,056	\$ 728,746	\$ -	\$ 3,502,802	\$ 4,560,651	\$ 1,115,843,988
Loans Held for Sale							465,250
Overdraft, In-process and Suspense Accounts							(234,579)
							\$ 1,116,074,659

(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 nonaccrual status:

<u>December 31, 2025</u>	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Commercial	\$ 235,653	\$ 245,441	\$ 481,094
Commercial Real Estate	1,359,707	-	1,359,707
Consumer	28,405	-	28,405
Residential Real Estate	421,703	-	421,703
	<u>\$ 2,045,468</u>	<u>\$ 245,441</u>	<u>\$ 2,290,909</u>
<u>December 31, 2024</u>			
Commercial	\$ 260,963	\$ 489,153	\$ 750,116
Commercial Real Estate	1,959,378	799,294	2,758,672
Consumer	68,041	-	68,041
Residential Real Estate	943,584	-	943,584
Agriculture	40,238	-	40,238
	<u>\$ 3,272,204</u>	<u>\$ 1,288,447</u>	<u>\$ 4,560,651</u>

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 present the Company's collateral dependent loans and related ACL as of December 31, 2025 and 2024, respectively.

	<u>2025</u>	
	Amortized Cost Basis Of Of Loans Determined To Be Collateral Dependent	Related Allowance for Credit Losses
Commercial	\$ 245,441	\$ 245,441
Commercial Real Estate	6,048,874	-
Residential Real Estate	514,437	-
Agriculture	277,008	-
Total	<u>\$ 7,085,760</u>	<u>\$ 245,441</u>
<u>2024</u>		
Commercial	\$ 940,362	\$ 895,438
Commercial Real Estate	2,186,134	169,294
Residential Real Estate	773,467	-
Total	<u>\$ 3,899,963</u>	<u>\$ 1,064,732</u>

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

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.

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.

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

Credit Quality Indicators (Continued)

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.

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

Credit Quality Indicators (Continued)

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

	2025						Total
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	
Grade 1 (Excellent Risk)	\$ 2,921,249	\$ -	\$ 2,611,752	\$ -	\$ 51,283	\$ -	\$ 5,584,284
Grade 2 (High Quality)	31,909	-	15,873	-	-	-	47,782
Grade 3 (Average Risk)	159,020	1,767,050	50,333	366,770	420,079	375,225	3,138,477
Grade 4 (Acceptable)	65,360,434	750,682,520	5,540,073	255,433,810	50,980,426	6,882,727	1,134,879,990
Grade 5 (Watch)	736,515	25,883,982	29,915	2,221,471	4,202,795	-	33,074,678
Grade 6 (Substandard)	500,124	965,014	49,614	713,059	37,931	-	2,265,742
Grade 7 (Impaired)	540,630	17,153,649	-	514,437	277,008	-	18,485,724
Grade 8 (Doubtful)	-	-	1,446	-	-	-	1,446
Grade 9 (Loss)	-	-	-	-	-	-	-
	<u>\$ 70,249,881</u>	<u>\$ 796,452,215</u>	<u>\$ 8,299,006</u>	<u>\$ 259,249,547</u>	<u>\$ 55,969,522</u>	<u>\$ 7,257,952</u>	<u>\$ 1,197,478,123</u>
Loans Held for Sale							153,000
Overdraft, In-Process, and Suspense Accounts							<u>(2,361,168)</u>
Total Loans							<u>\$ 1,195,269,955</u>

	2024						Total
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	
Grade 1 (Excellent Risk)	\$ 3,307,879	\$ -	\$ 2,141,195	\$ -	\$ 35,145	\$ -	\$ 5,484,219
Grade 2 (High Quality)	37,436	-	198,041	-	-	-	235,477
Grade 3 (Average Risk)	197,753	2,131,293	59,355	661,724	1,198,842	423,718	4,672,685
Grade 4 (Acceptable)	76,107,078	713,862,264	7,989,335	241,430,446	42,384,338	-	1,081,773,461
Grade 5 (Watch)	195,033	12,518,189	113,318	1,383,789	223,223	-	14,433,552
Grade 6 (Substandard)	427,515	1,156,182	149,620	957,622	57,092	-	2,748,031
Grade 7 (Impaired)	940,361	4,524,868	-	1,005,245	-	-	6,470,474
Grade 8 (Doubtful)	-	23,369	2,720	-	-	-	26,089
Grade 9 (Loss)	-	-	-	-	-	-	-
	<u>\$ 81,213,055</u>	<u>\$ 734,216,165</u>	<u>\$ 10,653,584</u>	<u>\$ 245,438,826</u>	<u>\$ 43,898,640</u>	<u>\$ 423,718</u>	<u>\$ 1,115,843,988</u>
Loans Held for Sale							465,250
Overdraft, In-Process and Suspense Accounts							<u>(234,579)</u>
Total Loans							<u>\$ 1,116,074,659</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 the 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, 2025						
		Term Loans By Year of Origination						
		2025	2024	2023	2022	2021	Prior	Total
Commercial								
Grade 1	\$	1,960,449	\$ 296,653	\$ 94,050	\$ 112,053	\$ 49,802	\$ 408,242	\$ 2,921,249
Grade 2		5,350	26,559	-	-	-	-	31,909
Grade 3		59,020	100,000	-	-	-	-	159,020
Grade 4		21,120,283	15,570,717	5,954,306	14,158,385	4,333,026	4,223,717	65,360,434
Grade 5		404,799	69,229	52,811	104,247	105,429	-	736,515
Grade 6		132,228	281,858	36,366	5,165	44,507	-	500,124
Grade 7		474,570	-	66,060	-	-	-	540,630
Total		24,156,699	16,345,016	6,203,593	14,379,850	4,532,764	4,631,959	70,249,881
Gross Charge-offs		38,681	802,872	43,772	10,262	71,698	688,879	1,656,164
Commercial Real Estate								
Grade 3		-	-	-	-	-	1,767,050	1,767,050
Grade 4		211,366,858	137,310,228	87,709,449	147,000,429	89,250,498	78,045,058	750,682,520
Grade 5		571,080	14,898,607	257,691	2,688,560	6,895,595	572,449	25,883,982
Grade 6		118,304	-	74,158	305,975	61,054	405,523	965,014
Grade 7		467,365	5,135,715	-	1,973,633	-	9,576,936	17,153,649
Total		212,523,607	157,344,550	88,041,298	151,968,597	96,207,147	90,367,016	796,452,215
Gross Charge-offs		-	-	-	-	-	-	-
Consumer								
Grade 1		1,858,783	508,742	200,719	24,824	18,684	-	2,611,752
Grade 2		-	10,298	-	5,575	-	-	15,873
Grade 3		21,790	-	21,351	-	7,192	-	50,333
Grade 4		2,795,314	971,344	646,424	829,267	276,276	21,448	5,540,073
Grade 5		-	10,304	9,491	3,344	-	6,776	29,915
Grade 6		11,369	967	15,024	15,852	6,402	-	49,614
Grade 8		1,446	-	-	-	-	-	1,446
Total		4,688,702	1,501,655	893,009	878,862	308,554	28,224	8,299,006
Gross Charge-offs		6,634	27,282	4,150	17,142	3,209	181,924	240,341
Residential Real Estate								
Grade 3		-	-	-	-	-	366,770	366,770
Grade 4		95,511,440	34,244,557	22,798,895	39,652,826	37,138,862	26,087,230	255,433,810
Grade 5		125,235	11,491	209,225	42,949	278,024	1,554,547	2,221,471
Grade 6		38,745	-	63,680	249,929	40,893	319,812	713,059
Grade 7		278,610	-	-	235,827	-	-	514,437
Total		95,954,030	34,256,048	23,071,800	40,181,531	37,457,779	28,328,359	259,249,547
Gross Charge-offs		-	-	-	-	-	-	-
Agriculture								
Grade 1		51,283	-	-	-	-	-	51,283
Grade 3		420,079	-	-	-	-	-	420,079
Grade 4		24,554,234	4,582,079	1,818,920	2,615,052	8,332,326	9,077,815	50,980,426
Grade 5		674,012	672,620	1,855,489	323,410	233,379	443,885	4,202,795
Grade 6		-	3,427	34,504	-	-	-	37,931
Grade 7		-	-	277,008	-	-	-	277,008
Total		25,699,608	5,258,126	3,985,921	2,938,462	8,565,705	9,521,700	55,969,522
Gross Charge-offs		-	-	-	-	-	-	-
Other								
Grade 3		-	-	-	-	-	375,225	375,225
Grade 4		4,693,227	-	122,194	85,279	1,982,027	-	6,882,727
Total		4,693,227	-	122,194	85,279	1,982,027	375,225	7,257,952
Gross Charge-offs		-	-	-	-	-	-	-
Total	\$	367,715,875	\$ 214,705,395	\$ 122,317,815	\$ 210,432,581	\$ 149,053,976	\$ 133,252,483	\$ 1,197,478,123
Gross Charge-offs	\$	45,315	\$ 830,154	\$ 47,922	\$ 27,404	\$ 74,907	\$ 870,803	\$ 1,896,505

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

Credit Quality Indicators (Continued)

As of December 31, 2024						
Term Loans By Year of Origination						
	2024	2023	2022	2021	Prior	Total
Commercial						
Grade 1	\$ 1,925,394	\$ 306,637	\$ 229,443	\$ 79,129	\$ 767,276	\$ 3,307,879
Grade 2	37,436	-	-	-	-	37,436
Grade 3	81,795	-	-	-	115,958	197,753
Grade 4	29,472,292	12,655,556	18,590,643	8,759,728	6,628,859	76,107,078
Grade 5	44,450	19,497	60,752	63,008	7,326	195,033
Grade 6	73,346	87,583	80,506	158,137	27,943	427,515
Grade 7	383,829	-	66,188	82,842	407,502	940,361
Total	32,018,542	13,069,273	19,027,532	9,142,844	7,954,864	81,213,055
Gross Charge-offs	-	164,767	33,206	28,848	14,641	241,462
Commercial Real Estate						
Grade 3	-	-	-	-	2,131,293	2,131,293
Grade 4	178,828,619	126,204,472	185,148,295	122,003,714	101,677,164	713,862,264
Grade 5	508,147	1,527,607	1,564,074	119,860	8,798,501	12,518,189
Grade 6	13,475	551,777	180,846	41,609	368,475	1,156,182
Grade 7	-	785,555	601,285	66,627	3,071,401	4,524,868
Grade 8	-	-	-	23,369	-	23,369
Total	179,350,241	129,069,411	187,494,500	122,255,179	116,046,834	734,216,165
Gross Charge-offs	-	-	-	-	-	-
Consumer						
Grade 1	1,681,749	378,161	33,668	27,819	19,798	2,141,195
Grade 2	177,156	11,088	9,797	-	-	198,041
Grade 3	-	30,540	2,696	10,057	16,062	59,355
Grade 4	2,647,685	2,140,637	2,181,994	821,556	197,463	7,989,335
Grade 5	57,248	655	25,958	8,086	21,371	113,318
Grade 6	-	45,249	35,644	40,545	28,182	149,620
Grade 8	-	2,512	187	21	-	2,720
Total	4,563,838	2,608,842	2,289,944	908,084	282,876	10,653,584
Gross Charge-offs	-	62,419	38,533	32,483	188,864	322,299
Residential Real Estate						
Grade 3	-	-	-	-	661,724	661,724
Grade 4	64,626,548	37,850,356	55,993,175	46,626,852	36,333,515	241,430,446
Grade 5	92,938	416,754	144,236	149,854	580,007	1,383,789
Grade 6	-	-	285,012	203,342	469,268	957,622
Grade 7	-	372,890	-	-	632,355	1,005,245
Total	64,719,486	38,640,000	56,422,423	46,980,048	38,676,869	245,438,826
Gross Charge-offs	-	-	-	-	-	-
Agriculture						
Grade 1	35,145	-	-	-	-	35,145
Grade 3	-	1,198,842	-	-	-	1,198,842
Grade 4	10,799,805	6,933,422	2,613,360	9,860,865	12,176,886	42,384,338
Grade 5	-	223,223	-	-	-	223,223
Grade 6	8,045	40,238	-	-	8,809	57,092
Total	10,842,995	8,395,725	2,613,360	9,860,865	12,185,695	43,898,640
Gross Charge-offs	-	-	-	-	-	-
Other						
Grade 3	-	-	-	-	423,718	423,718
Total	-	-	-	-	423,718	423,718
Gross Charge-offs	-	-	-	-	-	-
Total	\$ 291,495,102	\$ 191,783,251	\$ 267,847,759	\$ 189,147,020	\$ 175,570,856	\$ 1,115,843,988
Gross Charge-offs	\$ -	\$ 227,186	\$ 71,739	\$ 61,331	\$ 203,505	\$ 563,761

(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 tables present the amortized cost basis of loans modified to borrowers experiencing financial difficulty by portfolio type and by type of modification during the years ended December 31, 2025 and 2024. 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.

December 31, 2025	Combined Amortization Extension & Lower Interest Rate	Payment Delay	Total Modified	Total % Modified
Commercial Real Estate	\$ 14,898,607	\$ 6,943,831	\$ 21,842,438	2.74%

December 31, 2024	Combined Payment Delay and Deferred Interest	Total Modified	Total % Modified
Commercial	\$ 214,993	\$ 214,993	0.26%
Commercial Real Estate	24,848,077	24,848,077	3.38%
Residential Real Estate	523,311	523,311	0.21%
	<u>\$ 25,586,381</u>	<u>\$ 25,586,381</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.

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

Borrowers Experiencing Financial Difficulties (Continued)

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 tables present the performance of such loans that were modified during the 12-month periods ended December 31:

December 31, 2025	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total
Commercial Real Estate	\$ 21,842,438	\$ -	\$ -	\$ -	\$ -	\$ 21,842,438

December 31, 2024	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual	Total
Commercial	\$ 214,993	\$ -	\$ -	\$ -	\$ -	\$ 214,993
Commercial Real Estate	24,848,077	-	-	-	-	24,848,077
Residential Real Estate	523,311	-	-	-	-	523,311
	<u>\$ 25,586,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,586,381</u>

The following tables present the financial effect by type of modifications made to borrowers experiencing financial difficulties as of December 31, 2025 and 2024:

December 31, 2025	
Amortization Extension & Lower Interest Rate	
Financial Effect	
Commercial Real Estate	12 Month Amortization Extension, lower interest rate from 7.95% to 7.20%
Payment Delay	
Financial Effect	
Commercial Real Estate	3 Month Payment Extension
December 31, 2024	
Combined Payment Delay and Deferred Interest	
Financial Effect	
Commercial	3 month payment forbearance period; \$8,396 deferred interest
Commercial Real Estate	2 to 3 month payment forbearance period; \$316,435 deferred interest
Residential Real Estate	1 to 3 month payment forbearance period; \$8,089 deferred interest

(4) Allowance for Off-Balance Sheet Credit Exposure

The following tables present the balance in the allowance for off-balance sheet credit exposure based on portfolio segment as of December 31, 2025 and 2024, and activity for the years ended December 31, 2025 and 2024.

	2025						Total
	Commercial		Consumer	Residential		Other	
	Commercial	Real Estate		Real Estate	Agriculture		
Beginning Balance	\$ 244,699	\$ 1,109,570	\$ 4,922	\$ 404,332	\$ 112,210	\$ -	\$ 1,875,733
Provisions	30,694	152,307	204	72,930	14,548	52	270,735
Ending Balance	<u>\$ 275,393</u>	<u>\$ 1,261,877</u>	<u>\$ 5,126</u>	<u>\$ 477,262</u>	<u>\$ 126,758</u>	<u>\$ 52</u>	<u>\$ 2,146,468</u>
	2024						
Beginning Balance	\$ 248,773	\$ 1,129,068	\$ 4,981	\$ 412,540	\$ 113,863	\$ -	\$ 1,909,225
Provisions	(4,074)	(19,498)	(59)	(8,208)	(1,653)	-	(33,492)
Ending Balance	<u>\$ 244,699</u>	<u>\$ 1,109,570</u>	<u>\$ 4,922</u>	<u>\$ 404,332</u>	<u>\$ 112,210</u>	<u>\$ -</u>	<u>\$ 1,875,733</u>

(5) Bank Premises and Equipment

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

	2025	2024
Land	\$ 5,425,783	\$ 3,408,936
Buildings and Improvements	12,969,236	12,931,717
Leasehold Improvements	951,463	617,508
Equipment, Furniture and Fixtures	6,341,617	5,793,857
Vehicles	119,530	195,839
Total	25,807,629	22,947,857
Less: Accumulated Depreciation	<u>(10,892,012)</u>	<u>(10,167,843)</u>
Bank Premises and Equipment, Net	<u>\$ 14,915,617</u>	<u>\$ 12,780,014</u>

Depreciation included in operating expenses amounted to \$812,476, \$779,265, and \$844,810 for the years ended December 31, 2025, 2024 and 2023, 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.

(6) Leases (Continued)

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, 2025, 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, 2025 are as follows:

2026	\$	439,110
2027		121,849
2028		4,800
	\$	<u>565,759</u>

The weighted average remaining lease term was 16 months and 27 months as of December 31, 2025 and 2024, respectively. The Company recognized lease expenses of \$428,997, \$397,542, and \$491,587 for the years ended December 31, 2025, 2024, and 2023, 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, 2025 and 2024. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2025, 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, 2025, and the five succeeding years are as follows:

	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</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>(2,019,040)</u>	<u>(2,321,896)</u>	<u>(2,624,752)</u>	<u>(2,927,608)</u>	<u>(3,028,582)</u>	<u>(3,028,582)</u>
Net Carrying Value	<u>\$ 1,009,542</u>	<u>\$ 706,686</u>	<u>\$ 403,830</u>	<u>\$ 100,974</u>	<u>\$ -</u>	<u>\$ -</u>
Amortizing Expense	<u>\$ 302,856</u>	<u>\$ 302,856</u>	<u>\$ 302,856</u>	<u>\$ 302,856</u>	<u>\$ 100,974</u>	<u>\$ -</u>

(7) Goodwill and Intangible Assets (Continued)

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, 2025 and the five succeeding years are as follows:

	<u>2025</u>	2026	2027	2028	2029	2030
Amortizing Intangible Assets						
Core Deposit Premium						
Gross Carrying Amount	\$ 455,782	\$ 455,782	\$ 455,782	\$ 455,782	\$ 455,782	\$ 455,782
Accumulated Amortization	<u>(455,782)</u>	(455,782)	(455,782)	(455,782)	(455,782)	(455,782)
Net Carrying Value	<u>\$ -</u>	\$ -	\$ -	\$ -	\$ -	\$ -
Amortizing Expense	<u>\$ 26,566</u>	\$ -	\$ -	\$ -	\$ -	\$ -

(8) Other Real Estate and Foreclosed Assets

Other real estate and foreclosed assets activity was as follows:

	<u>2025</u>	<u>2024</u>
Balances, Beginning	\$ 21,898	\$ 3,611,235
Loans transferred to Other Real Estate and Foreclosed Assets	1,094,335	192,582
Sale of Other Real Estate and Foreclosed Assets	<u>(56,303)</u>	<u>(3,781,919)</u>
Balances, Ending	<u>\$ 1,059,930</u>	<u>\$ 21,898</u>

As of December 31, 2025 and 2024, there is no valuation allowance recorded against other real estate and foreclosed assets. At December 31, 2025 and 2024, the Bank had no residential real estate properties or consumer mortgage loans secured by residential real estate for which formal foreclosure procedures were in process.

Expenses related to other real estate and foreclosed assets include:

	<u>2025</u>	2024	<u>2023</u>
Net Loss (Gain) on Sales	\$ 2,326	\$ 9,681	\$ 7,221
Provisions Charged to Expense	-	-	314,562
Operating Expenses, Net of Rental Income	<u>134,175</u>	<u>212,238</u>	<u>174,142</u>
Total	<u>\$ 136,501</u>	<u>\$ 221,919</u>	<u>\$ 495,925</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 \$16,035,115 and \$15,653,587 at December 31, 2025 and 2024, respectively. Income earned on the cash surrender value of these policies was \$434,507, \$423,522, and \$384,867 for the years ended December 31, 2025, 2024 and 2023, respectively.

(10) Deposits

The aggregate amount of time deposits that meet or exceed \$250,000 at December 31, 2025 and 2024 were \$126,556,234 and \$108,447,799, respectively. At December 31, 2025, the scheduled maturities of time deposits are as follows:

2026	\$	285,621,397
2027		8,966,261
2028		4,330,184
2029		1,188,495
2030		<u>2,056,671</u>
Total Time Deposits	\$	<u>302,163,008</u>

The Bank held brokered deposits totaling \$10,098,750 and \$11,141,959 as of December 31, 2025 and 2024, respectively.

(11) Short-Term Borrowings

The Bank had seven lines of credit for federal funds purchased totaling \$83,000,000 and \$53,000,000 with correspondent institutions as of December 31, 2025 and 2024, respectively. At December 31, 2025 and 2024, 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.

(12) Subordinated Debentures (Continued)

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. The Company paid off the note in 2024.

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. The Company paid off the note in 2025.

As of December 31, 2025 and 2024, the outstanding balance on subordinated debentures was \$4,124,000 and \$19,124,000, respectively. Unamortized debt placement costs were \$-0- and \$104,629 as of December 31, 2025 and 2024, respectively.

(13) Long-Term Borrowings

The Bank became a member of the FHLB of Atlanta during 1998 establishing a Credit Availability of \$15,000,000. This agreement was modified in 2025 to increase credit availability to 30 percent of total assets. There were no amounts advanced against this line of credit at December 31, 2025 and 2024. In the event the Bank requests future advances, the Bank has pledged loans with a carrying value of \$278,832,536 and \$294,345,875 at December 31, 2025 and 2024, respectively.

As of December 31, 2025 and 2024, letters of credit issued by the FHLB totaling \$39,000,000 and \$36,000,000, 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 \$422,513,700 and \$322,694,250 as of December 31, 2025 and 2024, respectively.

(14) Income Taxes

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Current Tax Expense			
Federal	\$ 7,687,489	\$ 2,836,240	\$ 201,156
State	2,200,429	811,831	236,579
Deferred Tax Expense (Benefit)			
Federal	(530,565)	539,729	(360,537)
State	(519,880)	528,859	(424,028)
Change in Valuation Allowance	<u>(381,328)</u>	<u>(3,505,766)</u>	<u>2,495,763</u>
Net Provision for Income Taxes	<u>\$ 8,456,145</u>	<u>\$ 1,210,893</u>	<u>\$ 2,148,933</u>

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>2025</u>		<u>2024</u>		<u>2023</u>	
Tax on Pretax Income at Statutory Rate	\$ 7,338,058	21.00%	\$ 4,830,794	21.00%	\$ 4,511,036	21.00%
Change Resulting from						
Tax Exempt Interest Income	(306,879)	-0.88%	(308,307)	-1.34%	(326,134)	-1.52%
State Income Taxes, Net of Federal Tax Benefit	1,037,977	2.97%	452,083	1.96%	183,899	0.86%
Tax Credits	182,029	0.52%	(3,720,744)	-16.17%	(2,172,223)	-10.11%
Life Insurance Income	(90,521)	-0.26%	(87,599)	-0.38%	(79,397)	-0.37%
Other	295,481	0.85%	44,666	0.19%	31,752	0.15%
Total	<u>\$ 8,456,145</u>	<u>24.20%</u>	<u>\$ 1,210,893</u>	<u>5.27%</u>	<u>\$ 2,148,933</u>	<u>10.00%</u>

(14) Income Taxes (Continued)

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>2025</u>	<u>2024</u>
Deferred Income Tax Assets		
Net Operating Loss Carryover	\$ 2,158,671	\$ 2,272,120
Provision for Credit Losses	4,629,525	4,318,528
Deferred Compensation	337,908	306,547
Deferred Loan Fees	88,201	91,561
Core Deposit	219,946	190,063
Other	177,542	23,544
Total Deferred Tax Assets	<u>7,611,793</u>	<u>7,202,363</u>
Less: Valuation Allowance	<u>(1,285,697)</u>	<u>(1,667,025)</u>
Net Deferred Tax Assets	<u>6,326,096</u>	<u>5,535,338</u>
Deferred Income Tax Liabilities		
Unrealized Losses on Securities	(244,625)	(378,189)
Tax Credit Carryover	-	(250,000)
Depreciation	(544,353)	(420,476)
Total Deferred Tax Liabilities	<u>(788,978)</u>	<u>(1,048,665)</u>
Net Deferred Tax Asset	<u>\$ 5,537,118</u>	<u>\$ 4,486,673</u>

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 2025 and 2024.

At December 31, 2025, the Company had federal net operating loss carryforwards of approximately \$7,193,000 which expire at various dates from 2031 to 2039. The Company also had state operating loss carryforwards of approximately \$10,802,000 which expire at various dates from 2030 to 2039.

The Company and its subsidiaries are subject to U.S. federal income tax as well as tax of the state of Georgia. The Company does not pay foreign taxes. The Company is subject to examination by taxing authorities for years ended December 31, 2022, 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 \$465,332, \$434,384, and \$432,321 for the years ended December 31, 2025, 2024, and 2023, 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, 2025, the Plan owned 873,850 shares of stock. The amount of pension expense charged to operations for the years ended December 31, 2025, 2024 and 2023 were \$276,414, \$258,608, and \$255,505, respectively.

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

	<u>2025</u>	<u>2024</u>
Shares Held by the Plan were as Follows		
Allocated to Participants	873,850	853,715
Unearned	-	-
	<u> </u>	<u> </u>
Total KSOP Shares	<u>873,850</u>	<u>853,715</u>
Fair Value of Unearned Shares	<u>\$ -</u>	<u>\$ -</u>

Stock Grant Plans

The Company initiated a Stock Grant Plan (Plan 2) on September 25, 2019, in which 134,550 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, 2025. 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 2025, 2024 and 2023, respectively. As of December 31, 2025, 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 81,820 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 expired as of December 31, 2023. Under Plan 3, there were no stock grants outstanding as of December 31, 2025. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The Company recognized \$-0-, \$-0-, and \$118,665 in expense for the portion of the stock value vested in 2025, 2024, and 2023, respectively. As of December 31, 2025, there was no unrecognized cost related to nonvested shares granted under Plan 3.

(15) Employee Benefit Plans (Continued)

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 \$1,255,699 and \$1,161,604 as of December 31, 2025 and 2024, respectively. Expense charged to operations totaled \$94,095, \$182,204, and \$93,354 for the years ended December 31, 2025, 2024 and 2023, respectively. No benefits were paid as of December 31, 2025 and 2024.

Equity Incentive Plans

In September 2018, the Bank granted 112,750 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 90,000 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.

(15) Employee Benefit Plans (Continued)

Equity Incentive Plans (Continued)

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Shares Outstanding at January 1	20,000	65,000	75,000
Forfeited	(2,500)	-	(5,000)
Exercised	(2,500)	(45,000)	(5,000)
Shares Outstanding at December 31	<u>15,000</u>	<u>20,000</u>	<u>65,000</u>
Liability at December 31	<u>\$ 242,700</u>	<u>\$ 276,600</u>	<u>\$ 353,737</u>
Compensation Expense (Benefit) for the Years Ended December 31	<u>\$ 71,561</u>	<u>\$ 593,713</u>	<u>\$ (67,887)</u>

The initial value for the stock appreciation rights granted in 2019 was \$8.67 per SAR.

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, 2023	58,623	\$ 17.17
Granted	43,214	15.69
Vested	(15,339)	16.51
Canceled	(3,882)	16.34
Shares Outstanding at December 31, 2024	82,616	16.57
Granted	34,525	15.69
Vested	(30,744)	16.51
Canceled	(906)	16.34
Shares Outstanding at December 31, 2025	<u>85,491</u>	<u>\$ 16.57</u>

(15) Employee Benefit Plans (Continued)

Restricted Stock Units (Continued)

The Company recognized \$609,754, \$450,768, and \$492,634 of compensation expense related to the RSUs at December 31, 2025, 2024 and 2023, respectively. As of December 31, 2025, there was \$775,052 of total unrecognized cost related to nonvested RSUs. The unrecognized cost is expected to be recognized through 2026.

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 the Employee Retirement Income Security Act of 1974 (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, 2025, the amount available for distribution as dividends in the subsequent year without regulatory consent was \$14,317,759.

(17) Commitments and Contingencies

Credit-Related Financial Instruments

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.

(17) Commitments and Contingencies (Continued)

Credit-Related Financial Instruments (Continued)

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual 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>2025</u>	<u>2024</u>
Financial Instruments Whose Contract Amount Represent Credit Risk		
Commitments to Extend Credit	\$ 211,671,760	\$ 204,832,116
Standby Letters of Credit	<u>2,954,676</u>	<u>2,485,803</u>
Total	<u>\$ 214,626,436</u>	<u>\$ 207,317,919</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>2025</u>	<u>2024</u>
Balances, Beginning	\$ 12,907,961	\$ 17,599,406
New Loans	18,507,774	7,597,600
Repayments	<u>(7,123,421)</u>	<u>(12,289,045)</u>
Balances, Ending	<u>\$ 24,292,314</u>	<u>\$ 12,907,961</u>

The Bank also had deposits from these related parties of approximately \$16,447,460 and \$34,429,042 at December 31, 2025 and 2024, 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

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

(19) Fair Values of Financial Instruments (Continued)

The Company used the following methods and significant assumptions to estimate 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)

Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments for third party investors, which would result in classification as Level 2.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31, 2025 and 2024 aggregated by the level in the fair value hierarchy within which those measurements fall.

	2025			
	Level 1	Level 2	Level 3	Total
Assets				
Debt Securities Available for Sale				
U.S. Treasury Securities	\$ -	\$ 3,430,957	\$ -	\$ 3,430,957
State, County and Municipal Securities	-	460,377	-	460,377
Residential Mortgage Backed Securities	-	12,529,440	-	12,529,440
Commercial Mortgage Backed Securities	-	7,470,180	-	7,470,180
Total Debt Securities	\$ -	\$ 23,890,954	\$ -	\$ 23,890,954
Loans Held for Sale	\$ -	\$ 153,000	\$ -	\$ 153,000
2024				
Assets				
Debt Securities Available for Sale				
U.S. Treasury Securities	\$ -	\$ 2,985,350	\$ -	\$ 2,985,350
Commercial Mortgage Backed Securities	3,950,625	2,790,741	-	6,741,366
Total Debt Securities	\$ 3,950,625	\$ 5,776,091	\$ -	\$ 9,726,716
Loans Held for Sale	\$ -	\$ 465,250	\$ -	\$ 465,250

There were no liabilities measured at fair value on a recurring basis as of December 31, 2025 and 2024.

(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.

	2025			
	Level 1	Level 2	Level 3	Total
Collateral-Dependent Loans	\$ -	\$ -	\$ 7,085,760	\$ 7,085,760
Other Real Estate and Foreclosed Assets	-	-	1,059,930	1,059,930
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,145,690</u>	<u>\$ 8,145,690</u>
	2024			
Collateral-Dependent Loans	\$ -	\$ -	\$ 1,087,859	\$ 1,087,859
Other Real Estate and Foreclosed Assets	-	-	21,898	21,898
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,109,757</u>	<u>\$ 1,109,757</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			
	2025	Valuation Technique	Unobservable Inputs	Range
Nonrecurring				
Collateral Dependent Loans	\$ 7,085,760	Third party appraisals and loan pricing	Collateral discounts, estimated selling expenses, and discount rates	0.00 -100
Other Real Estate and Foreclosed Assets	1,059,930	Third party appraisals	Collateral discounts, estimated selling expenses, and discount rates	10.00 -39.09
	Fair Value at			
Measurements	2024	Valuation Technique	Unobservable Inputs	Range
Nonrecurring				
Collateral Dependent Loans	\$ 1,087,859	Third party appraisals and loan pricing	Collateral discounts, estimated selling expenses, and discount rates	0.00 -100
Other Real Estate and Foreclosed Assets	21,898	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 \$8,128,940 as of December 31, 2025.

The Company maintains a cash balance in an account held with the FHLB. The FHLB is not a financial institution, and as a result, funds held are not subject to FDIC coverage. As of December 31, 2025, the Company had an outstanding balance of \$1,894,747 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, 2025, the Company had an outstanding balance of \$50,429,154 with the Federal Reserve Bank.

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Expenses			
Data Processing	\$ 4,168,928	\$ 4,009,289	\$ 3,803,567
Legal and Accounting Fees	1,816,268	873,485	1,052,494
Advertising	949,195	883,743	831,379
	<u>2025</u>	<u>2024</u>	<u>2023</u>
Income			
Employee Retention Credit	\$ 2,463,884	\$ -	\$ -

On March 2, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") to provide certain relief as a result of the COVID-19 pandemic. The CARES Act provides tax relief, along with other stimulus measures, including a provision for an Employee Retention Credit ("ERC"), which allows for employers to claim a refundable tax credit against the employer share of Social Security tax equal to 70 percent of the qualified wages paid to employees after December 31, 2020, through September 30, 2021. The ERC was designed to encourage businesses to keep employees on the payroll during the COVID-19 pandemic.

As there is no authoritative guidance under U.S. GAAP on accounting for government assistance to for-profit business entities, we account for the ERC by analogy to the International Accounting Standard ("IAS") 20, Accounting for Government Grants and Disclosure of Government Assistance. In accordance with IAS 20, management determined it did not have reasonable assurance for the receipt of the ERC due to the uncertain status of the program at the time of application. The Company subsequently recorded revenue when funds were received as disclosed on the Consolidated Statements of Income.

(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.

(22) Regulatory Matters (Continued)

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, 2025, the Bank meets all capital adequacy requirements to which it is subject. As of December 31, 2025, 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.

Financial institutions under the generally applicable capital rule are required to maintain a capital conservation buffer of greater than 2.5 percent in order to avoid restrictions on capital distributions and other payments. Federal banking regulations require institutions to meet their capital conservation buffer requirement with common equity tier 1 capital.

Actual and required capital amounts and ratios are presented below at year-end.

	<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>
(In Thousands)						
As of December 31, 2025						
Total Capital						
to Risk-Weighted Assets	\$ 209,507	15.78 %	\$ 106,231	8.00 %	\$ 132,789	10.00 %
Tier I Capital						
to Risk-Weighted Assets	192,898	14.53	79,673	6.00	106,231	8.00
Common Equity Tier I Capital						
to Risk-Weighted Assets	192,898	14.53	59,755	4.50	86,313	6.50
Tier I Capital						
to Average Assets	192,898	12.64	61,059	4.00	76,324	5.00
As of December 31, 2024						
Total Capital						
to Risk-Weighted Assets	\$ 195,513	15.78 %	\$ 99,091	8.00 %	\$ 123,864	10.00 %
Tier I Capital						
to Risk-Weighted Assets	180,018	14.53	74,318	6.00	99,091	8.00
Common Equity Tier I Capital						
to Risk-Weighted Assets	180,018	14.53	55,739	4.50	80,511	6.50
Tier I Capital						
to Average Assets	180,018	12.43	57,910	4.00	72,387	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 16, 2026, the date upon which the Company's consolidated financial statements were available to be issued.

As announced on November 20, 2025, Morris State Bancshares, Inc. and Pinnacle Financial Corporation (Pinnacle) are merging to form a new entity named Vallant Financial, Inc. The merger is expected to close during the first or second quarter of 2026. Subsequent to year end, certain contracts have been terminated and other agreements entered into, to facilitate the merger. Upon completion of the merger, Pinnacle shareholders will hold approximately fifty-four percent and the Company's shareholders will hold approximately forty-six percent of the shares of Vallant Financial, Inc.

(25) Condensed Financial Statements (Parent Company Only)

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

	<u>2025</u>	<u>2024</u>
Assets		
Cash in Subsidiary	\$ 10,839,881	\$ 21,700,447
Investment in Subsidiaries, at Equity in Underlying Net Assets	205,188,976	192,448,123
Goodwill	388,816	388,816
Other Assets	144,160	143,576
Total Assets	<u>\$ 216,561,833</u>	<u>\$ 214,680,962</u>
Liabilities		
Notes Payable or Other Borrowed Funds	\$ 4,124,000	\$ 19,019,372
Accrued Expenses	79,213	58,431
Total Liabilities	<u>4,203,213</u>	<u>19,077,803</u>
Shareholders' Equity		
Common Stock, \$1 Par Value, Authorized 50,000,000 Shares, 10,754,034 Issued and 10,637,606 Outstanding in 2025 and 10,668,723 Issued and 10,593,225 Outstanding in 2024	10,754,034	10,688,723
Paid-in Capital Surplus	35,086,553	33,841,059
Retained Earnings	169,413,275	153,010,395
Accumulated Other Comprehensive Income	920,257	1,422,711
Treasury Stock, at Cost 116,428 Shares in 2025 and and 95,498 Shares in 2024	<u>(3,815,499)</u>	<u>(3,359,729)</u>
Total Shareholders' Equity	<u>212,358,620</u>	<u>195,603,159</u>
Total Liabilities and Shareholders' Equity	<u>\$ 216,561,833</u>	<u>\$ 214,680,962</u>

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

	Years Ended December 31,		
	2025	2024	2023
Revenues			
Dividend Income	\$ 12,000,000	\$ 18,000,000	\$ 16,000,000
Interest Income	7,629	11,222	49,712
Total Revenues	12,007,629	18,011,222	16,049,712
Expenses			
Interest Expense	808,907	1,349,705	1,708,164
Other	1,347,253	990,822	749,278
Total Expenses	2,156,160	2,340,527	2,457,442
Income Before Equity Income of Subsidiary	9,851,469	15,670,695	13,592,270
Equity in Undistributed Income of Subsidiaries	16,635,517	6,133,649	5,739,919
Net Income	26,486,986	21,804,344	19,332,189
Retained Earnings, Beginning	153,010,395	135,107,041	121,426,245
Cumulative Change in Accounting Principle	(3,392,211)	-	(1,926,890)
Balance at January 1, (as adjusted for change in accounting principle)	149,618,184	135,107,041	119,499,355
Stock and Cash Dividends	(6,691,895)	(3,900,990)	(3,724,503)
Retained Earnings, Ending	\$ 169,413,275	\$ 153,010,395	\$ 135,107,041

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

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

Statements of Cash Flows

	Years Ended December 31,		
	2025	2024	2023
Cash Flows from Operating Activities			
Net Income	\$ 26,486,986	\$ 21,804,344	\$ 19,332,189
Adjustments to Reconcile Net Income to			
Net Cash Provided (Used) by Operating Activities			
Equity in Undistributed Income of Subsidiary	(16,635,517)	(6,133,649)	(5,739,919)
Stock Based Compensation Expense	609,754	450,768	285,499
Net Change in Operating Assets and Liabilities			
Accrued Income and Other Assets	584	65,736	311,022
Changes in Accrued Expenses and Other Liabilities	185,534	134,665	122,590
Net Cash Provided by Operating Activities	10,647,341	16,321,864	14,311,381
Cash Flows from Financing Activities			
Repayment of Other Borrowed Funds	(15,000,000)	(8,250,000)	(1,750,000)
Purchase of Treasury Stock	(455,770)	(602,644)	(560,869)
Proceeds from Issuance of Common Stock	639,758	264,600	381,780
Cash Dividends Paid	(6,691,895)	(3,900,990)	(3,724,503)
Net Cash Used in Financing Activities	(21,507,907)	(12,489,034)	(5,653,592)
Net Increase in Cash and Cash Equivalents	(10,860,566)	3,832,830	8,657,789
Cash and Cash Equivalents - Beginning of Year	21,700,447	17,867,617	9,209,828
Cash and Cash Equivalents - End of Year	\$ 10,839,881	\$ 21,700,447	\$ 17,867,617

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

	Years Ended December 31,		
	2025	2024	2023
Cash Paid for Interest			
Interest on Borrowings	\$ 809,363	\$ 1,231,618	\$ 1,706,303
Noncash Items			
Changes in Unrealized Loss on Investments	\$ (669,425)	\$ (691,310)	\$ (809,165)
Issuance of Restricted Stock Net of Forfeitures	\$ 61,293	\$ 264,600	\$ 48,847

(26) Other Comprehensive Income (Loss)

The tax effects allocated to each component of other comprehensive income (loss) for the years ended December 31 are as follows:

	2025		
	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Securities Available for Sale			
Change in Net Unrealized Gain During the Period	\$ 33,408	\$ 7,016	\$ 26,392
Net Change in Unamortized Gains on Available for Sale Transferred into Held to Maturity	(669,425)	(140,579)	(528,846)
	\$ (636,017)	\$ (133,563)	\$ (502,454)
	2024		
Securities Available for Sale			
Change in Net Unrealized Gain During the Period	\$ 37,361	\$ 7,846	\$ 29,515
Reclassification Adjustment for Net Gain Included in Net Income	(182)	(38)	(144)
Net Change in Unamortized Gains on Available for Sale Transferred into Held to Maturity	(728,489)	(152,983)	(575,506)
	\$ (691,310)	\$ (145,175)	\$ (546,135)
	2023		
Securities Available for Sale			
Change in Net Unrealized Gain During the Period	\$ (10,605)	\$ (2,239)	\$ (8,366)
Net Change in Unamortized Gains on Available for Sale Transferred into Held to Maturity	(798,560)	(167,686)	(630,874)
	\$ (809,165)	\$ (169,925)	\$ (639,240)

(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>2025</u>	<u>2024</u>	<u>2023</u>
Beginning Balance	\$ 1,422,711	\$ 1,968,846	\$ 2,608,086
Other Comprehensive Income (Loss)			
Before Reclassification	26,392	29,515	(8,424)
Amounts Reclassified from Accumulated Other Comprehensive Loss	-	(144)	-
Net Change in Unamortized Gains on Available for Sale Transferred into Held to Maturity	<u>(528,846)</u>	<u>(575,506)</u>	<u>(630,816)</u>
Net Current Period Other Comprehensive Loss	<u>(502,454)</u>	<u>(546,135)</u>	<u>(639,240)</u>
Ending Balance	\$ 920,257	\$ 1,422,711	\$ 1,968,846

(28) Revenues from Contracts with Customers

The Company's revenue from contracts with customers within the scope of *ASC 606* included in noninterest income (expense) in the consolidated income statement is comprised of the following for the years ended December 31:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Service Charges on Deposits	\$ 2,320,360	\$ 2,168,900	\$ 2,143,963
ATM Interchange Fees	2,429,592	2,371,561	2,259,696
Net Losses on Sales of Other Real Estate and Foreclosed Assets	<u>(2,326)</u>	<u>(9,681)</u>	<u>(321,783)</u>
	<u>\$ 4,747,626</u>	<u>\$ 4,530,780</u>	<u>\$ 4,081,876</u>

A description of the Company's revenue streams accounted for under *ASC 606* 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.

(28) Revenues from Contracts with Customers (Continued)

- *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.
- *Gains/(Losses) on Sales of Other Real Estate Owned (OREO) and Foreclosed Assets:* The Company records a gain or loss from the sale of OREO or foreclosed assets 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 or foreclosed assets 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 or foreclosed 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 is present.