

**PINNACLE FINANCIAL  
CORPORATION  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL REPORT**

**DECEMBER 31, 2022**

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AND SUBSIDIARY**

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## INDEPENDENT AUDITOR'S REPORT

**To the Stockholders and Board of Directors  
Pinnacle Financial Corporation  
Elberton, Georgia**

### **Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated financial statements of **Pinnacle Financial Corporation and Subsidiary**, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. We have also audited Pinnacle Financial Corporation and Subsidiary's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions to the Call Report and the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP) as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pinnacle Financial Corporation and Subsidiary as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, Pinnacle Financial Corporation and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### **Basis for Opinion**

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of 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 Assessment of 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 Pinnacle Financial Corporation and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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

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

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of 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 audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit, 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 Pinnacle Financial Corporation and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

## **Definition and Inherent Limitations of Internal Control over Financial Reporting**

An institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Pinnacle Financial Corporation and Subsidiary's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Call Report and the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP). An institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the institution are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the institution's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation 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.

## **Other Matters**

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information shown on pages 45 through 48 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2023, on our consideration of Pinnacle Financial Corporation and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pinnacle Financial Corporation and Subsidiary's internal control over financial reporting and compliance.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
March 23, 2023

**PINNACLE FINANCIAL CORPORATION  
AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2022 AND 2021**

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Cash and due from banks	\$ 40,710,707	\$ 29,892,917
Interest-bearing deposits at other financial institutions	18,001,883	279,419,371
Federal funds sold	50,200,000	40,200,000
Securities available for sale	391,169,530	376,347,270
Equity securities	1,985,658	-
Federal Home Loan Bank stock, at cost	1,149,500	980,400
Loans, net of allowance for loan losses of \$17,016,943 and \$13,893,641, respectively	- 1,405,087,884	- 1,172,128,992
Loans held for sale	2,180,225	2,044,956
Premises and equipment, net	38,376,901	38,143,159
Accrued interest receivable	6,552,092	5,113,317
Goodwill and intangibles, net	34,976,846	35,359,275
Cash surrender value of life insurance	21,448,454	23,719,055
Other real estate owned	-	1,000,000
Other assets	25,265,690	4,605,127
<b>Total assets</b>	<b>\$ 2,037,105,370</b>	<b>\$ 2,008,953,839</b>
 <b><u>Liabilities and Stockholders' Equity</u></b>  		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 674,106,164	\$ 582,840,172
Interest-bearing	1,181,851,669	1,215,907,938
Total deposits	<u>1,855,957,833</u>	<u>1,798,748,110</u>
Securities sold under repurchase agreements	4,788,446	6,592,347
Federal Home Loan Bank advances	-	3,000,000
Federal funds purchased	182,000	-
Subordinated notes	24,598,070	24,548,241
Subordinated debentures	7,217,000	7,217,000
Accrued interest payable	541,398	647,431
Other liabilities	10,397,232	5,951,013
<b>Total liabilities</b>	<b><u>1,903,681,979</u></b>	<b><u>1,846,704,142</u></b>
Commitments and contingencies		
Stockholders' equity:		
Common stock, no par value, 10,000,000 shares authorized; 1,283,838 and 1,251,753 shares issued, respectively	74,566,607	69,989,572
Retained earnings	109,769,445	92,729,771
Accumulated other comprehensive loss	(50,912,661)	(469,646)
<b>Total stockholders' equity</b>	<b><u>133,423,391</u></b>	<b><u>162,249,697</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 2,037,105,370</u></b>	<b><u>\$ 2,008,953,839</u></b>

**See Notes to Consolidated Financial Statements.**

**PINNACLE FINANCIAL CORPORATION  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>Interest income:</b>		
Loans, including fees	\$ 62,507,048	\$ 56,796,801
Securities:		
Taxable	6,863,207	2,534,184
Nontaxable	2,074,484	1,349,240
Interest-bearing deposits at other financial institutions	1,797,037	357,184
<b>Total interest income</b>	<b>73,241,776</b>	<b>61,037,409</b>
<b>Interest expense:</b>		
Deposits	1,143,323	1,589,262
Borrowings	1,353,749	1,448,318
<b>Total interest expense</b>	<b>2,497,072</b>	<b>3,037,580</b>
<b>Net interest income</b>	<b>70,744,704</b>	<b>57,999,829</b>
<b>Provision for loan losses</b>	<b>3,750,000</b>	<b>3,000,000</b>
<b>Net interest income after provision     for loan losses</b>	<b>66,994,704</b>	<b>54,999,829</b>
<b>Other income:</b>		
Service charges on deposit accounts	13,311,978	11,615,542
Mortgage loan origination fees	967,394	1,539,551
Other service charges and fees	1,555,646	1,473,659
Available for sale securities gains (losses), net	(354,871)	178,451
Losses on equity securities	(75,450)	-
Gain on sale of loans	265,292	210,071
Other income	1,735,221	949,990
<b>Total other income</b>	<b>17,405,210</b>	<b>15,967,264</b>
<b>Other expenses:</b>		
Salaries and employee benefits	29,247,121	25,236,439
Occupancy and equipment expense	8,883,447	8,203,732
Other real estate owned expenses	877	97,828
Merger and acquisition expenses	30,804	397,083
Other expenses	17,152,530	14,211,176
<b>Total other expenses</b>	<b>55,314,779</b>	<b>48,146,258</b>
<b>Income before income tax</b>	<b>29,085,135</b>	<b>22,820,835</b>
Income tax	6,118,256	4,847,865
<b>Net income</b>	<b>\$ 22,966,879</b>	<b>\$ 17,972,970</b>
Basic earnings per share	<b>\$ 18.23</b>	<b>\$ 15.28</b>
Diluted earnings per share	<b>\$ 16.72</b>	<b>\$ 13.93</b>
Average shares outstanding - basic	<b>1,259,993</b>	<b>1,175,860</b>
Average shares outstanding - diluted	<b>1,373,494</b>	<b>1,290,165</b>

**See Notes to Consolidated Financial Statements.**

**PINNACLE FINANCIAL CORPORATION  
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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<b>2022</b>	<b>2021</b>
<b>Net income</b>	<b><u>\$ 22,966,879</u></b>	<b><u>\$ 17,972,970</u></b>
<b>Other comprehensive loss:</b>		
Unrealized holding losses on available for sale securities arising during period, net of tax benefit of \$17,061,012 and \$761,188, respectively	(51,183,038)	(2,744,081)
Reclassification adjustment for gains realized in net income on available for sale securities, net of tax (benefit) of (\$88,718) and \$44,612, respectively	266,153	(133,839)
Unrealized gains on derivative financial instruments arising during period, net of tax of \$157,957 and \$92,836, respectively	<u>473,870</u>	<u>278,511</u>
<b>Other comprehensive loss</b>	<b><u>(50,443,015)</u></b>	<b><u>(2,599,409)</u></b>
<b>Comprehensive income (loss)</b>	<b><u>\$ (27,476,137)</u></b>	<b><u>\$ 15,373,561</u></b>

**See Notes to Consolidated Financial Statements.**

**PINNACLE FINANCIAL CORPORATION  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount Paid In</u>		<u>Income (Loss)</u>	<u>Equity</u>
<b>Balance, December 31, 2020</b>	1,148,288	\$ 55,628,043	\$ 80,163,516	\$ 2,129,763	\$ 137,921,322
Net income	-	-	17,972,970	-	17,972,970
Dividends declared, \$4.60 per share	-	-	(5,406,715)	-	(5,406,715)
Stock based compensation expense	2,568	249,539	-	-	249,539
Sale of common stock	6,834	943,170	-	-	943,170
Shares issued for Liberty First Bank merger	94,063	13,168,820	-	-	13,168,820
Other comprehensive loss	-	-	-	(2,599,409)	(2,599,409)
<b>Balance, December 31, 2021</b>	1,251,753	\$ 69,989,572	\$ 92,729,771	\$ (469,646)	\$ 162,249,697
Net income	-	-	22,966,879	-	22,966,879
Dividends declared, \$4.70 per share	-	-	(5,927,205)	-	(5,927,205)
Stock based compensation expense	2,000	515,560	-	-	515,560
Exercise of stock warrants	30,085	4,061,475	-	-	4,061,475
Other comprehensive loss	-	-	-	(50,443,015)	(50,443,015)
<b>Balance, December 31, 2022</b>	1,283,838	\$ 74,566,607	\$ 109,769,445	\$ (50,912,661)	\$ 133,423,391

**See Notes to Consolidated Financial Statements.**

**PINNACLE FINANCIAL CORPORATION  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 22,966,879	\$ 17,972,970
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,466,834	2,307,804
Net amortization of securities available for sale	1,703,811	1,255,716
Income from equity securities	(61,108)	-
Amortization of intangible assets	382,429	179,845
Amortization of debt issuance costs	49,829	-
Provision for loan losses	3,750,000	3,000,000
(Gain) loss on sales of securities available for sale	354,871	(178,451)
Losses on equity securities	75,450	-
Gain on sale of loans	(265,292)	(210,071)
Stock based compensation including stock grants	515,560	249,539
Deferred income taxes	(587,711)	(675,927)
Net gains on sales of other real estate owned	(140,500)	(38,350)
(Increase) decrease in interest receivable	(1,438,775)	986,984
Decrease in interest payable	(106,033)	(116,232)
Increase in cash value of life insurance	(606,399)	(407,279)
(Increase) decrease in loans held for sale	(135,269)	971,585
Gain on sale of premises and equipment	(4,100)	11,436
Other operating activities, net	1,184,166	873,765
	<b>30,104,642</b>	<b>26,183,334</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) decrease in interest-bearing deposits at other financial institutions	261,417,488	(33,922,085)
(Increase) decrease in federal funds sold	(10,000,000)	9,758,611
Available for sale securities:		
Sales	8,605,395	32,915,819
Maturities, prepayments, and calls	28,963,304	23,690,075
Purchases	(122,233,455)	(224,466,106)
Purchase of equity securities	(2,000,000)	-
Net (increase) decrease in Federal Home Loan Bank stock	(169,100)	453,000
Net increase in loans	(236,443,600)	(58,685,854)
Proceeds from sales of other real estate owned	1,140,500	660,000
Proceeds from sale of repossessed assets	530,000	-
Proceeds from payout of life insurance policy	2,877,000	-
Cash paid in acquisition	-	(5,644,817)
Proceeds from sale of premises and equipment	4,100	295,000
Purchases of premises and equipment	(2,700,576)	(5,652,482)
	<b>(70,008,944)</b>	<b>(260,598,839)</b>

**PINNACLE FINANCIAL CORPORATION  
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**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in deposits	\$ 57,209,723	\$ 289,597,922
Net increase in federal funds purchased	182,000	-
Net decrease in securities sold under agreements to repurchase	(1,803,901)	3,319,759
Net decrease in PPPLF funding	-	(62,535,924)
Net increase (decrease) in long term financing	-	(14,410,937)
Repayment of Federal Home Loan Bank advances	(3,000,000)	(2,000,000)
Proceeds from issuance of subordinated debentures	-	25,000,000
Debt issuance costs	-	(497,435)
Proceeds from exercise of warrants and sale of common stock	4,061,475	943,170
Dividends declared and paid	(5,927,205)	(5,406,715)
	<b>50,722,092</b>	<b>234,009,840</b>
Net cash provided by financing activities	<b>50,722,092</b>	<b>234,009,840</b>
Net increase (decrease) in cash and due from banks	<b>10,817,790</b>	<b>(405,665)</b>
Cash and due from banks at beginning of year	<b>29,892,917</b>	<b>30,298,582</b>
Cash and due from banks at end of year	<b>\$ 40,710,707</b>	<b>\$ 29,892,917</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid on deposits and borrowings	\$ 2,603,105	\$ 4,529,171
Cash paid for income taxes	\$ 5,473,452	\$ 5,385,397
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Other real estate owned and repossessions acquired in settlement of loans	\$ -	\$ 425,000
<b>DETAIL OF ACQUISITION</b>		
Interest-bearing deposits and federal funds sold	\$ -	\$ (28,415,421)
Securities available for sale	-	(84,028,054)
FHLB stock	-	(85,400)
Loans	-	(71,358,969)
Accrued interest receivable	-	(477,997)
Premises and equipment	-	(3,371,643)
Intangible assets	-	(5,024,838)
Cash surrender value of life insurance	-	(3,289,634)
Other real estate owned	-	-
Other assets	-	(2,659,803)
Deposits	-	179,541,310
FHLB advances	-	-
Accrued interest payable	-	43,583
Other liabilities	-	313,229
Stock issued in acquisition	-	13,168,820
	<b>\$ -</b>	<b>\$ (5,644,817)</b>
Net cash paid in acquisition	<b>\$ -</b>	<b>\$ (5,644,817)</b>

**See Notes to Consolidated Financial Statements.**

# **PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

#### **Nature of Operations**

Pinnacle Financial Corporation (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Pinnacle Bank (the “Bank”). The Bank is a state chartered commercial bank headquartered in Elberton, Georgia. The Bank provides a full range of banking services in its primary market area of Northeast Georgia.

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

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

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate and deferred tax assets/liabilities, contingent assets and liabilities, other-than-temporary impairments of securities, lease liabilities and right of use assets, and the fair value of financial instruments.

The determination of the adequacy of the allowance for loan 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 has evaluated all transactions, events, and circumstances for consideration or disclosure through March 23, 2023, the date these financial statements were available to be issued, and has reflected or disclosed those items within the financial statements and related footnotes as deemed appropriate.

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

For purposes of reporting cash flows, cash and due from banks include cash on hand, cash items in process of collection and amounts due from banks. Cash flows from interest-bearing deposits at other financial institutions, federal funds sold and purchased, loans, deposits, and securities sold under repurchase agreements are reported net.

The Company has a restricted cash account required by its processor for ATM clearings. The balance in this account was \$1,582,000 at December 31, 2022 and 2021. This account is included in cash and due from banks in the consolidated balance sheet.

#### **Securities Available for Sale**

Securities are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from operations and reported in accumulated other comprehensive loss. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Securities Available for Sale (Continued)

When considering whether losses on securities are other-than-temporary, management considers whether a credit loss has occurred on the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will recognize the credit component of an other-than-temporary impairment of a debt security in operations and the remaining portion in other comprehensive loss.

#### Equity Securities

Equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income. As of December 31, 2022 and 2021, the Company had an equity investment in the American Hone Opportunity Mortgage Fund, LP totaling \$1,985,658 and \$0, respectively.

#### Federal Home Loan Bank Stock

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

#### Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. The majority of loans held for sale are initially funded by the Company with a commitment to purchase by an independent investor. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party commitments.

#### Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal balances less the allowance for loan losses and net deferred loan origination fees and related costs. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct loan origination costs, are recognized at the time the loan is recorded for most loans. Management has determined that the Company's costs of originating these loans to be substantially the same as the origination fees charged to the customer. For all other loans, the loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield over the life of the loan using the straight-line method.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, unless the loan is well-secured and in process of collection. Interest income on nonaccrual loans is recognized on the cash-basis or cost-recovery method, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Loans (Continued)

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

Purchased impaired loans are reported in loans. The fair values of loans with evidence of credit deterioration are recorded net of a nonaccretable discount and accretable discount. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized in interest income over the remaining life of the loan when there is reasonable expectation about the amount and timing of such cash flows. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable discount, which is included in the carrying amount of acquired loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges or a reclassification of the difference from nonaccretable to accretable with a positive impact on the accretable discount. These loans were initially recorded at fair value at acquisition date. Accretable discounts related to certain fair value adjustments are accreted into income over the estimated lives of the loans.

The Company accounts for performing loans acquired in the acquisitions using the expected cash flows method of recognizing discount accretion based on the acquired loans' expected cash flows. Purchased performing loans are recorded at fair value, including a credit discount. Credit losses on acquired performing loans are estimated based on analysis of the performing portfolio. Such estimated credit losses are recorded as nonaccretable discounts in a manner similar to purchased impaired loans. The fair value discount other than for credit loss is accreted as an adjustment to yield over the estimated lives of the loans. A provision for loan losses is recorded for any deterioration in these loans subsequent to the acquisition.

#### Allowance for Loan Losses

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

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectibility of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, concentrations and current economic conditions that may affect the borrower's ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Allowance for Loan Losses (Continued)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers unimpaired loans and is based on historical loss experience adjusted for other qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

#### Troubled Debt Restructurings

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

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current capacity to pay, which among other things may include a review of the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt to income analysis, and an evaluation of secondary sources of payment from the borrower and any guarantors.

This evaluation also includes an evaluation of the borrower's current willingness to pay, which may include a review of past payment history, an evaluation of the borrower's willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower's future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables.

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

#### Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets which range from 3 to 10 years for furniture, fixtures and equipment and 15 to 40 years for buildings. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 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 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 of 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. The Company generally does not record leases on the balance sheet that are classified as short term (less than one year).

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

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in other operating expenses on the Company's consolidated statements of income. The Company's variable lease expense includes rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease.

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

#### Transfers of Financial Assets

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

#### Other Real Estate Owned

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Goodwill and Intangible Assets

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Intangible assets consist of core deposit premiums acquired in connection with the assets acquired through business combinations and branch acquisitions. The core deposit premium is initially recognized based on an independent valuation performed as of the consummation date. The core deposit premiums are amortized by the straight-line method over the average remaining life of the acquired customer deposits, or a weighted average life of 5 to 7 years. Amortization periods are reviewed annually in connection with the Company's annual impairment testing of goodwill.

#### Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (FASB ASC 740, *Income Taxes*). The accounting guidance related to accounting for uncertainty in income taxes sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Derivative Instruments and Hedging Activities

The Company's interest rate risk management strategy incorporates the use of derivative instruments to minimize fluctuations in net income that are caused by interest rate volatility. The Company's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. The Company views this strategy as a prudent management of interest rate risk, such that net income is not exposed to undue risk presented by changes in interest rates.

In carrying out this part of its interest rate risk management strategy, the Company occasionally uses interest rate derivative contracts. The primary type of derivative contract used by the Company to manage interest rate risk is interest rate swaps. Interest rate swaps generally involve the exchange of fixed- and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. Cash flows related to floating-rate assets and liabilities will fluctuate with changes in an underlying rate index. When effectively hedged, the increases or decreases in cash flows related to the floating rate asset or liability will generally be offset by changes in cash flows of the derivative instrument designated as a hedge.

By using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the fair value gain in the derivative. When the fair value of a derivative contract is positive, this situation generally indicates that the counterparty is obligated to pay the Company and, therefore, creates a repayment risk for the Company. When the fair value of a derivative contract is negative, the Company is obligated to pay the counterparty and, therefore, has no repayment risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company. The Company's derivative activities are monitored by its asset/liability management committee as part of that committee's oversight of the Company's asset/liability and treasury functions.

The Company recognizes the fair value of derivatives as assets or liabilities in the financial statements. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative instrument at inception. The change in fair value of the effective portion of cash flow hedges is accounted for in other comprehensive loss rather than net income. Changes in the fair value of derivative instruments that are not intended as a hedge are accounted for in the net income of the period of the change.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains or losses that were accumulated in other comprehensive loss will be recognized immediately in earnings. In those situations where the hedge is redesignated or discontinued and the variability of the future cash flows will occur as expected, gains and losses that are accumulated in other comprehensive loss will continue to be reclassified from accumulated other comprehensive loss to earnings as the interest payments affect earnings over the period of the original hedging relationship. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with subsequent changes in its fair value recognized in current period earnings.

#### Profit-Sharing Plan

Profit-sharing plan costs are based on a percentage of employee's contributions to the plan, not to exceed the amount that can be deducted for federal income tax purposes.

#### Advertising Costs

The Company expenses all advertising costs as incurred. Advertising expense was \$530,005 and \$464,664 for the years ended December 31, 2022 and 2021, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Earnings Per Share

Basic earnings per share represents earnings available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share represents earnings available to common stockholders divided by the sum of the weighted-average number of common shares outstanding during the period and potential dilutive common shares. At December 31, 2022 and 2021, potential dilutive common shares consist of stock options and warrants.

#### Comprehensive Income (Loss)

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

#### Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 17. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

#### Revenue Recognition

The Company accounts for revenue in accordance with applicable revenue recognition accounting guidance, including ASU 2014-09 Revenue from Contracts with Customers (ASC Topic 606) and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as these activities are subject to other GAAP discussed elsewhere within the disclosures. The Company's services that fall within the scope of ASC 606 are presented within other income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 primarily include service charges on deposits and other service charges and fees which include ATM fees, safe deposit box rent and interchange income. Refer to Note 18 for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

#### U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP)

The Company participated in the Paycheck Protection Program, which was a loan program that originated from the CARES Act and was subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act ("PPPHCEA Act"). The PPP provided loans of up to \$10 million to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. PPP loans carry an interest rate of one percent, and a maturity of two or five years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) (Continued)

Under this program, the Company approximately \$47 million in funding to 1,169 customers in 2021. As compensation for originating the loans, the Company received lender-processing fees from the SBA totaling approximately \$3.6 million during the year ended December 31, 2021. The processing fees per loan range from 1% to 50%, based on the size of the loan, and are earned into income generally over the remaining lives of the loans. As of December 31, 2022, all PPP loans have been forgiven and all PPP fees have been recognized in income.

These PPP loans are fully guaranteed by the SBA and are included in the Company's loan loss allowance calculation. If the borrower meets certain criteria and uses the proceeds toward certain eligible expenses in accordance with the requirements of the PPP, the borrower's obligation to repay the loan can be forgiven up to the full principal amount of the loan and any accrued interest. Upon borrower forgiveness, the SBA pays the Company for the principal and accrued interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the original loan terms with the SBA guaranty remaining.

#### Adoption of Accounting Standard

On January 1, 2012, the Company adopted ASU No. 2016-02 *Leases (Topic 842)* and subsequent amendments thereto, which requires the Company to recognize most operating leases on the balance sheet. Adoption of the leasing standard resulted in the recognition of an operating right-of-use asset and an operating lease liability. These amounts were determined based on the present value of remaining lease payments, discounted using the Bank's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's statements of income. Disclosures about the Bank's leasing activities are presented in Note 4.

### NOTE 2. SECURITIES

The amortized cost and fair value of securities available for sale with gross unrealized gains and losses at December 31, 2022 and 2021 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2022:</b>				
U.S. Treasuries	\$ 36,208,942	\$ -	\$ (4,086,285)	\$ 32,122,657
U.S. Government-sponsored enterprises (GSEs)	15,177,987	-	(2,539,373)	12,638,614
State and municipal securities	148,656,149	41,107	(25,798,630)	122,898,626
Mortgage-backed GSE residential and commercial securities	218,477,995	12,263	(32,694,180)	185,796,078
Corporate bonds	40,657,372	-	(2,943,817)	37,713,555
<b>Total</b>	<b>\$ 459,178,445</b>	<b>\$ 53,370</b>	<b>\$ (68,062,285)</b>	<b>\$ 391,169,530</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (Continued)

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2021:				
U.S. Treasuries	\$ 36,490,449	\$ -	\$ (544,042)	\$ 35,946,407
U.S. Government-sponsored enterprises (GSEs)	11,210,594	-	(130,771)	11,079,823
State and municipal securities	140,896,118	2,092,480	(901,550)	142,087,048
Mortgage-backed GSE residential and commercial securities	168,163,734	448,702	(1,280,901)	167,331,535
Corporate bonds	19,811,475	225,683	(134,701)	19,902,457
Total securities	<u>\$ 376,572,370</u>	<u>\$ 2,766,865</u>	<u>\$ (2,991,965)</u>	<u>\$ 376,347,270</u>

The amortized cost and fair value of debt securities available for sale as of December 31, 2022 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year	\$ 1,926,267	\$ 1,908,659
Due from one to five years	46,517,061	43,049,314
Due from five to ten years	60,504,490	52,766,652
Due after ten years	131,752,632	107,648,827
Mortgage-backed securities	218,477,995	185,796,078
	<u>\$ 459,178,445</u>	<u>\$ 391,169,530</u>

Securities with a carrying value of \$10,372,019 and \$11,632,817 at December 31, 2022 and 2021, respectively, were pledged for public housing authorities, repurchase agreements, and for other purposes required or permitted by law.

Gains and losses on sales of securities consist of the following:

	<u>Years Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Gross gains	\$ -	\$ 397,570
Gross losses	<u>(354,871)</u>	<u>(219,119)</u>
Net realized gains	<u>\$ (354,871)</u>	<u>\$ 178,451</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (Continued)

#### Temporarily Impaired Securities

The following tables show the gross unrealized losses and fair value of securities available for sale with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2022 and 2021.

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2022</b>						
U.S. Treasuries	\$ -	\$ -	\$ 32,122,657	\$ (4,086,285)	\$ 32,122,657	\$ (4,086,285)
U.S. Government-sponsored enterprises (GSEs)	3,361,307	(561,520)	9,277,307	(1,977,853)	12,638,614	(2,539,373)
State and municipal securities	35,245,782	(3,000,748)	84,350,770	(22,797,882)	119,596,552	(25,798,630)
Mortgage-backed GSE residential and commercial securities	44,024,724	(3,571,021)	140,311,627	(29,123,159)	184,336,351	(32,694,180)
Corporate bonds	29,795,781	(1,523,190)	7,700,774	(1,420,627)	37,496,555	(2,943,817)
<b>Total</b>	<u>\$ 112,427,594</u>	<u>\$ (8,656,479)</u>	<u>\$ 273,763,135</u>	<u>\$ (59,405,806)</u>	<u>\$ 386,190,729</u>	<u>\$ (68,062,285)</u>

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2021</b>						
U.S. Treasuries	\$ 35,946,407	\$ (544,042)	\$ -	\$ -	\$ 35,946,407	\$ (544,042)
U.S. Government-sponsored enterprises (GSEs)	11,079,823	(130,771)	-	-	11,079,823	(130,771)
State and municipal securities	55,657,103	(838,423)	2,178,093	(63,127)	57,835,196	(901,550)
Mortgage-backed GSE residential and commercial securities	131,280,615	(1,119,059)	5,020,285	(161,842)	136,300,900	(1,280,901)
Corporate bonds	7,036,603	(113,239)	977,346	(21,462)	8,013,949	(134,701)
<b>Total</b>	<u>\$ 241,000,551</u>	<u>\$ (2,745,534)</u>	<u>\$ 8,175,724</u>	<u>\$ (246,431)</u>	<u>\$ 249,176,275</u>	<u>\$ (2,991,965)</u>

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

At December 31, 2022, 432 of 444 securities have unrealized losses with aggregate depreciation of 14.98 % from the Company's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

*U.S. Treasuries.* The unrealized losses on twenty-six (26) investments in U.S. Treasuries were caused by interest rate increases. Because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2. SECURITIES (Continued)

#### Temporarily Impaired Securities (Continued)

*GSE debt securities.* The unrealized losses on fourteen (14) investments in GSEs were caused by interest rate increases. Because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

*State and municipal securities.* The unrealized losses on the investments in two hundred twenty-nine (229) state and municipal securities were caused by interest rate increases. Because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

*Mortgage-backed GSE residential and commercial securities.* The unrealized losses on the Company's investment in one hundred twenty-four (124) GSE mortgage-backed securities were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by an agency sponsored by the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

*Corporate bonds.* The Company's unrealized losses on investments in thirty-nine (39) corporate bonds relates to investments in companies within the financial services sector. The unrealized losses are primarily caused by decreases in profitability and profit forecasts by industry analysts. The Company currently does not believe it is probable that it will be unable to collect the remaining carrying amounts of its investments in corporate bonds. Because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

#### Other-Than-Temporary Impairment

The Company conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. For each security in the investment portfolio, a regular review is conducted to determine if an other-than-temporary impairment has occurred. Various factors are considered to determine if an other-than-temporary impairment has occurred. However, the most significant factors are default rates or interest deferral rates and the creditworthiness of the issuer. Other factors may include geographic concentrations, credit ratings, and other performance indicators of the underlying asset.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of loans is summarized as follows:

	December 31,	
	2022	2021
Real estate:		
Construction and land development	\$ 165,475,690	\$ 138,323,819
1-4 family residential	276,078,004	221,041,629
Commercial	559,516,093	466,177,646
Other	251,506,087	208,188,437
Commercial	149,460,460	131,363,467
Consumer	24,214,623	25,211,873
	1,426,250,957	1,190,306,871
Nonaccretable discount	(223,981)	(252,427)
Accretable discount	(1,110,556)	(2,038,108)
Deferred loan fees	(2,811,593)	(1,993,703)
Allowance for loan losses	(17,016,943)	(13,893,641)
Loans, net	\$ 1,405,087,884	\$ 1,172,128,992

As discussed in Note 1, the Company originated a substantial amount of SBA PPP loans in 2021. SBA PPP loans outstanding at December 31, 2022 and 2021 totaled \$0 and \$6,744,576, respectively. These loans are 100% guaranteed by the SBA and are all considered pass rated loans. SBA PPP loans are included within the commercial loan segment.

Included in total loans above are \$101,773,297 and \$96,090,567 of interest only loans for 2022 and 2021, respectively. For the majority of these loans, interest is due monthly and principal is due at maturity. These loans present greater risk to the Company due to the structure of the loans and the potential for shortfall in value of the underlying collateral.

The loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are three loan portfolio segments that include real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and the Company's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land development, 1-4 family residential, commercial, and other. Commercial loans and consumer loans have not been further disaggregated into classes.

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

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

- Loans for real estate construction and land development are repaid through cash flow related to the operations, sale or refinance of the underlying property.
- 1-4 family residential loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. This portfolio class includes 1-4 family mortgages secured by first liens, junior liens, and open-end lines such as home equity lines of credit.
- Commercial real estate loans include owner-occupied commercial real estate loans and non-owner occupied commercial real estate loans. Commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

- Other real estate loans include multifamily residential loans and real estate loans secured by farmland and agricultural properties. Real estate loans on income producing properties such as apartment buildings are repaid from rental income derived from the properties. Real estate loans to farmland and agricultural properties are repaid from cash flow generated from business operations.

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

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

The loan committee, loan officers, and the executive management team as a whole are involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to manage the portfolios and reduce risk.

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

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on initial underwriting and managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios, including a complete review of all large relationships on an annual basis or more frequently as needed. To ensure problem credits are identified on a timely basis, independent loan reviews are performed to assess the larger adversely rated credits for proper risk rating and accrual status and, if necessary, to ensure such individual credits are properly graded by management. All loans are graded on a six-point scale and reviewed periodically for compliance with the defined criteria for each grade level.

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

The allowance for loan losses is established through provisions for loan losses charged to operations. The allowance for loan losses, which is evaluated quarterly, is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The allowance for loan losses is comprised of specific valuation allowances for loans evaluated individually for impairment, general allocations for pools of homogeneous loans with similar risk characteristics and trends, and an unallocated component that reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows; (2) the fair value of collateral if the loan is determined to be collateral dependent or (3) the loan's observable market price. The Company's homogeneous loan pools include commercial real estate loans, real estate construction and land development loans, residential real estate loans, real estate other loans, commercial loans and consumer loans. The general allocations to these loan pools are based on the historical loss rates for the specific loan type and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in lending policies and procedures; (3) changes in nature and mix of the portfolio; (4) concentrations and changes in concentrations of credit; (5) changes in experience of lenders and management; (6) changes in volume and severity of past dues, nonaccrual, and classified or rated loans; (7) changes in loan review system and related oversight; (8) changes in value of underlying collateral and (9) other external factors such as competition, legal and regulatory factors. The total allowance established for each homogeneous loan pool represents the sum of the historical loss ratio and the qualitative risk factors times the total dollar amount of the loans in the pool. There have been no significant changes in the Company's allowance for loan loss methodology for the years ended December 31, 2022 and 2021.

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

December 31, 2022	<u>Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
<b>Allowance for loan losses:</b>					
Beginning balance	\$ 10,373,045	\$ 2,213,097	\$ 765,808	\$ 541,691	\$ 13,893,641
Charge-offs	(40,903)	(93,368)	(845,307)	-	(979,578)
Recoveries	117,984	49,771	185,125	-	352,880
Provision (reallocation)	<u>1,560,761</u>	<u>(642,564)</u>	<u>698,655</u>	<u>2,133,148</u>	<u>3,750,000</u>
Ending balance	<u>\$ 12,010,887</u>	<u>\$ 1,526,936</u>	<u>\$ 804,281</u>	<u>\$ 2,674,839</u>	<u>\$ 17,016,943</u>
<b>Ending balance - individually evaluated for impairment</b>					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>
<b>Ending balance - collectively evaluated for impairment</b>					
	<u>\$ 12,010,887</u>	<u>\$ 1,526,936</u>	<u>\$ 804,281</u>	<u>\$ 2,674,839</u>	<u>\$ 17,016,943</u>
<b>Ending balance – loans acquired with deteriorated credit quality</b>					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Loans:</b>					
Ending balance	<u>\$ 1,252,575,874</u>	<u>\$ 149,460,460</u>	<u>\$ 24,214,623</u>		<u>\$ 1,426,250,957</u>
Ending balance - individually evaluated for impairment	<u>\$ 375,066</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 375,066</u>
Ending balance - collectively evaluated for impairment	<u>\$ 1,250,888,940</u>	<u>\$ 149,460,460</u>	<u>\$ 24,214,623</u>		<u>\$ 1,424,564,023</u>
Ending balance – loans acquired with deteriorated credit quality	<u>\$ 1,311,868</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 1,311,868</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2021	Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for loan losses:					
Beginning balance	\$ 8,517,971	\$ 943,491	\$ 788,072	\$ 1,307,929	\$ 11,557,463
Charge-offs	(2,656)	(49,368)	(844,386)	-	(896,410)
Recoveries	38,978	21,016	172,594	-	232,588
Provision (reallocation)	1,818,752	1,297,958	649,528	(766,238)	3,000,000
Ending balance	<u>\$ 10,373,045</u>	<u>\$ 2,213,097</u>	<u>\$ 765,808</u>	<u>\$ 541,691</u>	<u>\$ 13,893,641</u>
Ending balance - individually evaluated for impairment					
	<u>\$ -</u>	<u>\$ 1,056,711</u>	<u>\$ -</u>		<u>\$ 1,056,711</u>
Ending balance - collectively evaluated for impairment					
	<u>\$ 10,373,045</u>	<u>\$ 1,156,386</u>	<u>\$ 765,808</u>	<u>\$ 541,691</u>	<u>\$ 12,836,930</u>
Ending balance – loans acquired with deteriorated credit quality					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans:					
Ending balance	<u>\$ 1,033,731,531</u>	<u>\$ 131,363,467</u>	<u>\$ 25,211,873</u>		<u>\$ 1,190,306,871</u>
Ending balance - individually evaluated for impairment					
	<u>\$ 534,858</u>	<u>\$ 1,176,467</u>	<u>\$ -</u>		<u>\$ 1,711,325</u>
Ending balance - collectively evaluated for impairment					
	<u>\$ 1,031,762,279</u>	<u>\$ 130,187,000</u>	<u>\$ 25,211,873</u>		<u>\$ 1,187,161,152</u>
Ending balance – loans acquired with deteriorated credit quality					
	<u>\$ 1,434,394</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 1,434,394</u>

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

**Pass:** Loans in this risk category involve borrowers whose balance sheet is sound and conservative by industry standards; whose earnings are consistent and reflect a reasonable return on equity. Certain borrowers provide current CPA audited financial statements with a clean and unmodified opinion by a recognized CPA firm. Loans to individuals are secured by properly margined and readily marketable MLV, CSV, or OLV (Market Loan Value, Cash Surrender Value, or Other Loan Value – such as CDs on us, T-bills at Discount, etc.). Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

**Watch:** Loans in this risk grade are the equivalent of the regulatory definition of “Special Mention” classification. Loans in this category possess an undue credit risk due to potential weaknesses which will, if not corrected, result in a loss to the Company at some future date. Potential weaknesses may be evidenced by the absence of acceptable financial statements or record of repayment, or by the existence of adverse trends in economic or market conditions, the borrower’s operations, or leverage position. This category should include loans where repayment is highly probable, but timeliness of repayment is uncertain due to unfavorable developments.

**Substandard:** Loans in this risk grade are inadequately protected by the sound worth and paying capacity of the borrower or the net equity of the collateral pledged, if any. Borrowers in this category will have well-defined weakness(es) that jeopardize the proper liquidation of the debt; adverse trends, unless improved, will likely result in repayment over an excessive period of time, or possibly, not in full.

**Doubtful:** Loans in this risk grade have a clear and defined weakness making the ultimate repayment of the loan, or portions thereof, highly improbable are included in this level. Factors are present which justify keeping the loan on the books until repayment status is better defined.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

**Loss:** Loans in this risk grade are considered to be uncollectible and of such little value that their continuance as Company assets is not warranted, even though partial recovery may be affected in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, the Company typically does not maintain a recorded investment in loans within this category.

The following tables summarize the risk category of the Company's loan portfolio by class as of December 31, 2022 and 2021:

December 31, 2022	<u>Pass</u>	<u>Watch</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
<b>Real estate:</b>					
<b>Construction and land development</b>	\$ 164,384,677	\$ 37,477	\$ 1,053,536	\$ -	\$ 165,475,690
<b>1-4 family residential</b>	273,347,752	503,685	2,226,567	-	276,078,004
<b>Commercial</b>	550,405,939	2,218,487	6,891,667	-	559,516,093
<b>Other</b>	251,506,087	-	-	-	251,506,087
<b>Commercial</b>	147,338,986	144,400	1,977,074	-	149,460,460
<b>Consumer</b>	<u>24,103,478</u>	<u>26,704</u>	<u>84,441</u>	-	<u>24,214,623</u>
<b>Total</b>	<u>\$ 1,411,086,919</u>	<u>\$ 2,930,753</u>	<u>\$ 12,233,285</u>	<u>\$ -</u>	<u>\$ 1,426,250,957</u>

December 31, 2021

<b>Real estate:</b>					
<b>Construction and land development</b>	\$ 129,849,211	\$ 6,843,540	\$ 1,631,068	\$ -	\$ 138,323,819
<b>1-4 family residential</b>	217,280,290	1,099,475	2,661,864	-	221,041,629
<b>Commercial</b>	443,849,235	14,829,689	7,498,722	-	466,177,646
<b>Other</b>	207,267,066	511,089	410,282	-	208,188,437
<b>Commercial</b>	128,843,192	235,938	2,284,337	-	131,363,467
<b>Consumer</b>	<u>25,073,720</u>	<u>45,682</u>	<u>92,471</u>	-	<u>25,211,873</u>
<b>Total</b>	<u>\$ 1,152,162,714</u>	<u>\$ 23,565,413</u>	<u>\$ 14,578,744</u>	<u>\$ -</u>	<u>\$ 1,190,306,871</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans by class as of December 31, 2022 and 2021:

	<u>Past Due Status (Accruing Loans)</u>					<u>Total</u>
	<u>Current</u>	<u>30-89 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>	<u>Non-accrual</u>	
<b>December 31, 2022</b>						
Real estate:						
Construction and land development	\$ 165,471,358	\$ 4,332	\$ -	\$ 4,332	\$ -	\$ 165,475,690
1-4 family residential	275,864,112	213,892	-	213,892	-	276,078,004
Commercial	559,189,896	-	-	-	326,197	559,516,093
Other	251,506,087	-	-	-	-	251,506,087
Commercial	149,297,695	162,765	-	162,765	-	149,460,460
Consumer	24,129,454	80,888	4,281	85,169	-	24,214,623
<b>Total</b>	<b>\$ 1,425,458,602</b>	<b>\$ 461,876</b>	<b>\$ 4,281</b>	<b>\$ 466,157</b>	<b>\$ 326,197</b>	<b>\$ 1,426,250,957</b>
<b>December 31, 2021</b>						
Real estate:						
Construction and land development	\$ 137,558,545	\$ 120,227	\$ -	\$ 120,227	\$ 645,047	\$ 138,323,819
1-4 family residential	220,636,989	402,621	-	402,621	2,019	221,041,629
Commercial	465,463,929	517,686	-	517,686	196,031	466,177,646
Other	208,188,437	-	-	-	-	208,188,437
Commercial	130,110,234	76,766	-	76,766	1,176,467	131,363,467
Consumer	25,101,545	110,328	-	110,328	-	25,211,873
<b>Total</b>	<b>\$ 1,187,059,679</b>	<b>\$ 1,227,628</b>	<b>\$ -</b>	<b>\$ 1,227,628</b>	<b>\$ 2,019,564</b>	<b>\$ 1,190,306,871</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. It is implicit in these conditions that it must be probable that one or more future events will occur confirming the fact of the loss. The following tables detail our impaired loans, by portfolio class as of December 31, 2022 and 2021:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<b>December 31, 2022</b>					
<b>With no related allowance recorded</b>					
<b>Real estate:</b>					
<b>Construction and land development</b>	\$ 33,835	\$ 33,835	\$ -	\$ 33,835	\$ 1,574
<b>1-4 family residential</b>	15,034	15,034	-	15,034	-
<b>Commercial</b>	<u>326,197</u>	<u>367,099</u>	-	<u>589,518</u>	<u>30,465</u>
<b>Total with no related allowance recorded</b>	<u>375,066</u>	<u>415,969</u>	-	<u>638,387</u>	<u>32,039</u>
<b>Total impaired loans</b>	<u>\$ 375,066</u>	<u>\$ 415,969</u>	<u>\$ -</u>	<u>\$ 638,387</u>	<u>\$ 32,039</u>
<b>December 31, 2021</b>					
<b>With no related allowance recorded</b>					
<b>Real estate:</b>					
<b>Construction and land development</b>	\$ 33,835	\$ 33,835	\$ -	\$ 33,835	\$ 1,748
<b>1-4 family residential</b>	20,673	20,673	-	35,473	2,020
<b>Commercial</b>	480,350	480,350	-	675,673	42,335
<b>Commercial</b>	<u>23,756</u>	<u>23,756</u>	-	<u>36,274</u>	<u>2,023</u>
<b>Total with no related allowance recorded</b>	<u>558,614</u>	<u>558,614</u>	-	<u>781,255</u>	<u>48,126</u>
<b>With a related allowance recorded</b>					
<b>Commercial</b>	<u>1,152,711</u>	<u>1,152,711</u>	<u>1,056,711</u>	<u>1,195,869</u>	<u>53,208</u>
<b>Total with a related allowance recorded</b>	<u>1,152,711</u>	<u>1,152,711</u>	<u>1,056,711</u>	<u>1,195,869</u>	<u>53,208</u>
<b>Total impaired loans</b>	<u>\$ 1,711,325</u>	<u>\$ 1,711,325</u>	<u>\$ 1,056,711</u>	<u>\$ 1,977,124</u>	<u>\$ 101,334</u>

At December 31, 2022 and 2021, impaired loans included loans that were classified as Troubled Debt Restructurings “TDRs”. The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Company generally include one or more modifications to the terms of the debt, such as (i) a reduction in the stated interest rate for the remaining life of the debt, (ii) extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) reducing the amount of the loan below the original contracted amount (reducing principal owed), (iv) reducing accrued interest, (v) adding contingent payment provisions based on prospective events, and (vi) substituting or adding a new borrower or guarantor. As of December 31, 2022 and 2021, the Company had \$1,360,737 and \$823,183, respectively, in loans considered restructured that are not on nonaccrual. Of the nonaccrual loans at December 31, 2022 and 2021, \$0 and \$647,065, respectively, met the criteria for restructured. A loan is placed back on accrual status when both principal and interest are current and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

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

There were no defaults within 12 months of the restructure date for the years ended December 31, 2022 and 2021.

The Company has no additional commitments to lend additional funds to any of the related debtors whose terms have been modified in a TDR.

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

	December 31,	
	2022	2021
Balance, beginning of year	\$ 5,158,627	\$ 1,691,975
Advances	1,932,715	3,065,543
Repayments	(2,454,915)	(1,056,430)
Acquired in merger	-	1,532,914
Change in related parties	8,884,718	(75,375)
Balance, end of year	\$ 13,521,145	\$ 5,158,627

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2022	2021
Land	\$ 9,321,986	\$ 9,321,986
Buildings	40,643,389	40,582,974
Furniture, fixtures, and equipment	14,283,104	17,575,682
Construction in progress (estimated cost to complete \$4.5 million)	3,851,412	2,794,448
	68,099,891	70,275,090
Accumulated depreciation	(29,722,990)	(32,131,931)
	\$ 38,376,901	\$ 38,143,159

### Leases

The Company leases certain branch offices, interactive teller machines (ITMs), loan production offices, and mortgage production offices under lease obligations which provide that the Company pay monthly rental expense and various usage and maintenance fees. The Company also leases certain equipment under informal agreements.

The Company has evaluated its leases and determined them to be operating leases. The right-of-use assets and lease liabilities for these leases were measured and recorded as of January 1, 2022 with an assumed weighted-average discount rate of 1.10%. The right of use assets, included within other assets on the consolidated balance sheets, were \$4,339,702 as of December 31, 2022. The Company's operating lease liabilities, included within other liabilities on the consolidated balance sheets, were \$4,339,702 as of December 31, 2022.

Future discounted lease commitments on noncancelable operating leases, excluding any renewal options, are summarized as of December 31, 2022 as follows:

2023	\$ 668,798
2024	561,970
2025	556,877
2026	560,468
2027	537,361
Thereafter	3,772,582
Total undiscounted lease payments	6,658,056
Amounts representing interest	(2,318,354)
Net lease liabilities	\$ 4,339,702

Total rental expense included in the consolidated statements of income for the years ended December 31, 2022 and 2021 is \$1,555,707 and \$1,423,619, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5. OTHER REAL ESTATE OWNED

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

	Years Ended December 31,	
	2022	2021
Balance, beginning of year	\$ 1,000,000	\$ 1,196,650
Additions	-	425,000
External sales	(1,140,500)	(660,000)
Gain on sale	140,500	38,350
Balance, end of year	\$ -	\$ 1,000,000

Expenses related to other real estate owned include the following:

	Years Ended December 31,	
	2022	2021
Gain on sales	\$ (140,500)	\$ (38,350)
Operating expenses	141,377	139,360
Net other real estate owned expense	\$ 877	\$ 101,010

### NOTE 6. GOODWILL AND INTANGIBLE ASSETS

#### Intangible Assets

Following is a summary of information related to intangible assets:

	As of December 31, 2022		As of December 31, 2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit premiums	\$ 4,572,803	\$ 2,552,244	\$ 4,572,803	\$ 2,169,815

The amortization expense was \$382,429 and \$179,845 and for the years ended December 31, 2022 and 2021, respectively.

The estimated remaining amortization expense is as follows:

2023	\$ 382,429
2024	382,429
2025	382,429
2026	382,429
2027	288,261
Thereafter	202,582
	\$ 2,020,559

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 6. GOODWILL AND INTANGIBLE ASSETS (Continued)

#### Goodwill

A summary of goodwill is presented as follows:

	Years Ended December 31,	
	2022	2021
Balance, beginning of year	\$ 32,956,287	\$ 29,478,449
Acquisition of Liberty First Bank	-	3,477,838
Balance, end of year	\$ 32,956,287	\$ 32,956,287

As discussed in Note 1, goodwill is tested for impairment at least annually or more frequently if necessary. There were no impairment charges recorded to the carrying amount of goodwill during the years ended December 31, 2022 and 2021.

### NOTE 7. DEPOSITS

Components of interest-bearing deposit accounts at December 31, 2022 and 2021 were as follows:

	2022	2021
NOW accounts	\$ 433,708,016	\$ 404,732,544
Money market accounts	410,461,461	431,824,254
Savings deposits	172,208,063	162,962,337
Time deposits:		
Less than \$250,000	131,115,122	167,981,794
\$250,000 or more	34,359,007	48,407,009
	\$ 1,181,851,669	\$ 1,215,907,938

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

2023	\$ 134,614,375
2024	19,583,518
2025	5,488,752
2026	4,458,353
2027	753,327
Thereafter	575,804
	\$ 165,474,129

Brokered deposits totaled \$0 at December 31, 2022 and 2021. Overdraft demand deposits reclassified to loans totaled \$549,823 and \$635,518 at December 31, 2022 and 2021, respectively. Related party deposits totaled \$11,157,618 and \$9,238,015 at December 31, 2022 and 2021, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 8. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements generally mature within one to four days from the transaction date. Securities sold under repurchase agreements, which are secured borrowings, are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

### NOTE 9. SUBORDINATED NOTES

During 2021, the Company conducted a subordinated note offering. On February 11, 2021, the Company entered into a Subordinated Note Purchase Agreement with twenty-five purchasers resulting in the issuance of subordinated notes totaling \$25,000,000. The subordinated notes have a maturity date of February 15, 2031 and bear interest at fixed rate of 3.60% per annum, payable semi-annually in arrears through February 15, 2026. After February 15, 2026, and through the maturity date, the notes bear interest at a floating rate calculated as the three-month Secured Overnight Financing Rate (SOFR) plus 313 basis points, payable quarterly in arrears.

The notes are subordinated in right of payment to all of the Company's senior indebtedness and other specific obligations including those for the Bank's deposits. The subordinated notes rank senior to the subordinated debentures discussed in Note 10. The subordinated notes are obligations of the Company only, and are not obligations of and are not guaranteed by the Bank. The Company may, at its option, beginning with the interest payment date of February 15, 2026 but not prior thereto (except in limited circumstances) and on any scheduled interest payment date thereafter, redeem the subordinated notes, in whole or in part, subject to obtaining the prior approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), to the extent such approval is then required, under the capital adequacy rules of the Federal Reserve, at a redemption price equal to 100% of the principal amount of the subordinated notes to be redeemed plus accrued and unpaid interest to but excluding the date of redemption.

Debt issuance costs associated with the 2021 subordinated note offering totaled \$497,435 and are being amortized over the life of debt. Amortization expense for the years ended December 31, 2022 and December 31, 2021 totaled \$49,828 and \$45,676, respectively.

As of December 31, 2022 and 2021, subordinated notes, less remaining unamortized debt issuance costs, totaled \$24,598,070 and \$24,548,241, respectively.

### NOTE 10. SUBORDINATED DEBENTURES

In 2005, the Company formed a wholly-owned grantor trust to issue cumulative trust preferred securities. The grantor trust has invested the proceeds of the trust preferred securities in subordinated debentures of the Company. The sole assets of the guarantor trust are the Subordinated Debentures of the Company (the "Debentures"). The Debentures have the same interest rate as the trust preferred securities. The rate is variable at the three month London interbank offered rate ("LIBOR") plus 1.35% which was 6.08% and 1.57% at December 31, 2022 and 2021, respectively.

The Company has the right to redeem the debentures, in whole or in part, from time to time, on or after November 10, 2010 at a redemption price equal to 100% of the principal amount to be redeemed plus accrued and unpaid interest. The Company has guaranteed the payment of all distributions the Trust is obligated to make, but only to the extent the Trust has sufficient funds to satisfy those payments. The trust preferred securities and the related Debentures were issued on November 10, 2005. The aggregate principal amount of trust preferred certificates outstanding at December 31, 2022 and 2021 was \$7,217,000.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 10. SUBORDINATED DEBENTURES

The Company has the right to defer interest payments on the Debentures up to twenty consecutive quarterly periods (five years), so long as the Company is not in default under the subordinated debentures. Interest compounds during the deferral period. No deferral period may extend beyond the maturity date. Distributions on the trust preferred securities are paid quarterly. Interest on the Debentures is paid on the corresponding dates.

The subordinated debentures rank junior to the subordinated notes discussed in Note 9.

### NOTE 11. INCOME TAXES

The allocation of income tax expense between current and deferred income taxes is as follows:

	Years Ended December 31,	
	2022	2021
Current	\$ 6,705,967	\$ 5,523,792
Deferred	(587,711)	(675,927)
Income tax expense	\$ 6,118,256	\$ 4,847,865

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

	Years Ended December 31,	
	2022	2021
Tax provision at statutory federal rate	\$ 6,107,878	\$ 4,792,375
Life insurance income	(238,993)	(85,573)
Tax-exempt income	(504,399)	(342,975)
Disallowed interest	10,711	9,011
State income taxes	599,678	439,089
Other items, net	143,381	35,938
Income tax expense	\$ 6,118,256	\$ 4,847,865

The components of deferred income taxes are as follows:

	December 31,	
	2022	2021
Deferred tax assets:		
Loan loss reserves	\$ 4,305,522	\$ 3,514,467
Deferred compensation	446,584	506,711
Branch premium amortization	64,400	81,999
Net operating loss	89,139	109,799
Fair market value – certificates of deposit	67,699	121,619
Fair market value – loans	283,233	525,058
Fair market value – investments	434,093	434,093
Restricted stock	104,258	36,716
Securities available for sale	17,032,240	59,947
Interest rate swap	-	97,495
Other	415,977	1,363,395
	\$ 23,243,145	\$ 6,851,299

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 11. INCOME TAXES (Continued)

	December 31,	
	2022	2021
Deferred tax liabilities:		
Depreciation	\$ 1,077,021	\$ 1,060,859
Fair market value – goodwill	2,474,783	2,474,783
Core deposit intangible	511,111	607,848
Tax bad debt recapture	35,080	61,390
Fair market value – buildings	510,798	510,798
Section 1031 – like-kind exchange	116,253	116,253
Interest rate swap	60,462	-
	<b>4,785,508</b>	4,831,931
Net deferred tax assets	<b>\$ 18,457,637</b>	\$ 2,019,368

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

### NOTE 12. EMPLOYEE BENEFIT PLANS

#### 401(k) Profit Sharing Plan

The Company maintains a defined contribution 401(k) profit sharing plan covering substantially all full-time employees. Employee contributions to the plan are based on salary levels and are discretionary, but the maximum employer matching contribution may not exceed 3% of gross salaries in any year. Employer contribution expense included in salaries and employee benefits for the plan was \$685,972 and \$421,855 in 2022 and 2021, respectively.

#### Employee Stock Ownership Plan

An employee stock ownership plan (“ESOP”) was adopted by the Company in 1992. The ESOP is a qualified stock bonus plan established to accumulate shares of Pinnacle Financial Corporation common stock in the ESOP trust for the benefit of all eligible employees. Contributions to the plan are made at the discretion of the Board of Directors. Employer contribution expense included in salaries and employee benefits for the plan was \$354,545 and \$297,727 in 2022 and 2021, respectively. As of December 31, 2022 and 2021, the ESOP owned 48,145 and 41,745 shares of Pinnacle Financial Corporation common stock, respectively.

#### Executive Retirement Benefits

During 2022 and 2021, the Company had nonqualified executive salary continuation plans providing for death and retirement benefits for certain officers and former officers. The estimated amounts to be paid under the compensation plans have been partially funded through the purchase of life insurance policies on the officers. For the year ended December 31, 2022, the Company recognized expenses totaling \$183,068. For the year ended December 31, 2021, the Company recognized a true up adjustment resulting in a reversal of expenses totaling \$43,889, respectively. Accrued deferred compensation of \$1,154,740 and \$1,450,648 is included in other liabilities as of December 31, 2022 and 2021, respectively. Cash surrender values of \$1,892,970 and \$4,572,663 on the related insurance policies is included in cash surrender value of life insurance at December 31, 2022 and 2021, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 12. EMPLOYEE BENEFIT PLANS (Continued)

#### Stock Based Compensation

The Company has granted 2,000 restricted stock awards to two executive officers, which were fully expensed as of December 31, 2021. During 2020, the Company established an Equity Incentive Plan. This plan allocated 103,210 shares to be awarded to employees of the Bank determined by the Compensation Committee. There were 2,000 shares and 8,000 options awarded to twenty officers during the year ended December 31, 2022. In the year ended December 31, 2021, there were 1,500 shares and 6,000 options awarded to fifteen officers. Additionally, 1,068 shares were issued in November 2021 as part of a deferred compensation agreement.

The unearned compensation balances related to the restricted stock grants were \$420,289 and \$397,500 at December 31, 2022 and 2021, respectively, with each stock award being expensed over the three year vesting period. The unearned compensation balances related to the stock options were \$347,274 and \$246,216 at December 31, 2022 and 2021, respectively, with each stock option being expensed over the three year vesting period. For the years ended December 31, 2022 and 2021, the amount of restricted stock that was expensed and vested totaled \$0 and \$6,250, respectively.

#### Deferred Director Compensation

The Company has established a program for the Board of Directors which gives each director the option to defer their monthly director fees until retirement and earn interest on the deferred amounts based on the 36 month certificate of deposit rates of the Company. As of December 31, 2022 and 2021, amounts accrued for deferred director compensation under this program were \$582,928 and \$552,520, respectively.

### NOTE 13. COMMITMENTS AND CONTINGENCIES

#### Loan Commitments

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

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

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Commitments to extend credit	\$ 283,864,339	\$ 251,478,360
Letters of credit	<u>3,628,409</u>	<u>4,498,592</u>
	<u>\$ 287,492,748</u>	<u>\$ 255,976,952</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 13. COMMITMENTS AND CONTINGENCIES (Continued)

#### Loan Commitments (Continued)

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

#### Contingencies

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

### NOTE 14. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, commercial real estate, residential real estate and consumer loans to customers throughout Northeast Georgia. The ability of the majority of the Company's customers to honor their contractual obligations can be dependent on the local economies.

Eighty-eight (88) percent of the Company's loan portfolio is concentrated in loans secured by real estate, but not necessarily dependent on the real estate for repayment of the loan. Pinnacle Bank, as a matter of prudent lending, often takes real estate as additional collateral as an abundance of caution which puts those loans into the real estate concentration category even when the proceeds were not used to purchase or renovate real estate. Thirty-three (33) percent of this total is owner occupied commercial and residential real estate. A substantial portion of these loans are in the Company's primary market areas. In addition, a substantial portion of the other real estate owned is located in those same markets. Accordingly, the ultimate collectability of the Company's loan portfolio and recovery of the carrying amount of other real estate owned may be susceptible to changes in real estate conditions in the Company's market areas. The other concentrations of credit risk by type of loan are included in Note 3.

The Company, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of 25% of statutory capital, as defined, or approximately \$48,526,000.

### NOTE 15. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

#### Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages interest rate risk primarily by managing the amount, sources, and duration of its investment securities portfolio and debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of its known or expected cash receipts and its known or expected cash payments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 15. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

#### Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as a part of its interest rate risk management strategy.

The effective portion of changes in fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of derivatives is recognized directly in earnings.

The Company does not use derivatives for speculative purposes. Derivatives not designated as hedges are used to manage the Company's exposure to interest rate movements but do not meet the strict hedge accounting rules under GAAP.

During 2018, for its subordinated debentures, the Company entered into an interest rate swap designated as a cash flow hedge that involves the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreement without exchange of the underlying notional amount. The objective of the swap was to lock in a fixed rate as opposed to the contractual variable interest rate on the junior subordinated debentures. The interest rate swap contract has a notional amount of \$7,000,000 and is hedging the variable rate on the subordinated debentures described in Note 10. The Company receives a variable rate equal to 3 month LIBOR plus 1.35% and pays a fixed rate of 4.153%. This swap is for a seven year period that began on March 28, 2018. The Company recognized \$77,326 and \$192,331 of interest expense from the interest rate swap contract during 2022 and 2021, respectively. At December 31, 2022 and 2021, the estimated fair value of the interest rate swap contract accounted for as a cash flow hedge was \$241,847 and \$(389,980), respectively. The fair value of the swap was recorded in other assets on the balance sheet as of December 31, 2022 and in other liabilities on the balance sheet as of December 31, 2021. The fair value of the interest rate swap had no effect on net income for 2022 and 2021, and the unrealized gain of \$631,827 and \$371,348, net of tax of \$157,957 and \$92,836, was recorded in other comprehensive income (loss) for 2022 and 2021, respectively. No hedge ineffectiveness from the cash flow hedge was recognized in net income for the years ending December 31, 2022 and 2021.

### NOTE 16. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2022, approximately \$11,986,000 of retained earnings was available for dividend declaration without regulatory approval.

The Bank is subject to various regulatory capital requirements administered by federal and state 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 Company and Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, the Bank is subject to an institution-specific capital buffer which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. The Bank's capital conservation buffer at December 31, 2022 was 3.7956%. Management believes, as of December 31, 2022 and 2021, that the Bank meets all capital adequacy requirements to which it is subject.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 16. REGULATORY MATTERS (Continued)

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

The Bank's actual capital amounts and ratios as of December 31, 2022 and 2021, are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
<b>As of December 31, 2022:</b>						
Total Capital to Risk Weighted Assets	\$ 194,106	11.80%	\$ 131,646	8%	\$ 164,558	10%
Tier 1 Capital to Risk Weighted Assets	\$ 177,089	10.76%	\$ 98,735	6%	\$ 131,646	8%
Common Equity Tier 1 Capital to Risk Weighted Assets	\$ 177,089	10.76%	\$ 74,051	4.5%	\$ 106,963	6.5%
Tier 1 Capital to Average Assets	\$ 177,089	8.61%	\$ 82,228	4%	\$ 102,786	5%
<b>As of December 31, 2021:</b>						
Total Capital to Risk Weighted Assets	\$ 166,116	11.72%	\$ 113,426	8%	\$ 141,782	10%
Tier 1 Capital to Risk Weighted Assets	\$ 152,222	10.74%	\$ 85,069	6%	\$ 113,426	8%
Common Equity Tier 1 Capital to Risk Weighted Assets	\$ 152,222	10.74%	\$ 63,802	4.5%	\$ 92,159	6.5%
Tier 1 Capital to Average Assets:	\$ 152,222	8.20%	\$ 74,238	4%	\$ 92,798	5%

### NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### Determination of Fair Value

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

#### Fair Value Hierarchy

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

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

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

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

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

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

**Securities Available for Sale and Equity Securities:** Where quoted prices are available in an active market, the Company classifies the securities within level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange-traded equities.

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

**Interest Rate Swaps:** Substantially all interest rate swaps held or issued by the Company for risk management are traded in over-the-counter markets where quoted market prices are not readily available. For these derivatives, the Company measures fair value using models that are primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty risk. The Company classifies interest rate swaps held or issued for risk management activities as level 2 inputs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	Fair Value Measurements at December 31, 2022 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
<b>Assets:</b>				
Available for sale securities	\$ 32,122,657	\$ 359,046,873	\$ -	\$ 391,169,530
Equity securities	-	1,985,658	-	1,985,658
Interest rate swaps	-	241,847	-	241,847
<b>Total assets</b>	<b>\$ 32,122,657</b>	<b>\$ 361,274,378</b>	<b>\$ -</b>	<b>\$ 393,397,035</b>

	Fair Value Measurements at December 31, 2021 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
<b>Assets:</b>				
Available for sale securities	\$ 35,946,407	\$ 340,400,863	\$ -	\$ 376,347,270
<b>Liabilities:</b>				
Interest rate swaps	-	389,980	-	389,980

**Assets Measured at Fair Value on a Nonrecurring Basis:** Under certain circumstances, management makes adjustments to fair value for assets although they are not measured at fair value on an ongoing basis. As of December 31, 2022 and 2021, there were no assets for which a nonrecurring change in fair value has been recorded

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 18. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within the other income section of the statements of income. The following table presents the Company's sources of other income for the years ended December 31, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

	<b>2022</b>	<b>2021</b>
Service charges on deposit accounts	<b>\$ 13,311,978</b>	\$ 11,615,542
Mortgage loan origination fees <sup>(a)</sup>	<b>967,394</b>	1,539,551
Other service charges and fees	<b>1,555,646</b>	1,473,659
Available for sale securities gains (losses), net <sup>(a)</sup>	<b>(354,871)</b>	178,451
Losses on equity securities	<b>(75,450)</b>	-
Gain on sales of loans and other income <sup>(a)</sup>	<b>1,850,063</b>	1,160,061
	<b>\$ 17,405,210</b>	<b>\$ 15,967,264</b>

<sup>(a)</sup> Not within scope of ASC 606.

Following is a discussion of key revenues within the scope of Topic 606:

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 19. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Financial information pertaining only to Pinnacle Financial Corporation is as follows:

#### BALANCE SHEETS DECEMBER 31, 2022 AND 2021

	2022	2021
<b><u>Assets</u></b>		
Cash and due from banks	\$ 4,007,755	\$ 5,898,433
Interest bearing deposits at other financial institutions	-	1,225,119
Other securities	217,000	217,000
Investment in subsidiary	160,974,430	187,404,131
Other assets	456,228	96,567
	\$ 165,655,413	\$ 194,841,250
<b><u>Liabilities and Stockholders' Equity</u></b>		
Subordinated notes	\$ 24,598,070	\$ 24,548,241
Subordinated debentures	7,217,000	7,217,000
Other liabilities	416,952	826,312
Stockholders' equity	133,423,391	162,249,697
	\$ 165,655,413	\$ 194,841,250

#### STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
<b>Income:</b>		
Dividend income	\$ -	\$ 2,825,000
Affiliate services income	75,000	96,715
Interest income	19,470	23,784
Total income	94,470	2,945,499
<b>Expenses:</b>		
Interest expense	1,231,776	1,317,414
Other	207,656	409,260
Total expense	1,439,432	1,726,674
Income (loss) before income tax benefit and equity in undistributed	(1,344,962)	1,218,825
Income tax benefit	340,215	406,290
Equity in undistributed income of subsidiary	23,971,626	16,347,855
<b>Net income</b>	<b>\$ 22,966,879</b>	<b>\$ 17,972,970</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 19. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

#### STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 22,966,879	\$ 17,972,970
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed income of subsidiary	(23,971,626)	(16,347,855)
Stock based compensation	-	6,250
Amortization of debt issuance costs	49,829	-
Other assets/liabilities	(295,149)	205,633
	<u>(1,250,067)</u>	<u>1,836,998</u>
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash flows from investing activities:</b>		
Net change in interest bearing deposits	1,225,119	986,941
Cash paid in acquisition	-	(5,644,817)
	<u>1,225,119</u>	<u>(4,657,876)</u>
<b>Net cash provided by (used in) investing activities</b>		
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of subordinated notes	-	25,000,000
Debt issuance costs	-	(497,435)
Repayment of long term debt	-	(14,410,937)
Cash dividends declared and paid	(5,927,205)	(5,406,715)
Proceeds from warrant exercises and sale of common stock	4,061,475	943,170
	<u>(1,865,730)</u>	<u>5,628,083</u>
<b>Net cash provided by (used in) financing activities</b>		
Net increase (decrease) in cash	(1,890,678)	2,807,205
Cash and at beginning of year	<u>5,898,433</u>	<u>3,091,228</u>
Cash at end of year	<u>\$ 4,007,755</u>	<u>\$ 5,898,433</u>

**SUPPLEMENTARY INFORMATION**

# PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY

## CONSOLIDATING BALANCE SHEET DECEMBER 31, 2022

<u>Assets</u>	<u>Pinnacle Financial Corporation</u>	<u>Pinnacle Bank</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash and due from banks	\$ 4,007,755	\$ 40,570,707	\$ (3,867,755)	\$ 40,710,707
Interest-bearing deposits at other financial institutions	-	18,001,883	-	18,001,883
Federal funds sold	-	50,200,000	-	50,200,000
Securities available for sale	217,000	390,952,530	-	391,169,530
Investment in subsidiary	160,974,430	-	(160,974,430)	-
Equity securities	-	1,985,658	-	1,985,658
Federal Home Loan Bank stock, at cost	-	1,149,500	-	1,149,500
Loans, net of allowance for loan losses of \$17,016,943	-	1,405,087,884	-	1,405,087,884
Loans held for sale	-	2,180,225	-	2,180,225
Premises and equipment, net	-	38,376,901	-	38,376,901
Accrued interest receivable	-	6,552,092	-	6,552,092
Goodwill and intangibles, net	-	34,976,846	-	34,976,846
Cash surrender value of life insurance	-	21,448,454	-	21,448,454
Other real estate owned	-	-	-	-
Other assets	456,228	25,083,592	(274,130)	25,265,690
<b>Total assets</b>	<b>\$ 165,655,413</b>	<b>\$ 2,036,566,272</b>	<b>\$ (165,116,315)</b>	<b>\$ 2,037,105,370</b>
<b><u>Liabilities and Stockholders' Equity</u></b>				
Deposits:				
Noninterest-bearing	\$ -	\$ 674,133,164	\$ (27,000)	\$ 674,106,164
Interest-bearing	-	1,185,692,424	(3,840,755)	1,181,851,669
Total deposits	-	1,859,825,588	(3,867,755)	1,855,957,833
Securities sold under repurchase agreements	-	4,788,446	-	4,788,446
Federal funds purchased	-	182,000	-	182,000
Subordinated notes	24,598,070	-	-	24,598,070
Subordinated debentures	7,217,000	-	-	7,217,000
Accrued interest payable	329,490	211,908	-	541,398
Other liabilities	87,462	10,583,900	(274,130)	10,397,232
<b>Total liabilities</b>	<b>32,232,022</b>	<b>1,875,591,842</b>	<b>(4,141,885)</b>	<b>1,903,681,979</b>
Commitments and contingencies				
Stockholders' equity:				
Common stock, no par, 10,000,000 shares authorized, 1,283,838 issued	74,566,607	7,680,000	(7,680,000)	74,566,607
Retained earnings	109,769,445	204,388,477	(204,388,477)	109,769,445
Accumulated other comprehensive loss	(50,912,661)	(51,094,047)	51,094,047	(50,912,661)
<b>Total stockholders' equity</b>	<b>133,423,391</b>	<b>160,974,430</b>	<b>(160,974,430)</b>	<b>133,423,391</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 165,655,413</b>	<b>\$ 2,036,566,272</b>	<b>\$ (165,116,315)</b>	<b>\$ 2,037,105,370</b>

# PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY

## CONSOLIDATING STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 2022

	Pinnacle Financial Corporation	Pinnacle Bank	Eliminations	Consolidated
<b>Interest income:</b>				
Loans, including fees	\$ -	\$ 62,507,048	\$ -	\$ 62,507,048
Securities:				
Taxable	6,904	6,856,303	-	6,863,207
Nontaxable	-	2,074,484	-	2,074,484
Interest-bearing deposits at other financial institutions	12,566	1,788,552	(4,081)	1,797,037
<b>Total interest income</b>	<u>19,470</u>	<u>73,226,387</u>	<u>(4,081)</u>	<u>73,241,776</u>
<b>Interest expense:</b>				
Deposits	-	1,147,404	(4,081)	1,143,323
Borrowings	1,231,776	121,973	-	1,353,749
<b>Total interest expense</b>	<u>1,231,776</u>	<u>1,269,377</u>	<u>(4,081)</u>	<u>2,497,072</u>
<b>Net interest income</b>	(1,212,306)	71,957,010	-	70,744,704
<b>Provision for loan losses</b>	-	3,750,000	-	3,750,000
<b>Net interest income after provision     for loan losses</b>	<u>(1,212,306)</u>	<u>68,207,010</u>	<u>-</u>	<u>66,994,704</u>
<b>Other income:</b>				
Service charges on deposit accounts	-	13,311,978	-	13,311,978
Mortgage loan origination fees	-	967,394	-	967,394
Other service charges and fees	-	1,555,646	-	1,555,646
Available for sale security gains (losses), net	-	(354,871)	-	(354,871)
Losses on equity securities	-	(75,450)	-	(75,450)
Gain on sale of loans	-	265,292	-	265,292
Other income	75,000	1,660,221	-	1,735,221
Equity in undistributed income of subsidiary	23,971,626	-	(23,971,626)	-
<b>Total other income</b>	<u>24,046,626</u>	<u>17,330,210</u>	<u>(23,971,626)</u>	<u>17,405,210</u>
<b>Other expenses:</b>				
Salaries and employee benefits	-	29,247,121	-	29,247,121
Occupancy and equipment expense	-	8,883,447	-	8,883,447
Other real estate owned expenses	-	877	-	877
Merger and acquisition expenses	-	30,804	-	30,804
Other expenses	207,656	16,944,874	-	17,152,530
<b>Total other expenses</b>	<u>207,656</u>	<u>55,107,123</u>	<u>-</u>	<u>55,314,779</u>
<b>Income before income tax</b>	22,626,664	30,430,097	(23,971,626)	29,085,135
<b>Income tax (benefit)</b>	<u>(340,215)</u>	<u>6,458,471</u>	<u>-</u>	<u>6,118,256</u>
<b>Net income</b>	<u>\$ 22,966,879</u>	<u>\$ 23,971,626</u>	<u>\$ (23,971,626)</u>	<u>\$ 22,966,879</u>

# PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY

## COMPUTATION OF ADJUSTED NET WORTH FOR RECERTIFICATION OF SUPERVISED MORTGAGEES

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1. Servicing portfolio* at: December 31, 2022 (End of fiscal year under audit)		\$	-
2. Add:			
Originated * during fiscal year	\$	-	
Purchased* from loan correspondent during fiscal year		<u>-</u>	
Subtotal		\$	-
3. Less:			
Amounts included in Line 2:			
Servicing retained	\$	-	
Loan correspondent purchases retained		-	
Exempt \$25,000,000		<u>25,000,000</u>	
Subtotal			<u>25,000,000</u>
4. Total		\$	<u><u>-</u></u>
5. 1% of Line 4		\$	<u><u>-</u></u>
6. Minimum net worth required (\$1,000,000 plus Line 5)		\$	<u>1,000,000</u>
7. Net worth required (Lesser of \$2,500,000 or Line 6)			<u>1,000,000</u>
Stockholders equity (net worth) per balance sheet - Bank		\$	160,974,430
Less unacceptable assets			<u>89,163,554</u>
Adjusted net worth		\$	<u><u>71,810,876</u></u>
Adjusted net worth above amount required		\$	<u><u>70,810,876</u></u>

\* HUD/FHA-insured single-family mortgages only. Include HECMs at maximum claim amount.

**PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY**

**COMPUTATION OF LIQUIDITY REQUIREMENT  
FOR RECERTIFICATION OF SUPERVISED MORTGAGEES**

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1. Cash and cash equivalents (Bank) at: December 31, 2022	\$ 107,389,309
2. Less: Cash held in escrow	\$ <u>          -</u>
3. Total	<u>\$ 107,389,309</u>
4. Required net worth	<u>\$ 1,000,000</u>
5. 20% of net worth as required by HUD guidelines for minimum liquid assets	<u>\$ 200,000</u>
Liquid assets above required amount (line 3 less line 5)	<u>\$ 107,189,309</u>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

**To the Stockholders and Board of Directors  
Pinnacle Financial Corporation  
Elberton, Georgia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pinnacle Financial Corporation and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 23, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Pinnacle Financial Corporation and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pinnacle Financial Corporation and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pinnacle Financial Corporation and Subsidiary's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a *material misstatement* of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pinnacle Financial Corporation and Subsidiary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
March 23, 2023



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR THE MAJOR HUD PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE CONSOLIDATED  
AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS**

**To the Stockholder and Board of Directors  
Pinnacle Bank  
Elberton, Georgia**

**Report on Compliance for the Major HUD Program**

***Opinion on the Major HUD Program***

We have audited Pinnacle Bank's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") that could have a direct and material effect on Pinnacle Bank's major U.S. Department of Housing and Urban Development (HUD) program for the year ended December 31, 2022. Pinnacle Bank's major HUD program is lending and the related direct and material compliance requirements are as follows: quality control plan; branch office operations; loan origination; federal financial and activity reports; lender annual recertification, adjusted net worth, liquidity and licensing; loan settlement; and kickbacks.

In our opinion, Pinnacle Bank complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major HUD program for the year ended December 31, 2022.

***Basis for Opinion on the Major HUD Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Pinnacle Bank and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. Our audit does not provide a legal determination of Pinnacle Bank's compliance .

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, regulations, rules, and provisions of contracts or grant agreements applicable to Pinnacle Bank's HUD program.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Pinnacle Bank's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Pinnacle Bank's compliance with the requirements of the major HUD program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Pinnacle Bank's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Pinnacle Bank's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of Pinnacle Bank's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. A *material weakness in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
March 23, 2023

**PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY**  
**SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS**  
**Year Ended December 31, 2022**

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*No findings related to the year ended December 31, 2022.*

**PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**Year Ended December 31, 2022**

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SECTION 1 – PRIOR YEAR HUD SPECIFIC FINDINGS AND QUESTIONED COSTS

*None*