

**PINNACLE FINANCIAL
CORPORATION
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2024

**PINNACLE FINANCIAL CORPORATION
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2024**

TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR’S REPORT.....	1-3
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets.....	4
Consolidated statements of income.....	5
Consolidated statements of comprehensive income.....	6
Consolidated statements of stockholders’ equity.....	7
Consolidated statements of cash flows.....	8 and 9
Notes to consolidated financial statements.....	10-42
SUPPLEMENTARY INFORMATION	
Consolidating balance sheet.....	43
Consolidating statement of income.....	44
Computation of adjusted net worth for recertification of supervised mortgagees.....	45
Computation of liquidity requirement for recertification of supervised mortgagees.....	46
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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	47 and 48
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.....	49 and 50
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS.....	51
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS.....	52



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, 2024 and 2023, 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 for Preparation of Consolidated Reports of Condition and Income (Form FFIEC 051) as of December 31, 2024, 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, 2024 and 2023, 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, 2024, 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 controls over the preparation of schedules equivalent to basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). 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 43 through 46 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 20, 2025, 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.

A handwritten signature in cursive script that reads "Mauldin & Jenkins, LLC".

Atlanta, Georgia
March 20, 2025

**PINNACLE FINANCIAL CORPORATION
AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2024 AND 2023**

<u>Assets</u>	<u>2024</u>	<u>2023</u>
Cash and due from banks	\$ 48,498,775	\$ 34,898,061
Interest-bearing deposits at other financial institutions	96,497,333	49,689,312
Federal funds sold	10,200,000	10,200,000
Securities available for sale, at fair value amortized cost of \$425,300,885 and \$446,633,013, respectively	366,490,994	391,413,308
Equity securities	2,165,559	2,124,493
Federal Home Loan Bank stock, at cost	1,669,600	4,199,700
Loans, net of allowance for credit losses of \$20,282,046 and \$20,271,009, respectively	1,536,615,927	1,507,153,113
Loans held for sale	5,956,953	324,146
Premises and equipment, net	37,092,131	38,683,287
Accrued interest receivable	7,899,459	7,631,699
Goodwill and intangibles, net	34,211,989	34,594,418
Cash surrender value of life insurance	15,151,299	14,850,304
Other assets	27,461,190	23,430,338
	\$ 2,189,911,209	\$ 2,119,192,179
<u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 590,231,415	\$ 609,982,353
Interest-bearing	1,367,382,763	1,255,310,071
Total deposits	1,957,614,178	1,865,292,424
Securities sold under repurchase agreements	505,295	1,129,368
Federal Home Loan Bank advances	-	55,000,000
Federal funds purchased	192,000	-
Subordinated notes	24,697,726	24,647,898
Subordinated debentures	7,217,000	7,217,000
Accrued interest payable	4,318,969	4,322,788
Other liabilities	15,163,225	10,732,731
Total liabilities	2,009,708,393	1,968,342,209
Commitments and contingencies		
Stockholders' equity:		
Common stock, no par value, 10,000,000 shares authorized; 1,375,498 and 1,283,431 shares issued, respectively	82,697,343	69,231,924
Retained earnings	141,661,077	122,939,882
Accumulated other comprehensive loss	(44,155,604)	(41,321,836)
Total stockholders' equity	180,202,816	150,849,970
Total liabilities and stockholders' equity	\$ 2,189,911,209	\$ 2,119,192,179

See Notes to Consolidated Financial Statements.

**PINNACLE FINANCIAL CORPORATION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
Interest income:		
Loans, including fees	\$ 88,725,987	\$ 79,081,520
Securities:		
Taxable	9,254,190	8,611,014
Nontaxable	1,770,983	2,111,483
Interest-bearing deposits at other financial institutions	5,249,324	1,404,915
Total interest income	<u>105,000,484</u>	<u>91,208,932</u>
Interest expense:		
Deposits	26,096,260	12,560,819
Borrowings	2,956,281	3,959,636
Total interest expense	<u>29,052,541</u>	<u>16,520,455</u>
Net interest income	75,947,943	74,688,477
Provision for credit losses	900,000	4,425,957
Net interest income after provision for credit losses	<u>75,047,943</u>	<u>70,262,520</u>
Other income:		
Service charges on deposit accounts	14,284,388	13,891,274
Mortgage loan origination fees	1,401,358	616,230
Other service charges and fees	1,910,902	1,637,614
Available for sale securities gains (losses), net	(12,116)	(1,153,056)
Gains (losses) on equity securities	(23,415)	13,187
Gain on sale of loans	598,918	758,655
Other income	4,667,346	941,654
Total other income	<u>22,827,381</u>	<u>16,705,558</u>
Other expenses:		
Salaries and employee benefits	34,679,932	32,298,206
Occupancy and equipment expense	9,789,091	9,835,361
Other expenses	20,700,256	19,766,449
Total other expenses	<u>65,169,279</u>	<u>61,900,016</u>
Income before income tax	32,706,045	25,068,062
Income tax	7,313,447	5,477,578
Net income	<u>\$ 25,392,598</u>	<u>\$ 19,590,484</u>
Basic earnings per share	<u>\$ 19.42</u>	<u>\$ 15.27</u>
Diluted earnings per share	<u>\$ 18.42</u>	<u>\$ 14.27</u>
Average shares outstanding - basic	<u>1,307,876</u>	<u>1,283,185</u>
Average shares outstanding - diluted	<u>1,378,405</u>	<u>1,373,100</u>

See Notes to Consolidated Financial Statements.

**PINNACLE FINANCIAL CORPORATION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	2024	2023
Net income	\$ 25,392,598	\$ 19,590,484
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available for sale securities arising during period, net of tax (benefit) of (\$877,867) and \$2,915,631, respectively	(2,703,560)	8,746,891
Reclassification adjustment for losses realized in net income on available for sale securities, net of tax benefit of \$3,029 and \$288,264, respectively	9,087	864,792
Unrealized losses on derivative financial instruments arising during period, net of tax benefit of \$46,432 and \$6,953, respectively	(139,295)	(20,858)
Other comprehensive income (loss)	(2,833,768)	9,590,825
Comprehensive income	\$ 22,558,830	\$ 29,181,309

See Notes to Consolidated Financial Statements.

**PINNACLE FINANCIAL CORPORATION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	Common Stock		Retained Earnings	Accumulated	Total Stockholders' Equity
	Shares	Amount Paid In		Other Comprehensive Loss	
Balance, December 31, 2022	1,283,838	\$ 74,566,607	\$ 109,769,445	\$ (50,912,661)	\$ 133,423,391
Net income	-	-	19,590,484	-	19,590,484
Dividends declared, \$5.00 per share	-	-	(6,420,047)	-	(6,420,047)
Stock based compensation expense	38,500	952,762	-	-	952,762
Exercise of stock warrants	1,893	255,555	-	-	255,555
Exercise of stock options	400	48,000	-	-	48,000
Stock repurchased	(41,700)	(6,663,500)	-	-	(6,663,500)
Stock sold to shareholders	500	72,500	-	-	72,500
Other comprehensive income	-	-	-	9,590,825	9,590,825
Balance, December 31, 2023	1,283,431	\$ 69,231,924	\$ 122,939,882	\$ (41,321,836)	\$ 150,849,970
Net income	-	-	25,391,598	-	25,391,598
Dividends declared, \$5.10 per share	-	-	(6,671,403)	-	(6,671,403)
Stock based compensation expense	1,679	1,263,739	-	-	1,263,739
Exercise of stock warrants and shares issued	27,706	3,740,310	-	-	3,740,310
Stock sold to shareholders	62,917	8,493,795	-	-	8,493,795
Stock repurchased	(235)	(32,425)	-	-	(32,425)
Other comprehensive income	-	-	-	(2,833,768)	(2,833,768)
Balance, December 31, 2024	1,375,498	\$ 82,697,343	\$ 141,660,077	\$ (44,155,604)	\$ 180,201,816

See Notes to Consolidated Financial Statements.

**PINNACLE FINANCIAL CORPORATION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 25,392,598	\$ 19,590,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,596,815	2,650,985
Net amortization of securities available for sale	1,211,947	1,361,395
Income from equity securities	(64,481)	(125,648)
Amortization of intangible assets	382,429	382,428
Amortization of debt issuance costs	49,828	49,828
Provision for loan losses	900,000	4,425,957
Loss on sales of securities available for sale	12,116	1,153,056
(Gain) loss on equity securities	23,415	(13,187)
Gain on sale of loans	(598,918)	(758,655)
Stock based compensation including stock grants	1,263,739	952,762
Deferred income taxes	(523,830)	(1,052,436)
Net loss on sales of other real estate owned	17,363	-
Loss on sale of repossessed assets	2,392	8,440
Increase in interest receivable	(267,760)	(1,079,607)
Increase (decrease) in interest payable	(3,819)	3,781,390
Increase in cash value of life insurance	(300,995)	(354,765)
(Increase) decrease in loans held for sale	(5,632,807)	1,856,079
Gain on sale of premises and equipment	(546,435)	(15)
Other operating activities, net	2,155,776	(770,547)
	26,069,373	32,057,944
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in interest-bearing deposits at other financial institutions	(46,808,021)	(31,687,429)
Decrease in federal funds sold	-	40,000,000
Available for sale securities:		
Sales	31,566,317	18,449,460
Maturities, prepayments, and calls	25,312,988	18,581,937
Purchases	(36,771,240)	(27,000,416)
Net (increase) decrease in Federal Home Loan Bank stock	2,530,100	(3,050,200)
Net increase in loans	(30,980,159)	(104,979,194)
Proceeds from sales of other real estate owned	667,800	-
Proceeds from sale of repossessed assets	52,822	33,672
Proceeds from payout of life insurance policy	-	6,952,915
Proceeds from sale of premises and equipment	3,750,000	15
Purchases of premises and equipment	(4,209,224)	(2,957,371)
	(54,888,617)	(85,656,611)

**PINNACLE FINANCIAL CORPORATION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	\$ 92,321,754	\$ 9,334,591
Net increase (decrease) in federal funds purchased	192,000	(182,000)
Net decrease in securities sold under agreements to repurchase	(624,073)	(3,659,078)
Proceeds from Federal Home Loan Bank advances	-	561,670,000
Repayment of Federal Home Loan Bank advances	(55,000,000)	(506,670,000)
Repurchase of common stock from shareholders	(32,425)	(6,663,500)
Proceeds from exercise of warrants of common stock	3,740,310	255,555
Proceeds from exercise of options of common stock	-	48,000
Proceeds from sale of common stock	8,493,795	72,500
Dividends declared and paid	(6,671,403)	(6,420,047)
	42,419,958	47,786,021
Net cash provided by financing activities		
Net increase (decrease) in cash and due from banks	13,600,714	(5,812,646)
Cash and due from banks at beginning of year	34,898,061	40,710,707
Cash and due from banks at end of year	\$ 48,498,775	\$ 34,898,061
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid on deposits and borrowings	\$ 29,056,360	\$ 12,739,065
Cash paid for income taxes	7,070,145	6,712,518
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Other real estate owned and repossessions acquired in settlement of loans	\$ 1,216,263	\$ 42,112
Transfer of reserves from ACL on loans to ACL on unfunded commitments	-	795,449

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 credit losses, the valuation of foreclosed real estate and deferred tax assets/liabilities, contingent assets and liabilities, securities, lease liabilities and right-of-use assets, and the fair value of financial instruments.

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

The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through March 20, 2025, 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, 2024 and 2023. This account is included in cash and due from banks in the consolidated balance sheets.

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)

Accrued interest receivable on debt securities totaled \$2,203,407 and \$2,317,044 as of December 31, 2024 and 2023, respectively. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the years ended December 31, 2024 and 2023.

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

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, 2024 and 2023, the Company had an equity investment in the American Home Opportunity Mortgage Fund, LP totaling \$2,165,559 and \$2,124,493, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal balances less the allowance for credit 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.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. Loans which have experienced more-than-insignificant deterioration in credit quality since origination, as determined by the Company's assessment, are considered purchased credit deteriorated ("PCD") loans. At acquisition, expected credit losses for purchased loans with credit deterioration are initially recognized as an allowance for credit losses and are added to the purchase price to determine the amortized cost basis of the loans. Any non-credit discount or premium resulting from acquiring such loans is recognized as an adjustment to interest income over the remaining lives of the loans. Subsequent to the acquisition date, the change in the allowance for credit losses on PCD loans is recognized through provision for credit losses. The non-credit discount or premium is accreted or amortized, respectively, into interest income over the remaining life of the PCD loan on a level-yield basis. Purchased loans which do not meet the criteria to be classified as PCD loans are recorded at fair value as of the acquisition date and no allowance for credit losses is carried over from the seller. The resulting purchase discount or premium is accreted or amortized, respectively, into interest income over the remaining life of the non-PCD loan on a level-yield basis.

Allowance for Credit Losses - Loans

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

The Company estimates the ACL on loans based on the underlying loans' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans is reported in other assets on the consolidated balance sheets and totaled \$5,694,993 and \$5,313,064 at December 31, 2024 and 2023, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

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

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

Remaining Life Method

The Company's primary methodology for estimating expected credit losses for all loan types is the Weight-Average Remaining Maturity (WARM) method. The WARM method calculates average annual charge-off rates and remaining contractual life, adjusted for prepayments, to estimate the losses for a pool of loans at the balance sheet date. The WARM method uses average annual net charge-off rates and the amortization-adjusted remaining lives, plus qualitative actor (including peer charge-off history and environmental factors) adjustments, to estimate the ACL.

Individually Evaluated Assets

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

Charge-Offs and Recoveries

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Commitments and Financial Instruments

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

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

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 credit 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. Other real estate owned is included within other assets on the consolidated balance sheets.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments and Hedging Activities (Continued)

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 \$644,540 and \$685,639 for the years ended December 31, 2024 and 2023, respectively.

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, 2024 and 2023, potential dilutive common shares consist of stock options and warrants.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES

The amortized cost and fair value of securities available-for-sale with gross unrealized gains and losses at December 31, 2024 and 2023 are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2024:				
U.S. Treasuries	\$ 25,660,159	\$ -	\$ (2,238,752)	\$ 23,421,407
U.S. Agencies and Government-sponsored enterprises (GSEs)	21,071,748	4,266	(2,352,521)	18,723,493
State and municipal securities	130,055,603	911	(21,448,382)	108,608,132
Mortgage-backed GSE residential and commercial securities	211,405,022	11,793	(31,582,527)	179,834,288
Corporate bonds	37,108,353	68,992	(1,273,671)	35,903,674
Total	<u>\$ 425,300,885</u>	<u>\$ 85,962</u>	<u>\$ (58,895,853)</u>	<u>\$ 366,490,994</u>
December 31, 2023:				
U.S. Treasuries	\$ 25,835,981	\$ -	\$ (2,615,824)	\$ 23,220,157
U.S. Agencies and Government-sponsored enterprises (GSEs)	24,128,352	11,019	(2,457,563)	21,681,808
State and municipal securities	142,366,636	258,051	(19,223,190)	123,401,497
Mortgage-backed GSE residential and commercial securities	218,811,106	447,882	(29,478,413)	189,780,575
Corporate bonds	35,490,938	1,213	(2,162,880)	33,329,271
Total securities	<u>\$ 446,633,013</u>	<u>\$ 718,165</u>	<u>\$ (55,937,870)</u>	<u>\$ 391,413,308</u>

The amortized cost and fair value of debt securities available-for-sale as of December 31, 2024 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	\$ 8,731,942	\$ 8,644,122
Due from one to five years	48,916,262	45,250,814
Due from five to ten years	57,509,221	50,482,913
Due after ten years	98,738,438	82,278,857
Mortgage-backed securities	211,405,022	179,834,288
	<u>\$ 425,300,885</u>	<u>\$ 366,490,994</u>

Securities with a carrying value of \$11,526,399 and \$10,621,364 at December 31, 2024 and 2023, respectively, were pledged for public housing authorities, repurchase agreements, and for other purposes required or permitted by law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES (Continued)

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

	Years Ended December 31,	
	2024	2023
Gross gains	\$ 141,613	\$ 36,408
Gross losses	(153,729)	(1,189,464)
Net realized losses	\$ (12,116)	\$ (1,153,056)

The following tables show the gross unrealized losses and fair value of securities available-for-sale with unrealized losses aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2024 and 2023.

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2024						
U.S. Treasuries	\$ -	\$ -	\$ 23,421,407	\$ (2,238,752)	\$ 23,421,407	\$ (2,238,752)
U.S. Agencies and GSEs	-	-	17,891,992	(2,352,521)	17,891,992	(2,352,521)
State and municipal securities	3,008,122	(70,129)	104,509,214	(21,378,253)	107,517,336	(21,448,382)
Mortgage-backed GSE residential and commercial securities	27,961,944	(577,757)	149,844,299	(31,004,770)	177,806,243	(31,582,527)
Corporate bonds	2,631,693	(91,384)	21,501,323	(1,182,287)	24,133,016	(1,273,671)
Total	\$ 33,601,759	\$ (739,270)	\$ 317,168,235	\$ (58,156,583)	\$ 350,769,994	\$ (58,895,853)
December 31, 2023						
U.S. Treasuries	\$ -	\$ -	\$ 23,220,157	\$ (2,615,824)	\$ 23,220,157	\$ (2,615,824)
U.S. Agencies and GSEs	-	-	18,477,910	(2,457,563)	18,477,910	(2,457,563)
State and municipal securities	593,945	(17,386)	111,052,339	(19,205,804)	111,646,284	(19,223,190)
Mortgage-backed GSE residential and commercial securities	5,315,179	(134,498)	164,230,746	(29,343,915)	169,545,925	(29,478,413)
Corporate bonds	1,973,849	(15,897)	30,137,208	(2,146,983)	32,111,057	(2,162,880)
Total	\$ 7,882,973	\$ (167,781)	\$ 347,118,360	\$ (55,770,089)	\$ 355,001,333	\$ (55,937,870)

As of December 31, 2024, the Company's available-for-sale security portfolio consisted of 414 securities, 389 of which were in an unrealized loss position. At December 31, 2024, the Company held sixteen (16) U.S. Treasury securities, thirty (30) agency and GSE securities, two hundred (200) municipal securities, twenty-five (25) corporate securities, and one hundred eighteen (118) government-sponsored mortgage-backed securities that were in an unrealized loss position.

As of December 31, 2024 and 2023, no ACL has been recognized on available-for-sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon an analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to available-for-sale securities and in consideration of historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, the Company does not have the intent to sell any of the securities classified as available-for-sale in the table above and believes that it is more likely than not that they will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Portfolio Segmentation and Classes

The composition of loans is summarized as follows:

	December 31,	
	2024	2023
Real estate:		
Construction and land development	\$ 137,867,311	\$ 165,980,302
1-4 family residential	300,635,013	297,931,738
Commercial	640,704,546	598,974,089
Other	300,385,079	283,141,803
Commercial	155,453,958	161,183,413
Consumer	25,216,662	23,887,045
	1,560,262,569	1,531,098,390
Accretable discount	(537,022)	(763,487)
Deferred loan fees	(2,827,574)	(2,910,781)
Allowance for credit losses	(20,282,046)	(20,271,009)
Loans, net	\$ 1,536,615,927	\$ 1,507,153,113

Included in total loans above are \$102,366,781 and \$105,017,002 of interest only loans for 2024 and 2023, 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 CREDIT 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.

Credit Risk Management

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Management (Continued)

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. Factors are present which justify keeping the loan on the books until repayment status is better defined.

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 credit 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, 2024 and 2023:

December 31, 2024	<u>Pass</u>	<u>Watch</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Real estate:					
Construction and land development	\$ 137,549,584	\$ -	\$ 317,727	\$ -	\$ 137,867,311
1-4 family residential	295,082,615	999,252	4,553,146	-	300,635,013
Commercial	633,044,906	4,299,348	3,360,292	-	640,704,546
Other	299,062,990	1,322,089	-	-	300,385,079
Commercial	152,682,766	2,182,502	588,690	-	155,453,958
Consumer	25,057,709	-	158,953	-	25,216,662
Total	<u>\$ 1,542,480,570</u>	<u>\$ 8,803,191</u>	<u>\$ 8,978,808</u>	<u>\$ -</u>	<u>\$ 1,560,262,569</u>

December 31, 2023

Real estate:					
Construction and land development	\$ 164,920,383	\$ 100,085	\$ 959,834	\$ -	\$ 165,980,302
1-4 family residential	295,583,999	313,327	2,034,412	-	297,931,738
Commercial	590,062,276	3,709,060	5,202,753	-	598,974,089
Other	283,141,803	-	-	-	283,141,803
Commercial	158,397,946	151,132	2,634,335	-	161,183,413
Consumer	23,781,482	14,073	91,490	-	23,887,045
Total	<u>\$ 1,515,887,889</u>	<u>\$ 4,287,677</u>	<u>\$ 10,922,824</u>	<u>\$ -</u>	<u>\$ 1,531,098,390</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Allowance for Credit Losses - Loans

The allowance for credit losses represents an allowance for expected losses over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals, or modifications. The Company segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio.

The following table details activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2024 and 2023. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	<u>Real Estate</u>	<u>Commercial Financial and Agricultural</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>Total</u>
December 31, 2024:					
Allowance for credit loss for loans:					
Balance, beginning of year	\$ 13,856,361	\$ 1,677,841	\$ 1,164,334	\$ 3,572,473	\$ 20,271,009
Provision (reallocation)	315,331	236,302	593,533	(245,166)	900,000
Loans charged off	(130,313)	(227,069)	(773,459)	-	(1,130,841)
Recoveries	84,338	850	156,690	-	241,878
Ending Balance	<u>\$ 14,125,717</u>	<u>\$ 1,687,924</u>	<u>\$ 1,141,098</u>	<u>\$ 3,327,307</u>	<u>\$ 20,282,046</u>
December 31, 2023:					
Allowance for credit loss for loans:					
Balance, beginning of year	\$ 12,010,887	\$ 1,526,936	\$ 804,281	\$ 2,674,839	\$ 17,016,943
Adoption of ASU 2016-13	223,981	-	-	(795,449)	(571,468)
Provision (reallocation)	1,629,740	170,278	932,856	1,693,083	4,425,957
Loans charged off	(17,976)	(26,289)	(762,633)	-	(806,898)
Recoveries	9,729	6,916	189,830	-	206,475
Ending Balance	<u>\$ 13,856,361</u>	<u>\$ 1,677,841</u>	<u>\$ 1,164,334</u>	<u>\$ 3,572,473</u>	<u>\$ 20,271,009</u>

Upon the adoption of ASU 2016-13 as of January 1, 2023, the Company reallocated reserves totaling \$795,449 from the ACL on loans to the ACL on unfunded commitments. Additionally, the Company added \$223,981 to the ACL on loans that previously was recorded as a non-accretable discount on purchased credit impaired loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Nonaccrual and Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on nonaccrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present a summary of current, accruing past due, and nonaccrual loans by portfolio class as of December 31, 2024 and 2023. In accordance with ASU 2016-13, nonaccrual loans are disaggregated based on whether an allowance for credit losses has been recorded.

	<u>Past Due Status (Accruing Loans)</u>				Nonaccrual with an ACL	Nonaccrual without an ACL	Total
	Current	30-89 Days	90+ Days	Total Past Due			
December 31, 2024:							
Real estate:							
Construction and land development	\$ 137,816,507	\$ 50,804	\$ -	\$ 50,804	\$ -	\$ -	\$ 137,867,311
1-4 family residential	300,039,144	226,152	-	226,152	-	369,717	300,635,013
Commercial	640,228,301	-	-	-	-	476,245	640,704,546
Other	300,385,079	-	-	-	-	-	300,385,079
Commercial, financial, and agricultural	155,072,644	31,042	-	31,042	-	350,272	155,453,958
Consumer and other	25,134,884	81,778	-	81,778	-	-	25,216,662
Total	\$ 1,558,676,559	\$ 389,776	\$ -	\$ 389,776	\$ -	\$ 1,196,234	\$ 1,560,262,569
December 31, 2023:							
Real estate:							
Construction and land development	\$ 165,476,740	\$ 476,320	\$ -	\$ 476,320	\$ -	\$ 27,242	\$ 165,980,302
1-4 family residential	297,225,428	706,310	-	706,310	-	-	297,931,738
Commercial	597,800,914	268,178	-	268,178	-	904,997	598,974,089
Other	283,141,803	-	-	-	-	-	283,141,803
Commercial, financial, and agricultural	160,353,500	434,647	-	434,647	-	395,266	161,183,413
Consumer and other	23,821,573	65,472	-	65,472	-	-	23,887,045
Total	\$ 1,527,819,958	\$ 1,950,927	\$ -	\$ 1,950,927	\$ -	\$ 1,327,505	\$ 1,531,098,390

There was no interest income recognized on nonaccrual loans during the years ended December 31, 2024 and 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Collateral Dependent Loans

Collateral dependent loans are loans where repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. If the Company determines that foreclosure is probable, these loans are written down to the lower of cost or collateral value less estimated costs to sell. When repayment is expected to be from the operation of the collateral, the allowance for credit losses is calculated as the amount by which the amortized cost basis of the financial asset exceeds the present value of expected cash flows from the operation of the collateral. The Company may, in the alternative, measure the allowance for credit loss as the amount by which the amortized cost basis of the financial asset exceeded the estimated fair value of the collateral. There were no loans considered to be collateral dependent as of December 31, 2024 and 2023.

Modifications to Borrowers Experiencing Financial Difficulty

The Company periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness, or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of the modification. When principal forgiveness is provided, the amount of principal forgiveness is charged off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan. A modified loan is tracked for at least 12 months following the modifications granted.

There were no loans modified to borrowers experiencing financial difficulty during the years ended December 31, 2024 and 2023. The Company has no unfunded commitments to borrowers experiencing financial difficulty for which the Company has modified their loans as of December 31, 2024 and 2023.

Related-Party Loans

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

	December 31,	
	2024	2023
Balance, beginning of year	\$ 21,045,063	\$ 13,521,145
Advances	4,616,395	9,676,049
Repayments	(1,776,693)	(2,141,185)
Change in related parties	-	(10,946)
Balance, end of year	<u>\$ 23,884,765</u>	<u>\$ 21,045,063</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2024	2023
Land	\$ 8,644,949	\$ 9,321,986
Buildings	42,360,669	42,509,206
Furniture, fixtures, and equipment	17,424,682	16,575,227
Construction in progress (estimated cost to complete at December 31, 2024 of \$18.4 million)	2,534,305	2,575,514
	70,964,605	70,981,933
Accumulated depreciation	(33,872,474)	(32,298,646)
	\$ 37,092,131	\$ 38,683,287

Depreciation expense totaled \$2,596,815 and \$2,650,985 for the years ended December 31, 2024 and 2023, respectively.

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 December 31, 2024 and 2023 with an assumed weighted-average discount rate of 2.07% and 1.46%, respectively. The remaining weighted-average lease term was 12.6 years and 11.9 years at December 31, 2024 and 2023, respectively. The right-of-use assets, included within other assets on the consolidated balance sheets, were \$6,149,046 and \$4,061,366 as of December 31, 2024 and 2023, respectively. The Company's operating lease liabilities, included within other liabilities on the consolidated balance sheets, were \$6,149,046 and \$4,061,366 as of December 31, 2024 and 2023, respectively.

Future discounted lease commitments on noncancelable operating leases, excluding any renewal options, are summarized as of December 31, 2024 as follows:

2025	\$ 983,171
2026	825,800
2027	724,861
2028	726,758
2029	736,381
Thereafter	4,613,411
Total undiscounted lease payments	8,610,382
Amounts representing interest	2,461,336
Net lease liabilities	\$ 6,149,046

Total rental expense included in the consolidated statements of income for the years ended December 31, 2024 and 2023 is \$1,056,600 and \$1,453,352, 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,	
	2024	2023
Balance, beginning of year	\$ -	\$ -
Additions from loans	1,161,049	-
Proceeds from sale	(667,800)	-
Loss on sale	(17,363)	-
Transfer to SBA receivable	(52,088)	-
Balance, end of year	\$ 423,798	\$ -

Expenses (income) related to other real estate owned include the following:

	Years Ended December 31,	
	2024	2023
Loss on sales	\$ 17,362	\$ -
Operating expenses	14,512	-
Total expenses	31,874	-
Rental income	(39,000)	-
Net other real estate owned expense (income)	\$ (7,126)	\$ -

NOTE 6. GOODWILL AND INTANGIBLE ASSETS

Intangible Assets

Following is a summary of information related to intangible assets:

	As of December 31, 2024		As of December 31, 2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit premiums	\$ 4,572,803	\$ 3,317,102	\$ 4,572,803	\$ 2,934,673

The amortization expense was \$382,429 and \$382,429 and for the years ended December 31, 2024 and 2023, respectively.

The estimated remaining amortization expense as of December 31, 2024 is as follows:

2025	\$ 382,429
2026	382,429
2027	288,262
2028	202,581
	\$ 1,255,701

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,	
	2024	2023
Balance, beginning of year	\$ 32,956,287	\$ 32,956,287
Impairment charges	-	-
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, 2024 and 2023.

NOTE 7. DEPOSITS

Components of interest-bearing deposit accounts at December 31, 2024 and 2023 were as follows:

	2024	2023
NOW accounts	\$ 372,311,800	\$ 379,569,855
Money market accounts	530,790,586	438,571,598
Savings deposits	152,887,187	157,597,416
Time deposits:		
Less than \$250,000	196,164,043	186,356,246
\$250,000 or more	115,229,147	91,970,159
	\$ 1,367,382,763	\$ 1,254,065,274

The scheduled maturities of time deposits at December 31, 2024 are as follows:

2025	\$ 295,450,288
2026	9,443,232
2027	2,158,259
2028	1,928,956
2029	1,967,255
Thereafter	445,200
	\$ 311,393,190

Brokered deposits totaled \$9,996,250 and \$19,973,750 at December 31, 2024 and 2023, respectively. Reciprocal deposits totaled \$41,835,330 and \$18,201,869 at December 31, 2024 and 2023, respectively. Overdraft demand deposits reclassified to loans totaled \$703,475 and \$705,590 at December 31, 2024 and 2023, respectively. Related-party deposits totaled \$23,042,992 and \$7,823,888 at December 31, 2024 and 2023, 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 a fixed rate of 3.60% per annum, payable semiannually 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, 2024 and December 31, 2023 totaled \$49,828 and \$49,828, respectively.

As of December 31, 2024 and 2023, subordinated notes, less remaining unamortized debt issuance costs, totaled \$24,697,726 and \$24,647,898, 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 grantor 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 calculated under a formula based on the Secured Overnight Financing Rate (SOFR). As of December 31, 2024, the rate was variable at the three-month SOFR plus 1.61161%, which was 5.93827%.

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, 2024 and 2023 was \$7,217,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. SUBORDINATED DEBENTURES (Continued)

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,	
	2024	2023
Current	\$ 7,837,277	\$ 6,530,014
Deferred	(523,830)	(1,052,436)
Income tax expense	\$ 7,313,447	\$ 5,477,578

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,	
	2024	2023
Tax provision at statutory federal rate	\$ 6,868,269	\$ 5,264,293
Life insurance	(83,367)	138,861
Tax-exempt income	(423,926)	(504,906)
Disallowed interest	209,684	164,071
State income taxes	579,375	339,885
Other items, net	163,412	75,374
Income tax expense	\$ 7,313,447	\$ 5,477,578

The components of deferred income taxes are as follows:

	December 31,	
	2024	2023
Deferred tax assets:		
Credit loss reserves	\$ 5,206,941	\$ 5,272,210
Deferred compensation	486,656	463,200
Branch premium amortization	47,643	48,266
Net operating loss	44,186	68,479
Fair market value – certificates of deposit	8,058	28,715
Fair market value – loans	136,372	195,441
Fair market value – investments	434,312	438,672
Restricted stock	533,906	251,359
Securities available-for-sale	14,705,674	13,830,837
Other	232,403	267,986
	\$ 21,836,151	\$ 20,865,165

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. INCOME TAXES (Continued)

	December 31,	
	2024	2023
Deferred tax liabilities:		
Depreciation	\$ 874,495	\$ 1,161,319
Fair market value – goodwill	2,442,852	2,474,783
Core deposit intangible	313,538	414,374
Tax bad debt recapture	504,208	-
Fair market value – buildings	114,753	510,798
Section 1031 – like-kind exchange	9,568	116,253
Interest rate swap	4,259,414	56,001
	17,576,737	4,733,528
Net deferred tax assets	\$	\$ 16,131,637

The federal income tax returns of the Company for 2021, 2022, and 2023 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 \$849,121 and \$837,718 in 2024 and 2023, 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 \$633,099 and \$360,609 in 2024 and 2023, respectively. As of December 31, 2024 and 2023, the ESOP owned 51,145 and 48,145 shares of Pinnacle Financial Corporation common stock, respectively.

Executive Retirement Benefits

During 2024 and 2023, 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 years ended December 31, 2024 and 2023, the Company recognized expenses totaling \$197,995 and \$161,373, respectively. Accrued deferred compensation of \$1,307,789 and \$1,219,932 is included in other liabilities as of December 31, 2024 and 2023, respectively. Cash surrender values of \$1,927,045 and \$1,908,210 on the related insurance policies is included in cash surrender value of life insurance at December 31, 2024 and 2023, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. EMPLOYEE BENEFIT PLANS (Continued)

Stock Based Compensation

During 2021, 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. In the year ended December 31, 2022, there were 38,500 shares awarded to 31 (thirty-one) officers. There were 2,000 shares and 8,000 options awarded to twenty officers during the year ended December 31, 2023. Additionally, 1,068 shares were issued in November 2021 as part of a deferred compensation agreement. There were 1,500 shares awarded to two officers and 179 shares issued as part of a deferred compensation arrangement for another officer during the year ended December 31, 2024.

The unearned compensation balances related to the restricted stock grants were \$4,963,078 and \$5,839,008 at December 31, 2024 and 2023, respectively, with each stock award being expensed over the three year vesting period. The unearned compensation balances related to the stock options were \$17,620 and \$136,789 at December 31, 2024 and 2023, respectively, with each stock option being expensed over the three year vesting period. For the years ended December 31, 2024 and 2023, the amount of restricted stock that was expensed and vested totaled \$362,700 and \$180,000, 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, 2024 and 2023, amounts accrued for deferred director compensation under this program were \$366,836 and \$475,821, 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:

	December 31,	
	2024	2023
Commitments to extend credit	\$ 281,862,804	\$ 270,272,882
Letters of credit	4,352,885	3,204,264
	<u>\$ 286,215,689</u>	<u>\$ 273,477,146</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. COMMITMENTS AND CONTINGENCIES (Continued)

Loan Commitments (Continued)

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.

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.

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

The following table presents the balance and activity in the allowance for credit losses for unfunded commitments for the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 795,449	\$ -
Adjustment to allowance for the adoption of ASU 2016-13	-	795,449
Provision for credit losses	-	-
Ending balance	<u>\$ 795,449</u>	<u>\$ 795,449</u>

Contingencies

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

NOTES TO CONSOLIDATED 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%) 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%) 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. Accordingly, the ultimate collectability of the Company's loan portfolio 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 \$55,655,000 as of December 31, 2024.

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.

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 loss 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Cash Flow Hedges of Interest Rate Risk (Continued)

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 SOFR plus 1.61161% 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 \$182,897 of interest income during 2024 and \$166,751 of interest income from the interest rate swap contract during 2023. At December 31, 2024 and 2023, the estimated fair value of the interest rate swap contract accounted for as a cash flow hedge was \$28,309 and \$214,036, respectively. The fair value of the swap was recorded in other assets on the consolidated balance sheets as of December 31, 2024 and 2023. The fair value of the interest rate swap had no effect on net income for 2024 and 2023, and the unrealized loss of \$185,727 and \$27,812, net of tax benefit of \$46,432 and \$6,953, was recorded in other comprehensive income (loss) for 2024 and 2023, respectively. No hedge ineffectiveness from the cash flow hedge was recognized in net income for the years ended December 31, 2024 and 2023.

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, 2024, approximately \$13,125,000 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, 2024 was 4.8866%. Management believes, as of December 31, 2024 and 2023, 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, 2024, 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, 2024 and 2023, 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)						
As of December 31, 2024:						
Total Capital to Risk-Weighted Assets	\$ 223,190	12.89%	\$ 138,556	8%	\$ 173,196	10%
Tier 1 Capital to Risk-Weighted Assets	\$ 202,337	11.68%	\$ 103,917	6%	\$ 138,556	8%
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 202,337	11.68%	\$ 77,938	4.5%	\$ 112,578	6.5%
Tier 1 Capital to Average Assets	\$ 202,337	9.27%	\$ 87,264	4%	\$ 109,080	5%
As of December 31, 2023:						
Total Capital to Risk-Weighted Assets	\$ 207,881	12.23%	\$ 135,946	8%	\$ 169,932	10%
Tier 1 Capital to Risk-Weighted Assets	\$ 187,038	11.01%	\$ 101,959	6%	\$ 135,946	8%
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 187,038	11.01%	\$ 76,470	4.5%	\$ 110,456	6.5%
Tier 1 Capital to Average Assets	\$ 187,038	8.81%	\$ 84,920	4%	\$ 106,150	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, 2024 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
Assets:				
Available-for-sale securities:				
U.S. Treasuries	\$ 23,421,407	\$ -	\$ -	\$ 23,421,407
U.S. Agencies and GSEs	-	18,723,493	-	18,723,493
State and municipal	-	108,608,132	-	108,608,132
Mortgage-backed	-	179,834,288	-	179,834,288
Corporate	-	35,903,674	-	35,903,674
Equity securities	-	2,165,559	-	2,165,559
Interest rate swaps	-	28,309	-	28,309
Total assets	\$ 23,421,407	\$ 345,263,455	\$ -	\$ 368,684,862

	Fair Value Measurements at December 31, 2023 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
Assets:				
Available-for-sale securities:				
U.S. Treasuries	\$ 23,220,157	\$ -	\$ -	\$ 23,220,157
U.S. Agencies and GSEs	-	21,681,808	-	21,681,808
State and municipal	-	123,401,497	-	123,401,497
Mortgage-backed	-	189,780,575	-	189,780,575
Corporate	-	33,329,271	-	33,329,271
Equity securities	-	2,124,493	-	2,124,493
Interest rate swaps	-	214,036	-	214,036
Total assets	\$ 23,220,157	\$ 370,531,680	\$ -	\$ 393,751,837

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, 2024 and 2023, 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, 2024 and 2023. Items outside the scope of ASC 606 are noted as such.

	2024	2023
Service charges on deposit accounts	\$ 14,284,388	\$ 13,891,274
Mortgage loan origination fees ^(a)	1,401,358	616,230
Other service charges and fees	1,910,902	1,637,614
Available-for-sale securities gains (losses), net ^(a)	(12,116)	(1,153,056)
Gains (losses) on equity securities ^(a)	(23,415)	13,187
Gain on sales of loans and other income ^(a)	5,266,264	1,700,309
	\$ 22,827,381	\$ 16,705,558
Ending balance	\$ 22,827,381	\$ 16,705,558

^(a) 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, 2024 AND 2023

	2024	2023
<u>Assets</u>		
Cash and due from banks	\$ 19,821,689	\$ 2,285,068
Other securities	217,000	217,000
Investment in subsidiary	192,373,842	180,155,176
Other assets	46,467	443,115
Total assets	\$ 212,458,998	\$ 183,100,359
<u>Liabilities and Stockholders' Equity</u>		
Subordinated notes	\$ 24,697,726	\$ 24,647,898
Subordinated debentures	7,217,000	7,217,000
Other liabilities	341,456	385,491
Stockholders' equity	180,202,816	150,849,970
Total liabilities and stockholders' equity	\$ 212,458,998	\$ 183,100,359

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Income:		
Dividend income	\$ 12,600,000	\$ 11,985,000
Affiliate services income	96,427	93,361
Interest income	433,206	289,629
Total income	13,129,633	12,367,990
Expenses:		
Interest expense	1,422,815	1,409,498
Other	249,645	322,846
Total expense	1,672,460	1,732,344
Income (loss) before income tax benefit and equity in undistributed income of subsidiary	11,457,173	10,635,646
Income tax benefit	286,025	341,032
Equity in undistributed income of subsidiary	13,649,400	8,613,806
Net income	\$ 25,392,598	\$ 19,590,484

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Cash flows from operating activities:		
Net income	\$ 25,392,598	\$ 19,590,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed income of subsidiary	(13,649,400)	(8,613,806)
Amortization of debt issuance costs	49,829	49,828
Other assets and other liabilities	213,317	(41,701)
Net cash provided by operating activities	12,006,344	10,984,805
Cash flows from financing activities:		
Proceeds from exercise of stock options	-	48,000
Proceeds from exercise of stock warrants	3,740,310	255,555
Cash dividends declared and paid	(6,671,403)	(6,420,047)
Repurchase of common stock	(32,425)	(6,663,500)
Proceeds from sale of common stock	8,493,795	72,500
Net cash provided by (used in) financing activities	5,530,277	(12,707,492)
Net increase (decrease) in cash	17,536,621	(1,722,687)
Cash at beginning of year	2,285,068	4,007,755
Cash at end of year	\$ 19,821,689	\$ 2,285,068

PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET DECEMBER 31, 2024

<u>Assets</u>	<u>Pinnacle Financial Corporation</u>	<u>Pinnacle Bank</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash and due from banks	\$ 19,821,689	\$ 48,358,775	\$ (19,681,689)	\$ 48,498,775
Interest-bearing deposits at other financial institutions	-	96,497,333	-	96,497,333
Federal funds sold	-	10,200,000	-	10,200,000
Securities available for sale	217,000	366,273,994	-	366,490,994
Investment in subsidiary	192,373,842	-	(192,373,842)	-
Equity securities	-	2,165,559	-	2,165,559
Federal Home Loan Bank stock, at cost	-	1,669,600	-	1,669,600
Loans, net of allowance for loan losses of \$20,047,028	-	1,536,615,927	-	1,536,615,927
Loans held for sale	-	5,956,953	-	5,956,953
Premises and equipment, net	-	37,092,131	-	37,092,131
Accrued interest receivable	1,059	7,898,400	-	7,899,459
Goodwill and intangibles, net	-	34,211,989	-	34,211,989
Cash surrender value of life insurance	-	15,151,299	-	15,151,299
Other assets	45,408	27,415,782	-	27,461,190
Total assets	\$ 212,458,998	\$ 2,189,507,742	\$ (212,055,531)	\$ 2,189,911,209
<u>Liabilities and Stockholders' Equity</u>				
Deposits:				
Noninterest-bearing	\$ -	\$ 590,231,415	\$ -	\$ 590,231,415
Interest-bearing	-	1,387,064,452	(19,681,689)	1,367,382,763
Total deposits	-	1,977,295,867	(19,681,689)	1,957,614,178
Securities sold under repurchase agreements	-	505,295	-	505,295
Federal funds purchased	-	192,000	-	192,000
Subordinated notes	24,697,726	-	-	24,697,726
Subordinated debentures	7,217,000	-	-	7,217,000
Accrued interest payable	331,888	3,987,081	-	4,318,969
Other liabilities	9,568	15,153,657	-	15,163,225
Total liabilities	32,256,182	1,997,133,900	(19,681,689)	2,009,708,393
Commitments and contingencies				
Stockholders' equity:				
Common stock, no par, 10,000,000 shares authorized, 1,375,498 issued	82,697,343	7,680,000	(7,680,000)	82,697,343
Retained earnings	141,661,077	228,868,186	(228,868,186)	141,661,077
Accumulated other comprehensive loss	(44,155,604)	(44,174,345)	44,174,345	(44,155,604)
Total stockholders' equity	180,202,816	192,373,841	(192,373,841)	180,202,816
Total liabilities and stockholders' equity	\$ 212,458,998	\$ 2,189,507,741	\$ (212,055,530)	\$ 2,189,911,209

PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 2024

	Pinnacle Financial Corporation	Pinnacle Bank	Eliminations	Consolidated
Interest income:				
Loans, including fees	\$ -	\$ 88,725,987	\$ -	\$ 88,725,987
Securities:				
Taxable	12,793,948	9,060,242	(12,600,000)	9,254,190
Nontaxable	-	1,770,983	-	1,770,983
Interest-bearing deposits at other financial institutions	239,258	5,239,839	(229,773)	5,249,324
Total interest income	<u>13,033,206</u>	<u>104,797,051</u>	<u>(12,829,773)</u>	<u>105,000,484</u>
Interest expense:				
Deposits	-	26,326,033	(229,773)	26,096,260
Borrowings	1,422,815	1,533,466	-	2,956,281
Total interest expense	<u>1,422,815</u>	<u>27,859,499</u>	<u>(229,773)</u>	<u>29,052,541</u>
Net interest income	11,610,391	76,937,552	(12,600,000)	75,947,943
Provision for loan losses	-	900,000	-	900,000
Net interest income after provision for loan losses	<u>11,610,391</u>	<u>76,037,552</u>	<u>(12,600,000)</u>	<u>75,047,943</u>
Other income:				
Service charges on deposit accounts	-	14,284,388	-	14,284,388
Mortgage loan origination fees	-	1,401,358	-	1,401,358
Other service charges and fees	-	1,910,902	-	1,910,902
Available for sale security gains (losses), net	-	(12,116)	-	(12,116)
Gains on equity securities	-	(23,415)	-	(23,415)
Gain on sale of loans	-	598,918	-	598,918
Other income	96,427	4,570,919	-	4,667,346
Equity in undistributed income of subsidiary	13,649,400	-	(13,649,400)	-
Total other income	<u>13,745,827</u>	<u>22,730,954</u>	<u>(13,649,400)</u>	<u>22,827,381</u>
Other expenses:				
Salaries and employee benefits	-	34,679,932	-	34,679,932
Occupancy and equipment expense	-	9,789,091	-	9,789,091
Other expenses	249,645	20,450,611	-	20,700,256
Total other expenses	<u>249,645</u>	<u>64,919,634</u>	<u>-</u>	<u>65,169,279</u>
Income before income tax	25,106,573	33,848,872	(26,249,400)	32,706,045
Income tax (benefit)	<u>(286,025)</u>	<u>7,599,472</u>	<u>-</u>	<u>7,313,447</u>
Net income	<u>\$ 25,392,598</u>	<u>\$ 26,249,400</u>	<u>\$ (26,249,400)</u>	<u>\$ 25,392,598</u>

PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY

COMPUTATION OF ADJUSTED NET WORTH FOR RECERTIFICATION OF SUPERVISED MORTGAGEES

1. Servicing portfolio* at: December 31, 2024 (End of fiscal year under audit)		\$ -
2. Add:		
Originated * during fiscal year	\$ 7,657,539	
Purchased * from loan correspondent during fiscal year	-	
Subtotal		\$ 7,657,539
3. Less:		
Amounts included in Line 2:		
Servicing retained	\$ -	
Loan correspondent purchases retained	-	
Exempt \$25,000,000	25,000,000	
Subtotal		25,000,000
4. Total		\$ -
5. 1% of Line 4		\$ -
6. Minimum net worth required (\$1,000,000 plus Line 5)		\$ 1,000,000
7. Net worth required (Lesser of \$2,500,000 or Line 6)		1,000,000
Stockholders equity (net worth) per balance sheet - Bank	\$ 192,373,842	
Less unacceptable assets	85,850,359	
Adjusted net worth		\$ 106,523,483
Adjusted net worth above amount required		\$ 105,523,483

* 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**

1. Cash and cash equivalents (Bank) at: December 31, 2024		\$ 154,628,914
2. Less: Cash held in escrow	\$ _____	-
3. Total		<u>\$ 154,628,914</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>\$ 154,428,914</u>

SUPPLEMENTARY INFORMATION



**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, 2024, and the related consolidated statements of income, comprehensive income 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 20, 2025.

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 20, 2025



**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, 2024. 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, 2024.

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 20, 2025

PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
Year Ended December 31, 2024

No findings related to the year ended December 31, 2024.

PINNACLE FINANCIAL CORPORATION AND SUBSIDIARY

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2023**

SECTION 1 – PRIOR YEAR HUD SPECIFIC FINDINGS AND QUESTIONED COSTS

None