STRONG BANK | HEALTHY COMMUNITY

2022 ANNUAL REPORT

PEACH STATE BANCSHARES

Building a Strong Bank and Healthy Community

While communities are built of brick and mortar, they're bound together by a common infrastructure of economy, culture and vision. And when businesses invest time and money into the local economy, it builds strength that supports the health and vitality of the area.

At Peach State Bank & Trust, we believe in Gainesville and Hall County – as visibly demonstrated by the investment in our brand-new corporate headquarters downtown. Also taking root here is a burgeoning medical community, attracting physicians and training new generations in state of the art healthcare for the future.

That's a lot of strength for building a healthy community.

A Record Pace for the Third Year in a Row

Based on our record performance in 2022, you certainly have a lot to smile about if you are an investor in Peach State Bancshares. Sound familiar? That's because we said the same thing in this space last year – and the year before that, too. Your bank has undergone three consecutive years of unprecedented earnings.

- **Net Earnings in 2022 totaled $5.5 million ($1.91/share) compared to $2.6 million (89 cents/share) in 2021 – an increase of approximately 114 percent.**
- **Total Assets now add up to over $600 million (as of the end of 2022), which is double where we stood back in April 2020.**
- **Peach State's book value was $10.09/share on April 30, 2020, when the stock price was averaging $14/share. More recently, book value has been around $13.07/share with the stock selling at $17.50/share.** ***(Keep in mind that past performance is not an indicator of future stock valuations).***
- **Based on our financial success this past year, your board of directors recently issued a special 10 cent per share dividend in addition to the regular quarterly dividend (adding up to a total of 15 cents a share).**

While these numbers reflect a strong balance sheet – and you can read more in the Financial Highlights section of this report – it is our new three-story headquarters in one of Gainesville's architectural landmarks in the heart of downtown that makes the most impressive visual statement.

Along with plans for building a new permanent branch bank in Braselton, Peach State is now firmly established as the region's leading locally based community bank and one of the top in the state. Among Georgia's 147 banks, we rank 28th in size – up from 41st just over a year ago. At the same time, we carry the highest ratings for asset quality.

As we set our sights toward becoming a billion-dollar bank, we must understand that our larger size is not about bragging rights. It is about efficiency. Peach State has reached a sweet spot with a strong infrastructure that will allow us to manage future growth with fewer additions to staff. Presently, for every dollar invested in operations, our efficiency ratio is in the high 50s – an excellent marker for bank profitability that continues to improve each year.

Despite rising interest rates and high inflation, our commercial loan growth was strong in 2022 and continues a positive trend into the current year. Even our mortgage activity appears to be stabilizing after the initial shock of multiple interest rate hikes by the Federal Reserve in the latter half of 2022.

Our strong lending team is supported by a local economy that is well-balanced among a wide array of different industries. Likewise, our revenue stream is diverse. One example is our commercial loans, which are spread across multiple business segments *(see pie chart)*, representing about one-third of our overall loan portfolio. Similar to a balanced mutual fund, we keep a close eye on each lending source to ensure we are not heavily overweighted in any one segment such as retail or warehousing.

Setting Sail into Medical Market with New Anchors in Gainesville, Braselton

Amid our diverse business community, there is one sector of our local economy that seemingly has unlimited upside growth potential. Healthcare has clearly emerged as one of our region's primary economic pillars alongside poultry and other historically significant industries in Gainesville-Hall County.

A Georgia Hospital Association study estimates a positive financial impact of over $3.5 billion for Northeast Georgia Health System across our community and state. That doesn't include the hundreds of other healthcare entities such as Longstreet Clinic, Northeast Georgia Diagnostic Clinic, and private physician practices.

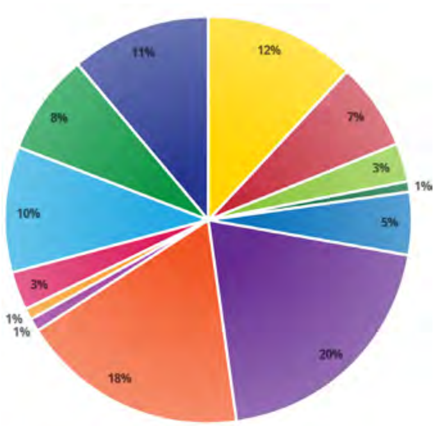
With our two bank locations in Gainesville and Braselton – the same bases of operation for the region's medical market – Peach State is perfectly positioned to support this medical growth wave. We have already established strong customer relationships with several physician practices and feature a few of their stories in these pages. Our Braselton branch, already profitable in its initial year at a leased site, should benefit from even greater visibility in this high-growth medical market once we complete construction of a new free-standing bank in 2024. The bank will be a short distance from Northeast Georgia Medical Center's Braselton hospital (in addition to the Deaton Creek and Reunion retirement communities).

From our two new anchor bank sites, we will be rolling out the red carpet for customers with our innovative "universal banking" concept. If you've visited our downtown Gainesville headquarters, you've already experienced our modern, open lobby setting where we've eliminated traditional teller windows and waiting in line. As customers walk inside, they are immediately greeted by friendly staff whom we've cross-trained to handle multiple services from depositing a check or assisting with online banking to opening a new account.

A Strong Bank for a Healthy Community

Your faith in Peach State Bancshares and Peach State Bank & Trust is not only an investment in our team. You are also participating in the economic vitality of our entire Northeast Georgia region. As a community bank, Peach State keeps money flowing throughout our local economy while investing in causes like Good News at Noon that benefit all our neighbors.

Whether we are partnering with local doctors, a restaurant owner, or a retail shop... a strong community bank makes for a strong community, a healthy community, a better community overall – and a never-ending circle of success.



Loan Concentrations by Business Segments

- ASSISTED LIVING/CHILD CARE (12%)
- AUTOMOTIVE AND RELATED BUSINESS (7%)
- CAR WASH (3%)
- EVENTS/LODGE (1%)
- HOTEL/MOTEL (5%)
- OFFICE BUILDINGS (OWNER OCCUPIED) (20%)
- OFFICE BUILDINGS (NONOWNER OCCUPIED) (18%)
- POULTRY FARMS (1%)
- RELIGIOUS FACILITIES (1%)
- RESTAURANTS (3%)
- RETAIL BUILDINGS (10%)
- RETAIL SHOPPING CENTERS (8%)
- WAREHOUSE (11%)

Thank you for your support,

Ron G. Quinn
President and CEO
Peach State Bancshares

Stewart Teaver
Chairman
Peach State Bancshares

Invested in Healthy Lives

When companies with similar vision and values work together, good things happen. In this case, a stronger, healthier community is the result.

Founded in Gainesville in 2000, **Georgia Emergency Department Services (GEDS)** staffs and partners to manage the Emergency Departments of five medical centers in Northeast Georgia – NGMC Braselton, NGMC Gainesville, NGMC Lumpkin, NGMC Barrow and Habersham Medical Center. It is 100% owned by its practicing physicians who live in the communities they serve.

"We believe our local governance allows us to make decisions that best impact our community," says **Dr. Mohak Davé**, president and CEO of GEDS. "And GEDS is in a position to be able to encourage NGMC to explore service expansion based on the patients we see in the Emergency Department. The Emergency Department team has put a deliberate focus on helping Northeast Georgia Health System (NGHS) augment Trauma/Stroke/Cardiac Resuscitation/Behavioral Health and Pediatric needs in our community."

In addition, GEDS is excited to train the next generation of Emergency Physicians, having started the first class of emergency medicine resident physicians at NGMC in July 2022. Peach State Bank also partners with NGMC's Graduate Medical Education program and NGHS' Foundation by funding every medical resident's annual membership in the Downey Society, which brings philanthropic-minded physicians together to fund local medical initiatives.

GEDS President and CEO Dr. Mohak Davé has been a leader in trauma care across the region for almost two decades.

Like Peach State Bank & Trust, GEDS has chosen to remain independent despite massive consolidation in the banking and healthcare industries alike. "We put our patients first. They demand and deserve high quality, efficient, compassionate care, and we work tirelessly to provide that – even in the most trying times," says Dr. Davé.

And what that means is a strong bank…
and a healthy community.

Both GEDS and Peach State are committed to local leadership that enables them to be patient/customer-focused, accountable, innovative and nimble.

Peach State's Terry Baker, left, with Dr. Davé and members of the GEDS medical team.

Gainesville Urology is dedicated to growing with the constantly changing medical field while also keeping patient care above all else.
LEFT TO RIGHT: *Dr. Craig Brock, MD | Peach State's Ricky Pugh | Dr. Thomas Fassuliotis, MC, FACS | Dr. Benjamin W. Woodson, MD | Dr. Ryan N. Fogg, MD | Dr. David S. Woo, MD | Terry Baker, Peach State Bank*

A Shared Focus on Local Autonomy

Gainesville Urology's Dr. Thomas Fassuliotis.

With a 60-year-plus legacy of excellent patient care – dating back to founders **Dr. Rafe Banks**, **Dr. Lee Martin** and **Dr. Ed Estes** – **Gainesville Urology** today remains focused on building trusted relationships with its patients.

As an independent practice, Gainesville Urology's five physicians and 35 staff members are able to make decisions that are best for their own team, patients and community.

"When you're independent, you really have to take care of the medical practice by being available and creating a welcoming environment for your staff and patients," says senior physician **Dr. Thomas Fassuliotis**. "We want our physicians to live in this area and be connected to our community."

Demonstrating compassion and being responsive to patients are also high priorities. Gainesville Urology's focus on the best possible care with the most advanced technology is at the heart of its culture – and also why the practice chooses to bank locally with Peach State. During the COVID challenges in 2020, for example, Peach State truly demonstrated its partnership with medical practices like Gainesville Urology in securing a PPP loan to keep the practice running for its staff and patients.

"And Peach State is always ready to help with equipment or expansion loans, working within our budget. Peach State has kind folks with exceptional service. Together, we're a good fit," says Dr. Fassuliotis.

A strong bank for a healthy community... a good fit, indeed.

"The number one anxiety-provoking issue for patients is waiting for test results. Keeping them well-informed of their labs and imaging studies is crucial and a main goal that our doctors and staff strive to achieve."

– Dr. Thomas Fassuliotis, Senior physician

A Healthy Dose of Personal Care

With all the consolidations in the healthcare industry, it's refreshing to see locally based practices still standing on their own and succeeding with healthy doses of personal care – a familiar page out of Peach State Bank's own playbook.

Since its start in 1973, **Gainesville Radiology Group** remains a respected independent practice with a reputation as a leader in advanced patient care dedicated to continuing medical education and training in various subspecialties.

To date, the 25-member practice truly stands apart as one of the smallest radiology groups in the country to offer its imaging services – 24 hours a day, 365 days a year – without outside support. That includes coverage for doctors and their patients at Northeast Georgia Health System, its local partner, with a collaborative team approach to provide personalized treatment plans.

Remote communications have made many businesses more efficient. While utilizing advanced online technology, Gainesville Radiology and Peach State still adhere to treating patients and helping customers like their own families, going the extra mile to provide a personal touch.

Peach State is proud to be a financial partner with Gainesville Radiology, supporting its tradition of excellence and contributions to our healthy community from Gainesville to Braselton and throughout Hall County.

"Our philosophy has always been to care for every patient like we would want a member of our family to be cared for."

– Dr. Colby Chastain

Dr. Colby T. Chastain, MD & Dr. Julie P. Presley, MD.

Currently 22 of Gainesville Radiology's 25 physicians have advanced training in different areas and subspecialties of radiology. Peach State's Terry Baker (left) and Ricky Pugh (third from right) with the Gainesville Radiology team.

LEFT TO RIGHT: *Peach State Bank President Ron Quinn | John E. Delzell, Jr., MD, MSPH, MBA | Tariq Odeh, Resident Physician (Internal Medicine) | Riaz Mahmood, Chief Resident Physician (Internal Medicine) | Alex Adams, Cardiology Fellow*

Investing in GME and Tomorrow's Healthy Community

In recent years, our multi-billion-dollar healthcare industry has come into its own as a prime economic pillar of the Northeast Georgia region – and an avenue toward an even healthier community.

Peach State is proud to partner in the next wave of that growth through our investment in tomorrow's physicians. We do this through our philanthropic contributions to the Medical Center Foundation in support of our local health system's **Graduate Medical Education (GME)** program. Through our own GME newsletter, we also welcome these medical residents with information about our community and local events in hopes they will connect and someday return.

We can thank Nathan Deal, a Hall County native son and former Georgia governor, for inspiring GME. Concerned that too many talented medical students were leaving Georgia to practice in other states, Gov. Deal encouraged more teaching hospitals around the state. It's only fitting that his hometown hospital is now leading the way with over 200 residents and fellows across seven specialties.

"We really appreciate the support of Peach State Bank for our residency programs," said **Dr. John Delzell**, Northeast Georgia Medical Center's vice president of Medical Education. "Our partnership with Peach State Bank encourages our residents to practice in this region someday while working today with our medical staff to improve community health."

Local medical resident **Amy Kapoor** is among the many residents who have already chosen Gainesville-Hall County as their future home. "The GME program is so unique and authentic, which is hard to find. It's part of what attracted me to stay," she says.

As a strong community bank, we will continue to invest richly in our region's young doctors like Amy Kapoor who are enhancing our economy and quality of life.

NGMC's GME program is the largest community-based Graduate Medical Education Program in Georgia.

"Our partnership with Peach State Bank allows our residents to work with the medical staff to make our community better."

-John Delzell, Vice President of Medical Education for the GME program

From helping the homeless to supporting affordable housing, Peach State Bank is focused on fulfilling its role as a community bank that gives back. Creating a stronger community that, in turn, supports a stronger bank.

Lifting Up the Homeless with Support of 'Good News at Noon'

As a community bank, it's only natural that Peach State Bank would support a non-profit like **Good News at Noon**, a hometown program born out of the desire to help those in need.

Since 1987, Good News at Noon has worked tirelessly to help the homeless, providing resources such as a shelter, a food pantry, transitional housing, case management, and employment readiness programs.

In support of the organization's growth plans, Peach State joined forces with Access to Capital for Entrepreneurs to structure financing that qualified Good News for a half-million-dollar government grant under a federal affordable housing program.

Of more than 175 applicants last year, Good News at Noon was the only program in Georgia to secure grant approval from the Federal Home Loan Bank of Atlanta.

The funds will assist with Good News' move to a new location and expansion of its transitional living program for men, along with the addition of a new transitional living program that will house women. It will also allow for 42 new housing units, a commercial kitchen, dining hall, laundry room, showers, and offices for support staff.

"Peach State was an essential part of getting the grant and has been a great local partner for us," says Ken Gossage, Good News executive director.

Our support of Good News at Noon builds a better community, a mission that is not only our responsibility. It's our passion.

Securing Affordable Housing

While on one hand Gainesville is a community with plenty of job availability and opportunity for career growth, we also have a shortage of affordable housing options.

In this inflationary economy, low-income families are not the only ones affected by this issue. First-time homebuyers are also finding it difficult to track down and purchase affordable homes.

Peach State is offering an assistance loan program provided by the Federal Home Loan Bank to work toward helping people become homeowners. The program will provide grants for a mortgage down payment that will not have to be repaid for income-qualified applicants who stay in their new home for at least five years.

Peach State Bank is the only approved lender for this program in Gainesville's 30501 zip code area.

Helping young homeowners secure a home builds a stronger and more stable work base – which is good for the local economy in which Peach State operates.

The loan program also involves assistance for qualifying "community partners" such as current or retired law enforcement officers, educators, healthcare workers, military veterans and their surviving spouses, COVID-related essential workers, firefighters, and other first responders. For these community servants who qualify, the grants for down payment assistance range up to $15,000 and do not require a first-time home purchase.

"We'll be able to help first-time homebuyers reach their dreams of home ownership," says the bank's Executive Vice President Terry Baker. "We are pleased to be part of the solution for affordable housing in this region."

"We've always believed in Good News at Noon and its heart-filled mission to improve the lives of those all around us who are overlooked and truly in need."

-Mike Underwood, Peach State Bank

Good News at Noon's new headquarters will be located at 884 Dorsey Street. Its larger space will allow the program to have an even larger impact in addressing homelessness in Gainesville.

A Legacy of Service to Our Community

On behalf of Peach State Bancshares and Peach State Bank, we congratulate two of our board members – the **Honorable C. Andrew Fuller** and **Tracy Vardeman** – upon retirement from their distinguished professional careers in law and healthcare. Both have left an impactful legacy within their respective fields that will long benefit our region.

A charter member of the Peach State Bank Board, Andy served nearly 30 years as Superior Court Judge for the Northeastern Judicial Circuit, which covers Hall and Dawson counties. Tracy stepped down in 2023 as Chief Strategy Executive for Northeast Georgia Health System after a successful four-decade career in healthcare administration.

Prior to serving on the bench, Andy was an attorney in private practice in Gainesville after earning his law degree from Mercer Law School. His life of public service began in 1987, winning election as District Attorney for the Northeastern Circuit. In 1993, he stepped up to the Superior Court bench, where he was Chief Judge from 1998 to 2018. He will long be remembered for his service as Presiding Judge of the Hall County Re-Entry Accountability Court Transition program (REACT), which helps prepare non-violent offenders to become productive citizens.

On the healthcare front, Tracy played a key role in orchestrating the vision for NGHS and its network of hospitals across the region. Among Tracy's most prominent accomplishments were bringing open-heart surgery to our community in 2002 and later securing approval of the Braselton hospital in South Hall. She also was involved in Northeast Georgia Medical Center's merger with Lanier Park Hospital, expansion of ambulatory care throughout the region, development of a Graduate Medical Education program, and addition of the Gainesville hospital's North Patient Tower in 2009 as well as a future third tower planned for 2025.

In retirement, Andy and Tracy will most certainly remain active in the community, including their dedication to growing Peach State Bancshares and Peach State Bank as board members.

Thank you to both board members for their lifetime of service to Gainesville and Northeast Georgia.

Honorable C. Andrew Fuller

Tracy Vardeman

Board of Directors

STANDING (left to right):
Wesley Martin | Nancy Norton | Joe Hatfield | Ricky Presley | Tracy Vardeman | Andy Fuller

SEATED (left to right):
Steve McKibbon | Stewart Teaver | Ron Quinn | Clifton Hastings

Community Development Board

STANDING
Tony Herdener | Sandy Carter | Preston Bowen | Abit Massey | Elizabeth Higgins | Gary Funk

FRONT ROW
Steve Adams | Emily "Sissy" Lawson | John Wright

Future Leaders Board

BACK ROW (left to right):
Scott LeFevre | Stephen Pettit | John Baxter | Rachel Funk | Charlie Hawkins | Roland Stanley

FRONT ROW (left to right):
Mary Clark | Caroline Nix | Suzanne Cindea | Chase Quinn | Lorena Caudillo Juarez | Brian Hughs | Callie Hughs

FINANCIAL HIGHLIGHTS 2022

THIRD TIME'S A CHARM – ANOTHER 'BEST YEAR EVER'

In 2022, parent company **Peach State Bancshares** and **Peach State Bank & Trust** recorded record profits for the third consecutive year in a row, dating back to 2020.

NET EARNINGS increased by approximately 114 percent from $2.6 million, or 89 cents per share, in 2021 to earnings of $5.5 million, or $1.91 per share, in 2022. The increase was attributed to Peach State Bank's strategic positioning to take advantage of rapid increases in short-term interest rates in 2022.

NET INTEREST INCOME (for the 12 months ended December 31, 2022) increased 32.6 percent to $18.2 million, compared to net interest income of $13.7 million in 2021. The increase in earning asset balances during 2022 – along with the increase in interest rates – resulted in the bank's **NET INTEREST MARGIN** increasing to 3.11 percent for the twelve months ended December 31, 2022 (compared to 3.01 percent and 3.54 percent for the same time periods in 2021 and 2020, respectively).

TOTAL ASSETS increased by 8.7 percent from $557.2 million at the end of 2021 to $605.5 million at the end of 2022. Since year-end 2017, the five-year average annual growth rate of assets has been 25.2 percent.

CASH DIVIDENDS were increased by the Peach State Bancshares Board of Directors to 24 cents per share in 2022 – compared to 20 cents per share in 2021. The payout represented the seventh consecutive year of dividend payments – as well as a dividend increase in each year over the previous one during the same seven-year period. The Peach State Board is committed to paying cash dividends as future growth and earnings allow. In recognition of record 2022 earnings, the Company also paid a one-time special dividend of 10 cents per share in February 2023.

TOTAL DEPOSITS increased by 8.8 percent from $502.3 million at the end of 2021 to $546.5 million at the end of 2022.

NON-INTEREST-BEARING DEPOSITS totaled $222.1 million on December 31, 2022, compared to $157.8 million at the end of 2021, an increase of 40.7 percent.

The investment value of **DEBT SECURITIES** held by parent company Peach State Bancshares declined in 2022 as the Federal Reserve increased short term interest rates, creating unrealized losses. These unrealized losses, net of taxes, are reflected in stockholders' equity as **"Accumulated Other Comprehensive Loss" ("AOCI")**. These losses are only realized if the parent company sells investments before maturity. The after-tax AOCI on December 31, 2022 reflected a loss of $11.8 million, compared to a $746,000 loss at the end of 2021. These unrealized losses resulted in stockholder equity decreasing from $32.1 million ($11.09 per share) on December 31, 2021 to $26 million ($8.98 per share) at the end of 2022. Without AOCI, book value per share increased from $11.35 per share to $13.07 per share on December 31, 2022, and 2021, respectively.

Peach State Bancshares President & CEO, Ron Quinn, and Chairman, Stewart Teaver

The Board of Directors has issued dividend payments for the seventh consecutive year as well as a dividend increase in each of those years.

TIER 1 CAPITAL – Peach State Bank & Trust is well-capitalized under Prompt Corrective Action Provisions. The Bank's Tier 1 Capital at the end of 2022 was $60.8 million, or 9.7 percent of the bank's average assets, compared to $46.4 million or 8.6 percent at year-end 2021. (A minimum 5 percent ratio is considered "well-capitalized" under Prompt Corrective Action Provisions).

TOTAL CAPITAL, which includes a portion of Peach State Bank's allowance for loan losses, equaled $64.8 million or 17.5 percent of risk-weighted assets as of December 31, 2022 – compared to $50.1 million or 14.9 percent of risk-weighted assets on the same date in 2021. (A minimum 10 percent ratio is considered "well-capitalized" under Prompt Corrective Action Provisions). During 2022, Peach State's parent company sold $10 million in subordinated debt and contributed $7.5 million of the proceeds to Peach State Bank's capital. That contribution allowed the bank to maintain its growth rate without jeopardizing its capital position.

elliott davis

Independent Auditor's Report

Board of Directors
Peach State Bancshares, Inc.
Gainesville, Georgia

Opinion

We have audited the consolidated financial statements of Peach State Bancshares, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of earnings, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Elliott Davis, LLC

Greenville, South Carolina
January 30, 2023

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2022 and 2021

(Dollars in thousands)

	2022	2021
Assets		
Cash and due from banks, no reserve requirements for 2021 and 2022	$ 9,000	80,927
Interest-bearing deposits with other banks	17,797	2,382
Cash and cash equivalents	26,797	83,309
Investment in debt securities	210,813	133,878
Investment in equity securities	1,484	2,082
Federal Home Loan Bank stock	366	289
Mortgage loans held for sale	-	1,344
Loans, net	341,103	321,312
Premises and equipment, net	8,945	6,076
Bank owned life insurance	7,746	5,065
Accrued interest receivable and other assets	8,220	3,808
Total assets	$ 605,474	557,163
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$ 222,100	157,847
Interest-bearing	324,382	344,498
Total deposits	546,482	502,345
Federal reserve PPP liquidity facility	-	24
Other mortgage borrowings	-	651
Subordinated debentures, net of capitalized fees of $665 and $423	30,335	19,577
Accrued interest payable and other liabilities	2,696	2,500
Total liabilities	579,513	525,097
Stockholders' equity:		
Preferred stock, no par value; authorized 2,000,000 shares; no shares issued and outstanding	-	-
Common stock, $5 par value; authorized 10,000,000 shares; 2,902,002 issued and 2,890,652 outstanding	14,510	14,510
Additional paid-in capital	11,802	11,665
Retained earnings	11,579	6,751
Accumulated other comprehensive loss	(11,816)	(746)
Treasury stock at cost, 12,650 shares	(114)	(114)
Total stockholders' equity	25,961	32,066
Total liabilities and stockholders' equity	$ 605,474	557,163

See accompanying notes to consolidated financial statements.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

For the Years Ended December 31, 2022, 2021 and 2020

(Dollars in thousands, except per share amounts)

	2022	2021	2020
Interest and dividend income:			
Interest and fees on loans	$ 16,382	14,484	12,637
Interest on debt securities	3,574	739	825
Interest on tax-exempt debt securities	38	16	5
Interest and dividends – other	612	207	249
Total interest and dividend income	20,606	15,446	13,716
Interest expense:			
Interest expense – deposits	1,190	708	1,082
Interest expense – borrowings	1,255	1,039	405
Total interest expense	2,445	1,747	1,487
Net interest income	18,161	13,699	12,229
Provision for loan losses	248	981	717
Net interest income after provision for loan losses	17,913	12,718	11,512
Other income:			
Service charges on deposit accounts	193	210	171
Mortgage origination income	805	1,247	865
Gain on sales of debt securities, net	-	16	11
(Losses) gains recognized on equity securities, net	(293)	270	-
Gains on sale of premises and equipment	620	-	-
Other	832	715	451
Total other income	2,157	2,458	1,498
Other expenses:			
Salaries and employee benefits	8,050	7,765	6,265
Occupancy and equipment	874	764	546
Outside services	392	359	310
Information technology	1,305	1,090	960
Other	2,088	1,891	1,517
Total other expenses	12,709	11,869	9,598
Earnings before income taxes	7,361	3,307	3,412
Income tax expense	(1,839)	(726)	(803)
Net earnings	$ 5,522	2,581	2,609
Earnings per common share	$ 1.91	.89	.90
Diluted earnings per common share	$ 1.82	.86	.86
Dividends per common share	$ 0.24	0.20	0.16

See accompanying notes to consolidated financial statements.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2022, 2021 and 2020

(Dollars in thousands)

	2022	2021	2020
Net earnings	$ 5,522	2,581	2,609
Other comprehensive (loss) income, net of tax:			
Unrealized (losses) gains on debt securities available-for-sale:			
Holding (losses) gains arising during the period, net of taxes of $3,641, $370, and $184	(11,070)	(1,095)	545
Reclassification adjustments for gains included in earnings, net of taxes of $0, $4, and $3	-	(12)	(8)
Other comprehensive (loss) income	(11,070)	(1,107)	537
Total comprehensive (loss) income	$ (5,548)	1,474	3,146

See accompanying notes to consolidated financial statements.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2022, 2021 and 2020

(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance, December 31, 2019	$ 14,510	11,460	2,601	(176)	(127)	28,268
Other comprehensive income	-	-	-	537	-	537
Stock option expense	-	88	-	-	-	88
Net sales of 1,300 shares of Treasury stock	-	4	-	-	13	17
Net earnings	-	-	2,609	-	-	2,609
Cash dividends, $0.16 per share	-	-	(462)	-	-	(462)
Balance, December 31, 2020	14,510	11,552	4,748	361	(114)	31,057
Other comprehensive loss	-	-	-	(1,107)	-	(1,107)
Stock option expense	-	113	-	-	-	113
Net earnings	-	-	2,581	-	-	2,581
Cash dividends, $0.20 per share	-	-	(578)	-	-	(578)
Balance, December 31, 2021	14,510	11,665	6,751	(746)	(114)	32,066
Other comprehensive loss	-	-	-	(11,070)	-	(11,070)
Stock option expense	-	137	-	-	-	137
Net earnings	-	-	5,522	-	-	5,522
Cash dividends, $0.24 per share	-	-	(694)	-	-	(694)
Balance, December 31, 2022	$ 14,510	11,802	11,579	(11,816)	(114)	25,961

See accompanying notes to consolidated financial statements.

Peach State Bancshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2022, 2021 and 2020

(Dollars in thousands)

		2022	2021	2020
Cash flows from operating activities:				
Net earnings	$	5,522	2,581	2,609
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation, amortization, accretion		376	2,402	1,243
Stock option compensation expense		137	113	88
Deferred income tax		(3)	(312)	(175)
Provision for loan losses		248	981	717
Increase in cash surrender value of bank owned life insurance		(181)	(76)	-
(Gain) on sales of debt investment securities		-	(16)	(11)
(Gain) on sales of equity investment securities		(4)	(254)	-
Loss (gain) on equity investment securities		297	(16)	-
(Gain) on sales of premises and equipment		(620)	-	-
Change in:				
Mortgage loans held for sale		1,344	(464)	430
Accrued interest receivable and other assets		(1,129)	(24)	(331)
Accrued interest payable and other liabilities		199	(473)	967
Net cash provided by operating activities		6,186	4,442	5,537
Cash flows from investing activities:				
Purchases of debt investment securities		(113,865)	(70,013)	(96,380)
Proceeds from maturities and paydowns of debt securities		21,194	24,511	29,536
Proceeds from sales of debt securities		-	6,418	2,093
Purchase of equity securities		(1,036)	(7,234)	-
Proceeds from sales of equity securities		1,341	5,422	-
Proceeds (purchases) of Federal Home Loan Bank Stock, net		(77)	41	(39)
Purchase of Bank Owned Life Insurance		(2,500)	(5,000)	-
Net increase in loans		(20,039)	(71,691)	(57,394)
Proceeds from sales of other real estate properties and repossessions		-	-	404
Proceeds from sales of premises and equipment		6,813	-	-
Purchases of premises and equipment		(8,055)	(260)	(1,134)
Net cash used in investing activities		(116,224)	(117,806)	(122,914)
Cash flows from financing activities:				
Net increase in deposits		44,137	158,241	118,384
Purchase of deposits		-	-	(3,079)
Proceeds (repayment) of other mortgage borrowings, net		(651)	(23)	(21)
Net (decrease) in repurchase agreements		-	-	(3,141)
(Repayments) proceeds from Federal Reserve PPP facility, net		(24)	(15,660)	15,684
Proceeds from sale of subordinated debentures, net		11,000	16,000	-
Capitalized subordinated debenture costs		(242)	(462)	-
Common stock dividends		(694)	(578)	(462)
Sale of treasury stock		-	-	17
Net cash provided by financing activities		53,526	157,518	127,382
Net change in cash and cash equivalents		(56,512)	44,154	10,005
Cash and cash equivalents at beginning of year		83,309	39,155	29,150
Cash and cash equivalents at end of year	$	26,797	83,309	39,155
Supplemental disclosures of cash flow information and noncash activities:				
Cash paid for interest	$	1,221	754	1,481
Cash paid for subordinate debenture interest	$	1,223	965	280
Cash paid for income taxes	$	1,821	977	922
Change in unfunded consumer loans	$	-	-	(56)
Change in unrealized (loss) gain on debt securities available-for-sale, net of tax	$	(11,070)	(1,107)	537

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Nature of Operations

Peach State Bancshares, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Peach State Bank & Trust (the "Bank"). The Bank is a community oriented commercial bank with emphasis on retail banking and offers such customary banking services as consumer and commercial checking accounts, savings accounts, certificates of deposit, commercial and consumer loans, money transfers and a variety of other banking services. The Bank, which opened to the public April 27, 2005, has two banking offices in Gainesville (Hall County), and Braselton (Gwinnett County) Georgia, and conducts its banking activities primarily in Hall, Gwinnett and surrounding counties. The Bank is chartered and regulated by the Georgia Department of Banking and Finance ("DBF") and is insured and subject to regulation by the Federal Deposit Insurance Corporation ("FDIC").

The Company received approval from the Federal Reserve Bank of Atlanta ("FRB") on January 11, 2017, for the reorganization of the Bank into a bank holding company structure. Under the agreement of reorganization (the "Agreement"), which was approved in 2017 by the stockholders of the Bank and was effective February 1, 2017, the Bank became a wholly owned subsidiary of Peach State Bancshares, Inc. Each share of Bank common stock issued and outstanding was converted into and exchanged for the right to receive one share of Company common stock. After the share exchange, the Company became the holding company for the Bank, and the Bank is the Company's only significant asset. Prior to formation, the Company had no assets or liabilities and had not conducted any business activities. Accordingly, the financial statements for periods prior to formation relate solely to the Bank.

On September 6, 2019, the Company and the Bank capitalized a Limited Liability Corporation, 622 Main, LLC (the "LLC"), for the purpose of acquiring real estate for future expansion. The operations of the LLC are 100% consolidated in the Bank. In October of 2022, after the sale of several pieces of real estate to be used for the future expansion, the LLC was not utilized further.

On April 13, 2020, the Bank capitalized a Limited Liability Corporation, 322 Spring, LLC (the "Mortgage LLC"), for the purpose of acquiring real estate for mortgage expansion. The operations of the LLC were 100% consolidated in the Bank. After the completion of the Mortgage building construction in the 4th Quarter of 2020, the Mortgage LLC was not utilized further.

Recent Accounting Changes

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments were originally effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. In May 2020, in response to the global COVID-19 pandemic, the FASB voted to delay the effective date of this guidance to fiscal years beginning after December 15, 2021, and early adoption is permitted. On January 1, 2022, the Company adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. The standard was adopted under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including: carry over of historical lease determination and lease classification conclusions, carry over of historical initial direct cost balances for existing leases, and accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component.

Adoption of the leasing standard had no material financial impact to the Company. There was no material impact to the timing of expense or income recognition in the Company's Consolidated Income Statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note 4 – Premises and Equipment.

(1) Summary of Significant Accounting Policies, continued

Recent Accounting Changes, continued

ASU 2016-13 - *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the current incurred loss approach with an expected loss model, referred to as the current expected credit loss ("CECL") model. The new standard will apply to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 expands the disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2022. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative effect adjustment to equity as of the beginning of the period in which the guidance is effective.

The Company is finalizing its evaluation of the adoption of this ASU. The Company to date has selected the software vendor of choice for implementation, sourced and tested required data from the Company's loan systems, tested data feeds to the model, contracted for and received results from independent third parties of model validation and internal audit of the CECL model and process, determined appropriate segmentations of its portfolio, selected a preliminary forecast period for reasonable and supportable forecasts and reversion methodology, and has performed parallel runs of the model. The Company is currently finalizing its assessment of current and forecasted macroeconomic factors and assumptions and testing and finalization of internal controls. The Company currently estimates the financial statements to be impacted by a range of $1 million and $2 million. The Company will finalize the adoption during the first quarter of 2023.

ASU 2022-02 – Applicable to entities that hold financial assets and net investments in leases that are not accounted for at fair value through net income: in March 2022, the FASB issued amendments which are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings, and write-offs. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

Inapplicable Industry Matters

Certain matters often found in depository and commercial banking institutions financial statements and accompanying disclosures do not apply to the Company and the Bank. Additionally, there is no detailed and prominent disclosure in the financial statements of matters that management has determined to be insignificant to its operations. Matters that either do not apply or are insignificant include the following:

- Held to Maturity Securities
- Loan Participations Purchased and Sold
- Foreclosed Property and Other Real Estate
- Derivative Instruments
- Mortgage Servicing Rights
- Pensions

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Peach State Bank & Trust. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accounting principles followed by the Company and the methods of applying these principles conform with accounting principles generally accepted in the United States of America "GAAP" and

(1) Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

with general practices within the banking industry. In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans, and valuation allowances associated with deferred tax assets, the recognition of which is based on future taxable income.

Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the consolidated financial statements through January 30, 2023, the date on which the consolidated financial statements were available to be issued.

Reclassification

Certain 2021 amounts have been reclassified to conform to the presentation used in 2022. These reclassifications had no effect on the operations, financial condition nor cash flows of the Company.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company includes cash and due from banks, interest-bearing deposits with other banks, and cash held by fiduciaries for 1031 purposes.

Investment in Debt Securities

Debt securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on debt securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized.

Management evaluates investment debt securities for other-than-temporary impairment on an annual basis. A decline in the market value of any investment below cost that is deemed other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses for securities classified as available-for-sale are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Investment in Equity Securities

Equity securities are recorded at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Federal Home Loan Bank Stock

The Federal Home Loan Bank ("FHLB") stock is an investment that does not have a readily determinable fair value and is carried at cost. The Company is required to hold the FHLB stock as a member of the FHLB and transfer of the stock is substantially restricted.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the aggregate cost unless they are held for greater than (30) thirty days. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes in the valuation allowance are included in the determination of net earnings of the period in which the change occurs. At December 31, 2022 and 2021, there was no valuation allowance associated with mortgage loans held for sale.

(1) Summary of Significant Accounting Policies, continued

Loans, Loan Fees and Interest Income on Loans

Loans are stated at the principal amount outstanding, net of the allowance for loan losses and unearned loan fees. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged to interest income on loans. Generally, payments on nonaccrual loans are applied to principal.

A loan is considered impaired when it is probable, based on current information and events, the Bank will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, less estimated selling costs, if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

Loan fees, net of certain origination costs, are deferred and amortized over the lives of the respective loans.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collection of the principal is unlikely. The allowance represents an amount, which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible.

Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality, and review of specific problem loans. In determining the adequacy of the allowance for loan losses, management separates the loan portfolio into two portions. The first portion is comprised of loans considered impaired. Management assigns the allocations of loss based on their estimates of potential loss, which are principally based on discounted collateral deficiencies. The second portion of the allowance is comprised of loans, by type, not considered impaired nor in need of specific reserve. Loans not included in the first portion of the allowance are stratified by type and allocated loss ranges based on the Bank's loss history, as well as other qualitative factors and risk characteristics. The combination of these results is compared quarterly to the recorded allowance for loan losses and material differences are adjusted by increasing or decreasing the provision for loan losses.

Management uses an outsourced independent loan review specialist to corroborate and challenge the internal loan grading system and methods used to determine the adequacy of the allowance for loan losses.

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such regulators may require additions to the allowance based on their judgments of information available to them at the time of their examination.

(1) Summary of Significant Accounting Policies, continued

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the related asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs which do not improve or extend the useful life of the respective asset is charged to income as incurred, whereas significant renewals and improvements are capitalized. The estimated useful life for the building is 40 years and the range of useful lives for furniture and equipment is 3-10 years.

Bank-Owned Life Insurance

Life insurance policies were purchased by the Bank on certain employees. These policies are recorded at their cash surrender value or realizable amounts. Income from these policies and changes in the cash surrender value are recorded in noninterest income. The Bank is the named beneficiary for each policy in an amount equal to the death benefit less an amount equal to the insured employee's annual salary, except for executive officers. In 2021 and 2022, the Bank purchased $5,000,000 and $2,500,000, respectively of life insurance policies. During 2021 and 2022, income recorded from the purchased life insurance policies was approximately $65,000 and $181,000, respectively.

Income Taxes

The Company uses the liability method of accounting for income taxes which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Additionally, this method requires the recognition of future tax benefits, such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled.

In the event the future tax consequences of differences between the financial reporting basis and the tax basis of the Company's assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realization of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and all evidence available, both positive and negative, which is objectively verifiable. Deferred tax valuation assessments require significant amounts of judgment. GAAP requires the more likely than not criteria (a likelihood of 50% or more) to be used; however, the likelihood is not possible to be expressed in purely mathematical terms. Highly subjective information about future events heavily factor into the conclusion as to whether the more likely than not criteria can be achieved.

The Company currently evaluates uncertainty in income tax positions. GAAP requires that a loss contingency reserve be accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred, and the amount of such loss can be reasonably estimated.

Net Earnings Per Common Share

Basic and dilutive earnings per share for 2022 are based on 2,890,652 and 3,026,664 weighted average shares outstanding and weighted average shares outstanding including common stock equivalents, respectively. The Company has issued options, which represent potential common shares.

Stock-Based Compensation

The Company has a stock-based compensation plan which is described more fully in Note 8. The Company accounts for this plan using a fair value-based method of accounting whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The cost associated with share-based payments (stock

(1) Summary of Significant Accounting Policies, continued

Stock-Based Compensation, continued

options) for the years ended December 31, 2022, 2021 and 2020 was approximately $137,000, $113,000, and $88,000, respectively. Total unrecognized compensation costs at December 31, 2022, was approximately $201,000. There was 15,000 options granted in 2022 and 54,750 options granted in 2021.

The fair value of each option granted in 2022 and 2021 is estimated using the Black-Scholes valuation model that uses the assumptions noted in the table below. Expected volatility is based on observations of publicly traded community bank stocks due to the limited historical and supportable information related to the Company's own stock. The calculation considers historical data and peer group data to estimate option exercises and employee terminations within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2022	2021
Weighted average fair value	$5.74	$3.46
Dividend yield	1.40%	1.19%
Risk-free interest rate	2.81%	0.82%
Expected life	7.5 Years	7.5 Years
Volatility	24.93%	24.93%

Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of the after-tax effect of changes in unrealized gains and losses on investment securities available-for-sale.

(2) Investment Securities

Securities available-for-sale at December 31, 2022 and 2021 are as follows (in thousands):

December 31, 2022:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored enterprises	$ 104,045	21	4,429	99,637
State, county and municipal securities	4,506	-	329	4,177
Corporate debt securities	2,697	-	159	2,538
Mortgage-backed securities	114,958	18	10,515	104,461
Total investment securities	$ 226,206	39	15,432	210,813
December 31, 2021:				
U.S. Government sponsored enterprises	$ 30,078	72	150	30,000
State, county and municipal securities	3,470	10	30	3,450
Corporate debt securities	250	-	-	250
Mortgage-backed securities	101,078	240	1,140	100,178
Total investment securities	$ 134,876	322	1,320	133,878

The amortized cost and estimated fair value of securities available-for-sale as of December 31, 2022 by contractual maturity are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalty.

(2) Investment Securities, continued

Therefore, these securities are not included in the maturity categories in the following summary (in thousands).

		Amortized Cost	Estimated Fair Value
Due in less than one year	$	37,980	37,363
Due after one year through five years		48,540	46,149
Due after five years through ten years		13,804	12,493
After ten years		10,924	10,347
Mortgage-backed securities		114,958	104,461
	$	226,206	210,813

Investments with an estimated fair value of approximately $18,432,000 and $6,028,000, were pledged as collateral for public deposits, retail repurchase agreements and to secure borrowings at December 31, 2022 and 2021, respectively.

The following table summarizes securities sales activity and net gains (losses) for the years ended December 31, 2022, 2021, and 2020 (in thousands):

		2022	2021	2020
Proceeds from sales	$	-	6,418	2,093
Gross gains		-	91	11
Gross losses		-	(75)	-
Net gain on sales of securities available-for-sale	$	-	16	11

Securities available-for-sale with gross unrealized losses at December 31, 2022 and 2021 aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows (in thousands):

		Less than 12 Months		12 Months or More	
December 31, 2022:		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government sponsored enterprises	$	78,053	2,058	19,386	2,371
State, county and municipal securities		1,330	82	2,847	247
Corporate debt securities		2,324	123	214	36
Mortgage-backed securities		41,474	2,606	59,470	7,909
Total temporarily impaired securities	$	123,181	4,869	81,917	10,563
December 31, 2021:					
U.S. Government sponsored enterprises	$	10,364	87	1,292	63
State, county, and municipal securities		2,145	30	-	-
Mortgage-backed securities		62,285	891	13,185	249
Total temporarily impaired securities	$	74,794	1,008	14,477	312

At December 31, 2022, unrealized losses in the investment portfolio related to debt securities. The unrealized losses on the debt securities arose due to changing interest rates and market conditions and are considered to be temporary because of acceptable investment grades or where the repayment sources of principal and interest are largely backed by U.S. government sponsored agencies. At December 31, 2022, 53 (fifty three) of 55 (fifty five) U.S. government sponsored enterprises securities, 5 (five) of 5 (five) state, county, and municipal securities, 4 (four) of 4 (four) corporate debt securities, and 103 (one hundred and three) of 107 (one hundred and seven) mortgage-backed securities contain unrealized losses. The Bank does not intend to sell the

(2) Investment Securities, continued

investments and it is not likely that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity.

At December 31, 2021 and 2022, the Company held approximately $2,082,000 and $1,484,000 in equity investment securities, respectively. During 2021, the Company sold approximately $5,422,000 equity investment securities resulting in net gains of approximately $254,000. In addition, the Company recognized net gains of approximately $16,000 related to the change in market values in 2021. During 2022, the Company sold approximately $1,341,000 equity investment securities for a net gain of approximately $4,000. Conversely, the Company recognized net losses of approximately $297,000 related to the change in market values in 2022.

(3) Loans and Allowance for Loan Losses

Major classifications of loans, by purpose code, at December 31, 2022 and 2021 are summarized as follows (in thousands):

	2022	2021
Commercial	$ 20,496	21,776
Commercial real estate:		
Land development and construction	76,818	60,175
Non-owner occupied	101,806	94,991
Owner occupied	44,704	50,786
Residential real estate	97,907	88,003
Consumer	3,823	4,585
Paycheck Protection Program (PPP)	-	5,199
	345,554	325,515
Less: Unearned fees	475	483
Allowance for loan losses	3,976	3,720
Net loans	$ 341,103	321,312

The Bank grants loans and extensions of credit to individuals and a variety of firms and corporations located primarily in Hall and surrounding counties in the State of Georgia. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

The Bank makes loans to individuals and small businesses for various personal and commercial purposes primarily in Hall and surrounding counties in Northeast Georgia. The Bank's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. The principal component of the loan portfolio is loans secured by real estate which account for approximately 93% of total loans as of December 31, 2022. Commercial real estate loans comprise approximately 79% of total real estate loans and consumer loans account for approximately 21%. Commercial real estate loans are further categorized into owner occupied, which represents approximately 13% of total loans. Non-owner-occupied loans represent approximately 30%. Land development and construction loans represent approximately 23% of the total loan portfolio.

In 2021 and 2020, the Bank participated in the Small Business Association's ("SBA") Paycheck Protection Program ("PPP"). The Paycheck Protection Program was created to provide aid to businesses directly impacted by the COVID-19 pandemic. The Bank funded approximately 300 loans totaling approximately $34,165,000 in 2020, and 138 loans totaling approximately $12,922,000 in 2021. As of December 31, 2022, and 2021, the balance of PPP loans yet to be forgiven by the SBA is approximately $0 and $5,199,000, respectively. The economic impact on businesses and individuals from the COVID-19 pandemic has been catastrophic to many. During the second and third quarter of 2020, the Bank provided lending extensions to approximately $27,450,000 of loans. However, as of December 31, 2022 and 2021, all extensions have returned to proper principal and interest payment terms.

(3) Loans and Allowance for Loan Losses, continued

The following tables present the balance in the allowance for loan losses and the recorded investment by portfolio segment and based on impairment method as of December 31, 2022, 2021 and 2020 (in thousands):

December 31, 2022:	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Paycheck Protection Program	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 177	2,317	991	84	-	151	3,720
Provision for (recovery of) loan losses	13	112	98	(18)	-	43	248
Charge-offs	-	-	-	(37)	-	-	(37)
Recoveries	-	-	36	9	-	-	45
Ending balance	$ 190	2,429	1,125	38	-	194	3,976
Ending balance individually evaluated for impairment	$ -	-	-	-	-	-	-
Ending balance collectively evaluated for impairment	190	2,429	1,125	38	-	194	3,976
	$ 190	2,429	1,125	38	-	194	3,976
Loans:							
Individually evaluated for impairment	$ 3	-	-	-	-	-	3
Collectively evaluated for impairment	20,493	223,328	97,907	3,823	-	-	345,551
	$ 20,496	223,328	97,907	3,823	-	-	345,554

December 31, 2021:	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	PPP	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 185	1,566	668	138	-	246	2,803
Provision for (recovery of) loan losses	(8)	751	292	41	-	(95)	981
Charge-offs	-	-	-	(115)	-	-	(115)
Recoveries	-	-	31	20	-	-	51
Ending balance	$ 177	2,317	991	84	-	151	3,720
Ending balance individually evaluated for impairment	$ -	-	-	-	-	-	-
Ending balance collectively evaluated for impairment	177	2,317	991	84	-	151	3,720
	$ 177	2,317	991	84	-	151	3,720
Loans:							
Individually evaluated for impairment	$ 13	-	-	-	-	-	13
Collectively evaluated for impairment	21,763	205,952	88,003	4,585	5,199	-	325,502
	$ 21,776	205,952	88,003	4,585	5,199	-	325,515

(3) Loans and Allowance for Loan Losses, continued

December 31, 2020:	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	PPP	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 235	1,108	500	246	-	108	2,197
Provision for (recovery of) loan losses	(74)	458	166	29	-	138	717
Charge-offs	-	-	-	(178)	-	-	(178)
Recoveries	24	-	2	41	-	-	67
Ending balance	$ 185	1,566	668	138	-	246	2,803
Ending balance individually evaluated for impairment	$ -	-	-	-	-	-	-
Ending balance collectively evaluated for impairment	185	1,566	668	138	-	246	2,803
	$ 185	1,566	668	138	-	246	2,803
Loans:							
Individually evaluated for impairment	$ 265	-	88	-	-	-	353
Collectively evaluated for impairment	23,247	145,209	61,581	7,877	15,488	-	253,402
	$ 23,512	145,209	61,669	7,877	15,488	-	253,755

The Bank individually evaluates all nonaccrual loans for impairment. Additionally, all troubled debt restructurings are individually evaluated for impairment. A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include loans modified in troubled debt restructuring where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate of the loan, payment extensions, forgiveness of principal, forbearance for other actions intended to maximize collection.

On December 31, 2022, the Bank had approximately $3,000 of unpaid principal balances, $3,000 recorded investments, and $3,000 average recorded investments of commercial impaired loans with no related allowance and less than $1,000 in interest income recognized. On December 31, 2021, the Bank had approximately $13,000 of unpaid principal balances, $13,000 recorded investments, and $18,000 average recorded investments of commercial impaired loans with no related allowance and approximately $1,000 in interest income recognized. There were no commercial real estate, residential real estate nor consumer impaired loans.

The following tables present the aging of the recorded investment in past due loans, as well as the recorded investment in nonaccrual loans as of December 31, 2022 and 2021 by segment (in thousands):

December 31, 2022:	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total	Non-accrual
Commercial	$ -	-	-	-	20,496	20,496	-
Commercial real estate:							
Land, development and construction	-	-	-	-	76,818	76,818	-
Non-owner occupied	-	-	-	-	101,806	101,806	-
Owner occupied	-	-	-	-	44,704	44,704	-
Residential real estate	-	-	-	-	97,907	97,907	-
Consumer	-	7	-	7	3,816	3,823	-
Paycheck protection program	-	-	-	-	-	-	-
Total	$ -	7	-	7	345,547	345,554	-

(3) Loans and Allowance for Loan Losses, continued

December 31, 2021:		30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total	Non-accrual
Commercial	$	-	-	-	-	21,776	21,776	-
Commercial real estate:								
Land, development and construction		-	-	-	-	60,175	60,175	-
Non-owner occupied		-	-	-	-	94,991	94,991	-
Owner occupied		-	-	-	-	50,786	50,786	-
Residential real estate		-	-	-	-	88,003	88,003	-
Consumer		7	3	11	21	4,564	4,585	-
Paycheck protection program		-	-	-	-	5,199	5,199	-
Total	$	7	3	11	21	325,494	325,515	-

There were no loans greater than 90 days past due and accruing as of December 31, 2022 and 2021, other than $0 and $11,000 of consumer loans, respectively, that are not placed on non-accrual until they are greater than 120 days past due. There were no new troubled debt restructurings during the year ended December 31, 2022 or 2021.

The Bank did not allocate any specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022 and 2021. The Bank had no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2022 and 2021. As of December 31, 2022, all troubled debt restructurings are being paid in accordance with their modified terms.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Bank analyzes non-consumer loans individually by classifying the loans as to credit risk. This analysis is performed on at least an annual basis. Consumer loans are categorized based on the performance of the loan. Unless the Bank is aware of extenuating circumstances, a consumer loan is deemed substandard once it becomes sixty (60) days past due and a loss once it reaches one hundred twenty (120) days past due. The Bank uses the following definitions for its risk ratings:

Pass and Special Mention. Pass loans are various grades of loans in which the probability of default is considered low. Loans classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date. Special mention loans are not considered adversely classified as they do not expose the Bank to sufficient risk to warrant an adverse classification.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

Loss. Loans that are categorized as Loss have the same characteristics as Doubtful; however, probability of loss is certain. Loans classified as such are generally charged-off or charged down to the fair market value minus estimated costs of selling.

Loans rated substandard, doubtful or loss are considered by management and bank regulatory authorities to be adversely classified assets. As of December 31, 2022, and 2021, and based on the most recent analysis performed, all loans were pass and special mention with no loans rated substandard, doubtful nor loss.

(4) Premises and Equipment

Premises and equipment at December 31, 2022 and 2021, are summarized as follows (in thousands):

	2022	2021
Land and land improvements	$ 2,444	3,457
Building	3,627	3,280
Equipment and furniture, and construction in progress	5,432	3,212
	11,503	9,949
Less: Accumulated depreciation	2,558	3,873
	$ 8,945	6,076

Depreciation expense was approximately $341,000, $381,000, and $319,000, for the years ended December 31, 2022, 2021, and 2020, respectively.

On October 21, 2022, the Company sold the main office, mortgage office, and two adjacent properties. The net proceeds from the sale of the properties was approximately $4,575,000 resulting in net gains of approximately $620,000. The Company elected to designate approximately $4,558,000 of the proceeds from the sale of the properties for 1031 exchange purposes. On March 15, 2022, the Company purchased a building and land for approximately $5,800,000, to house the main office, operations, and mortgage. Therefore, construction and remodeling of the new building began in August of 2022 resulting in renovation costs and equipment purchases of approximately $2,255,000.

At December 31, 2022, the scheduled lease obligations related to office space is approximately $64,000 during 2023, with no lease obligations after December 31, 2023.

(5) Deposits

The aggregate amount of time deposits, with a minimum denomination of $250,000, was approximately $12,631,000 and $15,248,000 at December 31, 2022 and 2021, respectively.

At December 31, 2022, the scheduled maturities of time deposits are as follows (in thousands):

2023	$ 20,589
2024	6,009
2025	2,399
2026	978
2027	1,035
Total	$ 31,010

At December 31, 2022, the Bank had one (1) significant customer deposit relationships with related parties in multiple accounts, with total deposit balances of approximately $38,636,000. At December 31, 2021, the Bank had one (1) significant customer deposit relationships with related parties in multiple accounts, with total deposit balances of approximately $31,571,000.

On August 28, 2020, the Bank purchased approximately $3,079,000 in deposit accounts from First Century Bank, NA, resulting in the recognition of a core deposit intangible at the time of acquisition. At December 31, 2022, the core deposit intangible associated with the acquired deposits is approximately $182,000 and included within accrued interest receivable and other assets on the consolidated balance sheet. The core deposit intangible asset is being amortized on an accelerated basis over ten years. Amortization as of December 31, 2022 and 2021 was approximately $41,000 and $50,000, respectively.

(6) Borrowings

At December 31, 2022, all borrowings of approximately $31,000,000 have a scheduled maturity of 2027 and thereafter.

On December 22, 2017, the Company issued $4,000,000 in five-year Subordinated Debentures to directors and executive officers (the Debentures) at a fixed rate of 7%. The proceeds of the offering, net of offering costs of approximately $2,000, were approximately $3,998,000. The Company injected $3,500,000 of the proceeds from the offering into the Capital of the Bank with the remainder of the proceeds available for general corporate purposes. Interest on the debentures is payable monthly and the amount of interest expensed in 2022 and 2021 was approximately $280,000. On December 22, 2022, the directors and executive officers renewed the original $4,000,000 in five-year Subordinated Debentures and (2) two of the directors added an additional $1,000,000 in five-year Subordinated Debentures at a fixed rate of 7%.

On September 6, 2019 the LLC paid $800,000 for land and building, adjacent to its current office, for future expansion. The LLC paid $100,000 in cash and the seller owner financed $700,000 at a fixed rate of 5%, payable in fifty-nine equal monthly installments of principal and interest with a final payment date of October 1, 2024. On October 31, 2022, the LLC was dissolved with the sale of the land and building adjacent to the current office and the note was paid off.

On September 18, 2022, the Company entered into a loan agreement with a bank for a $1.5 million unsecured revolving line of credit for general corporate purposes. The term of the line is for one year at an interest rate of prime. The Company has agreed to certain financial covenants as a condition of the loan including agreeing to not pledge the stock of the Bank during the term of the line. Interest is payable monthly. At December 31, 2022 and 2021, there was not an outstanding balance on the line and there were no advances on the line in 2022 and 2021.

On January 28, 2021, the Company completed the offering and sale of $9.5 million, in aggregate principal amount, of its 4.25% no-call, fixed-to-floating rate subordinated notes due 2031 (the “2031 subordinated notes”), and $6.5 million, in aggregate principal amount, of its 4.5% no-call, fixed-to-floating rate subordinated notes due 2036 (the “2036 subordinated notes”). The 2031 subordinated notes will mature on January 28, 2031, and through January 27, 2026 will bear a fixed rate of interest of 4.25% per annum, payable quarterly. Beginning January 28, 2026, the interest rate on the 2031 subordinated notes resets quarterly to a floating rate per annum equal to the then-current 3-month SOFR plus 3.92%, payable quarterly. The 2036 subordinated notes will mature on January 28, 2036, and through January 27, 2031, will bear a fixed rate of interest of 4.5% per annum, payable quarterly. Beginning January 28, 2031, the interest rate on the 2036 subordinated notes resets quarterly to a floating rate per annum equal to the then current 3-month SOFR plus 3.64%, payable quarterly. The proceeds of the offering, net of offering costs of approximately $640,000, were approximately $15,360,000. The Company injected $11,000,000 of the proceeds from the offering into the Capital of the Bank with the remainder of the proceeds available for general corporate purposes. Interest expensed in 2022 totaled approximately $943,000 and the expense related to the amortization of capitalized offering costs were approximately $64,000.

On September 16, 2022, the Company completed the offering and sale of $10 million, in aggregate principal amount, of its 6.25% no-call, fixed-to-floating rate subordinated notes due 2032 (the “2032 subordinated notes”). The 2032 subordinated notes will mature on September 15, 2032, and through September 15, 2027 will bear a fixed rate of interest of 6.25% per annum, payable semi-annually. Beginning September 16, 2027, the interest rate on the 2032 subordinated notes resets quarterly to a floating rate per annum equal to the then-current 3-month SOFR plus 3.07%, payable semi-annually. The proceeds of the offering, net of offering costs of approximately $297,000, were approximately $9,703,000. The Company injected $7,500,000 of the proceeds from the offering into the Capital of the Bank with the remainder of the proceeds available for general corporate purposes. Interest expensed in 2022 totaled approximately $188,000 and the expense related to the amortization of capitalized offering costs were approximately $15,000.

(7) Borrowings, continued

At December 31, 2022 and 2021, the Bank had borrowing capacity with the Federal Home Loan Bank (FHLB) of approximately $149,665,000 and $129,127,000, respectively. There were no outstanding obligations with the FHLB as of December 31, 2022 or 2021.

The Bank participates in the Federal Reserve Bank ("FRB") of Atlanta's discount window program. The Bank's borrowing capacity at December 31, 2022 and 2021 under this arrangement was approximately $26,602,000 and $10,763,000, respectively. The Bank had approximately $11,615,000 and $6,082,000, of residential real estate loans pledged to maintain borrowing capacity as of December 31, 2022 and 2021, respectively. There were no amounts outstanding at December 31, 2022 or 2021.

The Bank participates in the FRB PPP liquidity facility program to fund PPP loans. The Bank's borrowing capacity, value of PPP loans pledged to maintain borrowing capacity, and outstanding balance at December 31, 2022 and 2021 was approximately $0 and $24,000, respectively. These borrowings have a fixed interest rate of 0.35% and a maturity date equal to the maturity date of the related PPP loans, with the PPP loans maturing either two or five years from the origination date of the PPP loan.

The Bank has unsecured Federal Funds lines of credit with five (5) correspondent banks with aggregate borrowing capacity of $181,500,000.

(7) Income Taxes

The components of income tax expense for the years ended December 31, 2022, 2021 and 2020 are as follows (in thousands):

	2022	2021	2020
Current or Alternative minimum tax	$ 1,842	1,038	978
Deferred	(3)	(312)	(175)
	$ 1,839	726	803

The difference between income tax expense and the amount computed by applying the statutory federal income tax rate to earnings before income taxes for the years ended December 31, 2022, 2021 and 2020 is as follows (in thousands):

	2022	2021	2020
Pretax earnings at statutory rate - 21%	$ 1,545	694	717
State income tax, net	134	(9)	82
Other	160	41	4
	$ 1,839	726	803

(7) Income Taxes, continued

The components of deferred income taxes at December 31, 2022 and 2021 are as follows (in thousands):

	2022	2021
Deferred income tax assets:		
Allowance for loan losses	$ 1,016	702
Unrealized losses on investment securities	3,894	253
Accrued Incentive	252	249
Other	175	81
Deferred compensation plan	232	178
Total gross deferred income tax assets	5,569	1,463
Deferred income tax liabilities:		
Unrealized gain on investment securities	-	-
Premises and equipment	(701)	(241)
Other	(9)	(7)
Total gross deferred income tax liabilities	(710)	(248)
Net deferred income taxes	$ 4,859	1,215

As of December 31, 2022, the Company had no remaining loss carryforwards. Additionally, at December 31, 2022, the 2019 through 2021 tax years were open to examination though no examinations are in process.

(8) Stockholders' Equity

On August 31, 2019 the Company closed a private placement of 581,479 shares of its common stock at a price of $12.50 per share, resulting in an increase to stockholders' equity of $7,218,000, net of $50,000 in offering expenses. During the third quarter of 2019, the Company contributed $4 million of the proceeds from the offering to the Capital of the Bank.

The Board of Directors has approved the reservation of 500,000 shares of common stock for use in a stock option plan for the benefit of directors, key officers and employees.

A summary of activity for all stock options for the year ended December 31, 2022 is presented below:

	Shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Term (Years)
Outstanding, beginning of the year	274,750	$ 8.74	7
Granted during the year	15,000	$ 14.25	8
Forfeited during the year	-	$ -	-
Outstanding, end of the year	289,750	$ 9.02	7
Exercisable at year end	232,500	$ 7.87	7

(9) Employment Benefit Plans

401(k) Retirement Plan

The Company has a contributory 401(k) profit sharing plan covering substantially all employees. The Company matches 100% of an employee's contribution up to a maximum amount equal to 4% of the contributing employee's salary. Contributions to the plan are determined by the Board of Directors based upon operating results. Matching company contributions under the plan were approximately

(9) Employment Benefit Plans, continued

401(k) Retirement Plan, continued
$202,000, 195,000, and $171,000, for the years ended December 31, 2022, 2021, and 2020, respectively.

Deferred Compensation Plan
The Company currently has Supplemental Pension Plan agreements, providing for future payments upon retirement for three of its executive officers. The Company expensed approximately $212,000, $179,000, and $172,000, in 2022, 2021, and 2020, respectively, for the accrual and interest cost of these future retirement benefits. There were no benefit payments in 2022 and 2021. Supplemental Pension Plan benefits payable, recorded in other liabilities, totaled approximately $910,000 and $698,000, at December 31, 2022 and 2021, respectively.

(10) Dividend Restrictions

Banking regulations restrict the amount of dividends the Bank may pay without obtaining prior regulatory approval. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank.

(11) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under certain adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital 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 common equity Tier 1, total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2022 and 2021, that the Bank meets all capital adequacy requirements to which it is subject.

As of January 1, 2016, an additional capital conservation buffer was added to the minimum requirements for capital adequacy purposes and is subject to a three-year phase-in period. The capital conservation buffer was phased-in on January 1, 2019 at 2.5%. A banking organization with a conservation buffer of less than 2.5% (or the required phase-in amount in years prior to 2019) will be subject to limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The ratios for the Bank are currently sufficient to satisfy the fully phased-in conservation buffer.

As of December 31, 2022, and 2021, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1 risk-based, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company is not required to maintain minimum capital ratios as a small bank holding company (less than $3 billion in total assets). The Bank's actual capital amounts and ratios are also presented in the table (dollars in thousands):

(11) Regulatory Matters, continued

		Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount	Ratio		Amount	Ratio		Amount	Ratio
As of December 31, 2022:									
Common Equity Tier 1 (to Risk-Weighted Assets)	$	60,802	16.42%	$	16,666	>4.5%	$	24,073	>6.5%
Total Capital (to Risk- Weighted Assets)	$	64,778	17.49%	$	29,628	>8.0%	$	37,035	>10.0%
Tier I Capital (to Risk- Weighted Assets)	$	60,802	16.42%	$	22,221	>6.0%	$	29,628	>8.0%
Tier I Capital (to Average Assets)	$	60,802	9.75%	$	24,935	>4.0%	$	31,169	>5.0%
As of December 31, 2021:									
Common Equity Tier 1 (to Risk-Weighted Assets)	$	46,378	13.83%	$	15,089	>4.5%	$	21,795	>6.5%
Total Capital (to Risk- Weighted Assets)	$	50,099	14.94%	$	26,824	>8.0%	$	33,530	>10.0%
Tier I Capital (to Risk- Weighted Assets)	$	46,378	13.83%	$	20,118	>6.0%	$	26,824	>8.0%
Tier I Capital (to Average Assets)	$	46,378	8.57%	$	21,665	>4.0%	$	27,081	>5.0%

(12) Related Party Transactions

The Company conducts transactions with directors and executive officers, including companies in which they have beneficial interest, in the normal course of business. It is the policy of the Company that loan transactions with directors and executive officers be made on substantially the same terms as those prevailing at the time for comparable loans to other persons. The following is a summary of activity for related party loans for 2022 (in thousands):

Beginning balance	$	9,893
New executive officer addition		14
Loans advanced		1,939
Repayments		(2,109)
Ending balance	$	9,737

The aggregate amount of deposits of directors and executive officers and their affiliates amounted to approximately $75,764,000 and $78,882,000, at December 31, 2022 and 2021, respectively.

(13) 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 could include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The 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 and conditional obligations as it does for on-balance-sheet instruments.

In most cases, the Company requires collateral or other security to support financial instruments with credit risk.

(13) Commitments, continued

	Approximate Contract Amount (in thousands)	
	2022	2021
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 89,717	77,697
Letters of credit	$ 1,410	883

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 may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit, or personal property.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to local businesses. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

(14) Fair Value Measurements and Disclosures

The Company utilizes fair value measurements to record fair value adjustments to certain assets. Securities available-for-sale are recorded at fair value on a recurring basis. From time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and foreclosed real estate.

Fair Value Hierarchy
The Company groups assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets which are recorded at fair value.

Investment Securities
Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal

(14) Fair Value Measurements and Disclosures, continued

Investment securities, continued

bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets. Effective January 1, 2019, the change in fair value of equity securities is recognized in net income in accordance with Accounting Standards Update ("ASU") 2016-01. Equity securities are classified as recurring Level 1.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allocation is established within the allowance for loan losses. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with generally accepted accounting principles. The fair value of impaired loans is estimated using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the loan is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is used or management determines the fair value of the loan is further impaired below the appraised value of the collateral and there is not an observable market price, the Company records the impaired loans as nonrecurring Level 3. Loans held for sale are comprised of loans originated for sale in the ordinary course of business. The fair value of loans originated for sale in the secondary market is based on purchase commitments or quoted prices for the same or similar loans and are classified as recurring Level 2.

Assets Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2022 and 2021 (in thousands):

December 31, 2022:	Level 1	Level 2	Level 3	Total
U.S. Government sponsored enterprises	$ 84,611	15,026	-	99,637
State, county and municipal securities	-	4,177	-	4,177
Corporate debt securities	-	1,283	1,255	2,538
Equity securities	1,484	-	-	1,484
Mortgage-backed securities	-	104,461	-	104,461
	$ 86,095	124,947	1,255	212,297

(14) Fair Value Measurements and Disclosures, continued

December 31, 2021:		Level 1	Level 2	Level 3	Total
U.S. Government sponsored enterprises	$	-	30,000	-	30,000
State, county and municipal securities		-	3,450	-	3,450
Corporate debt securities		-	-	250	250
Equity securities		2,082	-	-	2,082
Mortgage-backed securities		-	100,178	-	100,178
	$	2,082	133,628	250	135,960

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of December 31, 2022 and 2021 (in thousands):

December 31, 2022:		Level 1	Level 2	Level 3	Total
Loans	$	-	-	3	3
Total assets at fair value	$	-	-	3	3

December 31, 2021:		Level 1	Level 2	Level 3	Total
Loans	$	-	-	13	13
Mortgage loans held for sale		-	1,344	-	1,344
Total assets at fair value	$	-	1,344	13	1,357

(15) Parent Company Financial Information

The following information presents the condensed balance sheets of Peach State Bancshares, Inc. as of December 31, 2022 and 2021 and the condensed statements of operations and cash flows for each of the three years ended December 31, 2022 (dollars in thousands):

CONDENSED BALANCE SHEETS

		December 31, 2022	December 31, 2021
Assets			
Cash	$	4,444	2,704
Investment in equity securities		1,484	2,082
Investment in subsidiaries		49,169	45,952
Other assets		1,397	1,117
Total assets	$	56,494	51,855
Liabilities and Stockholders' Equity			
Accrued interest payable	$	198	7
Other liabilities		-	205
Subordinated debentures		30,335	19,577
Stockholders' equity		25,961	32,066
Total liabilities and stockholders' equity	$	56,494	51,855

(15) Parent Company Financial Information, continued

CONDENSED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2022	2021	2020
Income:			
Interest on deposits with banks	10	7	19
Interest on equity securities	104	108	-
Gain on sale of equity securities	4	254	-
(Losses) gains recognized on equity securities	(297)	16	-
Total income	(179)	385	19
Expenses:			
Interest expense	1,223	965	280
Salaries and employee benefits	133	113	88
Outside services	3	21	2
Other operating expenses	239	138	129
Total expenses	1,598	1,237	499
Loss before income tax and equity in undistributed earnings of subsidiary	(1,777)	(852)	(480)
Income tax benefit	(428)	(256)	(121)
Loss before equity in undistributed earnings of subsidiary	(1,349)	(596)	(359)
Equity in undistributed earnings of subsidiary	6,871	3,177	2,968
Net income	$ 5,522	2,581	2,609

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2022	2021
Cash flows from operating activities:		
Net income	$ 5,522	2,581
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(6,871)	(3,177)
(Gain) on sale of equity securities	(4)	(254)
Loss (gain) on equity securities	297	(16)
Stock-based compensation	137	113
Change in other assets and liabilities	355	(1,080)
Net cash used in operating activities	(564)	(1,833)
Cash flows from investing activities, consisting of capital infusion to subsidiary:	(7,760)	(12,450)
Cash flows from financing activities:		
Proceeds from sale of subordinated debentures	11,000	16,000
Capitalized subordinated debenture costs	(242)	(422)
Dividends to stockholders	(694)	(578)
Net cash provided by investing activities	10,064	15,000
Net increase (decrease) in cash	1,740	717
Cash at beginning of year	2,704	1,987
Cash at end of year	$ 4,444	2,704

Inside Peach State Bank's bright and welcoming new lobby.

THANK YOU

to our shareholders for your
trust in Peach State Bancshares
and Peach State Bank & Trust.

PEACH STATE BANCSHARES

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