



EXPANDING HORIZONS

2023 ANNUAL REPORT



Opportunity has
arrived in our
backyard.



Braselton.

A new horizon with endless possibilities for our bank

Our strategic move into the Braselton market creates a second anchor for Peach State Bank & Trust to build on our Gainesville base of operations . . . and strengthen our position as the only locally owned community bank in Braselton.

While our online banking services allow us to serve customers virtually anywhere, our signature brand of personal service and local knowledge is best delivered within a 20-mile radius. With the growing Braselton market in our own backyard, we recognized the need to build a new permanent branch to serve customers closer to home.

Now that construction is underway, the new Peach State Braselton location at the crossroads of the city's vibrant commercial and medical corridor opens an opportunity for us to serve those markets as well as nearby high-wealth and retirement communities from our new base of operations along Friendship and Thompson Mill Roads. Inside, we share stories of some of the people and businesses who make Braselton the successful, growing community it is today.

Our Style of Community Banking Comes to Braselton

Dear Peach State Bancshares Shareholders, Customers, and Friends:

The jury is no longer out. The verdict rings clear. In the court of customer opinion, community banking is far and away the top preference of today's business owners and individual depositors across the country – and even more convincingly evident in our home of Hall County.

Here are the facts:

- America's community banks are the established lender of choice for small businesses (60 percent of all loans) and agricultural operations (over 80 percent). *
- According to the Federal Reserve's credit survey of small businesses, community banks score 81 percent in customer satisfaction with lenders versus just 68 percent for big banks. The stats fare even worse for finance companies and online lenders. **

Meanwhile, the case for Peach State Bank & Trust is even stronger than the national numbers. Not only are we a community bank, but Peach State is also a locally owned community bank. This important distinction translates into the reinvestment of loans and deposits squarely back into Hall County and Northeast Georgia. As such, there is true meaning behind our local advertising message: "Strong Bank. Strong Community."

Our focus is on strengthening local businesses, jobs, and the area's economy. Unlike national banks – and even big regional community banks – our profits stay at home as opposed to being whisked away to a corporate office far away. Simply put, Peach State is accountable from Green Street in Gainesville to Friendship Road in Braselton. Our primary competition, on the other hand, is beholden to Wall Street (the one with all those skyscrapers way up north).

The success behind Peach State's community philosophy is well-documented – this past year and across our span of nearly two decades in operation. In Hall County, Peach State has steadily increased market share while other banks have come and gone, consolidated, or simply faded away.

Our expansion into a classic landmark building in downtown Gainesville, where we recently completed our first full year, sends a clear signal that Peach State is here to stay. With a growing team of nearly 80 professionals, we've nearly filled all three floors of our 31,000 square-foot headquarters, and our assets of over \$700 million (ranking in the top tier of all Georgia-based banks), together with the monthly pace of new deposit accounts at a rate nearly double from a year ago, is strong validation of our hometown business strategy.

Marching on to Braselton with a permanent branch bank

Now, we set our sights southward to the Braselton market, where Peach State has operated out of a small, leased office for the past three years. Despite limited access and visibility, our Braselton branch has excelled thanks to a locally based team of veteran Braselton lenders and customer service representatives. Expect even greater success with the construction of a new permanent branch bank later this year.

Once completed, Peach State Bank Braselton will have incredible visibility and access with frontage on three main arteries (Friendship Road, Thompson Mill Road, and Deaton Creek Parkway). We'll also be in the heart of a bustling retail and medical corridor surrounded by popular communities like Deaton Creek, Reunion, and Chateau Elan. The new two-story building will be larger than most branch banks at 10,000 square feet, half of which will be occupied on the main floor once we move in.

Tailoring success of ‘Gainesville business model’ to Braselton

Our board and management team are already busy ramping up for the new Braselton location with additions to our lending and Treasury Management teams who serve small and large businesses. In anticipation of strong consumer demand, we also are training new customer service staff in our “universal banking” concept. This program focuses on super-fast response to customer questions, a consistent single point of contact, and extensive one-stop knowledge of all services – from online banking to setting up new deposit accounts.

There’s no secret that our successful formula of community banking has worked in Gainesville. We’re taking the same approach and personally customizing it to the Braselton market:

- Appointment of local residents and advisors to our Braselton Community Development Board.
- Hosting of annual local events such as our popular BLT luncheon and Low Country Boil that build community and friendships.
- Sponsorship of educational seminars such as cybersecurity insights that showcase Peach State’s online digital technology, recognized as safer and far superior to even the largest national banks.
- Partnering with the Braselton medical community through our Private Banking and Treasury Management services for physicians and their practices.
- Free ATM banking – anywhere – with no fees.
- Introduction of our Braselton brand of community banking with a focus on customer responsiveness and relationships on a first-name basis.

Thank you for being part of our success

Whether you’re an investor in Peach State Bancshares (parent company to Peach State Bank) or a customer, we thank you for your support and confidence in our brand of community banking. Peach State may no longer be a small bank, but we’ll never be too large to lose our special connection and appreciation for the local communities and customers whom we serve.

With warmest regards,

Stewart Teaver
Chairman
Peach State Bancshares

Ron G. Quinn
President and CEO
Peach State Bancshares



*Source: Independent Community Bankers of America
** Federal Reserve, 2022 Small Business Credit Survey

Expanding Horizons Across Communities





Jennifer Harrison
City Manager

Tiffany Wheeler
Finance/HR Director

Debbie Martin
Mayor

Tina Howe
Peach State Bank

For the City of Hoschton’s Finance/HR Director Tiffany Wheeler, bringing the City’s banking to Peach State was an easy decision.

Peach State Bank opened in the Braselton area in 2021, expanding its hometown reach with its signature community banking service. The City of Hoschton became a customer in 2022, following Tina Howe and Kim Anderson to the bank when they joined the Peach State team.

“We love Tina Howe, David Dyer, Kim Anderson, and the whole team at Peach State Braselton. We work with Tina and Kim the most, and they are a huge part of the reason we brought our business to Peach State. The customer service they provide always makes us feel like a priority,” says Tiffany.

“Peach State has been amazing in helping with all of our needs, from opening multiple accounts to opening our line of credit, and always being actively involved with anything we have going on,” Tiffany adds.

In addition to having its main Operating account at Peach State, the City has accounts for Impact Fees, Water and Sewer Services, a Downtown Development Fund, various Grants, and its SPLOST fund.

Working with Peach State’s ACH (automated clearing house), the City of Hoschton can pay all their transactions automatically through electronic transactions. The City also uses treasury services and can access anything they need without having to come into the bank. “Once we got everything set up, we’ve been completely happy with it, as well as the ease of working with Peach State to answer any questions. Banking with a community bank that prioritizes customer service also makes you less nervous about risk,” Tiffany says.

Hoschton, like Braselton, is a fast-growing city striving to keep its small-town charm, including preserving the downtown and historical buildings. “The more we grow, the more we are building on the concerto of ‘Live, Work, Play!’ We look to add more commercial to make sure people can keep their money where they live, which only helps us give back to them by upgrading and improving the things around town,” she says.

“Peach State is always willing to help with any events or projects we have going on, the most recent being our Back-to-School Bash. We see lots of potential for partnering with them in the future. They know how to make the customer feel like they are more than just another account. You truly feel like you are a part of a family any time you go in. That’s rare, and very hard to find.”



Peach State Bank's Andy Stewart and Dr. Ryan Vaughn

“ SO MUCH OF GAINESVILLE AND BRASELTON IS CENTERED AROUND PEACH STATE BANK. ” – Dr. Ryan Vaughn

Serving Kid’s Dentistry in Both Peach State Locations

Dr. Ryan Vaughn picked a tough economic time to open his pediatric dental practice, Kid’s Dentistry of North Georgia, but he found the right banking partner to guide him through it.

“To be honest, when I started my own business in 2009 in the middle of the economic crash, it was extremely stressful,” Dr. Vaughn says.

“However, my decision to bank with Peach State made it a lot easier. I always knew I could count on their staff to provide the best service possible.”

Like Peach State Bank, Kid’s Dentistry of North Georgia has a presence in Gainesville and Braselton, serving its young patients in both regions.

“One thing I’ve noticed is that so much of Gainesville and Braselton is centered around Peach State Bank,” Dr. Vaughn says. “All of the growth and change starts with Peach State since they are central to the financing in those areas. They are definitely a primary contributor.”

Dr. Vaughn says he was drawn to Peach State because it’s a true community bank that

develops personal relationships with its customers. The relationship he established 15 years ago with Executive Vice President Andy Stewart still stands today. In addition to his business, Dr. Vaughn has his personal accounts with the bank.

“Our bank put an emphasis on being a part of the medical market,” Stewart says. “Ryan came to us, and we were eager to help him out. We made a construction loan for the business and also several additional loans for outfitting his practice with equipment.”

“They took a great bit of worry off my plate,” Dr. Vaughn says. “You wouldn’t get that type of service anywhere else.”



Braselton community & Peach State Bank hold special place in hearts of Frost family



Ron Quinn, Janice Frost and Kevin Wetzel

Janice Frost is like many of her friends and neighbors at Braselton's Chateau Elan Estates. She loves the close connection to community, which is also why she is excited about the fact that Peach State Bank is building a permanent branch so close to her home.

"Since my husband (Jack Frost) passed away in 2021, my relationship with the bank has become even more close-knit. They really take care of me and my finances – not like a customer, but like a member of the family," she says.

Janice's late husband also believed in Peach State and community banking. A stockholder and charter member of our bank's Community Development Board, he was well-known for his philanthropy and business acumen. He was tremendously successful in his local ownership and operation of Memorial Park Funeral Homes and Cemeteries.

Together, Jack and Janice restored one of Braselton's most beautiful historical landmarks, the Braselton-Stover House, which was developed into one of their funeral homes and an event center.

Kevin Wetzel, who now owns Memorial Park, jokes that his uncle Jack Frost had the vision but that Janice controlled the purse strings when it came to decorating and restoring the old Braselton home to its early 1900's décor.



Braselton – Stover House

“ IT’S A LOVELY PLACE
AND HOLDS A SPECIAL
PLACE IN MY HEART ”

– Janice Frost

Another lasting contribution to the Braselton community was the Frosts' donation of the Janice and Jack Frost Water Garden at Northeast Georgia Health System's Braselton hospital. The garden's marble fountain was commissioned from China and features intricate hand-carvings of indigenous flora.

At the garden's dedication, hospital CEO Carol Burrell praised the Frosts "not only for their generosity but for a beautiful garden that becomes their legacy for generations to come."

Their local legacy is also one treasured by Peach State for the Frost family's trust and belief in our way of community banking.

A good year in Gainesville



2023 proved to be an exciting year at our home base in Gainesville.



We started the year with all of our staff together at our new Gainesville headquarters on E.E. Butler Parkway, next door to the Greater Hall Chamber of Commerce. The 31,000 square-foot building is nearly twice the size of our former bank headquarters and enabled us to consolidate our loan operations, private banking, customer call center, accounting and mortgage offices into a single location.



We invited customers and friends to join us for an Open House at our new Gainesville home on March 30. The turnout was great, and we were pleased to have a packed house from floor to floor.



Underscoring our community involvement, Peach State partnered with The Arts Council as presenting sponsor of the Summer Music Series. The popular concert series brings a variety of music, food and fun outdoors to the Smithgall Arts Center from May through September each year.



And we can't leave out our annual Jack McKibbin BLT Luncheon – back for our 7th year, and more popular than ever. We set up tents in our new headquarters parking lot and fed more than 1,000 folks – our largest crowd ever.

As our bank continues to expand, we've also added new bankers to our staff like Yasser Naal, who is part of a growing team of new lenders offering a wide variety of services to our customers.

Peach State attracts newcomers across our growing region



Ohio couple Drs. Brett and Natalie Meeks with Peach State's Heather Wilbanks embrace true Southern hospitality



Welcome home.

Peach State Bank already has a solid lock on the hometown market of longtime residents of Gainesville and Northeast Georgia. But how do we measure up with newcomers flocking to our fast-growing region?

Just ask Drs. Brett and Natalie Meeks, two of our newer customers who moved to Gainesville in August of 2022 from Ohio. With their fresh start here, they hoped to find a bank with better customer service than what they had experienced up north with larger national banks.

At the same time, they did not want to compromise on technology, cybersecurity, superior banking products, or experience. Taking a chance on a local bank, the Meeks certainly were not disappointed after their research led them to Peach State Bank.

They now have full trust in our bank after being led through the complex process of financing the purchase of a lot and construction of their new home here.

Natalie says her loan officer, Heather Wilbanks, continues to be a blessing. “You can call her anytime, and you don’t feel like you’re waiting in a queue. We’ve been

able to build a real friendship. Everyone we’ve dealt with on Peach State’s staff has been wonderful.”

“We feel so welcomed and taken care of,” says Natalie.

“CUSTOMER SERVICE AND LOCAL KNOWLEDGE ARE NOW RIGHT AT OUR FINGERTIPS. THAT’S SOMETHING THAT WE JUST HADN’T EXPERIENCED BEFORE AT SUCH A PERSONAL LEVEL.” – Natalie Meeks

Brett and Natalie also love their new hometown and want to contribute to the health and wellness of their community where they can. Brett is an orthopedic surgeon at Northeast Georgia Physicians Group, and Natalie is a dermatologist with Georgia Skin Cancer and Aesthetic Dermatology. In college, Brett played D-3 football at the University of Chicago, and during his fellowship he was an assistant team physician for the Ohio State Buckeyes football team.

Brett and Natalie have three daughters and are excited to continue building roots in their newfound Gainesville community.

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



BACK ROW (left to right):

Preston Bowen | Gary Funk | Steve Adams | Abit Massey | John Wright

FRONT ROW (left to right):

Elizabeth Higgins | Sandy Carter | Emily “Sissy” Lawson

FUTURE LEADERS BOARD



BACK ROW (left to right):

Scott LeFevre | Steven 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**

PEACH STATE BANK & TRUST TEAM



Terry Baker
Chief Lending Officer



Greg Barrett
Commercial Lending



Carl Blackburn
Mortgage Lending Manager



Charles W. Blair, Jr.
Chief Financial Officer



Keith Brady
Commercial Lending



Judy Buchanan
Human Resources



Elizabeth Cain
Private Banking



Tim Carter
Information Technology



John Chapman
Information Security



Rhonda Dellinger
Mortgage Originator



David Dyer
Commercial Lending



Chris England
Commercial Lending

PEACH STATE BANK & TRUST TEAM



Shakira Favors
Deposit Operations Manager



Lynn Gilstrap
Loan Operations



Steve Goins
Mortgage Originator



Joseph Hopkins
Compliance



Tina Howe
Operations Manger



Ginger Hubbard
Data/Digital



Mickey Hyder
Mortgage Originator



Chase Hyder
Mortgage Originator



Brandy Kastner
Credit Analyst



Nicole Lineberry
Loan Operations



Matthew Lynch
Compliance



Yemeli Marin
Mortgage Originator



Ashley Moon
Accounting



Yasser Naal
Business Development



Candice Nanney
Controller



Steven Pettit
Information Technology



Ricky Pugh
Commercial Lending



Ron Quinn
President & CEO



Gina Rider
Chief Operations Officer



Steve Sorrells
Commercial Lending



Andy Stewart
Chief Risk Officer



Aimee Souto
Treasury Management



Mike Underwood
Commercial Lending



Heather Wilbanks
Private Banking



Susan Williams
Marketing

Financial Highlights

2023

Cash Dividends Increased for Eighth Consecutive Year

In 2023, parent company **Peach State Bancshares** and **Peach State Bank & Trust** experienced another strong year of growth despite a decrease in net earnings attributed to the Federal Reserve's tightening of the economy. Deposits and loans continued a positive growth trajectory as well as cash dividends, which were increased by 6 cents for shareholders of record last year.

Cash Dividends

were increased by the Peach State Bancshares Board of Directors to 30 cents per share in 2023 – compared to 24 cents per share in 2022. The payout represented the eighth consecutive year of dividend payments – as well as a dividend increase in each year over the previous one during the same eight-year period. It included a one-time special dividend of 6 cents per share in February 2023 in recognition of record 2022 earnings. The Peach State Board of Directors is committed to paying cash dividends as future growth and earnings allow.

Net Earnings

were \$3.8 million, or \$1.30 per share, in 2023, compared to net earnings of \$5.5 million, or \$1.91 per share, in 2022. This decline was primarily attributed to a reduction in the bank's net interest margin, which fell from 3.11 percent in 2022 to 2.60 percent in 2023.

The Federal Reserve's

ongoing increases in short-term interest rates last year led to a nationwide decrease in banking deposits. In turn, rate competition intensified within the financial sector. This heightened competition compelled Peach State to quickly raise its deposit rates. As a result, the Bank's cost of interest-bearing deposits surged nearly eightfold, from 0.34 percent in 2022 to 2.71 percent in 2023. This dramatic and almost instantaneous rise in interest expense overshadowed the bank's positive earning asset yield, which climbed from 3.54 percent in 2022 to 4.60 percent in 2023.

Total Assets

increased by 18.1 percent from \$605.5 million at the end of 2022 to \$715.3 million at the end of 2023. Since year-end 2018, the five-year average annual growth rate of assets has been 26.25 percent.

“

DEPOSITS AND LOANS CONTINUED A POSITIVE GROWTH TRAJECTORY LAST YEAR AS WELL AS INCREASED CASH DIVIDENDS PAID OUT TO SHAREHOLDERS.

”

Total Deposits

increased by 10.4% from \$546.5 million at the end of 2022 to \$603.3 million at the end of 2023.

Non-Interest-Bearing Deposits

totaled \$223.7 million on December 31, 2023, compared to \$222.1 million on December 31, 2022 — an increase of 0.72 percent.

Stockholders' Equity

increased from \$26 million, or \$8.98 per share, at the end of 2022 to \$30.9 million, or \$10.68 per share, at the end of 2023 — an increase of 18.9 percent. The increase resulted not only from net earnings less cash dividends for 2023, but also a \$3.1 million decrease in the amount of Peach State Bancshares' "**Accumulated Other Comprehensive Loss**" ("AOCI"). The decrease in AOCI, which is the after-tax impact of unrealized losses within the Company's **debt securities**, resulted from a \$24.5 million decrease in the Company's DEBT SECURITIES at the end of 2023 (compared to the previous year) and a decrease in longer-term interest rates at year-end 2023 compared to year-end 2022.

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 2023 was \$65.7 million, or 9.5 percent of average assets, compared to \$60.8 million or 9.7 percent at year-end 2022. (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 \$70.9 million or 16.9 percent of risk-weighted assets as of December 31, 2023 — compared to \$64.8 million or 17.5 percent of risk-weighted assets on the same date in 2022. (A minimum 10 percent ratio is considered "well-capitalized" under Prompt Corrective Action Provisions).



Consolidated Financial Statements

December 31, 2023, 2022 and 2021

(with Independent Auditor's Report thereon)



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 Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of earnings, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2023, 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, 2023 and 2022, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Company has elected to change its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC 326)*. The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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.

Responsibilities of Management for the Financial Statements, Continued

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.



Greenville, South Carolina
January 31, 2024

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2023 and 2022
(Dollars in thousands)

	2023	2022
<u>Assets</u>		
Cash and due from banks	\$ 20,826	9,000
Interest-bearing deposits with Federal Reserve Bank and other banks	86,675	17,797
Cash and cash equivalents	107,501	26,797
Investment in debt securities	186,361	210,813
Investment in equity securities	2,598	1,484
Federal Home Loan Bank stock	435	366
Mortgage loans held for sale	1,017	-
Loans, net of allowance for credit losses of \$4,971, and \$3,976, as of December 31, 2023 and 2022, respectively	389,675	341,103
Premises and equipment, net	11,752	8,945
Bank owned life insurance	7,956	7,746
Accrued interest receivable and other assets	8,053	8,220
Total assets	\$ 715,348	605,474
<u>Liabilities and Stockholders' Equity</u>		
Deposits:		
Non-interest bearing	\$ 223,696	222,100
Interest-bearing	379,604	324,382
Total deposits	603,300	546,482
Federal Reserve Bank Term Funding Program	47,000	-
Subordinated debentures, net of capitalized fees	30,900	30,335
Accrued interest payable and other liabilities	3,278	2,696
Total liabilities	684,478	579,513
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	11,859	11,802
Retained earnings	13,362	11,579
Accumulated other comprehensive loss	(8,747)	(11,816)
Treasury stock at cost, 11,350 shares	(114)	(114)
Total stockholders' equity	30,870	25,961
Total liabilities and stockholders' equity	\$ 715,348	605,474

See accompanying notes to consolidated financial statements.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings
For the Years Ended December 31, 2023, 2022 and 2021
(Dollars in thousands, except per share amounts)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Interest and dividend income:			
Interest and fees on loans	\$ 21,129	16,382	14,484
Interest on debt securities	6,098	3,574	739
Interest on tax-exempt debt securities	57	38	16
Interest and dividends – other	2,203	612	207
Total interest and dividend income	<u>29,487</u>	<u>20,606</u>	<u>15,446</u>
Interest expense:			
Interest expense – deposits	9,272	1,190	708
Interest expense – borrowings	3,577	1,255	1,039
Total interest expense	<u>12,849</u>	<u>2,445</u>	<u>1,747</u>
Net interest income	16,638	18,161	13,699
Provision for credit losses	-	248	981
Net interest income after provision for credit losses	<u>16,638</u>	<u>17,913</u>	<u>12,718</u>
Other income:			
Service charges on deposit accounts	162	193	210
Mortgage origination income	408	805	1,247
Gain on sales of debt securities, net	-	-	16
Gains (losses) recognized on equity securities, net	71	(293)	270
Gains on sale of premises and equipment	8	620	-
Other	836	832	715
Total other income	<u>1,485</u>	<u>2,157</u>	<u>2,458</u>
Other expenses:			
Salaries and employee benefits	7,815	8,050	7,765
Occupancy and equipment	1,121	874	764
Outside services	425	392	359
Information technology	1,455	1,305	1,090
Other	2,278	2,088	1,891
Total other expenses	<u>13,094</u>	<u>12,709</u>	<u>11,869</u>
Earnings before income taxes	5,029	7,361	3,307
Income tax expense	(1,258)	(1,839)	(726)
Net earnings	<u>\$ 3,771</u>	<u>5,522</u>	<u>2,581</u>
Earnings per common share	<u>\$ 1.30</u>	<u>1.91</u>	<u>.89</u>
Diluted earnings per common share	<u>\$ 1.24</u>	<u>1.82</u>	<u>.86</u>
Dividends per common share	<u>\$ 0.30</u>	<u>0.24</u>	<u>0.20</u>

See accompanying notes to consolidated financial statements.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2023, 2022 and 2021
(Dollars in thousands)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net earnings	\$ 3,771	5,522	2,581
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on debt securities available-for-sale:			
Holding gains (losses) arising during the period, net of taxes of \$1,000, \$3,584, and \$370	3,002	(10,753)	(1,095)
Reclassification adjustments for gains included in earnings, net of taxes of \$0, \$0, and \$4	-	-	(12)
Unrealized gains (losses) on derivative instruments, net of taxes of \$22 and \$106	<u>67</u>	<u>(317)</u>	<u>-</u>
Other comprehensive income (loss)	<u>3,069</u>	<u>(11,070)</u>	<u>(1,107)</u>
Total comprehensive income (loss)	<u>\$ 6,840</u>	<u>(5,548)</u>	<u>1,474</u>

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, 2023, 2022 and 2021
(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
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
Adoption of new CECL accounting standard, net	-	-	(1,121)	-	-	(1,121)
Other comprehensive income	-	-	-	3,069	-	3,069
Stock option expense	-	57	-	-	-	57
Net earnings	-	-	3,771	-	-	3,771
Cash dividends, \$0.30 per share	-	-	(867)	-	-	(867)
Balance, December 31, 2023	<u>\$ 14,510</u>	<u>11,859</u>	<u>13,362</u>	<u>(8,747)</u>	<u>(114)</u>	<u>30,870</u>

See accompanying notes to consolidated financial statements.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2023, 2022 and 2021

(Dollars in thousands)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:			
Net earnings	\$ 3,771	5,522	2,581
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization, accretion	323	376	2,402
Stock option compensation expense	57	137	113
Deferred income tax	-	(3)	(312)
Provision for credit losses	-	248	981
Increase in cash surrender value of bank owned life insurance	(210)	(181)	(76)
Gain on sales of debt investment securities	-	-	(16)
Loss (gain) on sales of equity investment securities	49	(4)	(254)
(Gain) loss on equity investment securities	(120)	297	(16)
(Gain) on sales of premises and equipment	(8)	(620)	-
Change in:			
Mortgage loans held for sale	(1,017)	1,344	(464)
Accrued interest receivable and other assets	(512)	(1,129)	(24)
Accrued interest payable and other liabilities	82	199	(473)
Net cash provided by operating activities	<u>2,415</u>	<u>6,186</u>	<u>4,442</u>
Cash flows from investing activities:			
Purchases of debt investment securities	(27,655)	(113,865)	(70,013)
Proceeds from maturities and paydowns of debt securities	55,445	21,194	24,511
Proceeds from sales of debt securities	-	-	6,418
Purchase of equity securities	(1,206)	(1,036)	(7,234)
Proceeds from sales of equity securities	163	1,341	5,422
Proceeds (purchases) of Federal Home Loan Bank Stock, net	(69)	(77)	41
Purchase of Bank Owned Life Insurance	-	(2,500)	(5,000)
Net increase in loans	(49,572)	(20,039)	(71,691)
Proceeds from sales of premises and equipment	637	6,813	-
Purchases of premises and equipment	(2,899)	(8,055)	(260)
Net cash used in investing activities	<u>(25,156)</u>	<u>(116,224)</u>	<u>(117,806)</u>
Cash flows from financing activities:			
Net increase in deposits	56,818	44,137	158,241
Proceeds from Federal Reserve BTFP facility	47,000	-	-
Repayment of other mortgage borrowings, net	-	(651)	(23)
Repayment of Federal Reserve PPP facility, net	-	(24)	(15,660)
Proceeds from sale of subordinated debentures, net	500	11,000	16,000
Capitalized subordinated debenture costs	(6)	(242)	(462)
Common stock dividends	(867)	(694)	(578)
Net cash provided by financing activities	<u>103,445</u>	<u>53,526</u>	<u>157,518</u>
Net change in cash and cash equivalents	80,704	(56,512)	44,154
Cash and cash equivalents at beginning of year	26,797	83,309	39,155
Cash and cash equivalents at end of year	\$ <u>107,501</u>	<u>26,797</u>	<u>83,309</u>
Supplemental disclosures of cash flow information and noncash activities:			
Cash paid for interest	\$ 12,593	1,221	754
Cash paid for subordinate debenture interest	\$ 1,772	1,223	965
Cash paid for Federal Reserve BTFP interest	\$ 1,458	-	-
Cash paid for income taxes	\$ 925	1,821	977
Change in unrealized gain (loss) on derivative instruments, net of tax	\$ 67	(317)	-
Change in unrealized gain (loss) on debt securities available-for-sale, net of tax	\$ 3,002	(10,753)	(1,095)

See accompanying notes to consolidated financial statements.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

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 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 expansion of the Bank’s mortgage operations. The operations of the Mortgage LLC were 100% consolidated in the Bank. After the completion of the expansion in the fourth 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.

Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Recent Accounting Changes, continued

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326). This standard replaced the incurred loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of \$1,000,000, which is presented as a reduction to net loans outstanding and an increase in the allowance for credit losses on unfunded loan commitments of \$500,000, which is recorded within Other Liabilities. The Company recorded a net decrease to retained earnings of \$1,121,000, as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting stands (“Incurred Loss”).

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

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

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(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 credit 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 31, 2024, the date on which the consolidated financial statements were available to be issued.

Reclassification

Certain 2022 amounts have been reclassified to conform to the presentation used in 2023. 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.

For available-for-sale securities, management evaluates all investments in an unrealized loss position on an annual basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security the security is written down to fair value, and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the results of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rate agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

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

Accrued interest receivable on available-for-sale debt securities totaled approximately \$805,500 at December 31, 2023, and was excluded from the estimate of credit losses.

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

Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Investment in Debt Securities, continued

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, 2023 and 2022, there was no valuation allowance associated with mortgage loans held for sale.

Loans, Loan Fees and Interest Income on Loans

Loans are stated at the principal amount outstanding, net of the allowance for credit 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.

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

Allowance for Credit Losses

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses. The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date.

The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using the discounted cash flow methodology for all segments except for the secured by farmland, other revolving credit plans, automobile loans, and other consumer loan segments, which use the weighted average remaining life methodology:

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Allowance for Credit Losses, continued

- 1-4 family residential construction loans
- Other construction loans and all land development and other land loans
- Secured by farmland
- Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit
- Secured by first liens
- Secured by junior liens
- Secured by multifamily residential properties
- Loans secured by owner-occupied, nonfarm nonresidential properties
- Loans secured by other nonfarm nonresidential properties
- Commercial and industrial loans
- Other revolving credit plans
- Automobile loans
- Other consumer loans
- Other loans
- Loans to non-depository financial institutions

Loss estimates are developed under the discounted cash flow methodology by utilizing the Company's loan portfolio history, such as prepayment speeds and curtailment rates. Loss estimates are developed under the weighted average remaining life methodology by utilizing the loss history and data of a group of peer banks of similar size and geographical area. On a quarterly basis, the forecasting of the unemployment rate is applied to all loan segments based upon gathering such forecasted rate from at minimum three industry credible sources.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, lending policies, asset quality and portfolio trends, pandemics, industry concentrations, trends in underlying collateral, housing starts, external factors, national and local economy and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Management believes the allowance for credit 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 credit losses. Such regulators may require additions to the allowance based on their judgments of information available to them at the time of their examination.

Allowance for Credit Losses – Unfunded Commitments

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

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the CECL model

Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Allowance for Credit Losses – Unfunded Commitments, continued

using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments are included in other liabilities on the Company's consolidated balance sheets.

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 2022, the Bank purchased \$2,500,000 of additional life insurance policies. There were no purchases in 2023. During 2023 and 2022, income recorded from the purchased life insurance policies was approximately \$210,000 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 2023 are based on 2,890,652 and 3,052,474 weighted average shares outstanding and weighted average shares outstanding including common stock equivalents, respectively. The Company has issued options, which represent potential common shares.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

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 options) for the years ended December 31, 2023, 2022 and 2021 was approximately \$57,000, \$137,000, and \$113,000, respectively. Total unrecognized compensation costs at December 31, 2023, was approximately \$250,000. There were 15,000 options granted in 2023 and 2022, respectively.

The fair value of each option granted in 2023, 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.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Weighted average fair value	\$7.03	\$5.74	\$3.46
Dividend yield	1.85%	1.40%	1.19%
Risk-free interest rate	3.84%	2.81%	0.82%
Expected life	7.5 Years	7.5 Years	7.5 Years
Volatility	24.93%	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, 2023 and 2022 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2023:</u>				
U.S. Government sponsored enterprises	\$ 70,351	43	2,405	67,989
State, county and municipal securities	5,316	37	166	5,187
Corporate debt securities	3,192	1	315	2,878
Mortgage-backed securities	118,893	230	8,816	110,307
Total investment securities	<u>\$ 197,752</u>	<u>311</u>	<u>11,702</u>	<u>186,361</u>
<u>December 31, 2022:</u>				
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	<u>\$ 226,206</u>	<u>39</u>	<u>15,432</u>	<u>210,813</u>

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(2) Investment Securities, continued

The amortized cost and estimated fair value of securities available-for-sale as of December 31, 2023, 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. There was no allowance for credit losses for available-for-sale securities as of December 31, 2023 and 2022. Unrealized losses on corporate bonds have not been recognized into income because the issuers bonds are of high credit quality, management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issues continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

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	\$ 29,460	29,159
Due after one year through five years	29,990	28,026
Due after five years through ten years	6,183	5,912
After ten years	13,226	12,957
Mortgage-backed securities	118,893	110,307
	<u>\$ 197,752</u>	<u>186,361</u>

Investments with an estimated fair value of approximately \$76,237,000 and \$18,432,000, were pledged as collateral for public deposits and to secure borrowings at December 31, 2023 and 2022, respectively.

The following table summarizes securities sales activity and net gains (losses) for the years ended December 31, 2023, 2022, and 2021 (in thousands):

	2023	2022	2021
Proceeds from sales	\$ -	-	6,418
Gross gains	-	-	91
Gross losses	-	-	(75)
Net gain on sales of securities available-for-sale	<u>\$ -</u>	<u>-</u>	<u>16</u>

Securities available-for-sale with gross unrealized losses at December 31, 2023 and 2022 aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023:						
U.S. Government sponsored enterprises	\$ 6,917	49	58,038	2,356	64,955	2,405
State, county and municipal securities	-	-	3,682	166	3,682	166
Corporate debt securities	-	-	2,388	315	2,388	315
Mortgage-backed securities	8,092	124	91,954	8,692	100,046	8,816
Total temporarily impaired securities	<u>\$ 15,009</u>	<u>173</u>	<u>156,062</u>	<u>11,529</u>	<u>171,071</u>	<u>11,702</u>

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, continued

(2) Investment Securities, continued

December 31, 2022:

U.S. Government sponsored enterprises	\$ 78,053	2,058	19,386	2,371	97,439	4,429
State, county, and municipal securities	1,330	82	2,847	247	4,177	329
Corporate debt securities	2,324	123	214	36	2,538	159
Mortgage-backed securities	<u>41,474</u>	<u>2,606</u>	<u>59,470</u>	<u>7,909</u>	<u>100,944</u>	<u>10,515</u>
Total temporarily impaired securities	<u>\$ 123,181</u>	<u>4,869</u>	<u>81,917</u>	<u>10,563</u>	<u>205,098</u>	<u>15,432</u>

At December 31, 2023, 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, 2023, 28 (twenty eight) of 44 (forty four) U.S. government sponsored enterprises securities, 4 (four) of 6 (six) state, county, and municipal securities, 4 (four) of 5 (five) corporate debt securities, and 111 (one hundred and eleven) of 117 (one hundred and seventeen) mortgage-backed securities contain unrealized losses. The Company does not intend to sell the 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, 2023 and 2022, the Company held approximately \$2,598,000 and \$1,484,000, in equity investment securities, respectively. 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. During 2023, the Company sold approximately \$163,000, equity investment securities resulting in net losses of approximately \$49,000. In addition, the Company recognized net gains of approximately \$120,000, related to the change in market values in 2023.

(3) Loans and Allowance for Credit Losses

Major classifications of loans, by purpose code, at December 31, 2023 and 2022 are summarized as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Commercial	\$ 23,553	20,496
Commercial real estate:		
Land development and construction	78,656	76,818
Non-owner occupied	102,855	101,806
Owner occupied	62,277	44,704
Residential real estate	125,042	97,907
Consumer	<u>2,833</u>	<u>3,823</u>
	395,216	345,554
Less: Unearned fees	570	475
Allowance for credit losses	<u>4,971</u>	<u>3,976</u>
Net loans	<u>\$ 389,675</u>	<u>341,103</u>

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

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, continued

(3) Loans and Allowance for Credit Losses, continued

component of the loan portfolio is loans secured by real estate which account for approximately 95% of total loans as of December 31, 2023. Commercial real estate loans comprise approximately 66% of total real estate loans and residential real estate loans account for approximately 34%. Commercial real estate loans are further categorized into owner occupied, which represents approximately 16% of total loans. Non-owner-occupied loans represent approximately 26%. Land development and construction loans represent approximately 20% of the total loan portfolio.

The following tables present the balance in the allowance for credit losses and the recorded investment by portfolio segment as of December 31, 2023, 2022 and 2021 (in thousands):

December 31, 2023:	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:						
Beginning balance	\$ 190	2,429	1,125	38	194	3,976
Adjustment to allowance for adoption of ASU 2016-13	(35)	885	187	(4)	(33)	1,000
Provision for (recovery of) loan losses	-	-	-	-	-	-
Charge-offs	-	-	-	(22)	-	(22)
Recoveries	-	-	9	8	-	17
Ending balance	<u>\$ 155</u>	<u>3,314</u>	<u>1,321</u>	<u>20</u>	<u>161</u>	<u>4,971</u>
December 31, 2022:	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for credit 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	<u>\$ 190</u>	<u>2,429</u>	<u>1,125</u>	<u>38</u>	<u>194</u>	<u>3,976</u>
Ending balance individually evaluated for impairment	\$ -	-	-	-	-	-
Ending balance collectively evaluated for impairment	<u>190</u>	<u>2,429</u>	<u>1,125</u>	<u>38</u>	<u>194</u>	<u>3,976</u>
	<u>\$ 190</u>	<u>2,429</u>	<u>1,125</u>	<u>38</u>	<u>194</u>	<u>3,976</u>
Loans:						
Individually evaluated for impairment	\$ 3	-	-	-	-	3
Collectively evaluated for impairment	<u>20,493</u>	<u>223,328</u>	<u>97,907</u>	<u>3,823</u>	<u>-</u>	<u>345,551</u>
	<u>\$ 20,496</u>	<u>223,328</u>	<u>97,907</u>	<u>3,823</u>	<u>-</u>	<u>345,554</u>

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, continued

(3) Loans and Allowance for Credit Losses, continued

December 31, 2021:	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	PPP	Unallocated	Total
Allowance for credit 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	<u>\$ 177</u>	<u>2,317</u>	<u>991</u>	<u>84</u>	<u>-</u>	<u>151</u>	<u>3,720</u>
Ending balance individually evaluated for impairment	\$ -	-	-	-	-	-	-
Ending balance collectively evaluated for impairment	<u>177</u>	<u>2,317</u>	<u>991</u>	<u>84</u>	<u>-</u>	<u>151</u>	<u>3,720</u>
	<u>\$ 177</u>	<u>2,317</u>	<u>991</u>	<u>84</u>	<u>-</u>	<u>151</u>	<u>3,720</u>
Loans:							
Individually evaluated for impairment	\$ 13	-	-	-	-	-	13
Collectively evaluated for impairment	<u>21,763</u>	<u>205,952</u>	<u>88,003</u>	<u>4,585</u>	<u>5,199</u>	<u>-</u>	<u>325,502</u>
	<u>\$ 21,776</u>	<u>205,952</u>	<u>88,003</u>	<u>4,585</u>	<u>5,199</u>	<u>-</u>	<u>325,515</u>

Prior to the adoption of ASU 2016-13, loans were considered impaired if they were accruing troubled debt restructurings. For 2022 and 2021 information presented above, the only impaired loans individually evaluated for impairment were troubled debt restructurings.

On December 31, 2023, the Bank had no non-accrual loans. 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 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, 2023 and 2022 by segment (in thousands):

December 31, 2023:	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total	Non- accrual
Commercial	\$ -	-	-	-	23,553	23,553	-
Commercial real estate:							
Land, development and construction	-	-	-	-	78,656	78,656	-
Non-owner occupied	-	-	-	-	102,855	102,855	-
Owner occupied	-	-	-	-	62,277	62,277	-
Residential real estate	-	-	-	-	125,042	125,042	-
Consumer	-	-	-	-	2,833	2,833	-
Total	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>395,216</u>	<u>395,216</u>	<u>-</u>
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	-
Total	<u>\$ -</u>	<u>7</u>	<u>-</u>	<u>7</u>	<u>345,547</u>	<u>345,554</u>	<u>-</u>

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(3) Loans and Allowance for Credit Losses, continued

There were no loans greater than 90 days past due and accruing as of December 31, 2023 and 2022, that are not placed on non-accrual until they are greater than 120 days past due.

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, 2023, and 2022, 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, 2023 and 2022, are summarized as follows (in thousands):

	2023	2022
Land and land improvements	\$ 4,433	2,444
Building	6,296	3,627
Equipment and furniture, and construction in progress	4,103	5,432
	<u>14,832</u>	<u>11,503</u>
Less: Accumulated depreciation	3,080	2,558
	<u>\$ 11,752</u>	<u>8,945</u>

Depreciation expense was approximately \$537,000, \$341,000, and \$381,000, for the years ended December 31, 2023, 2022, and 2021, respectively.

On March 15, 2022, the Company purchased a building and land for approximately \$5,800,000, to serve as the Bank's main office. On October 21, 2022, the Company sold the Bank's existing main office, mortgage office, and two adjacent properties for approximately \$4,575,000, resulting in net gains of approximately \$620,000. The Company elected to designate approximately \$4,558,000 of the proceeds

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(4) Premises and Equipment, continued

from the sale of the properties for 1031 exchange purposes. Approximately \$2,506,000, was allocated to the purchase price of \$2,500,000 for the future Braselton branch. Remodeling of the new main office commenced in August of 2022 resulting in renovation costs and equipment purchases of approximately \$2,255,000. In December 2023, the Company sold a portion of the Braselton land. The net proceeds from the sale of land was approximately \$637,000, with no gain recognized. As of December 31, 2023, construction of the new Braselton branch had not begun.

At December 31, 2023, the scheduled lease obligations related to office space is approximately \$52,000 during 2024, with no lease obligations after December 31, 2024.

(5) Deposits

The aggregate amount of time deposits, with a minimum denomination of \$250,000, was approximately \$15,739,000 and \$12,631,000, at December 31, 2023 and 2022, respectively.

At December 31, 2023, the scheduled maturities of time deposits are as follows (in thousands):

2024	\$ 25,808
2025	3,012
2026	1,386
2027	790
2028	<u>39</u>
Total	\$ <u>31,035</u>

At December 31, 2023, the Bank had two (2) significant customer deposit relationships in multiple accounts, with one (1) of the relationships being a related party. Total deposit balances of the two (2) significant customer deposit relationships was approximately \$105,986,000 at December 31, 2023. 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.

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, 2023, the core deposit intangible associated with the acquired deposits is approximately \$146,000 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, 2023 and 2022 was approximately \$36,000 and \$41,000, respectively.

(6) Borrowings

At December 31, 2023, borrowings of approximately \$31,000,000 have a scheduled maturity of 2027 and thereafter, and borrowings of approximately \$47,000,000 have a scheduled maturity of December 2024.

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%. In January 2023, 1 (one) director added an additional \$500,000 in five-year Subordinated Debentures at a fixed rate of 7%. Interest expensed in 2023 and 2022 totaled approximately \$385,000 and \$280,000, respectively, and the capitalized offering costs were approximately \$6,000 in 2023 with no capitalized offering costs in 2022. Approximately \$1,000 in capitalized offering costs was amortized in 2023.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(6) Borrowings, continued

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 loan agreement was renewed in September 2023. 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, 2023 and 2022, there was not an outstanding balance on the line and there were no advances on the line in 2023 and 2022.

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 2023 and 2022 totaled approximately \$696,000, and the expense related to the amortization of capitalized offering costs were approximately \$40,000, respectively.

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 2023 and 2022 totaled approximately \$691,000 and \$186,000, respectively, and the expense related to the amortization of capitalized offering costs were approximately \$30,000 and \$15,000, respectively.

At December 31, 2023 and 2022, the Bank had borrowing capacity with the Federal Home Loan Bank (FHLB) of approximately \$169,617,000 and \$149,665,000, respectively. There were no outstanding obligations with the FHLB as of December 31, 2023 or 2022.

The Bank participates in the Federal Reserve Bank ("FRB") of Atlanta's discount window program. The Bank's borrowing capacity at December 31, 2023 and 2022 under this arrangement was approximately \$34,458,000 and \$26,602,000, respectively. The Bank had approximately \$10,047,000 and \$11,615,000, of residential real estate loans pledged to maintain borrowing capacity as of December 31, 2023 and 2022, respectively. There were no amounts outstanding at December 31, 2023 or 2022.

The Bank participates in the FRB Bank Term Funding Program ("BTFP"). The BTFP was created in March 2023 to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors. The BTFP offers loans maturing in one year to banks and other eligible depository

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(6) Borrowings, continued

institutions secured by FRB designated eligible collateral. Designated eligible collateral is valued at par. As of December 31, 2023, the Bank had approximately \$48,068,000 of eligible securities pledged as collateral, and approximately \$47,000,000 outstanding obligations due in December of 2024 at an interest rate of 4.83%.

The Bank has unsecured Federal Funds lines of credit with five (5) correspondent banks with aggregate borrowing capacity of \$38,000,000.

(7) Income Taxes

The components of income tax expense for the years ended December 31, 2023, 2022 and 2021 are as follows (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current	\$ 1,258	1,842	1,038
Deferred	<u>-</u>	<u>(3)</u>	<u>(312)</u>
	<u>\$ 1,258</u>	<u>1,839</u>	<u>726</u>

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, 2023, 2022 and 2021 is as follows (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Pretax earnings at statutory rate - 21%	\$ 1,056	1,545	694
State income tax, net	(56)	134	(9)
Other	<u>258</u>	<u>160</u>	<u>41</u>
	<u>\$ 1,258</u>	<u>1,839</u>	<u>726</u>

The components of deferred income taxes at December 31, 2023 and 2022 are as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Deferred income tax assets:		
Allowance for credit losses	\$ 1,397	1,016
Unrealized losses on investment securities	2,883	3,894
Accrued Incentive	122	252
Nonqualified stock options	100	100
Tax credit carryforwards	99	-
Unrealized losses on equity securities	103	72
Other	279	3
Deferred compensation plan	<u>269</u>	<u>232</u>
Total gross deferred income tax assets	<u>5,252</u>	<u>5,569</u>
Deferred income tax liabilities:		
Premises and equipment	(987)	(701)
Other	<u>(37)</u>	<u>(9)</u>
Total gross deferred income tax liabilities	<u>(1,024)</u>	<u>(710)</u>
Net deferred income taxes	<u>\$ 4,228</u>	<u>4,859</u>

As of December 31, 2023, the Company had approximately \$125,000 of Georgia credit carryforwards, which expire in 2029. Additionally, at December 31, 2023, the 2020 through 2022 tax years were open to examination though no examinations are in process.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(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, 2023 is presented below:

	Shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Term (Years)
Outstanding, beginning of the year	289,750	\$ 9.02	7
Granted during the year	15,000	\$ 16.25	8
Forfeited during the year	<u>-</u>	\$ -	-
Outstanding, end of the year	<u>304,750</u>	\$ 9.38	7
Exercisable at year end	<u>255,850</u>	\$ 8.39	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 \$235,000, \$202,000, and \$195,000, for the years ended December 31, 2023, 2022, and 2021, 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 \$38,000, \$212,000, and \$179,000, in 2023, 2022, and 2021, respectively, for the accrual and interest cost of these future retirement benefits. There were no benefit payments in 2023 and 2022. Supplemental Pension Plan benefits payable, recorded in other liabilities, totaled approximately \$910,000, at December 31, 2023 and 2022, 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.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(11) Regulatory Matters, continued

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, 2023 and 2022, 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, 2023, and 2022, 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):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of December 31, 2023:</u>						
Common Equity Tier 1 (to Risk-Weighted Assets)	\$ 65,670	15.62%	\$ 18,914	≥4.5%	\$ 27,320	≥6.5%
Total Capital (to Risk- Weighted Assets)	\$ 70,925	16.87%	\$ 33,625	≥8.0%	\$ 42,031	≥10.0%
Tier I Capital (to Risk- Weighted Assets)	\$ 65,670	15.62%	\$ 25,219	≥6.0%	\$ 33,625	≥8.0%
Tier I Capital (to Average Assets)	\$ 65,670	9.46%	\$ 27,771	≥4.0%	\$ 34,713	≥5.0%
<u>As of December 31, 2022:</u>						
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%

(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 2023 (in thousands):

Beginning balance	\$ 9,737
Loans advanced	4,366
Repayments	(948)
Ending balance	\$ <u>13,155</u>

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(12) Related Party Transactions, continued

The aggregate amount of deposits of directors and executive officers and their affiliates amounted to approximately \$74,263,000 and \$75,764,000, at December 31, 2023 and 2022, 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.

	Approximate Contract Amount (in thousands)	
	2023	2022
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 90,852	89,717
Letters of credit	\$ 1,120	1,410

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.

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans and are discussed in Note 3. The allowance for credit losses for unfunded loan commitments of \$500,000, December 31, 2023, is separately classified on the balance sheet within Other Liabilities. There was no allowance for credit losses for unfunded loan commitments at December 31, 2022.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(14) Subsequent Event

On January 18, 2024, the Company borrowed an additional \$53,000,000, from the BTFFP program at a rate of 4.85%. Approximately \$53,100,000 in additional securities were pledged as collateral. The funds were subsequently invested at an interest rate of 5.40% with the Federal Reserve Bank of Atlanta. Please see Note 6 for discussion of the BTFFP program.

(15) 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.

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 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. Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate. The fair value of such loans is estimated using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those 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. 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 loan as nonrecurring Level 2. When an appraised value is used or management determines the fair value of the loan is further calculated below the appraised value of the collateral and there is not an observable market price, the Company records the loan 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.

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(15) Fair Value Measurements and Disclosures, continued

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, 2023 and 2022 (in thousands):

<u>December 31, 2023:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government sponsored enterprises	\$ 48,447	19,542	-	67,989
State, county and municipal securities	-	5,187	-	5,187
Corporate debt securities	-	2,878	-	2,878
Equity securities	2,598	-	-	2,598
Mortgage-backed securities	-	108,325	1,982	110,307
	<u>\$ 51,045</u>	<u>135,932</u>	<u>1,982</u>	<u>188,959</u>

<u>December 31, 2022:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
	<u>\$ 86,095</u>	<u>124,947</u>	<u>1,255</u>	<u>212,297</u>

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, 2023 and 2022 (in thousands):

<u>December 31, 2023:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Loans individually evaluated	\$ -	-	-	-
Loans held for sale	-	-	1,017	1,017
Total assets at fair value	<u>\$ -</u>	<u>-</u>	<u>1,017</u>	<u>1,017</u>

<u>December 31, 2022:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Loans individually evaluated	\$ -	-	3	3
Loans held for sale	-	-	-	-
Total assets at fair value	<u>\$ -</u>	<u>-</u>	<u>3</u>	<u>3</u>

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, continued

(16) Parent Company Financial Information

The following information presents the condensed balance sheets and cash flows of Peach State Bancshares, Inc. as of December 31, 2023 and 2022 and the condensed statements of operations for each of the three years ended December 31, 2023 (dollars in thousands):

CONDENSED BALANCE SHEETS

	December 31,	
	2023	2022
<u>Assets</u>		
Cash	\$ 3,142	4,444
Investment in equity securities	2,598	1,484
Investment in subsidiaries	56,229	49,169
Other assets	93	1,397
Total assets	\$ 62,062	56,494
<u>Liabilities and Stockholders' Equity</u>		
Accrued interest payable	\$ 195	198
Other liabilities	97	-
Subordinated debentures	30,900	30,335
Stockholders' equity	30,870	25,961
Total liabilities and stockholders' equity	\$ 62,062	56,494

CONDENSED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2023	2022	2021
Income:			
Interest on deposits with banks	80	10	7
Interest on equity securities	113	104	108
(Losses) gains on sale of equity securities	(49)	4	254
Gains (losses) recognized on equity securities	120	(297)	16
Total income	264	(179)	385
Expenses:			
Interest expense	1,772	1,223	965
Salaries and employee benefits	57	133	113
Outside services	-	3	21
Other operating expenses	226	239	138
Total expenses	2,055	1,598	1,237
Loss before income tax and equity in undistributed earnings of subsidiary	(1,791)	(1,777)	(852)
Income tax benefit	(450)	(428)	(256)
Loss before equity in undistributed earnings of subsidiary	(1,341)	(1,349)	(596)
Equity in undistributed earnings of subsidiary	5,112	6,871	3,177
Net income	\$ 3,771	5,522	2,581

PEACH STATE BANCSHARES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, continued

(16) Parent Company Financial Information, continued

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 3,771	5,522
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(5,112)	(6,871)
Depreciation, amortization and accretion	71	-
Losses (gains) on sale of equity securities	49	(4)
(Gains) losses on equity securities	(120)	297
Stock-based compensation	57	137
Change in other assets and liabilities	1,398	355
Net cash provided by (used in) operating activities	114	(564)
Cash flows from investing activities, consisting of capital infusion to subsidiary:	(1,043)	(7,760)
Cash flows from financing activities:		
Proceeds from sale of subordinated debentures	500	11,000
Capitalized subordinated debenture costs	(6)	(242)
Dividends to stockholders	(867)	(694)
Net cash (used in) provided by investing activities	(373)	10,064
Net (decrease) increase in cash	(1,302)	1,740
Cash at beginning of year	4,444	2,704
Cash at end of year	\$ 3,142	4,444

**Partnering with
our new neighbors
to create unlimited
possibilities.**



THANK YOU

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



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