



# MOULTRIE BANK & TRUST

2022 Annual Report





Dear Shareholders,

Moultrie Bank & Trust opened its doors on May 9, 2022, and we are proud to report that with your help, this past year has been incredible and has exceeded anything we ever imagined when we first opened the bank. Our organizers, directors and management team understood the importance of having a locally owned community bank and have worked tirelessly to establish a bank that provides services tailored to meet the needs of the communities we serve.

The community support has come from far and wide and has been tremendous. We were able to engage investors from our primary service area of Moultrie – Colquitt County, Georgia as well as our secondary service areas of Brooks, Cook, Mitchell, Thomas, Tift, and Worth counties.

Accompanying this letter, you will find the 2022 Annual Report of Moultrie Bank & Trust. We have achieved significant growth since our opening and are proud to report that we ended our first seven months of operation with total assets of \$57.7 million, total deposits of \$38.5 million, and total loans of \$10 million. Bank management and the board of directors are excited about this progress and the future growth of Moultrie Bank & Trust.

We have a great group of engaged board members along with a very talented group of employees who are working hard to make Moultrie Bank & Trust the go-to for community banking. We sincerely appreciate the shareholder and community support thus far and we look forward to being a responsive and supportive member of the community for many years to come.

Sincerely,

A handwritten signature in black ink, appearing to read "Donna S. Lott".

Donna S. Lott

President & Chief Executive Officer

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# **MOULTRIE BANK & TRUST**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

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## TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditor's Report .....</b>	<b>1</b>
<b>Financial Statements</b>	
Balance Sheet.....	3
Statement of Income .....	4
Statement of Comprehensive Income .....	5
Statement of Changes in Shareholders' Equity.....	6
Statement of Cash Flows .....	7
Supplemental Information to Statement of Cash Flows.....	8
Notes to Financial Statements .....	9

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## INDEPENDENT AUDITOR'S REPORT

Audit Committee  
Moultrie Bank & Trust

### ***Opinion***

We have audited the financial statements of Moultrie Bank & Trust (the Bank), which comprise the balance sheet as of December 31, 2022, the related statement of income, comprehensive loss, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

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

### ***Basis for Opinion***

We conducted our audit 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 Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a period of one year after the issuance of the financial statements.

### ***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 Bank'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 Bank'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.

*Symphona LLP*

Dublin, Georgia  
April 24, 2023

# MOULTRIE BANK & TRUST

## BALANCE SHEET

	<u>As of December 31,</u>
	<u>2022</u>
<b>Assets</b>	
Cash and due from banks	\$ 1,573,212
Federal funds sold	625,000
Interest-bearing deposits in other banks	<u>12,323,899</u>
Total cash and cash equivalents	<u>14,522,111</u>
Time deposits in other banks	2,953,332
Securities available for sale, at fair value	27,488,839
Loans, net of unearned income	10,182,679
Less - allowance for credit losses	<u>120,592</u>
Loans, net	<u>10,062,087</u>
Premises and equipment, net	2,208,739
Accrued interest receivable	333,232
Lease right-of-use asset	36,013
Other assets	<u>138,505</u>
<b>Total Assets</b>	<u><u>\$ 57,742,858</u></u>
<b>Liabilities and Shareholders' Equity</b>	
Deposits:	
Non-interest bearing	\$ 20,399,595
Interest bearing	<u>18,169,306</u>
Total deposits	<u>38,568,901</u>
Accrued interest payable	2,516
Lease liability	8,523
Accrued expenses and other liabilities	<u>19,696</u>
Total liabilities	<u>38,599,636</u>
Shareholders' Equity:	
Common stock, \$1 par value, authorized 20,000,000 shares, 2,157,197 issued and outstanding in 2022	2,157,197
Preferred stock, \$1 par value, authorized 1,000,000 shares, none issued and outstanding in 2022	-
Additional paid-in capital	19,379,672
Additional paid-in capital, warrants	302,115
Accumulated deficit	(2,332,489)
Accumulated other comprehensive loss	<u>(363,273)</u>
Total shareholders' equity	<u>19,143,222</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u><u>\$ 57,742,858</u></u>

# MOULTRIE BANK & TRUST

## STATEMENT OF INCOME

	<u>Year ended December 31,</u>
	<u>2022</u>
<b>Interest and Dividend Income:</b>	
Interest and fees on loans	\$ 227,727
Interest income on securities	326,070
Income on federal funds sold	29,721
Income on interest-bearing deposits in other banks	<u>262,938</u>
Total interest and dividend income	<u>846,456</u>
<b>Interest Expense:</b>	
Deposits	38,259
Other interest expense	<u>18,112</u>
Total interest expense	<u>56,371</u>
Net interest income before provision for loan losses	790,085
Less - provision for loan losses	<u>120,592</u>
Net interest income after provision for loan losses	<u>669,493</u>
<b>Noninterest Income:</b>	
Service charges on deposit accounts	11,133
Other income	<u>324</u>
Total noninterest income	<u>11,457</u>
<b>Noninterest Expense:</b>	
Salaries	1,865,723
Net occupancy expense	54,397
Equipment rental and depreciation of equipment	31,341
Data processing	226,261
Other expenses	<u>835,717</u>
Total noninterest expense	<u>3,013,439</u>
<b>Loss Before Income Taxes</b>	(2,332,489)
Benefit of income taxes	<u>-</u>
<b>Net Loss</b>	<u>\$ (2,332,489)</u>
<b>Earnings per Common Share</b>	
Basic	<u>\$ (1.08)</u>
Diluted	<u>\$ (1.08)</u>

**MOULTRIE BANK & TRUST**  
**STATEMENT OF COMPREHENSIVE LOSS**

	<i>Year ended December 31,</i>
	<b>2022</b>
<b>Net Loss</b>	<u>\$ (2,332,489)</u>
Other comprehensive loss:	
Unrealized holding losses on securities available for sale	<u>(363,273)</u>
<b>Net unrealized losses</b>	<b>(363,273)</b>
Tax effect	<u>-</u>
Total other comprehensive loss, net of tax	<u>(363,273)</u>
<b>Total comprehensive loss</b>	<u><u>\$ (2,695,762)</u></u>

**MOULTRIE BANK & TRUST**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Common Stock	Additional Paid-in Capital	Additional Paid-in Capital Warrants	Retained Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
<b>Balance, December 31, 2021</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss	-	-	-	(2,332,489)	-	(2,332,489)
Other comprehensive loss	-	-	-	-	(363,273)	(363,273)
Common stock issued	2,157,197	19,414,773	302,115	-	-	21,874,085
Stock issuance costs	-	(35,101)	-	-	-	(35,101)
<b>Balance, December 31, 2022</b>	<u>\$ 2,157,197</u>	<u>\$ 19,379,672</u>	<u>\$ 302,115</u>	<u>\$ (2,332,489)</u>	<u>\$ (363,273)</u>	<u>\$ 19,143,222</u>

# MOULTRIE BANK & TRUST

## STATEMENT OF CASH FLOWS

	<i>Year ended December 31,</i>
	<b>2022</b>
<b>Cash Flows from Operating Activities:</b>	
Net loss	\$ (2,332,489)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for loan losses	120,592
Depreciation	31,341
Net amortization on securities	464,556
Cash paid for operating lease expenses	(27,490)
Changes in accrued income and other assets	(471,737)
Changes in accrued expenses and other liabilities	22,212
Net cash used in operating activities	(2,193,015)
<b>Cash Flows from Investing Activities:</b>	
Net change in loans to customers	(10,182,679)
Purchase of available for sale securities	(28,270,000)
Purchase of time deposits in other banks	(3,000,000)
Property and equipment expenditures	(2,240,080)
Net cash used in investing activities	(43,692,759)
<b>Cash Flows from Financing Activities:</b>	
Net change in deposits	38,568,901
Proceeds from issuance of stock	21,838,984
Net cash provided by financing activities	60,407,885
<b>Net Increase in Cash and Cash Equivalents</b>	14,522,111
<b>Cash and Cash Equivalents, Beginning of Year</b>	-
<b>Cash and Cash Equivalents, End of Year</b>	\$ 14,522,111

**MOULTRIE BANK & TRUST**  
SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS

**Cash paid for interest and taxes**

	<u>2022</u>
Interest on deposits and borrowings	<u>\$ 53,855</u>
Income taxes, net	<u>\$ -</u>

**Noncash items**

	<u>2022</u>
Changes in unrealized gain/loss on investments	<u>\$ (363,273)</u>



**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accounting and reporting policies of Moultrie Bank & Trust conform to generally accepted accounting principles and to general principles and practices with in the banking industry. In preparing the financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Reporting Bank***

Moultrie Bank & Trust (the “Bank”) began operation in 2022 and operates as a state-chartered bank in Moultrie, Georgia. The year ending December 31, 2022 includes the time period of May 9, 2022 through December 31, 2022. As a state chartered bank, the Bank is subject to regulation by the Georgia Department of Banking and Finance (the DBF) and the Federal Deposit Insurance Corporation (the FDIC) (collectively, the regulators). The Bank provides a variety of financial services to individuals and small businesses. Its primary deposit products are checking, savings and term certificate accounts, and its primary lending products are commercial (including agricultural), mortgage and consumer loans.

***Subsequent Events***

The Bank has evaluated subsequent events for recognition and disclosure through April 24, 2023, which is the date the financial statements were available for issue. The Bank has not evaluated subsequent events after this date.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates reported by management include the allowance for credit losses, the fair value of investment securities, and deferred taxes.

The Bank’s loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors’ ability to honor their contracts is dependent on local economic conditions.

***Cash and Cash Equivalents***

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, highly liquid debt instruments purchased with an original maturity of three months or less, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

***Interest-Bearing Deposits in Other Financial Institutions***

Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

***Securities***

Management determines the appropriate classification of the securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date.

Securities available for sale, primarily debt securities, are recorded at fair value with unrealized gains or losses (net of tax effect) excluded from earnings and reported as a component of other comprehensive income. Securities available for sale will be used as a part of the Bank’s interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, and other factors.

# MOULTRIE BANK & TRUST

## NOTES TO FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2022

Premiums and discounts on investments in debt securities are amortized over the contractual lives of securities, except for mortgage-backed securities for which prepayments are probable and predictable which are amortized over the estimated expected lives of those securities. The method of amortization results in a constant effective yield on those securities (the interest method). Interest on debt securities is recognized in income as earned, and dividends on marketable equity securities are recognized in income when declared. Realized gains and losses, including losses from declines in value of specific securities determined by management to be other-than-temporary, are included in income. Gains or losses on the sale of securities are recognized on a specific identification basis.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. A decline in the market value of any security below cost that is deemed other-than-temporary results in a charge to earnings and the establishment of a new cost basis for that security.

For debt securities, the Bank assesses whether it intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Bank separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is recognized in other comprehensive income.

#### ***Loans and Interest Income***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the amount of unpaid principal, reduced by net deferred loan fees, unearned discounts, and a valuation allowance for possible loan losses. Interest on simple interest installment loans and other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Loans are generally placed on nonaccrual status when full payment of principal or interest is in doubt, or when loans are past due 90 days as to either principal or interest. Senior management may grant a waiver from nonaccrual status if a past due loan is well secured and in process of collection. Past due status is based on the contractual terms of the loan agreement and loans are identified when principal or interest is past due 30 days or more. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest received on such loans is accounted for on either the cost-recovery or cash-basis method, until qualifying for return to accrual status. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. A nonaccrual loan may be restored to accrual status when all principal and interest amounts contractually due, including payments in arrears, are brought current and future payments are reasonably assured.

#### ***Allowance for Credit Losses - Loans***

Under the current expected credit loss model, the allowance for credit losses (ACL) on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Expected credit losses are reflected in the allowance for credit losses through a change to provision for credit losses. Loan losses are charged against the allowance for credit losses when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for credit losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance for credit losses consists of specific, general, and unallocated components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by

# MOULTRIE BANK & TRUST

## NOTES TO FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2022

management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans identified as impaired are allocated with a specific portion of the allowance for credit loss, if necessary, so that the loan is presented net, at the present value of the estimated future cash flows using the loan's existing rate or at the fair value of collateral if payment is expected solely from the collateral. Substantially all of the Bank's loans identified as impaired have been measured by the fair value of existing collateral.

The general component includes loans that are collectively evaluated for expected losses. Large groups of smaller balance homogeneous loans, such as individual consumer loans, are collectively evaluated for expected losses, and accordingly are not included in the disclosures relating to individually evaluated loans. The general allowance component also includes loans that are not individually evaluated. In determining the appropriate level of allowance for credit losses, management uses information to disaggregate the loan portfolio segments into loan pools with common risk characteristics. The general component is based on projected losses and further adjusted by various qualitative factors. The loss projection is determined by portfolio segment and is based on the actual loss history experienced by the Bank using the average lives of each portfolio segment, multiplied by the average remaining life of loans within each segment. This actual loss experience is supplemented with other factors based on economic conditions and the overall loan portfolio. These factors include loan concentrations and trends in past due, nonaccrual and adversely classified loans, and the unemployment rate in the Bank's market area.

#### ***Premises and Equipment***

Land is carried at cost. Other premises and equipment are stated at cost, less accumulated depreciation. Depreciation is charged to operating expenses over the estimated useful lives of the assets and is computed on the straight-line method. In general, estimated lives for buildings are up to 40 years, furniture and equipment useful lives range from three to 20 years, and the lives of software and computer related equipment range from three to five years. Expenditures for major improvements of the Bank's premises and equipment are capitalized and depreciated over their estimated useful lives. Minor repairs, maintenance and improvements are charged to operations as incurred. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

#### ***Other Real Estate Owned and Repossessed Assets***

Other real estate owned, acquired primarily through or in lieu of foreclosure, and repossessed assets are held for sale and are initially recorded at fair value less costs to sell, establishing a new cost basis. Loan losses incurred in the acquisition of these properties are charged against the allowance for credit losses at the time of foreclosure. Costs of improvements are capitalized up to the fair value of the property, whereas costs related to holding other real estate owned and repossessed assets and subsequent adjustments to the value are charged against current period operations.

Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

#### ***Income Taxes***

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Bank recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The amount of unrecognized tax benefits is adjusted as appropriate for changes in

# MOULTRIE BANK & TRUST

## NOTES TO FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2022

facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination.

The Bank recognizes interest and penalties related to income tax matters in income tax expense.

#### **Advertising Costs**

It is the policy of the Bank to expense advertising costs as they are incurred. The Bank does not engage in any direct response advertising and accordingly has no advertising costs reported as assets on its balance sheet. The amount charged to advertising expense for the year ended December 31, 2022 was \$41,915.

#### **Earnings per Common Share**

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed conversion.

Common shares issuable upon exercise of the stock options/warrants issued in a share based payment arrangement (see Note 10) have not been included in the computation, because their inclusion would have had an anti-dilutive effect (reduced the loss per common share) applicable to the loss from continuing operations for the period. Earnings per common share have been computed based on the following:

	<i>Year ended December 31,</i>
	<b>2022</b>
Net loss	\$ (2,332,489)
Net loss available to common shareholders	\$ (2,332,489)
Weighted average number of common shares outstanding	2,157,197
Effect of dilutive options, warrants, etc.	-
Weighted average number of common shares outstanding used to calculate diluted earnings per common share	2,157,197

#### **Comprehensive Income**

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

#### **Revenue Recognition**

With the exception of gains and losses on the sale of other real estate and repossessed assets discussed below, revenue from contracts with customers ("ASC 606 Revenue") is recorded in the "Service charges on deposit accounts" category and "Other income" category in the Bank's statements of income as part of noninterest income. All ASC 606 Revenue is recorded from the Bank's operations.

**Card Interchange Fees** – The Bank earns interchange fees from cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction amount and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

**NSF and Overdraft Fees** – NSF and overdraft fees are recognized at the point in that the overdraft occurs.

**Other Services Charges on Deposit Accounts** — Other service charges on deposit accounts include both transaction-based and account maintenance fees. Transaction based fees, which include wire transfer fees, stop payment charges, statement rendering, and automated clearing house ("ACH") fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly

# MOULTRIE BANK & TRUST

## NOTES TO FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2022

maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation.

*ATM Fees* — Transaction based ATM usage fees are recognized at the time the transaction is executed as that is the point at which the Bank satisfies the performance obligation.

*Gains on the Sale of Other Real Estate Owned and Repossessed Assets* — The net gains and losses on sales of other real estate owned (ORE) and repossessed assets are recorded in credit resolution related income or expenses in the Bank's statements of income. The Bank records a gain or loss from the sale of ORE and repossessed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of ORE and repossessed assets to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the ORE and repossessed asset is derecognized and the gain on sale is recorded upon the transfer of control of the property to the buyer. The Bank does not provide financing for the sale of ORE and repossessed assets unless these criteria are met and the ORE and repossessed assets can be derecognized.

#### **Changes in Accounting Principles and Effects of New Accounting Pronouncements**

*ASU 2016-13 - Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* In June 2016, the FASB issues ASU 2016-13, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. ASU 2016-13 is effective for the Bank as of January 1, 2023; however, the Bank made the election to early adopt the standard in the year ending December 31, 2022.

*ASU 2022-02 - Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.* On March 28, 2022, the FASB issued Accounting Standards Update (ASU) 2022-02. The amendments in ASU 2022-02 relate to the adoption of the amendments in ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and respond to feedback received from stakeholders who have been implementing ASU 2016-13. ASU 2016-13 substantially changes existing U.S. generally accepted accounting principles (U.S. GAAP) on credit losses by moving from an incurred-loss approach to an expected-loss approach. For nonpublic business entities, the effective date for ASU 2016-13 is for 2023 calendar years and early implementation is allowed.

*ASU 2019-12 – Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* In December 2019, the FASB issued ASU 2019-12, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. The amendments in this update should be applied on a retrospective basis. This ASU was effective beginning on January 1, 2022. The guidance did not have a significant impact on the Bank's financial position, results of operations or disclosures.

*ASU 2016-02 – Leases (Topic 842):* In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Bank adopted Topic 842 on May 9, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Bank has applied Topic 842 to reporting periods beginning on May 9, 2022, while prior periods continue to be reported and disclosed in accordance with the Bank's historical accounting treatment under ASC Topic 840, Leases.

# MOULTRIE BANK & TRUST

## NOTES TO FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2022

The Bank elected the “package of practical expedients” under the transition guidance within Topic 842, in which the Bank does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Bank has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on May 9, 2022.

The Bank determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Bank obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Bank also considers whether its service arrangements include the right to control the use of an asset.

The Bank made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Bank made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date or remaining term for leases existing upon the adoption of Topic 842.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Bank has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to the Bank, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Bank’s operating leases of approximately \$36,013 and \$8,523, respectively, at May 9, 2022. The adoption of the new lease standard did not materially impact net earnings or cash flows and did not result in a cumulative-effect adjustment to the opening balance of retained earnings.

**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

**NOTE 2 SECURITIES**

The following table reflects the amortized cost and estimated market value of securities available for sale at December 31, 2022. In addition, gross unrealized gains and gross unrealized losses are disclosed as of December 31, 2022.

The book and market values of securities **available for sale** were:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Market Value</u>
<b>December 31, 2022</b>				
U.S. Treasury securities	\$ 21,830,444	\$ -	\$ (303,831)	\$ 21,526,613
U.S. Government agencies	<u>5,975,000</u>	<u>6,143</u>	<u>(18,917)</u>	<u>5,962,226</u>
Total securities available for sale	<u>\$ 27,805,444</u>	<u>\$ 6,143</u>	<u>\$ (322,748)</u>	<u>\$ 27,488,839</u>

At December 31, 2022, the Bank held no pledged securities and did not hold investment securities of any single issuer, other than obligations of the U.S. Government and its agencies, whose aggregate book value exceeded ten percent of shareholders' equity.

The amortized cost and estimated market value of debt securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>December 31, 2022</u>	
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
<b>Available for Sale</b>		
Non-mortgage debt backed securities:		
Due in one year or less	\$ 4,972,731	\$ 4,933,674
Due after one year through five years	<u>22,832,713</u>	<u>22,555,165</u>
Total non-mortgage backed debt securities	27,805,444	27,488,839
Residential mortgage backed securities	<u>-</u>	<u>-</u>
Total	<u>\$ 27,805,444</u>	<u>\$ 27,488,839</u>

The following summarizes securities with unrealized losses at December 31, 2022, aggregated by major security type and length of time in a continuous loss position:

	<u>December 31, 2022</u>			
	<u>Less Than Twelve Months</u>		<u>Twelve Months or More</u>	
	<u>Unrealized Losses</u>	<u>Estimated Market Value</u>	<u>Unrealized Losses</u>	<u>Estimated Market Value</u>
<b>Available for Sale</b>				
U.S. Treasury securities	\$ 303,831	\$ 21,526,613	\$ -	\$ -
U.S. Government agencies	<u>18,917</u>	<u>5,962,226</u>	<u>-</u>	<u>-</u>
Total securities available for sale	<u>\$ 322,748</u>	<u>\$ 27,488,839</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2022, twenty-two securities were in an unrealized loss position with aggregate depreciation of 1.16% from the Bank's amortized cost basis.

At December 31, 2022, the Bank held eighteen U.S. Treasury securities that were in an unrealized loss position. The unrealized losses were attributable to changes in interest rates, and not credit quality. Additionally, the contractual terms of these

**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

investments do not permit the issuer to settle at a price less than the amortized cost of the investment. Because the Bank does not intend to sell these securities and it is likely that it will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2022.

At December 31, 2022, the Bank held four U.S. Government agency securities that were in an unrealized loss position. The unrealized losses were attributable to changes in interest rates, and not credit quality. Additionally, the contractual terms of these investments do not permit the issuer to settle at a price less than the amortized cost of the investment. Because the Bank does not intend to sell these securities and it is likely that it will not be required to sell the securities before recovery of its amortized cost basis, which may be maturity, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2022.

There were no sales of securities available for sale for the year ended December 31, 2022.

**NOTE 3 LOANS**

The Bank engages in a full complement of lending activities, including real estate-related loans, commercial and industrial loans and consumer installment loans. Loans are stated at unpaid balances, net of unearned income and deferred loan fees. Balances within the major loans receivable categories at December 31, 2022 are presented in the following table:

	<u>As of December 31,</u>
	<u>2022</u>
Commercial Real Estate	\$ 8,087,311
Residential Real Estate	488,676
Commercial	1,497,869
Consumer	106,820
Total Loans	10,180,676
Other:	
Overdraft, In-Process, and Suspense Accounts	2,003
Allowance for Loan Losses	(120,592)
Loans, net	<u>\$ 10,062,087</u>

Overdrafts included in loans were \$3 at December 31, 2022.

The loan categories identified are segregated into segments that represent similar risk characteristics, which include the following:

Commercial Real Estate: Commercial real estate mortgage loans include both owner occupied and non-owner occupied commercial real estate loans and loans secured by income producing properties. Owner occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from business activities. Commercial real estate loans for income producing properties are repaid through rental income generated from the properties. Loans within this portfolio segment are sensitive to the valuation of the related real estate.

Residential Real Estate: Residential mortgage loans include real estate loans secured by first liens, second liens, or open-ended loans, such as home equity lines of credit. Residential real estate loans are repaid through various means, which include borrower's income, sale of the real estate, or rental income generated from the property. Loans within this portfolio segment are sensitive to the valuation of the related real estate.

Commercial: The commercial loan portfolio segment includes non-real estate commercial and financial loans. These loans are primarily used in the normal business operations to finance working capital needs, equipment purchases, or expansion projects.



**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

Loans are traditionally paid through cash flows generated from business activities. Collection risk in the portfolio is directly related to the creditworthiness of the underlying borrower and related cash flows from business operations.

Consumer: Consumer loans include direct consumer installment loans and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

***Nonaccrual and Past Due Loans***

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Past due loans are loans whose principal or interest is past due 30 days or more. There were no nonaccrual loans or past due loans as of December 31, 2022.

***Allowance for credit losses***

The allowance for credit losses represents a reserve for inherent losses in the loan portfolio. The adequacy of the allowance for credit losses is evaluated periodically based on a review of all significant loans, with a particular emphasis on nonaccrual, past due and other loans that management believes might be potentially impaired or warrant additional attention. The Bank segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio. In addition, based on internal reviews and external reviews performed by independent auditors and regulatory authorities, the Bank further segregates the loan portfolio by loan grades based on an assessment of risk for a particular loan or group of loans.

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2022.

	<u>Commercial</u>	<u>Residential</u>			
	<u>Real Estate</u>	<u>Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
<b>December 31, 2022</b>					
<b>Allowance for credit losses:</b>					
Beginning Balance	\$ -	\$ -	\$ -	\$ -	\$ -
Chargeoffs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision	<u>95,796</u>	<u>5,788</u>	<u>17,743</u>	<u>1,265</u>	<u>120,592</u>
Ending Balance	<u>\$ 95,796</u>	<u>\$ 5,788</u>	<u>\$ 17,743</u>	<u>\$ 1,265</u>	<u>\$ 120,592</u>
<b>Period-end amount allocated to:</b>					
Loans individually evaluated	\$ -	\$ -	\$ -	\$ -	\$ -
Loans collectively evaluated	<u>95,796</u>	<u>5,788</u>	<u>17,743</u>	<u>1,265</u>	<u>120,592</u>
Ending balance	<u>\$ 95,796</u>	<u>\$ 5,788</u>	<u>\$ 17,743</u>	<u>\$ 1,265</u>	<u>\$ 120,592</u>
<b>Loans:</b>					
Loans individually evaluated	\$ -	\$ -	\$ 224,742	\$ -	\$ 224,742
Loans collectively evaluated	<u>8,087,311</u>	<u>488,676</u>	<u>1,273,127</u>	<u>106,820</u>	<u>9,955,934</u>
Ending balance	<u>\$ 8,087,311</u>	<u>\$ 488,676</u>	<u>\$ 1,497,869</u>	<u>\$ 106,820</u>	<u>10,180,676</u>
Overdraft, in-process, and suspense accounts					<u>2,003</u>
Total loans					<u>\$ 10,182,679</u>

**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

***Individually Evaluated Loans***

The following table presents an analysis of loans individually evaluated by management segregated by loan classification as of December 31, 2022.

	<b>As of December 31, 2022</b>				
	Unpaid	Recorded	Recorded		
	Total	Investment	Investment	Total	
	Principal	With No	With	Recorded	Related
	Balance	Allowance	Allowance	Investment	Allowance
Commercial Real Estate	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate	-	-	-	-	-
Commercial	224,742	224,742	-	224,742	-
Consumer	-	-	-	-	-
<b>Total</b>	<b>\$ 224,742</b>	<b>\$ 224,742</b>	<b>\$ -</b>	<b>\$ 224,742</b>	<b>\$ -</b>

***Troubled Debt Restructurings***

The restructuring of a loan is deemed to be a TDR if the borrower is experiencing financial difficulties and the Bank grants certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Loan modifications are reviewed and approved by the Bank's senior lending staff, who then determine whether the loan meets the criteria for a TDR. In order to determine whether a borrower is experiencing financial difficulties, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. This evaluation is conducted under the Bank's internal underwriting process. Concessions that may be granted include interest rate reductions, principal or interest forgiveness, restructuring of amortization schedules or maturity date, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Each potential loan modification is reviewed individually, and the terms of the loan are modified to meet the borrower's specific circumstances at a point in time. Not all loan modifications are TDRs. Generally, a nonaccrual loan that has been modified in a TDR remains on nonaccrual status for a period subsequent of modification to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status.

As of December 31, 2022, the Bank had no recorded investment in TDRs.

During the year ended December 31, 2022, the Bank reported no new loans modified as TDRs.

***Credit Quality Indicators***

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service debts, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. Loans are graded on an eight category risk grading system to assign a risk grade to each loan in the portfolio. Loans assigned an internal loan grade of 1 through 4 are considered to be pass rated loans. The following is a description of the general characteristics of the remaining loan grades:

**Grade 5 – Special Mention**

Included in this category are loans which do not presently expose the Bank to a sufficient degree of risk to warrant adverse classification but do possess credit deficiencies requiring management's close attention. Failure to correct deficiencies could result in greater credit risk in the future. Ordinarily, such borderline credits have characteristics which corrective management attention would remedy. Often in credit lines warranting special mention, it is the Bank's weak origination and/or servicing policies which constitute the cause for criticism.

Specific negative events within the obligor or the industry jeopardize cash flow and repayment. Management has potential weakness and backup depth is weak. Borrower is taking positive steps to improve position. Moderate delinquency may exist

**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

from time to time. Individuals may exhibit some degree of weakness in financial condition. The weakness may be compounded by inadequate account officer administration.

Grade 6 – Substandard

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

In the case of troubled real estate loans, well defined weaknesses included a project’s lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project’s failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

In the case of consumer credit, closed end consumer installment loans delinquent between 90 and 119 days (four monthly payments) will be classified substandard. Open end consumer credit will be classified substandard if delinquent 90 to 179 days (four to six billing cycles).

Grade 7 – Doubtful

Loans classified doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

In the case of real estate loans, a doubtful classification may be appropriate where significant risk exposures are perceived, but loss cannot be determined because of specific reasonable pending factors which may strengthen the credit in the near term.

Grade 8 – Loss

Loans classified loss are considered uncollectible and such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

In the case of consumer credit, closed end consumer installment loans delinquent 120 days or more (five monthly payments) will be classified loss. Open end consumer credit will be classified loss if delinquent 180 days or more (seven or more billing cycles).

No loans were identified as “doubtful” or “loss” grades during the year ended December 31, 2022.

The following table presents the loan portfolio by risk grade as of December 31, 2022:

	<b>As of December 31, 2022</b>			
	Pass	Special Mention	Substandard	Total
Commercial Real Estate	\$ 8,087,311	\$ -	\$ -	\$ 8,087,311
Residential Real Estate	488,676	-	-	488,676
Commercial	1,497,869	-	-	1,497,869
Consumer	106,820	-	-	106,820
Total	\$ 10,180,676	\$ -	\$ -	10,180,676
Overdraft, in-process, and suspense accounts				2,003
Deferred fees				-
Total Loans				\$ 10,182,679

**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

**NOTE 4 PREMISES AND EQUIPMENT**

Premises and equipment as of December 31, 2022 are summarized as follows:

	<b>2022</b>
Land	\$ 975,000
Buildings and improvements - Construction in progress	1,115,554
Equipment, furniture and fixtures	149,526
Total	2,240,080
Less - accumulated depreciation	31,341
Premises and equipment, net	\$ 2,208,739

Depreciation expense included in operating expenses was \$31,341 for the year ended December 31, 2022.

**NOTE 5 LEASES**

The Bank leases real estate and office equipment under operating lease agreements that have initial terms ranging from one to five years. In addition, certain leases contain termination options, where the rights to terminate are held by either the Bank, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Bank will exercise that option. The Bank's operating leases generally do not contain any material restrictive covenants or residual value guarantees. As of December 31, 2022, the Bank has recorded on the consolidated balance sheet significant asset and liability balances associated with the operating leases, as described further below.

As of December 31, 2022, the Bank does not lease any assets under finance lease agreements.

Operating lease agreements are primarily for real estate space and are included within right-of-use assets and lease liabilities related to operating leases on the consolidated balance sheet. The terms of the Bank's operating leases vary and generally contain renewal options.

Right-of-use (ROU) assets represent the Bank's right to use an underlying asset for the lease term, and lease liabilities represent the Bank's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date of the lease based on the estimated present value of lease payments over the lease term. The Bank's variable lease payments consist of non-lease services related to the lease. As the Bank's leases do not provide an implicit rate, the Bank uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Many of the Bank's lessee agreements include options to extend the lease, which the Bank does not include in the minimum lease terms unless they are reasonably certain to be exercised.

The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease cost	\$ 6,535
Short-term lease cost	33,280
Total lease cost	\$ 39,815

Supplemental cash flow information related to leases is as follows for the year ended December 31, 2022:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash outflows—payments on operating leases	\$ 34,025
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	\$ 42,295

**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

Weighted average remaining lease term and discount rate are as follows as of December 31, 2022:

Weighted-average remaining lease term:	
Operating leases	4.17 years
Weighted-average discount rate:	
Operating leases	3.25%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2022:

	Operating Leases
Years ending, December 31:	
2023	\$ 2,190
2024	2,190
2025	2,190
2026	2,190
2027	365
Thereafter	-
Total lease payments	9,125
Less imputed interest	(602)
Total present value of lease liabilities	\$ 8,523

Future expected expenses for each of the next five years and thereafter are as follows as of December 31, 2022:

	Operating Leases
Years ending, December 31:	
2023	\$ 29,862
2024	2,197
2025	2,131
2026	2,066
2027	338
Thereafter	-
Total lease payments	\$ 36,594

During the year ended December 31, 2022, the Bank entered into a lease for its Moultrie banking location.

**NOTE 6 OTHER REAL ESTATE OWNED**

As of December 31, 2022, the balance of other real estate owned included no foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2022, the Bank held no consumer mortgage loans secured by residential real estate properties for which formal foreclosure procedures were in process.

**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

**NOTE 7 DEPOSITS**

The aggregate amount of time deposits that met or exceeded the FDIC Insurance limit of \$250,000 at December 31, 2022 were \$1,066,941.

At December 31, 2022, the scheduled maturities of time deposits were as follows:

2023	\$ 1,587,363
2024	-
2025	-
2026	-
2027 and thereafter	<u>370,483</u>
Total time deposits	<u>\$ 1,957,846</u>

**NOTE 8 OTHER BORROWINGS**

The Bank maintained lines of credit for federal funds purchased with correspondent institutions of \$8,000,000 as of December 31, 2022. At December 31, 2022, the Bank did not have an outstanding balance borrowed against these lines of credit.

**NOTE 9 EMPLOYEE BENEFIT PLANS**

Effective July 1, 2022, the Bank adopted a 401(k)-plan covering substantially all of its employees meeting age and length-of-service requirements. The plan provides a safe harbor matching contribution of up to 4% of employee compensation for each employee. In addition, the Bank may make a profit-sharing contribution that is determined annually by the Board of Directors. The Bank made matching contributions of \$26,790 for the year ended December 31, 2022. Retirement plan expenses for administrative fees charged to operations amounted to \$81 for the year ended December 31, 2022.

**NOTE 10 STOCK-BASED COMPENSATION**

The Bank established an employee and director stock based compensation plan during the year ended December 31, 2022. The Board of Directors authorized 517,000 shares that included 200,000 shares under an Incentive Stock Option (ISO) pool for management as well as 317,000 shares under a Warrant pool (Class A and Class B) for Directors. As of December 31, 2022, 122,000 shares were granted to management under the ISO, and 317,000 shares were granted to directors under the Class A and Class B warrant pool.

Under the Bank's plan, one-third of the ISOs granted to each individual become exercisable annually beginning on the first anniversary of the grant. Options may be exercised at any time until the tenth anniversary of the grant. Under the plan, option holders have the right at any time, with respect to all exercisable options, to exercise any number of exercisable options by paying the exercise price and receiving the number of common shares equal to the number of options exercised.

The Class A Warrants (Service Warrants) are being awarded for the Director's willingness to serve on the Board of the Bank. Each Class A Warrant is (a) vested ratably over a three-year period; and (b) exercisable to acquire 0.4 shares for an exercise price of \$10.00 per share. Each Class A warrant expires on the tenth anniversary of the date that the Bank opens for business. Each Organizer shall receive the number of Class B Warrants (Risk Warrants) [Type II] equal to the total amount of money each individual placed at risk to pay for organization expenses, divided by \$10.00. Each Class B Warrant is (a) vested immediately; and (b) exercisable to acquire 1 share for an exercise price of \$10.00 per share. Each Class B warrant expires on the tenth anniversary of the date that the Bank opens for business.

Shares of common stock held by the Stock-Based Compensation Plan are valued on an annual basis by the Board of Directors based on the most recent stock transaction price or by a third party valuation analysis. As of December 31, 2022, the fair value of the incentive stock options was considered to be \$2.19 and \$1.83 for Class A and Class B warrants, respectively. The December 31, 2022 valuation is based on a valuation performed prior to the scheduled opening of the Bank. As there is no tax event until the actual sale of the stock purchased, no compensation expense was recognized. For the Class B warrants,

**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

\$302,115 of expense was recognized for the year ended December 31, 2022. The total fair market value of these awards at December 31, 2022 is \$904,367.

As of December 31, 2022, 165,000 shares of Class B Warrants were vested. As of December 31, 2022, there were no incentive stock options or class A warrants vested.

**NOTE 11 INCOME TAXES**

The provision for income taxes for the year ended December 31, 2022 is as follows:

	<u>Year Ended December 31,</u> <u>2022</u>
Current tax expense (benefit)	\$ -
Deferred tax benefit	(630,679)
Change in valuation allowance	<u>630,679</u>
Net provision for (benefit of) income taxes	<u>\$ -</u>

Deferred income taxes are reflected for certain timing differences between book and taxable income and will be reduced in future years as these timing differences reverse. The reasons for the difference between the actual tax expense and tax computed at the federal income tax rate are as follows:

	<u>Year Ended December 31,</u> <u>2022</u>
Tax on pretax income at statutory rate	\$ (489,823)
Non-deductible stock-based compensation	63,445
State income taxes, net of federal tax benefit	(128,014)
Change in valuation allowance	630,679
Tax effect of other comprehensive income	<u>(76,287)</u>
Total	<u>\$ -</u>
Net effective tax rate	<u>0.0%</u>

The sources and tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

	<u>Years Ended December 31,</u> <u>2022</u>
Deferred Income Tax Assets:	
Provision for loan losses	\$ 25,324
Net operating loss carryforwards	532,767
Unrealized losses on securities available for sale	<u>76,287</u>
Total deferred tax assets	634,378
Less: valuation allowance	<u>(630,679)</u>
Net deferred tax assets	<u>\$ 3,699</u>
Deferred Income Tax Liabilities:	
Depreciation	<u>(3,699)</u>
Total deferred tax liabilities	<u>(3,699)</u>
Net deferred tax asset (liability)	<u>\$ -</u>

# MOULTRIE BANK & TRUST

## NOTES TO FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2022

As of December 31, 2022, the Bank did not have federal and state net operating loss carryforwards. The Bank had no uncertain tax positions that qualify for recognition or disclosure as of December 31, 2022. The Bank is subject to U.S. federal income tax as well as income tax of the state of Georgia. The Bank is subject to examination by taxing authorities for years ended December 31, 2022 and thereafter.

#### **NOTE 12 REGULATORY MATTERS**

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involving quantitative measures of assets, liabilities, and certain off balance sheet items are calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2021, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8.0% as of December 31, 2020, 8.5% for calendar year 2021, and 9.0% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7.0% as of December 31, 2020, 7.5% for calendar year 2021, and 8.0% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2022, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The Bank's actual and required capital amounts and ratios are presented in the following table.



**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions (CBLR)	
	Amount	Ratio	Amount	Ratio
	<i>As of December 31, 2022</i>			
Tier 1 Capital To (Average Assets)	\$ 19,144,000	37.26%	\$ 4,367,000 ≥	8.5%

**NOTE 13 LIMITATION ON DIVIDENDS**

The Board of Directors of any state-chartered bank in Georgia may declare and pay cash dividends on its outstanding capital stock without any request for approval of the Bank's regulatory agency if the following conditions are met:

- 1) Total classified assets at the most recent examination of the bank do not exceed eighty (80) percent of Tier 1 Capital plus the allowance for credit losses as reflected at such examination.
- 2) The aggregate amount of dividends declared in the calendar year does not exceed fifty (50) percent of the net income that is attributable to the bank that is a Subchapter C-Corporation for the previous calendar year as reported on the Consolidated Reports of Income, Schedule RI-Income Statement.
- 3) The ratio of Tier 1 Capital to Adjusted Total Assets shall not be less than six (6) percent.

As a de novo institution, Moultrie Bank & Trust may not pay dividends for the first three years of operation.

**NOTE 14 COMMITMENTS AND CONTINGENCIES**

***Loan Commitments***

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in those particular financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank does require collateral or other security to support financial instruments with credit risk.

The contractual amounts of financial instruments with off-balance sheet risk as of December 31, 2022 were as follows:

	<i>As of December 31,</i>
	<b>2022</b>
Commitments to extend credit	\$ 2,146,000
Standby letters of credit	-
Total	\$ 2,146,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a

# MOULTRIE BANK & TRUST

## NOTES TO FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2022

case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. All letters of credit are due within one year of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

#### **Contingencies**

In the ordinary course of business, the Bank has various outstanding contingent liabilities that are not reflected in the financial statements. Management does not believe that such matters outstanding have a material effect on the financial statements.

#### **NOTE 15 RELATED PARTY TRANSACTIONS**

The Bank has direct and indirect loans outstanding to or for the benefit of certain executive officers and directors. These loans were made on substantially the same terms as those prevailing, at the time made, for comparable loans to other persons and did not involve more than the normal risk of collectability or present other unfavorable features.

The following is a summary of activity during the year ended December 31, 2022 with respect to such loans to these individuals:

Balances at December 31, 2021	\$	-
Advances		1,868,377
Repayments		<u>(1,341,545)</u>
Balances at December 31, 2022	\$	<u>526,832</u>

The Bank also had deposits from these related parties of \$32,278,066 at December 31, 2022.

#### **NOTE 16 FAIR VALUE**

Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability, other than in a forced liquidation, in accordance with ASC 820. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair value is based on discounted cash flows or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The Bank uses a fair value hierarchy that identifies three levels of input that may be used to measure fair value. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting Bank and the reporting Bank's own assumptions about market participant assumptions based on the best information available. The following is a description of the three levels of inputs that may be used to measure fair value:

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

Level 2 – Valuation is based upon observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

# MOULTRIE BANK & TRUST

## NOTES TO FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2022

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

The fair value of securities available for sale is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and municipal bonds. The Level 2 fair value pricing is provided by an independent third party and is based upon similar securities in an active market. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain residual municipal securities and other less liquid securities.

#### **Impaired Loans**

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if repayment of the loan is dependent upon the sale of the underlying collateral. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the impaired loan as nonrecurring Level 3.

#### **Other Real Estate Owned and Repossessed Assets**

Other real estate owned and repossessed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Other real estate owned and repossessed assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. Due to management adjustments of appraised values for estimated selling costs and other market conditions related to individual properties, other real estate owned and repossessed assets are reported as nonrecurring Level 3.

#### **Assets Recorded at Fair Value on a Recurring Basis**

The table below presents the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2022, aggregated by the level in the fair value hierarchy within which those measurements fall.

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
<i>ASSETS:</i>				
Securities available for sale				
U.S. Treasury Securities	\$ -	\$ 21,526,613	\$ -	\$ 21,526,613
U.S. Government agencies	-	5,962,226	-	5,962,226
Total securities available for sale	\$ -	\$ 27,488,839	\$ -	\$ 27,488,839

#### **Assets Recorded at Fair Value on a Nonrecurring Basis**

The Bank's held no assets measured at fair value on a nonrecurring basis as of December 31, 2022.

## **NOTE 17 CREDIT RISK CONCENTRATION**

The Bank grants consumer, agribusiness, commercial and residential loans to customers. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the area's economic stability. The primary trade area for the Bank is generally that area within fifty miles in each direction.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit in excess of the legal lending limit to any single borrower or group of related borrowers.

**MOULTRIE BANK & TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2022**

The Bank offers a variety of deposit products to its customers. Although the Bank largely has a diversified customer base, approximately 78.73% of its deposit balance outstanding was held by three relationships as of December 31, 2022.

The Bank offers a variety of loan products to its customers. Although the Bank largely has a diversified customer base, approximately 60.33% of its loan balance outstanding was held by four relationships as of December 31, 2022.

The Bank maintains cash balances at multiple correspondent financial institutions subject to FDIC coverage of \$250,000. The Bank had uninsured balances of \$3,269,852 at these institutions as of December 31, 2022.

The Bank also maintains a cash balance in an account held with the FRB. The FRB is not a financial institution, and as a result, funds held are not subject to FDIC coverage. As of December 31, 2022, the Bank had an outstanding balance of \$849,899 with the FRB, which was entirely uninsured.

**NOTE 18 OPERATING INCOME AND EXPENSES**

Components of other operating expenses greater than 1% of total interest income and other income for the year ended December 31, 2022 are as follows:

	<u>2022</u>
Legal and accounting fees	\$ 288,192
Examinations	32,311
Office building expense	12,507
Real estate tax	10,974
Office supplies	27,199
Phone and internet expense	22,189
Advertising	41,915
Instant issue debit card expenses	13,336
Director warrants	302,115
Directors and officers insurance	8,703
Training	13,378
Bank charges	11,221

No components of other operating income were greater than 1% of total interest income and other income for the year ended December 31, 2022.

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## BOARD OF DIRECTORS

TONY W. LASSETER, CHAIRMAN  
JOSEPH P. BAKER, VICE-CHAIRMAN  
CHARLES H. CANNON, IV  
JOHN J. COLE, JR.  
HENRY BART DAVIS, JR.  
TRENTON A. DAVIS  
JOSEPH PRESTON JIMMERSON  
TONY W. LASSETER, II  
DONNA S. LOTT  
JOHN MARK MOBLEY, III  
S. LOUIE PERRY, III  
JODY GARRETT TYSON  
WILLIAM BRADLEY TYSON

## SENIOR OFFICERS

DONNA S. LOTT, PRESIDENT & CEO  
COLLIN M. BATCHELOR, EVP & CFO  
JOHN C. PETERS, JR., EVP & CLO  
GINGER BOYD, SVP & SOO  
BRILEY C. EDWARDS, SVP & SCO

## INVESTOR RELATIONS

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