



United National Bank

FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

UNITED NATIONAL BANK
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DECEMBER 31, 2022 AND 2021

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NICHOLS, CAULEY & ASSOCIATES, LLC

1300 Bellevue Avenue
Dublin, Georgia 31021
478-275-1163 FAX 478-275-1178
dublin@nicholscauley.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
United National Bank
Cairo, Georgia

Opinion

We have audited the financial statements of United National Bank, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Richards, Cauley + Associates, LLC

Dublin, Georgia
March 10, 2023

UNITED NATIONAL BANK
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and due from banks	\$ 47,340,221	\$ 72,488,128
Securities available for sale (at fair value)	62,855,527	20,338,406
Other restricted stock, at cost	802,600	754,200
Loans, less allowance for loan losses of \$5,768,951 and \$5,292,614, respectively	188,899,843	191,247,786
Accrued interest receivable	2,549,436	2,228,775
Premises and equipment, net	2,599,038	2,442,438
Other assets	<u>1,346,192</u>	<u>1,249,548</u>
 Total assets	 <u><u>\$ 306,392,857</u></u>	 <u><u>\$ 290,749,281</u></u>
Liabilities and stockholders' equity		
Deposits		
Non-interest-bearing demand	\$ 56,621,272	\$ 41,482,488
Interest-bearing	<u>200,351,080</u>	<u>196,773,305</u>
Total deposits	256,972,352	238,255,793
 Borrowings	 9,287,599	 14,738,276
Accrued interest payable	371,652	325,612
Accrued expenses and other liabilities	<u>1,242,204</u>	<u>1,145,272</u>
Total liabilities	267,873,807	254,464,953
 Stockholders' equity		
Common stock, \$5 par value, 10,000,000 shares authorized; 804,842 shares issued and outstanding	4,024,210	4,024,210
Additional paid-in capital	4,436,865	4,345,665
Undivided profits	30,259,636	27,868,953
Accumulated other comprehensive income (loss)	<u>(201,661)</u>	<u>45,500</u>
Total stockholders' equity	38,519,050	36,284,328
 Total liabilities and stockholders' equity	 <u><u>\$ 306,392,857</u></u>	 <u><u>\$ 290,749,281</u></u>

See accompanying independent auditor's report and notes to the financial statements.

UNITED NATIONAL BANK
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Interest and dividend income		
Loans, including fees	\$ 11,372,707	\$ 11,555,295
Securities available for sale	824,493	84,057
Other interest and dividends	705,427	106,696
	<u>12,902,627</u>	<u>11,746,048</u>
Interest expense		
Deposits	1,235,198	1,280,848
Other borrowings	183,994	242,740
	<u>1,419,192</u>	<u>1,523,588</u>
Net interest income	11,483,435	10,222,460
Provision for loan losses	<u>500,000</u>	<u>642,900</u>
Net interest income after provision for loan losses	<u>10,983,435</u>	<u>9,579,560</u>
Noninterest income		
Service charges on deposit accounts	387,888	339,521
Other service charges, commissions and fees	553,120	592,533
Other	25,900	13,109
	<u>966,908</u>	<u>945,163</u>
Noninterest expense		
Salaries and employee benefits	3,882,484	3,634,171
Occupancy	671,636	625,612
Net loss on sale of foreclosed real estate and other assets	9	123
Other operating	2,093,891	1,868,346
	<u>6,648,020</u>	<u>6,128,252</u>
Income before provision for income taxes	5,302,323	4,396,471
Provision for income taxes	<u>1,382,440</u>	<u>1,141,797</u>
Net income	<u>\$ 3,919,883</u>	<u>\$ 3,254,674</u>

See accompanying independent auditor's report and notes to the financial statements.

UNITED NATIONAL BANK
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Net income	\$ 3,919,883	\$ 3,254,674
Other comprehensive income (loss)		
Securities available for sale		
Unrealized holding gains (losses) arising during period	(312,862)	12,086
Tax effect	<u>65,701</u>	<u>(2,538)</u>
Other comprehensive income (loss)	<u>(247,161)</u>	<u>9,548</u>
Comprehensive income	<u><u>\$ 3,672,722</u></u>	<u><u>\$ 3,264,222</u></u>

See accompanying independent auditor's report and notes to the financial statements.

UNITED NATIONAL BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021

	Common Stock Par Value	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2020	\$ 4,024,210	\$ 4,254,465	\$ 25,982,510	\$ 35,952	\$ 34,297,137
Stock compensation expense	-	91,200	-	-	91,200
Net income for 2021	-	-	3,254,674	-	3,254,674
Other comprehensive income	-	-	-	9,548	9,548
Cash dividends paid, \$1.70 per share	-	-	(1,368,231)	-	(1,368,231)
Balance, December 31, 2021	4,024,210	4,345,665	27,868,953	45,500	36,284,328
Stock compensation expense	-	91,200	-	-	91,200
Net income for 2022	-	-	3,919,883	-	3,919,883
Other comprehensive loss	-	-	-	(247,161)	(247,161)
Cash dividends paid, \$1.90 per share	-	-	(1,529,200)	-	(1,529,200)
Balance, December 31, 2022	<u>\$ 4,024,210</u>	<u>\$ 4,436,865</u>	<u>\$ 30,259,636</u>	<u>\$ (201,661)</u>	<u>\$ 38,519,050</u>

See accompanying independent auditor's report and notes to the financial statements.

UNITED NATIONAL BANK
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities		
Net income	\$ 3,919,883	\$ 3,254,674
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation, amortization and accretion	(600,949)	138,900
Provision for loan losses	500,000	642,900
Stock based compensation expense	91,200	91,200
Deferred income tax benefit	(70,169)	(32,482)
Loss on sale of foreclosed assets	9	123
Net change in accrued interest receivable	(320,661)	90,447
Net change in other assets	39,217	(23,185)
Net change in accrued interest payable	46,040	(12,100)
Net change in accrued expenses and other liabilities	96,932	30,376
Net cash flow provided by operating activities	<u>3,701,502</u>	<u>4,180,853</u>
Cash flows from investing activities		
Loan originations and payments, net	1,847,943	874,946
Proceeds from sale of foreclosed real estate	-	14,942
Redemptions (purchases) of FHLB stock	(48,400)	55,900
Purchases of securities available for sale	(72,390,623)	(28,747,200)
Proceeds from sale, prepayment and maturities of securities available for sale	30,323,272	22,927,711
Purchases of premises and equipment	(318,283)	(87,735)
Net cash flow used by investing activities	<u>(40,586,091)</u>	<u>(4,961,436)</u>
Cash flows from financing activities		
Dividends paid	(1,529,200)	(1,368,231)
Net change in deposits	18,716,559	35,197,018
Repayments on SouthState advances	(5,000,000)	-
Proceeds from SouthState advances	-	5,000,000
Proceeds from FHLB advances	-	3,900,000
Repayments on FHLB advances	(450,677)	(2,332,346)
Net cash flow provided by financing activities	<u>11,736,682</u>	<u>40,396,441</u>
Net change in cash and cash equivalents	(25,147,907)	39,615,858
Cash and cash equivalents at beginning of year	72,488,128	32,872,270
Cash and cash equivalents at end of year	<u>\$ 47,340,221</u>	<u>\$ 72,488,128</u>

See accompanying independent auditor's report and notes to the financial statements.

UNITED NATIONAL BANK
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Supplemental schedule of noncash investing and financing activities		
Change in unrealized gains on securities available for sale, net of taxes	<u>\$ (247,161)</u>	<u>\$ 9,548</u>
Loans made to facilitate sales of foreclosed real estate	<u>\$ 30,000</u>	<u>\$ -</u>
Foreclosed real estate acquired in settlement of loans	<u>\$ 30,000</u>	<u>\$ -</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for Interest	<u>\$ 1,373,152</u>	<u>\$ 1,535,688</u>
Income taxes	<u>\$ 1,233,000</u>	<u>\$ 989,000</u>

See accompanying independent auditor's report and notes to the financial statements.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of United National Bank (Bank) conform to generally accepted accounting principles (GAAP) of the United States of America and with general practices within the banking industry. The following is a description of the more significant of those policies that the Bank follows in preparing and presenting its financial statements.

Reporting Entity and Nature of Operations

The Bank operates as a national bank in Cairo, Georgia. The Bank began operations on May 26, 2000. The Bank's primary source of revenue is providing loans to customers within its geographical area.

The Bank's earnings are primarily dependent upon its net interest income, which is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest rate spread") and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding. The Bank's interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand and deposit flows. The Bank, like other community banks, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or reprice more rapidly than interest-earning assets.

Most of the Bank's activities are with customers located within the southwestern region of Georgia. Note 2 discusses types of securities in which the Bank invests. Note 3 discusses the types of lending in which the Bank engages. As reflected in Note 3, the Bank has a lending concentration in the farmland and agricultural area.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 materially from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the realization and valuation of deferred tax assets, the fair value of securities, and the valuation of the fair values of certain financial instruments. In connection with the determination of the allowance for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

Management believes the valuation of allowance for loan losses and foreclosed real estate is adequate. While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for loan losses and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for loan losses and foreclosed real estate may change materially in the near term.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance-sheet caption "cash and due from banks." Cash flows from demand deposits, savings deposits and time deposits and renewals and extensions of loans are reported net.

The Bank may be required to maintain reserve balances in cash and deposits to meet federal regulatory reserve requirements.

Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. Equity securities are carried at fair value, with changes reported in net income. Equity securities without readily determinable fair value 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. There were no held to maturity or trading securities at December 31, 2022 and 2021.

Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. A decline in the market value of any available for sale or held to maturity security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. In estimating other than temporary impairment losses, management considers (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. Realized gains and losses for securities classified as available for sale and held to maturity are included in earnings and are derived using the specific identification method for determining the amortized cost of securities sold.

Other-Than-Temporary Impairments (OTTI)

Periodically, all available for sale securities are evaluated for other-than-temporary impairment (OTTI) in accordance with U.S. generally accepted accounting principles, which specifies requirements for recognizing OTTI on debt securities, presentation of OTTI losses, and modifies and expands disclosures about OTTI for debt securities.

A debt security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss) or if the fair value of the security is less than the security's amortized cost basis and the investor intends, or more-likely-than-not will be required, to sell the security, before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of the credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income. Otherwise, the entire difference between fair value and amortized cost basis is charged to earnings.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Federal Reserve Bank (FRB) Stock

The Bank is a member of its Regional Federal Reserve Bank. FRB Stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest additional amounts. FHLB stock is carried at cost and classified as a restricted security. Both cash and stock dividends are reported as income.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest on loans is credited to income on a daily basis based upon the principal amount outstanding. Loan origination fees that approximate the direct cost of loans originated are recognized at the time the loan is recorded. Loan origination fees for other loans are deferred and recognized into income over the life of the loans as an adjustment of the yield.

Interest on commercial loans, real estate loans and installment loans is credited to income on a daily basis based upon the principal amount outstanding.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, unless the loan is well-secured. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Interest income is subsequently recognized only to the extent cash payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame.

Loan delinquencies are determined by comparing contractual requirements to the timing of payments received from the borrower. The policies and procedures related to nonaccrual and delinquent loans are applied consistently to all outstanding loans.

Allowance for Loan Losses

The Bank's allowance for loan losses is maintained at a level believed adequate by management to absorb estimated probable inherent loan losses and estimated losses relating to specifically identified loans. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of underlying collateral, prevailing economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on impaired loans.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allowance for Loan Losses

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The allowance for loan losses may consist of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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 interest owed.

Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the estimated fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

General allowances are established for non impaired loans. These loans are assigned a risk rating, and the allocated allowance for loan losses is determined based upon the loss percentage factors that correspond to each risk rating. Loss percentage factors are based on historical loss experience adjusted for qualitative factors. The qualitative factors consider credit concentrations, recent levels and trends in delinquencies and nonaccrual loans, and growth in the loan portfolio. The occurrence of certain events could result in changes to the loss factors. Accordingly, these loss factors are reviewed periodically and modified as necessary.

General allowances are established for loans that can be grouped into pools based on similar characteristics. Loss percentage factors applied to these pools are based on an analysis of historical charge-off experience and expected losses given default derived from the Company's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type and line of business. Adjustments are also made to the allowance for the pools after an assessment of internal and external influences on credit quality that have not yet been reflected in the historical loss or risk rating data.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allowance for Loan Losses

The general allowances are determined based on consideration of historic loss data, the various risk characteristics of each loan segment, and whether the loans are within or outside the Company's general market area. Risk characteristics relevant to each portfolio segment are as follows:

Construction and development – Loans in this segment primarily include real estate development loans for which payment is derived from sale of the property as well as construction projects in which the property will ultimately be used by the borrower. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Real estate – mortgage – The Bank generally does not originate loans with a loan-to-value ratio greater than 85 percent and does not grant subprime loans. Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality in the segment.

Commercial real estate – Loans in this segment are primarily income-producing properties. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management monitors the cash flows of these loans.

Commercial and industrial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Farmland and agricultural – Loans in this segment are made to businesses and are generally secured by farms or agricultural real estate. Repayment is primarily expected from the cash flows of crop sales. Many loans in this segment are single payment loans. The weakened health of the economy will have an effect on the credit quality of this segment.

Other – Loans in this segment are made to individuals and are secured by personal assets or unsecured. Repayment is expected from personal income. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Significant Group Concentrations of Credit Risk

A substantial portion of the Bank's loan portfolio is to customers in Grady County, Georgia, and surrounding areas. The ultimate collectability of a substantial portion of the portfolio is therefore susceptible to changes in the economic and market condition in and around this area.

The nature of the Bank's business requires that it maintain due from banks, which at times may exceed federally insured limits. The Bank has not experienced any losses in such accounts, and management works to mitigate risk associated with its correspondent institutions. Amounts due from banks are typically maintained in demand deposit accounts which are insured up to \$250,000.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, computed principally on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs that do not extend the useful life of the premises and equipment are charged to expense. The useful lives of premises and equipment are as follows:

<u>Asset Type</u>	<u>Useful Life</u>
Buildings and improvements	7-39 years
Furniture and equipment	5-20 years
Automobiles	5 years
Software	3-7 years

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at the lower of cost or fair value less cost to sell at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in valuation are included in loss on foreclosed real estate.

Revenues from Contracts with Customers

The Bank's revenue from contracts with customers within the scope of Accounting Standards Codification (ASC) 606 included in noninterest income in the income statement is comprised of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Noninterest income:		
Service charges on deposits	\$ 387,888	\$ 339,521
Interchange income	462,188	433,462
Net losses on sales of foreclosed assets	(9)	(123)

A description of the Bank's revenue streams accounted for under ASC 606 is as follows:

Service charges on deposit accounts: The Bank earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as automated teller machine (ATM) use 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 maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposit accounts are withdrawn from the customer's account balance.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenues from Contracts with Customers

Interchange income: The Bank earns interchange fees from cardholder transactions conducted through the Visa/Mastercard or other payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gain (loss) on sales of foreclosed assets: The Bank records a gain or loss from the sale of foreclosed 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 foreclosed assets to the buyer, the Bank assesses whether the buyer is committed to perform their obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Employee Benefit Plan

The Bank has a 401(k) profit-sharing plan covering substantially all employees who meet the eligibility requirement. Employees become eligible on the first day of the next quarter after completing 1,000 hours in the first six months of employment and attainment of age 18. Employees are 100% vested at all times in their deferral contributions account. Employees become vested in the Bank's discretionary contributions in 20% yearly increments beginning on the second anniversary after becoming eligible for this plan. The plan has been amended to include the safe harbor provisions. Discretionary profit-sharing plan costs are funded annually and are based on a percentage of net income for the year, but cannot exceed amounts allowable as a deduction for federal income tax purposes. The Bank's contribution for its 401(k) profit sharing plan for the years ended December 31, 2022 and 2021 was approximately \$483,288 and \$457,787, respectively, of which \$83,288 and \$82,687, respectively represents the employer matching contributions.

Income Taxes

The provision or benefit for income taxes is based on income and expenses reported for financial statement purposes after adjustment for permanent differences. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

The Bank recognizes accrued interest associated with uncertain tax positions as part of interest expense and penalties associated with uncertain tax positions as part of other expenses. As of December 31, 2022 and 2021, there were no accrued interest and penalties associated with uncertain tax positions. For the years ended December 31, 2022 and 2021, management believes there are no material amounts of uncertain tax positions. Additionally, there were no amounts of interest and penalties recognized in the balance sheet as of December 31, 2022 and 2021. The Bank's tax returns remain subject to examination generally for three years after filed.

Stock Compensation Plan

The Bank accounts for its stock-based employee compensation plans under the fair value provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, Compensation-Stock Compensation. Under ASC 718, the fair value of share-based payment awards is estimated at grant date using an option pricing model and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. See Note 8 for further discussion of stock-based compensation.

Net Income Per Share

Basic net income per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted net income per share reflects 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 issuance. Potential common shares that may be issued by the Bank related solely to outstanding stock options, and are determined using the treasury stock method.

Net income per common share for the years ended December 31, 2022 and 2021 have been computed based on the following:

	Years Ended December 31,	
	2022	2021
Net income applicable to common stock	<u>\$ 3,919,883</u>	<u>\$ 3,254,674</u>
Average number of common shares outstanding	804,842	804,842
Effect of dilutive options	-	-
Effect of dilutive warrants	<u>-</u>	<u>-</u>
Average number of common shares outstanding used to calculate diluted net income per common share	<u>804,842</u>	<u>804,842</u>
Basic net income per share	<u>\$ 4.87</u>	<u>\$ 4.04</u>
Diluted net income per share	<u>\$ 4.87</u>	<u>\$ 4.04</u>

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Comprehensive Income (Loss)

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

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Financial Instruments

In the ordinary course of business the Bank has entered into off balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments, the fair value of such instruments have been derived based on management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates.

Advertising Costs

The Bank expenses advertising costs as incurred. For the years ended, December 31, 2022 and 2021 advertising expense was \$84,976 and \$91,171 respectively.

Reclassifications

Certain reclassifications have been made to the December 31, 2021 financial statements in order to conform to the December 31, 2022 presentation. Such reclassifications had no impact on previously reported stockholders' equity or net income.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 – SECURITIES

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

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored entities (GSEs)	\$ 61,576,931	\$ -	\$ (301,239)	\$ 61,275,692
State and municipals securities	1,410,000	-	-	1,410,000
Mortgage-backed securities - residential	111,378	190	(1,613)	109,955
Equity securities	12,485	47,395	-	59,880
	<u>\$ 63,110,794</u>	<u>\$ 47,585</u>	<u>\$ (302,852)</u>	<u>\$ 62,855,527</u>

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored entities (GSEs)	\$ 18,223,481	\$ -	\$ (1,203)	\$ 18,222,278
State and municipals securities	1,795,000	-	-	1,795,000
Mortgage-backed securities - residential	249,845	11,403	-	261,248
Equity securities	12,485	47,395	-	59,880
	<u>\$ 20,280,811</u>	<u>\$ 58,798</u>	<u>\$ (1,203)</u>	<u>\$ 20,338,406</u>

The amortized costs and estimated fair values of investment securities available for sale 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.

	Securities Available for Sale	
	December 31, 2022	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 61,598,832	\$ 61,297,381
Due after one year but less than five years	1,499,477	1,498,266
Due after five years but less than ten years	-	-
Due in more than ten years	12,485	59,880
	<u>\$ 63,110,794</u>	<u>\$ 62,855,527</u>

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 – SECURITIES

For the purpose of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal repayments.

The proceeds from sales and calls of securities and the associated gains and losses are listed below:

	<u>2022</u>	<u>2021</u>
Proceeds	\$ 30,323,272	\$ 22,927,711
Gross gains	-	-
Gross losses	-	-

Securities with an amortized value of \$25,711,335 and \$18,374,412 and fair value of \$25,145,443 and \$18,383,340 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits and for other purposes required, or permitted by law.

Taxable interest income on securities was \$768,234 and \$12,437 for the years ended December 31, 2022 and 2021, respectively. Interest income exempt from Federal income taxes was \$56,259 and \$71,620 for the years ended December 31, 2022 and 2021, respectively.

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.

Information pertaining to securities with gross unrealized losses at December 31, 2022 and 2021 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

		<u>December 31, 2022</u>			
		<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
		<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
U.S. Government sponsored entities (GSEs)	\$ 301,239	\$ 61,275,692		\$ -	\$ -
Mortgage-backed securities - residential	1,613	92,660		-	-
	<u>\$ 302,852</u>	<u>\$ 61,368,352</u>		<u>\$ -</u>	<u>\$ -</u>

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 – SECURITIES

	December 31, 2021			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored entities (GSEs)	\$ 1,203	\$ 18,222,278	\$ -	\$ -
	<u>\$ 1,203</u>	<u>\$ 18,222,278</u>	<u>\$ -</u>	<u>\$ -</u>

Management evaluates securities for other-than-temporary impairment periodically 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 investments in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value.

At December 31, 2022, twelve debt securities with unrealized losses have depreciated less than .49% from the Bank's amortized cost basis.

U.S. Treasury securities and obligations of U.S. Government corporations and agencies

The unrealized losses associated with U.S. Treasury securities and obligations of U.S. Government corporations and agencies obligations are primarily driven by changes in interest rates and not due to the credit quality of the securities. These securities are issued by U.S. government agencies or government-sponsored entities and do not have any credit losses given the explicit or implicit government guarantee. There were six securities of this type at December 31, 2022 with unrealized losses.

Mortgage backed securities - The unrealized losses associated with one investment in mortgage backed securities are primarily driven by changes in interest rates and not due to the credit quality of the securities. These securities are issued by U.S. government agencies or government-sponsored entities and do not have any credit losses given the explicit or implicit government guarantee.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans at December 31, 2022 and 2021 are summarized as follows:

	December 31,	
	2022	2021
Construction and development	\$ 9,598,693	\$ 8,096,792
Real estate - mortgage	42,010,881	37,355,284
Commercial real estate	35,599,457	36,572,844
Commercial and industrial	29,289,893	34,165,960
Farmland and agricultural	69,895,379	71,813,476
Other	8,274,491	8,536,044
Gross loans	194,668,794	196,540,400
Allowance for loan losses	(5,768,951)	(5,292,614)
Loans, net	<u>\$ 188,899,843</u>	<u>\$ 191,247,786</u>

In the normal course of business, the Bank sells and purchases loan participations to and from other financial institutions and related parties. Loan participations are typically sold to comply with the legal lending limits per borrower as imposed by regulatory authorities. The participations are sold without recourse and the Bank imposes no transfer or ownership restrictions on the purchaser. At December 31, 2022 and 2021, the Bank had loan participations sold of \$2,655,822 and \$1,221,227, respectively. The Bank had loan participations purchased of \$7,387,516 and \$4,424,714 at December 31, 2022 and 2021, respectively.

The Bank had \$30,000 and \$0- loans transferred to foreclosed real estate in 2022 and 2021.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses for the years ended December 31, 2022 and December 31, 2021, by portfolio segment, is as follows.

For the year ended December 31, 2022	Construction and Development	Real Estate - Mortgage	Commercial Real Estate	Commercial and Industrial	Farmland and Agricultural	Other	Total
Allowance for loan losses:							
Beginning balance	\$ 509,567	\$ 334,148	\$ 309,260	\$ 524,579	\$ 2,656,578	\$ 958,482	\$ 5,292,614
Charge-offs	-	-	(18,142)	(94,889)	-	(54,613)	(167,644)
Recoveries	-	69,207	-	53,149	97	21,528	143,981
Provision	35,375	(15,829)	26,934	(121,953)	432,985	142,488	500,000
Ending balance	<u>\$ 544,942</u>	<u>\$ 387,526</u>	<u>\$ 318,052</u>	<u>\$ 360,886</u>	<u>\$ 3,089,660</u>	<u>\$ 1,067,885</u>	<u>\$ 5,768,951</u>
Ending balance - individually evaluated for impairment	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,789</u>	<u>\$ -</u>	<u>\$ 458,789</u>
Ending balance - collectively evaluated for impairment	<u>\$ 144,942</u>	<u>\$ 387,526</u>	<u>\$ 318,052</u>	<u>\$ 360,886</u>	<u>\$ 3,030,871</u>	<u>\$ 1,067,885</u>	<u>\$ 5,310,162</u>
Gross loans:							
Ending balance	<u>\$ 9,598,693</u>	<u>\$ 42,010,881</u>	<u>\$ 35,599,457</u>	<u>\$ 29,289,893</u>	<u>\$ 69,895,379</u>	<u>\$ 8,274,491</u>	<u>\$ 194,668,794</u>
Ending balance - individually evaluated for impairment	<u>\$ 860,195</u>	<u>\$ 419,587</u>	<u>\$ 557,963</u>	<u>\$ 1,135,434</u>	<u>\$ 2,601,070</u>	<u>\$ -</u>	<u>\$ 5,574,249</u>
Ending balance - collectively evaluated for impairment	<u>\$ 8,738,498</u>	<u>\$ 41,591,294</u>	<u>\$ 35,041,494</u>	<u>\$ 28,154,459</u>	<u>\$ 67,294,309</u>	<u>\$ 8,274,491</u>	<u>\$ 189,094,545</u>

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

For the year ended December 31, 2021	Construction and Development	Real Estate - Mortgage	Commercial Real Estate	Commercial and Industrial	Farmland and Agricultural	Other	Total
Allowance for loan losses:							
Beginning balance	\$ 474,567	\$ 350,971	\$ 286,349	\$ 786,456	\$ 2,685,869	\$ 600,152	\$ 5,184,364
Charge-offs	(202,362)	(5,375)	-	(396,825)	-	(35,182)	(639,744)
Recoveries	20,650	5,565	-	59,958	1,620	17,301	105,094
Provision	216,712	(17,013)	22,911	74,990	(30,911)	376,211	642,900
Ending balance	<u>\$ 509,567</u>	<u>\$ 334,148</u>	<u>\$ 309,260</u>	<u>\$ 524,579</u>	<u>\$ 2,656,578</u>	<u>\$ 958,482</u>	<u>\$ 5,292,614</u>
Ending balance - individually evaluated for impairment	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,129</u>	<u>\$ -</u>	<u>\$ 423,129</u>
Ending balance - collectively evaluated for impairment	<u>\$ 109,567</u>	<u>\$ 334,148</u>	<u>\$ 309,260</u>	<u>\$ 524,579</u>	<u>\$ 2,633,449</u>	<u>\$ 958,482</u>	<u>\$ 4,869,485</u>
Gross loans:							
Ending balance	<u>\$ 8,096,792</u>	<u>\$ 37,355,284</u>	<u>\$ 36,572,844</u>	<u>\$ 34,165,960</u>	<u>\$ 71,813,476</u>	<u>\$ 8,536,044</u>	<u>\$ 196,540,400</u>
Ending balance - individually evaluated for impairment	<u>\$ 963,050</u>	<u>\$ 725,674</u>	<u>\$ 566,552</u>	<u>\$ 1,173,434</u>	<u>\$ 2,619,754</u>	<u>\$ -</u>	<u>\$ 6,048,464</u>
Ending balance - collectively evaluated for impairment	<u>\$ 7,133,742</u>	<u>\$ 36,629,610</u>	<u>\$ 36,006,292</u>	<u>\$ 32,992,526</u>	<u>\$ 69,193,722</u>	<u>\$ 8,536,044</u>	<u>\$ 190,491,936</u>

Impaired loans as of December 31, 2022 and December 31, 2021, by portfolio segment, are as follows:

December 31, 2022	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Construction and development	\$ 1,681,157	\$ -	\$ 860,195	\$ 860,195	\$ 400,000	\$ 911,623
Real estate - mortgage	419,587	420,906	-	420,906	-	573,371
Commercial real estate	557,963	559,024	-	559,024	-	562,788
Commercial and industrial	1,511,451	1,135,434	-	1,135,434	-	1,154,434
Farmland and agricultural	2,601,070	1,935,822	715,370	2,651,192	58,789	2,635,554
Other	-	-	-	-	-	-
Total	<u>\$ 6,771,228</u>	<u>\$ 4,051,186</u>	<u>\$ 1,575,565</u>	<u>\$ 5,626,751</u>	<u>\$ 458,789</u>	<u>\$ 5,837,770</u>

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

<u>December 31, 2021</u>	<u>Total Principal Balance</u>	<u>Investment With No Allowance</u>	<u>Investment With Allowance</u>	<u>Total Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
Construction and development	\$ 1,784,012	\$ -	\$ 963,050	\$ 963,050	\$ 400,000	\$ 1,424,932
Real estate - mortgage	725,674	725,836	-	725,836	-	768,931
Commercial real estate	566,552	566,552	-	566,552	-	1,313,164
Commercial and industrial	1,549,451	1,173,434	-	1,173,434	-	1,190,189
Farmland and agricultural	2,619,754	1,940,207	679,709	2,619,916	23,129	4,710,401
Other	-	-	-	-	-	-
Total	<u>\$ 7,245,443</u>	<u>\$ 4,406,029</u>	<u>\$ 1,642,759</u>	<u>\$ 6,048,788</u>	<u>\$ 423,129</u>	<u>\$ 9,407,617</u>

A primary credit quality indicator for financial institutions is delinquent balances. Following are the delinquent amounts, by portfolio segment, as of December 31, 2022 and December 31, 2021:

<u>December 31, 2022</u>	<u>Current</u>	<u>30-89 Days</u>	<u>Accruing Greater Than 90 Days</u>	<u>Total Accruing Past Due</u>	<u>Non-accrual</u>	<u>Total Financing Receivables</u>
Construction and development	\$ 8,738,498	\$ -	\$ -	\$ -	\$ 860,195	\$ 9,598,693
Real estate - mortgage	41,738,490	254,034	-	254,034	18,357	42,010,881
Commercial real estate	35,379,685	21,361	-	21,361	198,411	35,599,457
Commercial and industrial	27,850,777	250,075	-	250,075	1,189,041	29,289,893
Farmland and agricultural	68,157,307	-	-	-	1,738,072	69,895,379
Other	7,933,696	338,035	2,760	340,795	-	8,274,491
Total	<u>\$ 189,798,453</u>	<u>\$ 863,505</u>	<u>\$ 2,760</u>	<u>\$ 866,265</u>	<u>\$ 4,004,076</u>	<u>\$ 194,668,794</u>

<u>December 31, 2021</u>	<u>Current</u>	<u>30-89 Days</u>	<u>Accruing Greater Than 90 Days</u>	<u>Total Accruing Past Due</u>	<u>Non-accrual</u>	<u>Total Financing Receivables</u>
Construction and development	\$ 7,123,911	\$ -	\$ 9,831	\$ 9,831	\$ 963,050	\$ 8,096,792
Real estate - mortgage	37,039,289	188,492	29,406	217,898	98,097	37,355,284
Commercial real estate	36,078,267	-	-	-	494,577	36,572,844
Commercial and industrial	32,945,780	10,173	-	10,173	1,210,007	34,165,960
Farmland and agricultural	70,070,468	-	-	-	1,743,008	71,813,476
Other	8,385,996	150,048	-	150,048	-	8,536,044
Total	<u>\$ 191,643,711</u>	<u>\$ 348,713</u>	<u>\$ 39,237</u>	<u>\$ 387,950</u>	<u>\$ 4,508,739</u>	<u>\$ 196,540,400</u>

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank utilizes a nine grade loan rating system for its loan portfolio as follows:

- Loans rated 1-4 (Pass) – Loans in these categories have low to average risk.
- Loans rated 5 (Special Mention) – The loan does not presently expose the Bank to a sufficient degree of risk to warrant adverse classification, but does possess deficiencies deserving close attention.
- Loans rated 6-7 (Substandard) – Loans are inadequately protected by the current sound worth and paying capability of the obligor or of the collateral pledged, if any.
- Loans rated 8-9 (Doubtful) – Loans which have all the weaknesses inherent in loans classified Substandard, with the added characteristic that the weaknesses make collections or liquidation in full, or on the basis of currently known facts, conditions and values, highly questionable or improbable.

The following table presents the Bank's loans by risk rating at December 31, 2022 and December 31, 2021:

December 31, 2022	Construction and Development	Real Estate - Mortgage	Commercial Real Estate	Commercial and Industrial	Farmland and Agricultural	Other	Total
Rating:							
1-4 (Pass)	\$ 8,738,498	\$ 41,626,302	\$ 35,401,046	\$ 27,964,476	\$ 66,990,607	\$ 8,273,840	\$ 188,994,769
5 (Special Mention)	-	-	-	-	222,285	-	222,285
6-7 (Substandard)	860,195	384,579	198,411	1,296,809	2,682,487	651	5,423,132
8-9 (Loss, Doubtful)	-	-	-	28,608	-	-	28,608
Total	<u>\$ 9,598,693</u>	<u>\$ 42,010,881</u>	<u>\$ 35,599,457</u>	<u>\$ 29,289,893</u>	<u>\$ 69,895,379</u>	<u>\$ 8,274,491</u>	<u>\$ 194,668,794</u>

December 31, 2021	Construction and Development	Real Estate - Mortgage	Commercial Real Estate	Commercial and Industrial	Farmland and Agricultural	Other	Total
Rating:							
1-4 (Pass)	\$ 7,133,742	\$ 36,520,154	\$ 35,561,694	\$ 32,753,914	\$ 65,441,919	\$ 8,528,421	\$ 185,939,844
5 (Special Mention)	-	202,654	516,573	-	3,382,451	6,444	4,108,122
6-7 (Substandard)	963,050	632,476	494,577	1,383,438	2,989,106	1,179	6,463,826
8-9 (Loss, Doubtful)	-	-	-	28,608	-	-	28,608
Total	<u>\$ 8,096,792</u>	<u>\$ 37,355,284</u>	<u>\$ 36,572,844</u>	<u>\$ 34,165,960</u>	<u>\$ 71,813,476</u>	<u>\$ 8,536,044</u>	<u>\$ 196,540,400</u>

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table presents loans by portfolio segment modified as TDRs and the corresponding recorded investment, which includes accrued interest and fees, as of December 31, 2022 and 2021.

Type	2022		2021	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Construction and development	-	\$ -	-	\$ -
Real estate - mortgage	4	420,906	4	438,805
Commercial real estate	1	360,613	1	368,141
Commercial and industrial	-	-	-	-
Farmland and agricultural	1	262,682	1	265,412
Other loans	-	-	-	-
Total	<u>6</u>	<u>\$ 1,044,201</u>	<u>6</u>	<u>\$ 1,072,358</u>

The Bank has allocated no specific allowance for those loans at December 31, 2022 and 2021 and has not committed to lend additional amounts.

Loans are modified to minimize loan losses when management believes the modifications will improve the borrower's financial condition and ability to repay the loan. The Bank typically does not forgive principal. Restructuring either defers, or decreases monthly payments for a temporary period of time. In order to determine whether a borrower is experiencing financial difficulty, 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 the modification. This evaluation is performed under the Bank's internal underwriting policy. There were no troubled debt restructurings during the years ending December 31, 2022 and 2021.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no payment defaults during the years ended December 31, 2022 and 2021 where the loans were modified within the prior twelve months.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 4 - PREMISES AND EQUIPMENT

Major classifications of these assets are summarized as follows:

	December 31,	
	2022	2021
Land	\$ 646,209	\$ 646,209
Buildings and improvements	2,410,199	2,401,205
Furniture and equipment	1,783,936	1,652,357
Automobiles	126,462	56,902
Software	445,308	337,158
	5,412,114	5,093,831
Accumulated depreciation	(2,813,076)	(2,651,393)
Premises and equipment, net	<u>\$ 2,599,038</u>	<u>\$ 2,442,438</u>

Depreciation expense for the years ended December 31, 2022 and 2021, was \$161,683 and \$140,642, respectively.

NOTE 5 - FORECLOSED ASSETS

Foreclosed asset activity was as follows:

	2022	2021
Balance, beginning of year	\$ -	\$ 15,065
Loans transferred to foreclosed real estate	30,000	-
Sales of foreclosed real estate	(30,000)	(15,065)
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2022 and 2021, the Bank had no residential foreclosed real estate. At December 31, 2022, the Bank has no consumer mortgage loans secured by residential real estate for which formal foreclosure proceeds are in process.

Expenses related to foreclosed assets include:

	2022	2021
Net loss (gain) on sales	\$ 9	\$ 123
Operating expenses, net of rental income	-	-
	<u>\$ 9</u>	<u>\$ 123</u>

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 - DEPOSITS

Deposit account balances at December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Non-interest bearing demand deposits	\$ 56,621,272	\$ 41,482,488
Interest-bearing deposits	131,339,454	128,800,649
Time deposits	69,011,626	67,972,656
Total deposits	<u>\$ 256,972,352</u>	<u>\$ 238,255,793</u>

Included in total deposits at December 31, 2022 and 2021 were brokered deposits of approximately \$16,418,000 and \$18,250,000 respectively, issued under brokerage agreements with a third party broker. There is one major brokered depositor which represents a concentration of deposits as of December 31, 2022 and 2021. This brokered depositor accounts for \$13,487,000 or 5.25% of the Bank's deposits as of December 31, 2022 and \$15,762,000 or 6.62% of the Bank's deposits as of December 31, 2021.

At December 31, 2022, the schedule of maturities of time deposits for the next five years are as follows:

<u>Year Ending December 31,</u>	
2023	\$ 43,245,028
2024	10,366,286
2025	7,476,925
2026	3,494,886
2026 and thereafter	4,428,501
	<u>\$ 69,011,626</u>

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 at December 31, 2022 and 2021 were \$26,046,545 and \$23,792,027, respectively. At December 31, 2022 and 2021, overdraft deposit accounts reclassified to loans totaled \$466,953 and \$314,980, respectively.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Advances from the FHLB are summarized as follows:

Interest Rate	Maturity Date	December 31,	
		2022	2021
2.99%	March 28, 2025	\$ 341,667	\$ 375,000
2.58%	October 22, 2026	155,932	196,610
3.09%	December 19, 2031	960,000	1,066,666
3.14%	February 27, 2037	1,125,000	1,200,000
0.81%	April 22, 2025	3,000,000	3,000,000
1.98%	March 12, 2041	3,705,000	3,900,000
		<u>\$ 9,287,599</u>	<u>\$ 9,738,276</u>

The FHLB has a lien on the Bank's FHLB stock, the Bank's deposits with the FHLB and a blanket floating lien on the Bank's loan portfolio as collateral for these advances. The FHLB has established a credit availability for the Bank at 25% of the Bank's total assets as of the most recent quarterly financial information submitted by the Bank to the appropriate regulatory agencies.

The Bank also has credit availability through the Federal Reserve Bank (FRB). The FRB has a lien on the Bank's agricultural, commercial and farmland loans that are current. At December 31, 2022 and 2021, the Bank had \$79,498,702 and \$60,704,749 pledged to FRB, respectively. The Bank had no borrowings at December 31, 2022 and 2021.

At December 31, 2022 and 2021, the Bank had Federal funds lines available with correspondent banks of approximately \$5,000,000. These unsecured lines have various terms, rates, and maturities. The Bank had borrowings of \$-0- and \$5,000,000 at December 31, 2022 and 2021, respectively.

NOTE 8 - STOCK BASED COMPENSATION

Stock Options and Warrants

The Bank has a nonqualified stock option plan which provides for the granting of options to key employees. A maximum of 50,000 shares of common stock may be issued under the plan. The option price, number of shares vesting and grant date are determined at the discretion of the Bank's Board of Directors. Options granted under the plan are exercisable for a period not to exceed ten years from the option grant date. There were no options granted during 2022 or 2021. There were 19,710 shares available for grant as of December 31, 2022.

There were no options outstanding as of December 31, 2022 and 2021. As of December 31, 2022 and 2021, there was no unrecognized stock-based compensation expense related to nonvested stock options.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 8 - STOCK BASED COMPENSATION

Restricted Stock

Periodically the Bank will issue restricted stock to its directors, executive and senior officers. Compensation expense is recognized over the vesting period of the awards based upon the fair value of the stock at issue date. The fair value of each restricted stock award is estimated on the date of the grant using a validation model that includes expected volatility, an expected term, dividend yield and a risk-free rate. There were no restricted stock awards during 2022 and 2021.

At December 31, 2022 and 2021, there was \$121,600 and \$212,800, respectively, of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over weighted-average period of 5.00 years.

NOTE 9 - INCOME TAXES

The total provision for income taxes in the statements of income is as follows:

	December 31,	
	2022	2021
Currently payable		
Federal	\$ 1,357,759	\$ 1,176,477
State	94,850	(2,198)
	1,452,609	1,174,279
Deferred income tax benefit	(70,169)	(32,482)
	<u>\$ 1,382,440</u>	<u>\$ 1,141,797</u>

The Bank records a deferred income tax (benefit) provision when there are differences between assets and liabilities measured for financial reporting and for income tax return purposes. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect which such differences are expected to reverse.

At December 31, 2022 and 2021, the Bank's deferred tax assets and liability consist of the following:

	December 31,	
	2022	2021
Allowance for loan losses in excess of		
tax allowance for loan losses	\$ 1,163,384	\$ 1,039,197
Gross deferred tax asset	1,163,384	1,039,197
Difference between book basis of premises		
and equipment and tax basis	122,496	68,478
Net unrealized gain on available for sale securities	(53,606)	12,095
Gross deferred tax liability	68,890	80,573
Deferred tax asset, net (included in other assets)	<u>\$ 1,094,494</u>	<u>\$ 958,624</u>

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 10 - RELATED PARTY TRANSACTIONS

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Changes in related party loans for the year ended December 31, 2022 are as follows:

	<u>2022</u>
Balance, beginning	\$ 2,749,462
New loans	1,712,989
Repayments	<u>(2,510,587)</u>
Balance, ending	<u>\$ 1,951,864</u>

The Bank held related party deposits of approximately \$4,493,103 and \$5,049,389 at December 31, 2022 and 2021, respectively.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not reflected in the accompanying financial statements. These commitments and contingent liabilities include various guarantees, commitments to extend credit, and standby letters of credit. The Bank does not anticipate any material losses as a result of future commitments and contingent liabilities.

In the normal course of business, the Bank enters into various contracts for data processing services, telephone banking, ATM/debit card processing and related network monitoring and support. These contracts generally expire after a term of sixty months and are cancelable by either party with a written notice subject to certain penalties.

The Bank's nature of business is such that it ordinarily results in a certain amount of litigation. In the opinion of management and counsel for the Bank, there is no litigation in which the outcome will have a material effect on the financial statements.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 12 - RISK FACTORS

The Bank's operations, profitability, cash flows, capital and liquidity are affected by various risk factors, including, but not necessarily limited to, interest-rate risk, credit risk and risk from geographic concentration in lending, real estate, marketing, and sales activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities and rate terms and structures of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to credit-worthy borrowers, although credit losses are expected to occur because of subjective factors and factors beyond the control of the Bank.

The Bank's operations, profitability, cash flows, capital and liquidity are significantly dependent on economic conditions and related uncertainties. In addition, the Bank is affected, directly and indirectly, by domestic and international economic and political conditions, pandemics (such as COVID-19) and by governmental monetary and fiscal policies.

The Bank is particularly sensitive to changes in economic conditions and related uncertainties in southwest Georgia because the Bank derives substantially all of its loans, deposits and other business from this area. The Bank is a Community Bank and as such, is mandated by the Community Reinvestment Act and other regulations to conduct most of its lending activities within the geographic area where it is located. As a result, the Bank and its borrowers may be especially vulnerable to the consequences of changes in the local economy.

The Bank is subject to extensive federal and state governmental supervision and regulation, which are intended primarily for the protection of depositors. In addition, the Bank is subject to changes in federal and state laws, as well as changes in regulations, governmental policies and accounting principles. The effects of any such potential changes cannot be predicted but could adversely affect the Bank's business, operations, profitability, cash flows, capital and liquidity of the Bank in the future.

The Bank is subject to vigorous competition in all aspects and areas of business from banks and other financial institutions, including savings and loan banks, savings banks, finance companies, credit unions and other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. The Bank also competes with non-financial institutions, including retail stores that maintain their own credit programs and governmental agencies that make available low cost or guaranteed loans to certain borrowers.

Certain competitors are larger financial institutions with substantially greater resources, lending limits, larger branch systems and a wider array of commercial banking services.

In addition, the Bank conducts business daily with correspondent banks. These banks are not immune to financial difficulties. Regulation F "Limitations on Interbank Liabilities" requires the Bank to establish and maintain written policies and procedures to prevent excessive exposure to any individual correspondent banking relationship relative to the financial condition of such correspondent. The Bank is vulnerable to the financial difficulties of any of its major correspondent banking relationships directly and indirectly through the participation loans.

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 13 - FINANCIAL INSTRUMENTS

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 and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of 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 written 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.

	December 31,	
	2022	2021
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 37,691,000	\$ 41,027,000
Standby letters of credit	1,429,829	805,749

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 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 of the counterparty.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The Bank charges no fee in issuing standby letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

The Bank may have deposit accounts with various financial institutions which may be in excess of the insured limitation of the Federal Deposit Insurance Corporation. If the financial institution were not to honor its contractual liability, the Bank could incur losses. Management is of the opinion that there is no material risk because of the financial strength of the institution.

NOTE 14 - FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of input that may be used to measure fair values:

UNITED NATIONAL BANK
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 14 - FAIR VALUE MEASUREMENTS

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Bank has the ability to access as of the measurement date.

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect the Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate fair value:

The Bank carries at fair value investment securities available for sale. The fair values of the Bank's securities available for sale are determined using Level 2 inputs. For securities available for sale, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements considered observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus payment spreads, credit information and the bond's terms and conditions, among other things. The investments in the Bank's portfolio are generally not quoted on an exchange but are actively traded in the secondary institutional markets.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a level 3 in the fair value hierarchy. Collateral may include real estate, or business assets including equipment, inventory and accounts receivable. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers hired by the Bank. The value of business equipment is based on an appraisal by qualified licensed appraisers hired by the Bank if significant, or the equipment's net book value on the business' financial statements. Inventory and accounts receivable collateral are valued based on independent field examiner review or aging reports. Appraised and reported values may be discounted based on management's expertise and knowledge of the client and the client's business, which would result in classification as level 3. Impaired loans are evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at the lower of carrying value or fair value less selling costs. Fair value is based upon independent market prices or appraised values of the property. When the fair value of the property is based on an observable market price or a current appraised value, the foreclosed real estate is recorded as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the property requires reduction for estimated selling costs, or is further impaired below the appraised value and there is no observable market price, the Bank records the foreclosed real estate as a nonrecurring Level 3 measurement.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 14 - FAIR VALUE MEASUREMENTS

The table below presents the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2022 and 2021, aggregated by the level in the fair value hierarchy within which those measurements fall.

December 31, 2022					
	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Assets					
Recurring fair value measurements					
Securities available for sale					
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 61,275,692	\$ -	\$ 61,275,692	\$ -	
State and municipals securities	1,410,000	-	1,410,000	-	
Mortgage-backed securities - residential	109,955	-	109,955	-	
Equity securities	59,880	-	59,880	-	
Total securities available for sale	<u>\$ 62,855,527</u>	<u>\$ -</u>	<u>\$ 62,855,527</u>	<u>\$ -</u>	
Nonrecurring fair value measurements					
Impaired loans	\$ 1,540,204	\$ -	\$ -	\$ 1,540,204	\$ (33,661)
Foreclosed real estate	-	-	-	-	-
Total nonrecurring fair value measurements	<u>\$ 1,540,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,540,204</u>	<u>\$ (33,661)</u>
December 31, 2021					
	Total	Level 1	Level 2	Level 3	Total Gains (Losses)
Assets					
Recurring fair value measurements					
Securities available for sale					
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 18,222,278	\$ -	\$ 18,222,278	\$ -	
State and municipals securities	1,795,000	-	1,795,000	-	
Mortgage-backed securities - residential	261,248	-	261,248	-	
Equity securities	59,880	-	59,880	-	
Total securities available for sale	<u>\$ 20,338,406</u>	<u>\$ -</u>	<u>\$ 20,338,406</u>	<u>\$ -</u>	
Nonrecurring fair value measurements					
Impaired loans	\$ 2,029,028	\$ -	\$ -	\$ 2,029,028	\$ (165,672)
Foreclosed real estate	-	-	-	-	-
Total nonrecurring fair value measurements	<u>\$ 2,029,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,029,028</u>	<u>\$ (165,672)</u>

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NOTE 15 - REGULATORY MATTERS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory 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, if any, is not included in computing regulatory capital. Management believes as of December 31, 2022 and 2021 the Bank meets all capital adequacy requirements to which they are 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 year-end 2022 and 2021, 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.

The Bank's actual capital amounts (in thousands) and ratios are also presented in the following table.

December 31, 2022	Actual		Adequacy Purposes:		To Be Well Capitalized Action Provisions	
	Amount	Ratio	Amount	Ratio ≥	Amount	Ratio ≥
Total Capital (to Risk Weighted Assets)	\$ 41,035	22.59%	\$ 14,531	8.00%	\$ 18,164	10.00%
Tier I Capital (to Risk Weighted Assets)	\$ 38,721	21.32%	\$ 10,898	6.00%	\$ 14,531	8.00%
Common Tier 1 (CET1)	\$ 38,721	21.32%	\$ 8,174	4.50%	\$ 11,806	6.50%
Tier I Capital (to Average Assets)	\$ 38,721	13.20%	\$ 11,731	4.00%	\$ 14,663	5.00%

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NOTE 15 - REGULATORY MATTERS

December 31, 2021	Actual		Adequacy Purposes:		To Be Well Capitalized Action Provisions	
	Amount	Ratio	Amount	Ratio ≥	Amount	Ratio ≥
Total Capital (to Risk Weighted Assets)	\$ 38,491	22.17%	\$ 13,887	8.00%	\$ 17,359	10.00%
Tier I Capital (to Risk Weighted Assets)	\$ 36,283	20.90%	\$ 10,416	6.00%	\$ 13,887	8.00%
Common Teir 1 (CET1)	\$ 36,283	20.90%	\$ 7,812	4.50%	\$ 11,284	6.50%
Tier I Capital (to Average Assets)	\$ 36,283	12.82%	\$ 11,321	4.00%	\$ 14,151	5.00%

NOTE 16 - LIMITATION ON DIVIDENDS

The sole source of funds available to pay shareholder dividends is from the Bank's earnings. Bank regulatory authorities impose restrictions on the amounts of dividends that may be declared by the Bank. Further restrictions could result from a review by regulatory authorities of the Bank's capital adequacy.

- 1) Total adversely classified assets at the most recent examination of the bank do not exceed eighty (80) percent of Tier 1 Capital plus the Allowance for Loan Losses as reflected at such examination; and
- 2) The aggregate amount of distributions declared or anticipated to be declared in the calendar year does not exceed seventy-five (75) percent of the net income that is attributable to the Bank for the previous calendar year; and
- 3) The ratio of Tier I Capital to Average Total Assets shall not be less than six (6) percent.

As of January 1, 2023, the amount available for distributions in 2023 without regulatory consent was \$6,354,000.

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NOTE 17 - OTHER OPERATING

Significant components of other operating expense in the statements of income are as follows:

	Years Ended December 31,	
	2022	2021
Data processing	\$ 416,691	\$ 453,646
Legal and professional	271,748	247,018
Automated teller machine (ATM) expense	375,696	283,011
Director's fees	207,800	179,300

NOTE 18 - SUBSEQUENT EVENTS

The Bank assessed events that have occurred subsequent to December 31, 2022 through March 10, 2023 for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements which were available to be issued on March 10, 2023.