PINNACLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2023

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TABLE OF CONTENTS

MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pinnacle Bancshares, Inc.
Jasper, Alabama

Opinion

We have audited the accompanying consolidated financial statements of **Pinnacle Bancshares, Inc. and Subsidiary**, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle Bancshares, Inc. and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Pinnacle Bancshares, Inc. and Subsidiary 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 consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pinnacle Bancshares, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and 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 generally accepted auditing standards 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, including omissions, 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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 Pinnacle Bancshares, Inc. and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pinnacle Bancshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Mauldin & Jenkins, LLC

Birmingham, Alabama
March 5, 2024

PINNACLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	**$ 2,190,793**	$ 1,742,938
Interest-bearing deposits in banks	**19,518,942**	12,185,982
Securities available for sale	**165,520,025**	170,580,649
Restricted equity securities	**836,200**	773,600
Loans	**125,433,112**	118,516,666
Less allowance for credit losses	**2,459,372**	2,561,079
Loans, net	**122,973,740**	115,955,587
Premises and equipment, net	**8,421,289**	6,926,631
Operating lease right-of-use assets	**302,171**	398,364
Goodwill	**306,488**	306,488
Bank owned life insurance	**10,601,839**	10,206,335
Accrued interest receivable	**2,107,189**	2,070,895
Deferred tax assets, net	**8,951,799**	10,594,339
Other assets	**847,912**	976,361
Total assets	**$ 342,578,387**	$ 332,718,169
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	**$ 89,518,619**	$ 94,784,231
Interest-bearing	**221,820,527**	227,476,410
Total deposits	**311,339,146**	322,260,641
Subordinated debentures	**3,093,000**	3,093,000
Accrued interest payable	**1,392,273**	111,652
Operating lease liabilities	**302,171**	398,364
Other borrowings	**12,500,000**	-
Other liabilities	**1,165,256**	1,116,596
Total liabilities	**329,791,846**	326,980,253
Stockholders' equity		
Common stock, $.01 par value, 2,400,000 shares authorized; 1,872,313 shares issued; 909,534 outstanding	**18,723**	18,723
Additional paid-in capital	**8,923,223**	8,923,223
Treasury stock, 962,779 shares at cost	**(15,588,799)**	(15,588,799)
Retained earnings	**45,772,256**	42,274,372
Accumulated other comprehensive loss, net of tax	**(26,338,862)**	(29,889,603)
Total stockholders' equity	**12,786,541**	5,737,916
Total liabilities and stockholders' equity	**$ 342,578,387**	$ 332,718,169

See Notes to Consolidated Financial Statements.

PINNACLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022

	2023	2022
Interest income		
Loans, including fees	$ 7,527,937	$ 6,512,150
Taxable securities	5,336,422	5,256,349
Nontaxable securities	167,939	159,269
Other interest	840,501	170,912
Total interest income	13,872,799	12,098,680
Interest expense		
Deposits	1,859,046	567,033
Other borrowings	438,088	1,745
Subordinated debentures	156,200	152,510
Total interest expense	2,453,334	721,288
Net interest income	11,419,465	11,377,392
Provision for credit losses	-	125,000
Net interest income after provision for credit losses	11,419,465	11,252,392
Other income		
Fees and service charges on deposit accounts	1,667,217	1,496,835
Servicing fee income, net	2,916	3,292
Bank owned life insurance	395,505	383,894
Mortgage fee income	12,113	30,457
Other income	14,267	8,016
Total other income	2,092,018	1,922,494
Other expenses		
Salaries and employee benefits	4,382,725	4,165,500
Occupancy expenses	1,170,177	1,167,642
Marketing and professional expenses	338,524	289,974
Net other operating expenses	1,858,600	1,780,905
Total other expenses	7,750,026	7,404,021
Income before income taxes	5,761,457	5,770,865
Income tax expense	1,281,278	1,266,669
Net income	$ 4,480,179	$ 4,504,196
Basic and diluted earnings per share	$ 4.93	$ 4.79
Cash dividends per share	$ 1.08	$ 1.00
Weighted-average basic and diluted shares outstanding	909,534	939,575

See Notes to Consolidated Financial Statements.

PINNACLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2023 and 2022

	2023	2022
Net income	**$ 4,480,179**	$ 4,504,196
Other comprehensive income (loss):		
Unrealized holding gain (loss) on securities available for sale arising during the period, net of (tax) benefit of ($1,256,442) and $11,211,184, respectively	**3,576,027**	(31,908,754)
Unrealized holding (loss) gain on cash flow hedge arising during the period, net of (tax) benefit of $8,884 and ($168,182), respectively	**(25,286)**	478,672
Other comprehensive income (loss)	**3,550,741**	(31,430,082)
Comprehensive income (loss)	**$ 8,030,920**	$ (26,925,886)

See Notes to Consolidated Financial Statements.

PINNACLE BANCSHARES, INC.
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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2023 and 2022

	Common Stock		Additional Paid-in	Treasury	Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Par Value	Capital	Stock	Earnings	Income (Loss)	Equity
Balance, December 31, 2021	1,872,313	$ 18,723	$ 8,923,223	$ (13,533,621)	$ 38,710,339	$ 1,540,479	$ 35,659,143
Net income	-	-	-	-	4,504,196	-	4,504,196
Purchase of treasury stock	-	-	-	(2,055,178)	-	-	(2,055,178)
Cash dividends declared, $1.00 per share	-	-	-	-	(940,163)	-	(940,163)
Other comprehensive loss	-	-	-	-	-	(31,430,082)	(31,430,082)
Balance, December 31, 2022	1,872,313	18,723	8,923,223	(15,588,799)	42,274,372	(29,889,603)	5,737,916
Net income	-	-	-	-	4,480,179	-	4,480,179
Cash dividends declared, $1.08 per share	-	-	-	-	(982,295)	-	(982,295)
Other comprehensive income	-	-	-	-	-	3,550,741	3,550,741
Balance, December 31, 2023	1,872,313	$ 18,723	$ 8,923,223	$ (15,588,799)	$ 45,772,256	$ (26,338,862)	$ 12,786,541

See Notes to Consolidated Financial Statements.

PINNACLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING ACTIVITIES		
Net income	**$ 4,480,179**	$ 4,504,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**418,814**	424,648
Provision for credit losses	**-**	125,000
Deferred income taxes	**394,984**	8,526
Net amortization and accretion of securities	**180,496**	208,429
Bank owned life insurance	**(395,504)**	(383,894)
Increase in accrued interest receivable	**(36,294)**	(153,297)
Increase in accrued interest payable	**1,280,621**	33,809
Net other operating activities	**142,938**	(105,772)
Net cash provided by operating activities	**6,466,234**	4,661,645
INVESTING ACTIVITIES		
Net increase in interest-bearing deposits in banks	**(7,332,960)**	(1,039,485)
Purchase of securities available for sale	**-**	(41,170,098)
Proceeds from maturities, calls, or paydowns of securities available for sale	**9,712,596**	10,777,597
Net purchase of restricted equity securities	**(62,600)**	(32,000)
Net (increase) decrease in loans	**(7,018,153)**	6,577,927
Purchase of premises and equipment	**(1,913,472)**	(335,742)
Net cash used in investing activities	**(6,614,589)**	(25,221,801)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**(10,921,495)**	23,568,108
Other borrowings	**12,500,000**	-
Purchase of treasury stock	**-**	(2,055,178)
Payments of cash dividends	**(982,295)**	(940,163)
Net cash provided by financing activities	**596,210**	20,572,767
Net increase in cash and cash equivalents	**447,855**	12,611
Cash and cash equivalents at beginning of year	**1,742,938**	1,730,327
Cash and cash equivalents at end of year	**$ 2,190,793**	$ 1,742,938
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	**$ 1,172,713**	$ 687,479
Taxes	**$ 945,928**	$ 1,330,568

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following is a description of the business and the more significant accounting policies followed by Pinnacle Bancshares, Inc. (the "Company") and its wholly-owned subsidiary Pinnacle Bank (the "Bank") in presenting the consolidated financial statements.

Nature of Operations

Pinnacle Bancshares, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Pinnacle Bank. The Bank is primarily in the business of obtaining funds in the form of various savings, demand deposit, and time deposit products and investing those funds in mortgage, consumer, and commercial loans. The Bank operates in seven offices in the central and northwest portions of Alabama and originates its loans in this market area. The Company's principal activities do not constitute separate reportable segments of its business, but encompass traditional banking activities which offer similar products and services within the same primary geographic area and regulatory and economic environment.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of other real estate owned and deferred taxes, impairments of securities, and the fair value of financial instruments. In connection with the determination of the estimated losses on loans and the valuation of other real estate owned, management obtains independent appraisals for significant collateral.

The determination of the adequacy of the allowance for credit losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

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

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans 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 estimated losses on loans. Such agencies may require the Company to recognize additional losses 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 estimated losses on loans may change materially in the near term. However, the amount of the changes that is reasonably possible cannot be estimated.

The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through March 5, 2024, the date these financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents, and Cash Flows

For purposes of reporting consolidated cash flows, cash and cash equivalents includes cash on hand, cash items in process of collection, and amounts due from banks. Cash flows from loans, interest-bearing deposits in banks, restricted equity securities, deposits, and borrowings are reported net.

The Company is required to pledge cash balances against its derivative contracts according to collateral requirements of the counterparties. The total of those cash balances pledged at December 31, 2023 was approximately $310,000.

The Bank is required to maintain reserve balances on hand and with the Federal Reserve Bank, which are unavailable for investment but are interest-bearing. In March of 2020, the Federal Reserve Bank reduced the reserve requirement to zero. There were no required reserves for the years ended December 31, 2023 and 2022.

Securities

All securities are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

A security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual status is reversed against interest income. There was no accrued interest related to securities reversed against interest income for the years ended December 31, 2023 or 2022.

The Company evaluates available-for-sale securities in an unrealized loss position to determine if credit-related impairment exists. The Company first evaluates whether it intends to sell, or more likely than not will be required to sell, an impaired security before recovering its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is attributable to credit losses or resulted from other factors. In making this assessment, management considers the extent to which fair values is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If credit-related impairment exists, the Company recognizes an allowance for credit losses, limited to the amount by which the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss), net of tax. Accrued interest receivable on available-for-sale debt securities totaled $1,591,183 and $1,642,594 at December 31, 2023 and December 31, 2022, respectively, and was reported in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

The Company pledges assets to collateralize secured financings such as public deposits and other short-term borrowings. The carrying value and classification of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge at December 31 are as follows:

	December 31,	
	2023	2022
Securities available for sale	**$ 115,113,657**	$ 94,327,765

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Equity Securities

The Company is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, the stock has no quoted market value and is carried at cost. At their discretion, these entities may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks. Investments in restricted equity securities consist of the following:

	December 31,	
	2023	2022
Federal Home Loan Bank stock	**$ 311,200**	$ 248,600
First National Banker's Bankshares, Inc. stock	**525,000**	525,000
	$ 836,200	$ 773,600

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the allowance for credit losses. Amortized cost is the principal balance outstanding. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of specific direct origination costs, are recognized at the time the loan is placed on the books.

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, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income or charged to the allowance, unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms generally for a period of not less than six months.

Allowance for Credit Losses – Loans

As described below under Recently Adopted Accounting Standards, the Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* effective January 1, 2023, which uses the current expected credit loss (CECL) model to determine the allowance for credit losses (ACL).

The CECL methodology recognizes lifetime expected credit losses immediately when a loan is originated or purchased. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans, excluding interest receivable, to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, credit quality, or term, as well as for changes in macroeconomic conditions, such as changes in unemployment rates, property values or other relevant factors.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

The allowance for credit losses is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. For purposes of determining the pool-basis reserve, representing all loans not assigned an individual reserve, loans are segregated by portfolio segment, then by class, to recognize differing risk profiles. Each class is assigned a historical loss rate. These historical loss rates are then modified to incorporate a reasonable and supportable forecast of future losses at the loan class level, as well as any necessary qualitative adjustments. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve. The qualitative adjustments are utilized to address factors that are not present in historical loss rates and are otherwise unaccounted for in the quantitative process. Even though portions of the allowance may be allocated to specific loans, the entire allowance is available for any credit that, in management's judgment, should be charged off.

The following describe risk characteristics relevant to each of the portfolio segments and classes:

Real Estate - As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Commercial real estate mortgage loans include both owner-occupied commercial real estate loans and other commercial real estate loans such as commercial loans secured by income producing properties. Owner-occupied commercial real estate loans made to operating businesses are long-term financing of land and buildings and are repaid by cash flows generated from business operations. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

- Loans for real estate construction and development are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

- Residential mortgage loans, including HELOCs and multifamily residential properties, are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

- Other real estate mortgage loans include real estate loans secured by farmland. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans is reported in accrued interest receivable on the consolidated balance sheets and totaled $513,302 and $413,794 at December 31, 2023 and 2022, respectively.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, or when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. Fair value is generally calculated based on the value of the underlying collateral less estimated selling costs.

Off-Balance Sheet Credit Exposure

The Company also has off-balance sheet financial instruments, which include unfunded loan commitments and letters of credit. The Company minimizes these risks through underwriting guidelines and prudent risk management techniques. For off-balance sheet instruments, the allowance for credit losses is calculated in accordance with Topic 326, representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. The allowance is reported as a component of other liabilities within the consolidated balance sheets. Adjustments to the allowance for credit losses for unfunded commitments are reported in the income statement as a component of other operating expense. At December 31, 2023, no allowance for credit losses has been recognized on off-balance sheet financial instruments.

Allowance for Loan Losses - Loans (Prior to the Adoption of ASU 2016-13)

Prior to the adoption of ASU 2016-13, the Allowance for Loan Losses (ALL) was an amount that represented a reserve for probable incurred losses in the loan portfolio. The ALL was evaluated on a regular basis by management and was based upon management's periodic review of various risks in the loan portfolio highlighted by 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 any underlying collateral, and prevailing economic conditions. This evaluation was inherently subjective as it required estimates that were susceptible to significant revision as more information became available. The ALL evaluation did not include the effects of expected losses on specific loans or groups of loans that were related to future events or expected changes in economic conditions.

The ALL consisted of specific and general components. The specific component included loans management considered impaired and other loans or groups of loans that management classified with higher risk characteristics. For such loans that were classified as impaired, an allowance was established when the discounted cash flows, collateral value, or observable market price of the impaired loan was lower than the carrying value of that loan. The general component covered non-classified loans and was based on historical loss experience adjusted for qualitative factors.

The Company segregated the loan portfolio by type of loan and utilized this segregation in evaluating exposure to risks within the portfolio. In addition, based on internal reviews and external reviews performed by independent loan reviewers and regulatory authorities, the Company further segregated the loan portfolio by loan grades based on an assessment of risk for a particular loan or group of loans. In establishing allowances, management considered historical loan loss experience but adjusted this data with a significant emphasis on data such as risk ratings, current loan quality trends, current economic conditions, and other factors in the markets where the Company operates. Factors considered include, among others, current valuations of real estate in their markets, unemployment rates, and other significant local economic events.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are reflected in income.

	Years
Buildings	15-39
Furniture and equipment	3-10

Leases

The Company leases certain office space and equipment under operating leases. Accounting Standards Update 2016-02, *Leases (Topic 842)*, requires that operating leases be recognized as a liability to make lease payments and as an asset representing the right to use the asset during the lease term, or "lease liability" and "right-of-use asset", respectively. The lease liability is measured by the present value of remaining lease payments, discounted at the Company's incremental borrowing rate on the date of adoption.

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches and office space with terms extending through 2030. The Company has renewal options that are not considered in the right-of-use asset due to the uncertainty of renewal.

The Company has made an accounting policy election to not apply the recognition requirements in Topic 842 to short-term leases. The Company has also elected to use the practical expedient to make an accounting policy election for property leases to include both lease and nonlease components as a single component and account for it as a lease.

Derivative Instruments

All derivative instruments are recorded on the consolidated balance sheets at their respective fair values. On the date that the derivative contract is entered into, the Company designates the derivative as a hedge of variable cash flows to be paid or received in conjunction with recognized assets or liabilities, or a cash-flow hedge. For a derivative treated as a cash flow hedge, the ineffective portion of changes in fair value is reported in current period earnings, and the effective portion of the cash flow hedge is recorded as an adjustment to the hedged item through other comprehensive income (loss).

The Company formally assesses, both at the hedges' inception, and on an on-going basis, whether derivatives used in hedging transactions have been highly effective in offsetting changes in cash flows of hedged items and whether those derivatives are expected to remain highly effective in subsequent periods. The Company discontinues hedge accounting when (1) it determines that a derivative is no longer effective in offsetting changes in cash flows of a hedged item; (2) the derivative expires or is sold, terminated or exercised; (3) probability exists that the forecasted transaction will no longer occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate. In all cases in which hedge accounting is discontinued and a derivative remains outstanding, the Company will carry the derivative at fair value on the consolidated balance sheets, recognizing changes in fair value in current period income in the consolidated statements of income.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent write-downs to the value are expensed. The Company had no other real estate owned as of December 31, 2023 or 2022 included in other assets on the consolidated balance sheets.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets and liabilities acquired in a business combination or acquisition. Goodwill is not amortized over an estimated useful life, but rather is tested annually for impairment, or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. The goodwill impairment test is performed in two steps. The first step is used to identify potential impairment and the second step, if required, measures the amount of impairment by comparing the carrying amount of goodwill to its implied fair value. In the event of impairment, the amount by which the carrying amount exceeds the fair value would be charged to earnings.

The Company assessed various factors and determined it was not more likely than not that its fair value was less than its carrying amount.

Bank Owned Life Insurance

The Company has bank owned life insurance on certain current and former key officers of the Company. The life insurance policies were purchased to reduce costs associated with certain existing employee benefits. Increases in the cash surrender value of the policies, as well as insurance proceeds received, are recorded as a component of other income.

Income Taxes

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional potential 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. There were no potential common shares as of December 31, 2023 or 2022.

Treasury Stock

The Company's acquisition of shares of its common stock is recorded at cost as treasury stock and results in a reduction of stockholders' equity. When treasury shares are reissued, the Company uses a first-in, first-out method and any difference in repurchase cost and reissuance price is recorded as an increase or reduction in capital surplus.

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).

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Revenue from Contracts with Customers

Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers ("ASC 606")* provides guidance for reporting revenue from the Company's contracts to provide goods or services to customers. The guidance requires recognition of revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from Contracts with Customers (Continued)

The majority of revenue-generating transactions are excluded from the scope of ASC 606, including revenue generated from financial instruments, such as securities and loans; rental income; income on bank owned life insurance contracts; and gains on sales of mortgage loans. Revenue-generating transactions that are within the scope of ASC 606, classified within other income, are described as follows:

Fees and Service Charges on Deposit Accounts – represent service fees for monthly activity and maintenance on customer accounts. Attributes can be transaction-based, item-based or time-based. Revenue is recognized when the Company's performance obligation is completed which is generally monthly for maintenance services or when a transaction is processed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Interchange Income – bank card related fees primarily includes interchange income from client use of consumer and business debit cards. Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network. Interchange fees are set by the credit card associations and are based on cardholder purchase volumes. The Company records interchange income as transactions occur. This income is included in other noninterest income on the consolidated statements of income.

Gains and Losses from the Sale of Other Real Estate Owned – the performance obligation in the sale of other real estate owned typically will be the delivery of control over the property to the buyer. If the Company is not providing the financing of the sale, the transaction price is typically identified in the purchase and sale agreement. However, if the Company provides seller financing, the Company must determine a transaction price, depending on if the sale contract is at market terms and taking into account the credit risk inherent in the arrangement.

Other income primarily includes both transaction-based fees and account maintenance fees. Transaction based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Other account maintenance fees are recognized over time, usually on a monthly basis, as the Company's performance obligation for services is satisfied.

Recently Adopted Accounting Standards

On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company had no cumulative effect of adopting ASC 326.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Standards (Continued)

In addition, for available-for-sale debt securities, the new methodology replaces the other-than-temporary impairment model and requires the recognition of an allowance for reductions in a security's fair value attributable to declines in credit quality instead of a direct write-down of the security when a valuation decline is determined to be other-than-temporary. There was no financial impact related to this implementation. The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest in accrued interest receivable in the consolidated balance sheets.

ASU No. 2022-02 – *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* (ASU 2022-02). ASU 2022-02 eliminates the troubled debt restructuring (TDR) measurement and recognition guidance and requires that entities evaluate whether the modification represents a new loan or a continuation of an existing loan consistent with the accounting for other loan modifications. Additional disclosures relating to modifications to borrowers experiencing financial difficulty are required under ASU 2022-02. The Company adopted this ASU effective January 1, 2023 on a prospective basis.

NOTE 2. SECURITIES

The amortized cost, unrealized gains and losses, and estimated fair value of securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2023:				
U.S. Treasury securities	**$ 15,384,054**	**$ -**	**$ (1,500,870)**	**$ 13,883,184**
Municipal securities	**157,503,851**	**7,590**	**(32,711,453)**	**124,799,988**
U.S. Government-sponsored enterprises (GSEs)	**990,384**	**-**	**(48,247)**	**942,137**
Mortgage-backed securities	**27,731,987**	**-**	**(1,837,271)**	**25,894,716**
Total securities	**$ 201,610,276**	**$ 7,590**	**$ (36,097,841)**	**$ 165,520,025**
December 31, 2022:				
U.S. Treasury securities	$ 15,348,880	$ -	$ (1,850,813)	$ 13,498,067
Municipal securities	161,296,908	3,986	(36,849,705)	124,451,189
U.S. Government-sponsored enterprises (GSEs)	987,006	-	(62,871)	924,135
Corporate securities	1,249,876	191	-	1,250,067
Mortgage-backed securities	32,620,699	4	(2,163,512)	30,457,191
Total securities	$ 211,503,369	$ 4,181	$ (40,926,901)	$ 170,580,649

NOTE 2. SECURITIES (Continued)

The amortized cost and estimated fair value of securities available for sale at December 31, 2023 by contractual maturity are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid with or without penalty. Therefore, these securities are not included in the maturity categories in the following summary:

	Amortized Cost	Fair Value
Due within one year	$ 824,936	$ 821,013
Due from one to five years	31,596,277	29,257,810
Due from five to ten years	15,375,206	13,647,650
Due in more than ten years	126,081,870	95,898,836
Mortgage-backed securities	27,731,987	25,894,716
	$ 201,610,276	$ 165,520,025

The Company did not sell any securities during the years ended December 31, 2023 and 2022.

The following table summarizes the gross unrealized losses and fair value of securities for which an ACL has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022.

Available for sale securities that have been in a continuous unrealized loss position are as follows:

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2023					
U.S. Treasury securities	**$ -**	**$ -**	**$ (1,500,870)**	**$ 13,883,184**	**$ (1,500,870)**
Municipal securities	**(60,402)**	**2,274,276**	**(32,651,051)**	**117,443,907**	**(32,711,453)**
U.S. Government-sponsored enterprises (GSEs)	**-**	**-**	**(48,247)**	**942,137**	**(48,247)**
Mortgage-backed securities	**(18,536)**	**898,571**	**(1,818,735)**	**24,996,115**	**(1,837,271)**
Total	**$ (78,938)**	**$ 3,172,847**	**$ (36,018,903)**	**$ 157,265,343**	**$ (36,097,841)**
December 31, 2022					
U.S. Treasury securities	$ -	$ -	$ (1,850,813)	$ 13,498,067	$ (1,850,813)
Municipal securities	(10,256,391)	56,243,785	(26,593,314)	62,078,945	(36,849,705)
U.S. Government-sponsored enterprises (GSEs)	(62,871)	924,135	-	-	(62,871)
Mortgage-backed securities	(2,163,512)	30,455,698	-	-	(2,163,512)
Total	$ (12,482,774)	$ 87,623,618	$ (28,444,127)	$ 75,577,012	$ (40,926,901)

The Company adopted ASU No. 2016-13 effective January 1, 2023 which requires credit losses on available-for-sale securities to be recorded in an allowance for credit losses. If the Company intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis, then the security is written down to fair value through income. As of December 31, 2023, the Company did not have the intent to sell, nor was it more likely than not that we would be required to sell any of the securities in an unrealized loss position prior to recovery. As of December 31, 2023, the Company also determined that no individual securities in an unrealized loss position represented credit losses that would require an allowance for credit losses. The Company concluded that the unrealized losses were primarily attributable to increases in market interest rates since these securities were purchased and other market conditions.

NOTE 3. LOANS

Portfolio Segments and Classes

The composition of loans is summarized as follows:

	December 31, 2023	December 31, 2022
Real estate mortgages:		
Commercial	**$ 37,666,442**	$ 35,465,898
Construction and development	**7,704,086**	11,265,827
Residential	**29,508,446**	28,538,197
Other	**583,629**	455,209
Commercial	**42,535,210**	36,580,209
Consumer	**7,435,299**	6,211,326
	125,433,112	118,516,666
Allowance for credit losses	**(2,459,372)**	(2,561,079)
Loans, net	**$ 122,973,740**	$ 115,955,587

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are three loan portfolio segments: real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include commercial, construction and development, residential mortgages, and other real estate loans. The portfolio segments of non-real estate commercial and consumer loans have not been further segregated by class.

Credit Risk Management

Credit Risk Management and the Loan Loss Reserve Committee are both involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to manage the portfolios and reduce risk, particularly in the more problematic portfolios.

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by a comprehensive Board approved Loan Policy that provides for a consistent and prudent approach to underwriting and approvals of credits. Within the Loan Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios. To ensure problem credits are identified on a timely basis, the Company has an external loan review performed each year to assess the larger adversely rated credits for proper risk rating and accrual status.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by management and the Loan Committee.

NOTE 3. LOANS (Continued)

Credit Risk Management (Continued)

A description of the general characteristics of the risk categories used by the Company is as follows:

- **Pass** - Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk category would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

- **Management Attention** - Loans in this category include obligations that contain a greater than normal amount of risk and warrant more than the ordinary amount of supervision though they have not reached the more severe loan categories due to other mitigating factors.

- **Special Mention** - Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and/or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the Company's credit position. These loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

- **Substandard** - Loans in this risk category include obligations considered to be inadequately protected by the current sound worth and debt service capacity of the borrower or of any pledged collateral. These obligations, even if apparently protected by collateral value, have well-defined weaknesses related to adverse financial, managerial, economic, market, or political conditions, which have clearly jeopardized repayment of principal and interest as originally intended. Furthermore, there is the possibility that the Company will sustain some future loss if such weaknesses are not corrected. Clear loss potential, however, does not have to exist in any individual assets classified as substandard.

- **Doubtful -** Loans include obligations with all the weaknesses found in substandard loans with the added provision that the weaknesses make collection of debt in full, based on current existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely. The possibility of loss is extremely high, but because of certain important, reasonably specific pending factors that may work to strengthen the loan, the loans' classification as estimated losses is deferred until a more exact status may be determined. There are no loans with a doubtful rating in the Company's portfolio as of December 31, 2023 or 2022.

NOTE 3. LOANS (Continued)

Credit Risk Management (Continued)

The following tables present the amortized cost basis of loans by loan class, risk category and origination year, and the current year gross write-off by loan segment and origination year, based on the analysis performed as of December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year				Revolving	
	2023	2022	2021	Prior	Loans	Total
As of December 31, 2023						
Real Estate						
Commercial						
Pass	$ 9,215,919	$ 5,890,190	$ 11,104,677	$ 11,415,940	$ -	$ 37,626,726
Management Attention	39,716	-	-	-	-	39,716
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total commercial	$ 9,255,635	$ 5,890,190	$ 11,104,677	$ 11,415,940	$ -	$ 37,666,442
Current period gross write-offs	$ -	$ -	$ -	$ 15,092	$ -	$ 15,092
Construction and development						
Pass	$ 5,236,740	$ 691,369	$ 599,697	$ 217,071	$ -	$ 6,744,877
Management Attention	959,209	-	-	-	-	959,209
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total construction and development	$ 6,195,949	$ 691,369	$ 599,697	$ 217,071	$ -	$ 7,704,086
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -
Residential						
Pass	$ 5,969,282	$ 6,562,944	$ 6,259,681	$ 5,826,794	$ 4,826,925	$ 29,445,626
Management Attention	-	-	-	-	50,864	50,864
Special Mention	-	-	-	-	-	-
Substandard	-	-	11,001	955	-	11,956
Total residential	$ 5,969,282	$ 6,562,944	$ 6,270,682	$ 5,827,749	$ 4,877,789	$ 29,508,446
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -
Other						
Pass	$ 130,462	$ 321,986	$ 131,181	$ -	$ -	$ 583,629
Management Attention	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total other	$ 130,462	$ 321,986	$ 131,181	$ -	$ -	$ 583,629
Current period gross write-offs	$ 16,508	$ 25,621	$ 4,233	$ -	$ -	$ 46,362
Commercial						
Pass	$ 13,772,780	$ 6,542,858	$ 4,706,739	$ 6,042,990	$ 11,251,999	$ 42,317,366
Management Attention	59,745	-	-	143,329	14,770	217,844
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total commercial	$ 13,832,525	$ 6,542,858	$ 4,706,739	$ 6,186,319	$ 11,266,769	$ 42,535,210
Current period gross write-offs	$ -	$ 74,679	$ 22,216	$ 765	$ -	$ 97,660
Consumer						
Pass	$ 4,409,688	$ 2,123,884	$ 545,979	$ 270,924	$ 84,823	$ 7,435,298
Management Attention	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total consumer	$ 4,409,688	$ 2,123,884	$ 545,979	$ 270,924	$ 84,823	$ 7,435,298
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -

NOTE 3. LOANS (Continued)

Credit Risk Management (Continued)

The following tables summarize the risk categories of the Company's loan portfolio based upon on the analysis performed as of December 31, 2022:

	Pass	Management Attention	Special Mention	Substandard	Total
December 31, 2022					
Real estate mortgages:					
Commercial	$ 35,427,264	$ 38,634	$ -	$ -	$ 35,465,898
Construction and development	11,265,827	-	-	-	11,265,827
Residential	28,235,939	-	-	302,258	28,538,197
Other	455,209	-	-	-	455,209
Commercial	36,364,900	168,806	-	46,503	36,580,209
Consumer	6,211,326	-	-	-	6,211,326
Total:	$ 117,960,465	$ 207,440	$ -	$ 348,761	$ 118,516,666

Collateral Dependent Loans

The Company classifies a loan as collateral dependent when the borrower is experiencing financial difficulty, and expected repayment is to be provided substantially through the operation or sale of the collateral. The following table summarizes collateral dependent loans, which are individually evaluated to determine expected credit losses. The bank has no collateral dependent loans as of December 31, 2023 under CECL.

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, loans are placed on nonaccrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans as of December 31, 2023 and 2022:

		Past Due Status (Accruing Loans)					
	Current	**30-89 Days**	**90+ Days**	**Total Past Due**	**Nonaccrual without ACL**	**Nonaccrual with ACL**	**Total**
December 31, 2023							
Real estate mortgages:							
Commercial	**$ 42,523,209**	**$ 12,001**	**$ -**	**$ 12,001**	**$ -**	**$ -**	**$ 42,535,210**
Construction and development	**7,704,086**	**-**	**-**	**-**	**-**	**-**	**7,704,086**
Residential	**29,229,219**	**279,227**	**-**	**279,227**	**-**	**-**	**29,508,446**
Other	**583,629**	**-**	**-**	**-**	**-**	**-**	**583,629**
Commercial	**37,666,442**	**-**	**-**	**-**	**-**	**-**	**37,666,442**
Consumer	**7,365,222**	**70,077**	**-**	**70,077**	**-**	**-**	**7,435,299**
Total:	**$ 125,071,807**	**$ 361,305**	**$ -**	**$ 361,305**	**$ -**	**$ -**	**$ 125,433,112**

NOTE 3. LOANS (Continued)

Past Due Loans (Continued)

	Current	Past Due Status (Accruing Loans) 30-89 Days	90+ Days	Total Past Due	Nonaccrual without ACL	Nonaccrual with ACL	Total
December 31, 2022							
Real estate mortgages:							
Commercial	$ 36,522,788	$ 57,421	$ -	$ 57,421	$ -	$ -	$ 36,637,630
Construction and development	11,265,827	-	-	-	-	-	11,265,827
Residential	28,462,522	55,143	-	55,143	20,532	-	28,538,197
Other	455,209	-	-	-	-	-	455,209
Commercial	35,427,264	38,634	-	38,634	-	-	35,465,898
Consumer	6,156,900	54,426	-	54,426	-	-	6,211,326
Total:	$ 118,290,510	$ 205,624	$ -	$ 205,624	$ 20,532	$ -	$ 118,574,087

The Company recognized $0 of interest income on nonaccrual loans during the years ended December 31, 2023, and 2022, respectively.

Allowance for Credit Losses

The Company adopted ASU No. 2016-13 on January 1, 2023, at which time the Company implemented the CECL model in estimating the ACL valuation account. The following table details the changes in the ACL by loan segment for the year ended December 31, 2023.

	Real Estate	Commercial	Consumer	Unallocated	Total
December 31, 2023					
Allowance for credit losses:					
Beginning balance	**$ 868,465**	**$ 977,037**	**$ 198,802**	**$ 516,775**	**$ 2,561,079**
Impact of adoption of ASC 326	**-**	**-**	**-**	**-**	**-**
Provision (credit) for credit losses	**(47,413)**	**202,389**	**70,594**	**(225,570)**	**-**
Loans charged-off	**(15,092)**	**(97,660)**	**(46,362)**	**-**	**(159,114)**
Recoveries	**998**	**37,164**	**19,245**	**-**	**57,407**
Ending balance	**$ 806,958**	**$ 1,118,930**	**$ 242,279**	**$ 291,205**	**$ 2,459,372**

NOTE 3. LOANS (Continued)

Allowance for Loan Losses – Incurred Loss Methodology

Prior to the adoption of ASU No. 2016-13 on January 1, 2023, the Company calculated the allowance for loan losses using the incurred loss methodology. The following tables present the activity in the allowance for loan losses by segment for the years ended December 31, 2022.

	Real Estate	Commercial	Consumer	Unallocated	Total
December 31, 2022					
Allowance for loan losses:					
Beginning balance	$ 840,212	$ 1,046,013	$ 135,954	$ 515,769	$ 2,537,948
Provision (credit) for loan losses	29,309	(5,980)	100,665	1,006	125,000
Loans charged-off	(1,773)	(64,305)	(50,246)	-	(116,324)
Recoveries	717	1,309	12,429	-	14,455
Ending balance	$ 868,465	$ 977,037	$ 198,802	$ 516,775	$ 10,244,316
Ending balance – individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance – collectively evaluated for impairment	868,465	977,037	198,802	516,775	2,561,079
Total ending balance	$ 868,465	$ 977,037	$ 198,802	$ 516,775	$ 2,561,079
Loans:					
Ending balance – individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance – collectively evaluated for impairment	75,725,131	36,580,209	6,211,326	-	118,516,666
Total ending balance	$ 75,725,131	$ 36,580,209	$ 6,211,326	$ -	$ 118,516,666

Related Party Transactions

In the ordinary course of business, the Company has granted loans to certain related parties, including directors, executive officers, and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans for the year ended December 31, 2023 and 2022 are as follows:

	Years Ended December 31,	
	2023	2022
Balance, beginning of year	**$ 1,819,195**	$ 2,175,185
Advances	**1,410,552**	2,406,882
Repayments	**(524,324)**	(2,713,735)
Change in related parties	**-**	(49,137)
Balance, end of year	**$ 2,705,423**	$ 1,819,195

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2023	2022
Land	**$ 1,693,293**	$ 1,693,293
Buildings and leasehold improvements	**12,491,610**	11,217,336
Furniture, fixtures, and equipment	**4,873,442**	4,201,957
Construction in-process	**20,628**	52,915
	19,078,973	17,165,501
Less accumulated depreciation	**(10,657,684)**	(10,238,870)
	$ 8,421,289	$ 6,926,631

There are no major projects outstanding as of December 31, 2023 or 2022.

Leases

The Company leases real estate property for branches and office space under non-cancelable operating leases. The right-of-use assets and lease liabilities were measured and recorded with an assumed discount rate of 2.40%, the implicit borrowing rate on the date of adoption. The right-of-use assets and corresponding lease liabilities recorded as of December 31, 2023 and 2022 were $302,171 and $398,364, respectively.

Occupancy expenses for the years ended December 31, 2023 and 2022 include rental expense under these leases of $116,140 and $109,331, respectively. Future rental payments subject to periodic renegotiations required under these leases are as follows:

2024	$ 47,788
2025	49,823
2026	52,314
2027	54,930
2028	57,676
Thereafter	107,661
Total lease payments	370,192
Less: imputed interest	(68,021)
Present value of operating lease liabilities	$ 302,171

The Company leases a portion of the building in which the main office branch is located that generated income of $144,384 and $144,384 for the years ended December 31, 2023 and 2022, respectively.

NOTE 5. DEPOSITS

The composition of deposits is summarized as follows:

	December 31,	
	2023	2022
Noninterest-bearing accounts	**$ 89,518,619**	$ 94,784,231
Interest-bearing demand	**126,771,765**	139,050,142
Savings accounts	**29,230,170**	39,073,006
Time deposits:		
Time deposits of $250,000 or more	**39,843,239**	31,377,468
Other certificates of deposit	**25,975,353**	17,975,794
Total deposits	**$ 311,339,146**	$ 322,260,641

Brokered deposits totaled approximately $11,900,000 and $11,800,000 at December 31, 2023 and 2022, respectively. At December 31, 2023, the Company had a concentration of deposits with two depositors totaling approximately $47,119,000. The Company is maintaining adequate liquidity sources to meet the withdrawal demands of these depositors.

The scheduled maturities of time deposits at December 31, 2023 are as follows:

2024	$ 55,314,314
2025	1,595,158
2026	8,452,232
2027	323,613
2028	133,275
	$ 65,818,592

At December 31, 2023 and 2022, overdraft demand and savings deposits reclassified to loans totaled $122,829 and $121,447, respectively.

NOTE 6. SUBORDINATED DEBENTURE

On December 22, 2003, the Company established Pinnacle Capital Trust I ("Trust"), a wholly-owned statutory business trust. The Company is the sole sponsor of the Trust and acquired the Trust's common securities for $93,000. The Trust was created for the exclusive purpose of issuing 30-year capital trust securities ("Trust Preferred Securities") in the aggregate amount of $3,000,000 and using proceeds to purchase $3,093,000 of junior subordinated debentures ("Subordinated Debentures") issued by the Company. The sole assets of the Trust are the Subordinated Debentures. The Company's $93,000 investment in the Trust is included in other assets in the accompanying consolidated balance sheets.

The Trust Preferred Securities bear a floating interest rate of 2.85% over CME Term SOFR (8.505% at December 31, 2023) which is set each quarter and matures on December 22, 2033. Distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. The Company guarantees the payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by the Trust. Pinnacle Bancshares, Inc.'s obligation under the subordinated debentures together with the guarantee and other back-up obligation, in aggregate, constitute a full and unconditional guarantee by the Company of the obligations of the Trust under the Trust Preferred Securities.

NOTE 6. SUBORDINATED DEBENTURE (Continued)

The subordinated debentures are unsecured, bear an interest rate equal to the spread paid by the Trust on the Trust Preferred Securities which is set each quarter and matures on December 30, 2033. Interest is payable quarterly. The Company may defer the payment of interest at any time for a period not exceeding 20 consecutive quarters provided that deferral period does not extend past the stated maturity. During any such deferral period, distributions on the Trust Preferred Securities will also be deferred and the Company's ability to pay dividends on the common shares will be restricted.

Subject to approval by the Federal Reserve Bank of Atlanta, the Trust Preferred Securities may be redeemed prior to maturity at the Company's option. The Trust Preferred Securities may also be redeemed at any time in whole (but not in part) in the event of unfavorable changes in laws or regulations that result in (1) the Trust becoming subject to federal income tax on income received on the Subordinated Debentures, (2) interest payable by the Company on the subordinated debentures becoming non-deductible for federal tax purposes, or (3) the requirement for Trust Preferred Securities as "Tier I Capital" under the Federal Reserve capital adequacy guidelines.

NOTE 7. DERIVATIVE INSTRUMENTS

The Company uses an interest rate swap to reduce interest rate risk and to manage net interest income. The Company entered into an interest rate swap agreement on January 15, 2020, to manage the interest rate exposure on its Trust Preferred Securities. The interest rate swap has a notional amount of $3,093,000. It was determined to be effective during the period presented, and the Company expects the hedge to remain effective during the remaining term of the swap.

By entering into this agreement, the Company converts a floating rate liability priced at three-month LIBOR into a fixed rate liability priced at 1.885% through December 15, 2033. Under the terms of the agreement, the Company receives interest quarterly at the rate equivalent to three-month LIBOR repricing every three months on the same date as the Company's Trust Preferred Securities and pays interest quarterly at the fixed rate noted above. The fair value of the derivative is recorded in other liabilities on the consolidated balance sheet.

The following table reflects the derivatives recorded on the consolidated balance sheet as of December 31, 2023 and 2022.

	Notional Amount	**Fair Value**	**Amount of Gain (Loss) recognized in OCI, net of tax**
December 31, 2023			
Included in other assets:			
Interest rate swap	**$ 3,093,000**	**$ 497,194**	**$ (25,286)**
December 31, 2022			
Included in other liabilities:			
Interest rate swap	$ 3,093,000	$ 531,634	$ 478,672

NOTE 8. AVAILABLE FUNDING

The Company has a Federal Funds line of credit with First National Banker's Bank totaling $7,300,000 at December 31, 2023. There were no amounts outstanding under this arrangement at December 31, 2023 or 2022.

The Company maintains a credit facility with the Federal Home Loan Bank of Atlanta for borrowings up to approximately $8,400,000 as of December 31, 2023 subject to certain collateral requirements. There were no amounts outstanding under this arrangement at December 31, 2023 or 2022.

The Company maintains a credit facility with the Federal Reserve Bank Discount Window for borrowings up to approximately $87,721,723 as of December 31, 2023 subject to certain collateral requirements. There were $12,500,000 and $0 outstanding under this arrangement at December 31, 2023 and 2022 respectively.

NOTE 9. INCOME TAXES

The allocation of income tax expense between current and deferred income taxes is as follows:

	Years Ended December 31,	
	2023	2022
Current	**$ 886,292**	$ 1,258,143
Deferred	**394,984**	8,526
Income tax expense	**$ 1,281,276**	$ 1,266,669

The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

	Years Ended December 31,	
	2023	2022
Tax provision at federal statutory rate	**$ 1,209,906**	$ 1,211,882
Tax-exempt interest	**(57,970)**	(56,520)
Cash surrender value income	**(83,056)**	(80,618)
State income taxes	**209,596**	195,959
Other items, net	**2,800**	(4,034)
Income tax expense	**$ 1,281,276**	$ 1,266,669

The components of the net deferred taxes are as follows:

	December 31,	
	2023	2022
Deferred tax assets:		
Allowance for credit losses	**$ 642,757**	$ 669,338
Unrealized loss on securities available for sale	**9,383,465**	10,639,907
Other	**-**	172
	10,026,222	11,309,417
Deferred tax liabilities:		
Depreciation	**(945,153)**	(576,922)
Unrealized gain on interest rate swap	**(129,270)**	(138,155)
	(1,074,423)	(715,077)
Net deferred tax assets	**$ 8,951,799**	$ 10,594,340

The Company and its subsidiary are subject to U.S. federal income tax, as well as income tax within the State of Alabama. The Company is no longer subject to examination by taxing authorities for years before 2020.

NOTE 10. COMPENSATION AND BENEFITS

The Company maintains a noncontributory profit sharing plan and a contributory 401(k) plan. The Company's contributions to these plans were $108,537 and $100,244 in fiscal years ended December 31, 2023 and 2022, respectively.

The Company has an employment agreement with the chief executive officer which provides for compensation and benefits in the event the chief executive officer is terminated. The maximum aggregate liability at December 31, 2023 for termination is approximately $795,000.

NOTE 11. LOAN COMMITMENTS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Company's exposure to credit loss is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. A summary of the Company's commitments is as follows:

	December 31,	
	2023	2022
Commitments to extend credit	***$* 24,490,394**	$ 28,094,089

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies and is required in instances which the Company deems necessary. The Company had no standby letters of credit commitments as of December 31, 2023 or 2022.

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

The company has unfunded commitments that are unconditionally cancellable and therefore has not recorded any allowance for credit losses on unfunded commitments as of December 31, 2023

NOTE 12. CONTINGENCIES

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

NOTE 13. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, commercial real estate, residential real estate, and consumer loans to customers in its primary market areas. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas.

At December 31, 2023, sixty percent of the Company's loan portfolio is secured by real estate, of which a substantial portion is secured by real estate in the Company's market area. Accordingly, the ultimate collectability of the Company's loan portfolio is susceptible to changes in market conditions in the Company's primary market area. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Company's secured legal lending limit to any single borrower or group of related borrowers is 20% of total capital, as defined, or approximately $8,154,000. The Company's unsecured legal lending limit to any single borrower or group of related borrowers is 10% of total capital, as defined, or approximately $4,077,000.

NOTE 14. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2023, approximately $8,377,000 of retained earnings were available for dividend declaration without regulatory approval.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total, Tier 1 and CET1 capital to risk-weighted assets, as defined, and of Tier 1 capital to average total assets (leverage ratio), as defined. Management believes, as of December 31, 2023 and 2022, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total, Tier 1 and CET1 risk-based capital ratios and Tier 1 leverage capital ratios as set forth in the following table and not be subject to any formal enforcement action. There are no conditions or event since that notification that management believes have changed the Bank's category.

NOTE 14. REGULATORY MATTERS (Continued)

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

	Actual		For Capital Adequacy Purposes [1]		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
December 31, 2023:						
Total Capital to Risk-Weighted Assets	**$ 40,772**	**19.287%**	**$ 22,197**	**10.500%**	**$ 21,140**	**10.000%**
Tier 1 Capital to Risk-Weighted Assets	**$ 38,313**	**18.123%**	**$ 17,969**	**8.500%**	**$ 16,912**	**8.000%**
CET1 Capital to Risk-Weighted Assets	**$ 38,313**	**18.123%**	**$ 14,798**	**7.000%**	**$ 13,741**	**6.500%**
Tier 1 Capital to Average Total Assets	**$ 38,313**	**11.558%**	**$ 13,259**	**4.000%**	**$ 16,574**	**5.000%**
December 31, 2022:						
Total Capital to Risk-Weighted Assets	$ 37,563	17.965%	$ 21,954	10.500%	$ 20,909	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 35,002	16.740%	$ 17,772	8.500%	$ 16,727	8.000%
CET1 Capital to Risk-Weighted Assets	$ 35,002	16.740%	$ 14,636	7.000%	$ 13,591	6.500%
Tier 1 Capital to Average Total Assets	$ 35,002	10.733%	$ 13,044	4.000%	$ 16,306	5.000%

[1] Includes capital conservation buffer.

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available for Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. 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 U.S. agency securities, mortgage-backed agency securities, municipal securities and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Derivatives

The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). The fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions, and third-party pricing services.

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis (Continued)

The following tables present financial instruments measured at fair value on a recurring basis:

		Fair Value Measurements at December 31, 2023 Using		
	Measured at Fair Value	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets:				
Available for sale securities	**$ 165,520,025**	**$ -**	**$ 165,520,025**	**$ -**
Derivative	**497,194**	**-**	**497,194**	**-**
	$ 166,017,219	**$ -**	**$ 166,017,219**	**$ -**

		Fair Value Measurements at December 31, 2022 Using		
	Measured at Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available for sale securities	$ 170,580,649	-	170,580,649	-
Derivative	531,364	-	531,364	-
	$ 171,112,013	$ -	$ 171,112,013	$ -

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances management makes adjustments to fair value for assets although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2023 and 2022, for which a nonrecurring change in fair value has been recorded:

	Carrying Value at December 31, 2023			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Individually evaluated loans	**$ -**	**$ -**	**$ -**	**$ -**
Total	**$ -**	**$ -**	**$ -**	**$ -**

	Carrying Value at December 31, 2022			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Individually evaluated loans	$ 10,000	$ -	$ -	$ 10,000
Total	$ 10,000	$ -	$ -	$ 10,000

NOTE 15. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis (Continued)

Individually Evaluated Loans

As of December 31, 2023, there were no individually evaluated loans with a fair value adjustment. Individually evaluated loans are classified within Level 3 of the fair value hierarchy and are evaluated and valued at the lower of cost or fair value when the loan is individually evaluated. Fair value is based on the value of the collateral securing these loans.

In determining the estimated net realizable value of the underlying collateral of individually evaluated loans, the Company primarily uses third-party appraisals or broker opinions which may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and include consideration of variations in location, size, and income production capacity of the property. Additionally, the appraisals are periodically further adjusted by the Company in consideration of charges that may be incurred in the event of foreclosure and are based on management's historical knowledge, changes in business factors and changes in market conditions. Because of the high degree of judgment required in estimating the fair value of collateral underlying individually evaluated loans and because of the relationship between fair value and general economic conditions, the Company considers the fair value of individually evaluated loans to be highly sensitive to changes in market conditions, and are classified within Level 3 of the fair value hierarchy.

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed statements of condition of Pinnacle Bancshares, Inc. as of December 31, 2023 and 2022 and the condensed statements of income and cash flows for the years then ended.

CONDENSED STATEMENTS OF CONDITION

	2023	2022
	(Dollars in Thousands)	
Assets		
Cash and cash equivalents	**$ 3,506**	$ 3,307
Investment in unconsolidated subsidiary	**93**	93
Investment in Pinnacle Bank	**11,912**	5,025
Other assets	**391**	417
Total assets	**$ 15,902**	$ 8,842
Liabilities and stockholders' equity		
Subordinated debentures	**$ 3,093**	$ 3,093
Other liabilities	**22**	11
Total liabilities	**3,115**	3,104
Stockholders' equity	**12,787**	5,738
Total liabilities and stockholders' equity	**$ 15,902**	$ 8,842

NOTE 16. PARENT COMPANY FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF INCOME

	2023	2022
	(Dollars in Thousands)	
Income		
Dividend income from Pinnacle Bank	**$ 1,287**	$ 3,300
Interest income	**26**	11
	1,313	3,311
Expense		
Interest	**156**	153
Other	**27**	27
	183	180
Income before income tax benefit and undistributed earnings of subsidiary	**1,130**	3,131
Income tax benefit	**(39)**	(42)
Income before undistributed earnings of subsidiary	**1,169**	3,173
Equity in undistributed earnings of subsidiary	**3,311**	1,331
Net income	**$ 4,480**	$ 4,504

CONDENSED STATEMENTS OF CASH FLOWS

	2023	2022
	(Dollars in Thousands)	
OPERATING ACTIVITIES		
Net income	**$ 4,480**	$ 4,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	**(3,311)**	(1,331)
Net other operating activities	**12**	(3)
Net cash provided by operating activities	**1,181**	3,170
FINANCING ACTIVITIES		
Purchase of treasury stock	**-**	(2,055)
Dividends paid	**(982)**	(940)
Net cash used in financing activities	**(982)**	(2,995)
Net increase in cash and cash equivalents	**199**	175
Cash and cash equivalents at beginning of year	**3,307**	3,132
Cash and cash equivalents at end of year	**$ 3,506**	$ 3,307