UNITED BANCORPORATION
OF ALABAMA, INC.
AND SUBSIDIARIES

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
United Bancorporation of Alabama, Inc.
Atmore, Alabama

Opinion

We have audited the accompanying consolidated financial statements of **United Bancorporation of Alabama, Inc. and Subsidiaries**, 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 United Bancorporation of Alabama, Inc. and Subsidiaries 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 United Bancorporation of Alabama, Inc. and Subsidiaries 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 United Bancorporation of Alabama, Inc. and Subsidiaries' 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.
- 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 United Bancorporation of Alabama, Inc. and Subsidiaries' 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 21, 2024

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

Assets	2023	2022
Cash and due from banks	$ 45,450,436	$ 43,476,905
Interest-bearing deposits in banks	175,406,200	225,621,463
Federal funds sold	15,550,000	11,584,193
Cash and short-term investments	236,406,636	280,682,561
Investment in subsidiaries	1,724,474	2,104,039
Securities available for sale, at fair value (amortized cost of $300,498,374 and $375,665,760 at December 31, 2023 and 2022, respectively)	266,052,697	328,610,919
Securities held to maturity, at amortized cost (fair value of $4,776,158 and $8,583,391 at December 31, 2023 and 2022, respectively)	4,796,239	8,684,231
Restricted equity securities, at cost	2,121,353	1,746,353
Loans held for investment	811,947,933	722,515,490
Less: Allowance for credit losses	11,628,356	12,104,774
Loans, net	800,319,577	710,410,716
NMTC Sub-CDE QLICI loans	3,465,000	3,500,000
Premises and equipment, net	13,839,180	16,947,680
Interest receivable	8,267,365	6,257,567
Bank owned life insurance	22,528,245	21,261,627
Other real estate owned, net	1,100,000	-
Core deposit intangible	508,832	575,936
Goodwill	6,516,169	6,516,169
Other assets	22,341,253	19,938,818
Total assets	$ 1,389,987,020	$ 1,407,236,616

Liabilities and Stockholders' Equity	2023	2022
Deposits		
Noninterest-bearing	$ 513,760,135	$ 582,600,867
Interest-bearing	576,092,609	586,436,937
Total deposits	1,089,852,744	1,169,037,804
Interest payable	788,250	176,652
Other borrowings	40,792,438	18,939,069
Allowance for credit losses on off-balance sheet credit exposures	909,341	-
Accrued expenses and other liabilities	9,008,263	6,476,307
Total liabilities	1,141,351,036	1,194,629,832
Commitments (Note 19)		
Stockholders' equity		
Preferred stock, par value $.01. Authorized 250,000 shares; 123,750 shares issued, in 2023 and 2022	123,750,000	123,750,000
Class A common stock, par value $0.01. Authorized 5,000,000 shares; 3,833,777 and 3,819,684 issued; 3,536,055 and 3,603,602 shares outstanding in 2023 and 2022, respectively	38,338	38,197
Class B common stock, par value $0.01. Authorized 250,000 shares; no shares issued	-	-
Additional paid-in capital	35,731,789	34,837,882
Retained earnings	125,622,945	96,560,279
Accumulated other comprehensive loss, net of tax	(25,834,256)	(35,291,130)
	259,308,816	219,895,228
Less 281,037 and 188,537 treasury shares, at cost, in 2023 and 2022, respectively	9,084,944	5,395,444
Less unvested restricted stock and unallocated KSOP shares (66,257 and 83,615, respectively)	1,587,888	1,893,000
Total stockholders' equity	248,635,984	212,606,784
Total liabilities and stockholders' equity	$ 1,389,987,020	$ 1,407,236,616

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Interest income		
Interest and fees on loans	$ 49,137,083	$ 36,947,532
Interest on investment securities:		
Taxable securities	8,662,918	5,456,920
Nontaxable securities	918,620	1,002,281
Total investment income	9,581,538	6,459,201
Other interest income	7,468,104	3,671,385
Total interest income	66,186,725	47,078,118
Interest expense		
Interest on deposits	6,863,008	3,050,512
Interest on other borrowings and note payable	564,392	635,530
Total interest expense	7,427,400	3,686,042
Net interest income	58,759,325	43,392,076
Provision for credit losses	1,115,294	2,051,016
Net interest income after provision for credit losses	57,644,031	41,341,060
Noninterest income:		
Service charges and fees	6,601,942	6,448,452
CDFI award income	15,112,928	994,485
New market tax credit sub-allocation and placement fees	2,466,945	2,593,333
Consulting and asset management fees	221,625	428,450
Mortgage loan and related fees	107,765	425,752
Other	3,337,229	3,772,959
Total noninterest income	27,848,434	14,663,431
Noninterest expense:		
Salaries and benefits	19,236,281	17,201,457
Net occupancy expense	3,360,687	3,546,532
Investment securities losses, net	6,804,110	-
Other	15,124,336	11,232,900
Total noninterest expense	44,525,414	31,980,889
Income before income tax expense	40,967,051	24,023,602
Income tax expense	9,425,916	5,338,894
Net income	31,541,135	18,684,708
Net income available to common shareholders	$ 31,541,135	$ 18,684,708
Basic earnings per common share	$ 8.81	$ 5.11
Basic weighted-average shares outstanding	3,580,793	3,654,605
Diluted earnings per common share	$ 8.81	$ 5.11
Diluted weighted-average shares outstanding	3,580,793	3,654,605

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Net income	$ 31,541,135	$ 18,684,708
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale arising during the period, net of (tax) benefit of ($1,976,153) and $1,350,607, respectively	4,353,791	(33,680,543)
Reclassification adjustment for losses on securities available for sale realized in net income, net of tax benefit of $1,701,028 and $0, respectively	5,103,083	-
Total other comprehensive income (loss)	9,456,874	(33,680,543)
Comprehensive income (loss)	$ 40,998,009	$ (14,995,835)

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained	Accumulated Other Comprehensive	Treasury	Unvested	Unearned	
	Shares	Amount	Shares	Par Value	Common Stock	Earnings	Loss	Stock	Restricted Stock	KSOP Shares	Total
Balance, December 31, 2021	-	$ -	3,804,277	$ 38,043	$ 34,137,926	$ 79,327,583	$ (1,610,587)	$ (1,951)	$ (171,025)	$ (2,010,093)	$ 109,709,896
Net income	-	-	-	-	-	18,684,708	-	-	-	-	18,684,708
Other comprehensive loss	-	-	-	-	-	-	(33,680,543)	-	-	-	(33,680,543)
Stock issuance in accordance with ECIP agreement	123,750	123,750,000									123,750,000
Treasury shares purchased	-	-	-	-	-	-	-	(5,393,493)	-	-	(5,393,493)
Cash dividend declared ($0.40 per share)	-	-	-	-	-	(1,452,012)	-	-	-	-	(1,452,012)
Restricted stock grants	-	-	11,421	114	331,099	-	-	-	(331,213)	-	-
Exec officer restricted stock forfeiture/retirement	-	-	(446)	(4)	(11,482)	-	-	-	11,486	-	-
KSOP released shares - leveraged	-	-	-	-	256,738	-	-	-	-	337,802	594,540
Stock based compensation	-	-	-	-	-	-	-	-	270,043	-	270,043
Shares issued in accordance with dividend reinvestment plan	-	-	4,432	44	123,601	-	-	-	-	-	123,645
Balance, December 31, 2022	123,750	123,750,000	3,819,684	38,197	34,837,882	96,560,279	(35,291,130)	(5,395,444)	(220,709)	(1,672,291)	212,606,784
Impact of the adoption of ASC 326	-	-	-	-	-	(327,985)	-	-	-	-	(327,985)
Net income	-	-	-	-	-	31,541,135	-	-	-	-	31,541,135
Other comprehensive income	-	-	-	-	-	-	9,456,874	-	-	-	9,456,874
Treasury shares purchased	-	-	-	-	-	-	-	(3,689,500)	-	-	(3,689,500)
Cash dividend declared ($0.60 per share)	-	-	-	-	-	(2,150,484)	-	-	-	-	(2,150,484)
Restricted stock grants	-	-	9,465	95	347,934	-	-	-	(348,029)	-	-
KSOP released shares - leveraged	-	-	-	-	372,342	-	-	-	-	347,173	719,515
Stock based compensation	-	-	-	-	-	-	-	-	305,968	-	305,968
Shares issued in accordance with dividend reinvestment plan	-	-	4,628	46	173,631	-	-	-	-	-	173,677
Balance, December 31, 2023	123,750	$ 123,750,000	3,833,777	$ 38,338	$ 35,731,789	$ 125,622,945	$ (25,834,256)	$ (9,084,944)	$ (262,770)	$ (1,325,118)	$ 248,635,984

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
OPERATING ACTIVITIES		
Net income	$ 31,541,135	$ 18,684,708
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for credit losses	1,115,294	2,051,016
Provision for losses on other real estate owned	462,796	-
Depreciation of premises and equipment	1,366,901	1,497,321
Net amortization of premium on investment securities available for sale	961,758	1,578,976
Net amortization of premium on investment securities held to maturity	32,992	38,006
Loss on sales of investment securities available for sale, net	6,804,110	-
Amortization of core deposit intangible	67,104	67,104
Accretion of discounts on purchased loans	(474,160)	(583,644)
Amortization of premium on purchased deposits	-	27,335
Stock based compensation	305,968	270,043
Release of KSOP shares	719,515	594,540
Net loss on sales of other real estate owned	15,210	16,447
Net gain on sales of premises and equipment	(24,322)	-
Net gain on sales of loans held for sale	(90,330)	(334,902)
Originations of loans held for sale	(1,897,767)	(12,569,528)
Proceeds from sales of loans held for sale	1,988,097	12,967,294
Earnings on bank owned life insurance	(591,618)	(458,222)
Deferred income taxes	(175,413)	(464,451)
Increase in interest receivable	(2,009,798)	(1,009,379)
(Increase) decrease in prepaids	(181,363)	61,533
(Increase) decrease in other assets	(4,702,339)	418,069
Increase in interest payable	611,598	19,686
Increase in accrued expenses and other liabilities	3,235,712	1,448,665
Net cash provided by operating activities	39,081,080	24,320,617
INVESTING ACTIVITIES		
Purchases of securities available for sale	(48,330,208)	(119,795,661)
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	31,558,107	23,651,971
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	3,855,000	3,064,815
Proceeds from sales of investment securities available for sale	84,173,621	-
Purchase of bank owned life insurance	(675,000)	(3,862,000)
Bank owned life insurance death benefits	-	400,315
Net (purchase) redemption of other equity securities	(375,000)	412,201
Net increase in loans	(90,044,800)	(65,110,967)
Purchases of premises and equipment	(390,176)	(1,828,896)
Proceeds from sales of premises and equipment	593,301	-
Proceeds from sales of other real estate owned	75,000	318,553
Net cash used in investing activities	(19,560,155)	(162,749,669)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(79,185,060)	186,279,760
Cash dividends paid - common stock	(2,949,336)	(1,261,806)
Issuance of common stock	173,677	123,645
Issuance of preferred stock	-	123,750,000
Purchase of treasury shares	(3,689,500)	(5,393,493)
Advances from other borrowings	22,842,292	6,461,049
Repayment of other borrowings	(988,923)	(11,029,789)
Net cash provided by (used in) financing activities	(63,796,850)	298,929,366
Net increase (decrease) in cash and short-term investments	(44,275,925)	160,500,314
Cash and short-term investments at beginning of year	280,682,561	120,182,247
Cash and short-term investments at end of year	$ 236,406,636	$ 280,682,561
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	$ 8,038,997	$ 3,705,728
Income taxes	$ 9,759,087	$ 5,587,500
OTHER NONCASH TRANSACTIONS		
Transfer of loans to other real estate owned through foreclosure	$ 90,210	$ 260,000
Transfer of premises and equipment to other real estate owned	$ 1,562,796	$ -

See accompanying notes to consolidated financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United Bancorporation of Alabama, Inc. (the "Corporation") is a financial holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, United Bank (UB), Town-Country United Bank (TCUB), UB Community Development, LLC (UBCD), UBA CFSA Investment Fund, LLC (CFSA IF) and UBA AMCREF Investment Fund, LLC (AMCREF IF).

UB is a commercial bank with headquarters in Atmore, Alabama. UB provides a full range of banking services in its primary market areas of Baldwin, Escambia, Monroe, Mobile and Jefferson Counties, Alabama, and Santa Rosa County, Florida. UB wholly-owns United Insurance Services (UIS), a subsidiary entity, allowing bank-employed licensed agents to offer non-deposit insurance products to bank customers and non-customers.

TCUB is a commercial bank with operations in Camden, Alabama. TCUB provides retail and commercial loan and deposit services principally to customers within a 50-mile radius of the Bank's location. TCUB was acquired by the Corporation on July 26, 2021. At acquisition, TCUB's legal name was Town-Country National Bank (TCNB). On January 1, 2022, TCNB completed a charter change from a national bank to a state member bank and simultaneously changed its' name to Town-Country United Bank. TCNB will be referred to as TCUB hence forth.

Throughout the statements, UB and TCUB are collectively referred to as "the Banks."

UBCD is an entity established to manage allocations of New Markets Tax Credits (NMTC) from funds administered by the U.S. Department of Treasury as well as oversee other community development initiatives. UBCD operates from Atmore, Alabama.

In September 2019, the Corporation became a NMTC equity investor via CFSA IF by pre-funding a $3.5 million transaction. The Corporation will receive $1,365,000 in tax benefits over a seven-year compliance period. CFSA IF is wholly-owned by the Corporation and is the 99.9% member of UBCD Sub-CDE Uniform Golf, LLC. UBCD is the 0.01% member and manages the Sub-CDE for the investment fund.

In August 2020, the Corporation entered into its second NMTC transaction as equity investor. Through AMCREF IF, the Corporation made a $705,994 contribution that will result in $882,492 of tax credits taken over a seven-year compliance period. AMCREF IF is wholly-owned by the Corporation and is the 99.99% member of the AMCREF Fund 63, LLC. AMCREF Fund 63, LLC is managed by the 0.01% member, an entity external to the Corporation's organizational structure.

Principles of Consolidation

The accompanying consolidated financial statements include the financial statements of United Bancorporation of Alabama, Inc., UB, TCUB, UBCD, CFSA IF and AMCREF IF collectively referred to as "the Corporation." Significant inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation and Accounting Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting Estimates (Continued)

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, the valuation of impairment for investment securities, and the fair value of financial instruments.

The Corporation has evaluated all transactions, events, and circumstances for consideration or disclosure through March 21, 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.

Cash and Short-Term Investments

The Corporation considers cash and due from banks, interest-bearing deposits in banks, and federal funds sold to be cash and short-term investments. Federal funds are generally sold for one-day periods.

Investment Securities

Investment securities are classified in one of two portfolios: securities available for sale or securities held to maturity. Investment securities available for sale are stated at fair value with any unrealized gains and losses reported in a separate component of stockholders' equity, net of tax effect, until realized. Once realized, gains and losses on investment securities available for sale are reflected in current period earnings. Investment securities held to maturity are stated at amortized cost adjusted for amortization of premiums and accretion of discounts.

Net gains and losses on the sale of investment securities available for sale are recorded at trade date. The net gains and losses are computed using the specific identification method and are shown separately in noninterest expense in the consolidated statements of earnings. Accretion of discounts and amortization of premiums are calculated on the effective interest method over the anticipated life of the security.

An investment 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 an investment security placed on nonaccrual status is reversed against interest income. There was no accrued interest related to investment securities reversed against interest income for the years ended December 31, 2023 or 2022.

The Corporation evaluates investment securities available for sale in an unrealized loss position to determine if credit-related impairment exists. The Corporation 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 investment security's amortized cost basis is written down to fair value through income. If either of the above criteria is not met, the Corporation 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 Corporation 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 investment securities available for sale totaled $1,798,618 and $1,777,238 at December 31, 2023 and 2022, respectively, and was reported in interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

The Corporation uses a systematic methodology to determine its allowance for credit losses for investment securities held to maturity considering the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the portfolio. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the held to maturity portfolio. The Corporation monitors the held to maturity portfolio on a quarterly basis to determine whether a valuation account would need to be recorded. As of December 31, 2023 and 2022, the Corporation had $4,796,239 and $8,684,231 in investment securities held to maturity, respectively, and no related valuation account. Accrued interest receivable on investment securities held to maturity totaled $61,839 and $82,152 at December 31, 2023 and 2022, respectively, and was reported in interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

Restricted Equity Securities

The Corporation is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, these stock have no quoted market value and are carried at cost. At their discretion, these entities may declare dividend on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks.

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

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value (LOCOM). For loans carried at LOCOM, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party quoted prices. The Corporation had no loans held for sale as of December 31, 2023 or 2022.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances less the allowance for credit losses, and unamortized premiums or unaccreted discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are recognized at the time the loan is placed on the books.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower may not be able to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Corporation will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans

As described below under Recently Adopted Accounting Standards, the Bank 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.

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. There are six primary loan portfolio segments that include real estate, agriculture, commercial, consumer, state and political subdivisions and other loans. 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 construction and land loans, farmland, 1-4 family residential mortgages, multifamily, and commercial. The portfolio segments of all other non-real estate loans have not been further segregated by class. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

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

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

- Construction and land loans are repaid through cash flow related to the operation, 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.
- 1-4 family residential mortgages and farmland loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.
- Commercial loans include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the business. Real estate loans for income-producing multifamily properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

Agricultural and Commercial - These loans include those loans to agricultural and commercial customers for use in normal business operations to finance working capital needs, crop production, equipment purchases, or expansion projects. Loans are repaid by business and farming cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers' business operations.

Consumer - The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

State and Political Subdivisions - The state and political subdivision loan portfolio segment includes loans to local municipalities to support municipal operations and projects. Loans are repaid generally from tax revenues collected in those municipalities.

Other Loans - The other loans portfolio segment includes loans to non-related bank holding companies to invest in subordinated-debt. Loans are interest only, fixed rate with interest payable semi-annually.

In the event that collection of principal becomes uncertain, the Corporation has policies in place to reverse accrued interest in a timely manner. Therefore, the Corporation has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans is reported in interest receivable on the consolidated balance sheets and totaled $6,392,617 and $4,397,629 at December 31, 2023 and 2022, respectively, and is excluded from the estimate of credit losses.

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 Corporation.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

Off-Balance Sheet Credit Exposure

The Corporation also has off-balance sheet financial instruments, which include unfunded loan commitments and letters of credit. The Corporation minimized 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 Corporation is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Corporation 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, $909,341 in 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 Corporation 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 Corporation 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 Corporation operates. Factors considered include, among others, current valuations of real estate in their markets, unemployment rates, and other significant local economic events.

Modifications to Borrowers Experiencing Financial Difficulty

The Corporation periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of the modification. When principal forgiveness is provided, the amount of principal forgiveness is charged off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan. A modified loan is tracked for at least 12 months following the modifications granted.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled Debt Restructurings

Prior to adoption of ASU 2016-13 and ASU 2022-02, a loan was considered a troubled debt restructuring (TDR) based on individual facts and circumstances. The Corporation designated loan modifications as TDRs when, for economic or legal reasons related to the borrower's financial difficulties, it granted a concession to the borrower that it would not otherwise consider. These concessions might include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses.

In determining whether a borrower was experiencing financial difficulties, the Corporation considered if the borrower was in payment default or would be in payment default in the foreseeable future without the modification, the borrower declared or was in the process of declaring bankruptcy, the borrower's projected cash flows would not be sufficient to service any of its debt, or the borrower could not obtain funds from sources other than the Corporation at a market rate for debt with similar risk characteristics.

In determining whether the Corporation had granted a concession, the Corporation assessed, if it did not expect to collect all amounts due, whether the current value of the collateral would satisfy the amounts owed, whether additional collateral or guarantees from the borrower would serve as adequate compensation for other terms of the restructuring, and whether the borrower otherwise had access to funds at a market rate for debt with similar risk characteristics.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from three to forty years.

Other Real Estate Owned

Other real estate owned represents property acquired through foreclosure or deeded to the Corporation in lieu of foreclosure on real estate mortgage loans on which borrowers have defaulted. Other real estate owned is carried at the lower of cost or fair value, adjusted for estimated selling costs. Reductions in the balance of other real estate owned at the date of foreclosure are charged to the allowance for credit losses. Subsequent valuation decreases in the carrying value of other real estate owned as well as costs to carry other real estate owned are recognized as charges to noninterest expense.

Business Combinations

The Corporation accounts for business combinations under the acquisition method of accounting in accordance with Accounting Standards Codification (ASC) 805, *Business Combinations*. The Corporation recognizes the full fair value of the assets acquired and liabilities assumed and immediately expenses transaction costs. There is no separate recognition of the acquired allowance for the credit losses on the acquirer's balance sheet as credit-related factors are incorporated directly into the fair value of the net tangible and intangible assets acquired. If the amount of consideration exceeds the fair value of assets purchased less the fair value of liabilities assumed, goodwill is recorded. Alternatively, if the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid, a gain ("bargain purchase gain") is recorded. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Results of operations of the acquired business are included in the statement of earnings from the effective date of the acquisition.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of the net assets purchased in business combinations. Goodwill is required to be tested annually for impairment or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of impairment, the amount by which the carrying amount exceeds the fair value is charged to earnings. The Corporation performs its annual test for impairment in the fourth quarter of each year.

Intangible assets consist of core deposit premiums acquired in connection with business combinations and are based on the established value of acquired customer deposits. The core deposit premium is initially recognized based on a valuation performed as of the consummation date and is amortized over an estimated useful life of three to ten years. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Income Taxes

The Corporation accounts for income taxes in accordance with income tax accounting guidance, FASB ASC 740, *Income Taxes*. The Corporation applies the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Income tax accounting 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 Corporation 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.

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.

Stock Based Compensation

At December 31, 2023 and 2022, the Corporation had restricted stock and other equity awards outstanding as defined by a stock based employee compensation plan, which is described more fully in Note 12.

The Corporation accounts for its stock-based compensation plan under stock compensation accounting guidance, FASB ASC 718, *Compensation – Stock Compensation*. This guidance requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Based Compensation (Continued)

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards and stock grants.

Earnings per Common Share

Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if dilutive stock options were exercised and resulted in the issuance of common stock.

Unvested share-based payment awards, which include the right to receive non-forfeitable dividends, are considered participating securities and therefore considered to be outstanding in the computation of earnings per share. For the years ended December 31, 2023 and 2022, earnings per common share is calculated using the two class method, under which calculations (1) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (2) exclude from the denominator the dilutive impact of the participating securities.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net earnings. 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 earnings, 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.

Recently Adopted Accounting Standards

On January 1, 2023, the Corporation 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Standards (Continued)

The Corporation 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 Corporation recorded a net decrease to retained earnings of $327,985, net of deferred taxes, as of January 1, 2023, for the cumulative effect of adopting ASC 326. The transition adjustment includes a $45,686 impact due to an increase in the allowance for unfunded commitments and a $302,000 increase related to the allowance for credit losses on loans.

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 Corporation 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 Corporation adopted this ASU effective January 1, 2023 on a prospective basis.

NOTE 2. CASH AND DUE FROM BANKS

The Banks may be required by the Federal Reserve Bank to maintain daily cash balances. Both UB and TCUB are required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. On March 15, 2020, the Federal Reserve System Board announced an interim final rule amending Regulation D to lower all transaction account reserve requirement ratios to zero percent, thereby eliminating all reserve requirements, although it did reserve the right to require a reserve requirement at a future date.

NOTE 3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale at December 31, 2023 and 2022 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2023:				
U.S. Treasury securities	$ 3,913,176	$ -	$ (26,926)	$ 3,886,250
U.S. government sponsored agencies	76,079,141	274,049	(5,659,915)	70,693,275
State and political subdivisions	82,747,660	33,403	(12,456,026)	70,325,037
Corporate bonds	8,210,549	-	(1,100,408)	7,110,141
Mortgage-backed securities	129,547,848	217,436	(15,727,290)	114,037,994
	$ 300,498,374	$ 524,888	$ (34,970,565)	$ 266,052,697
December 31, 2022:				
U.S. Treasury securities	$ 8,274,153	$ -	$ (258,294)	$ 8,015,859
U.S. government sponsored agencies	115,873,679	65,092	(9,229,634)	106,709,137
State and political subdivisions	98,434,187	4,998	(16,579,129)	81,860,056
Corporate bonds	9,375,519	-	(1,246,260)	8,129,259
Mortgage-backed securities	143,708,222	29,972	(19,841,586)	123,896,608
	$ 375,665,760	$ 100,062	$ (47,154,903)	$ 328,610,919

The amortized cost and fair value of investment securities held to maturity at December 31, 2023 and 2022 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity				
December 31, 2023:				
U.S. government sponsored agencies	$ -	$ -	$ -	$ -
State and political subdivisions	4,796,239	472	(20,553)	4,776,158
	$ 4,796,239	$ 472	$ (20,553)	$ 4,776,158
December 31, 2022:				
U.S. government sponsored agencies	$ 2,996,686	$ -	$ (43,268)	$ 2,953,418
State and political subdivisions	5,687,545	213	(57,785)	5,629,973
	$ 8,684,231	$ 213	$ (101,053)	$ 8,583,391

At December 31, 2023, no ACL was established for investment securities, and no investment securities held to maturity were determined to be collateral dependent. Substantially all of the unrealized losses on investment securities were the result of changes in market interest rates compared to the date the securities were acquired rather than the credit quality of the issuers or underlying loans.

NOTE 3. INVESTMENT SECURITIES (Continued)

Those investment securities classified as available for sale which have an unrealized loss position at December 31, 2023 and 2022 are detailed below:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2023:						
U.S. Treasury securities	$ -	$ -	$ (26,926)	$ 3,886,250	$ (26,926)	$ 3,886,250
U.S. government sponsored agencies	(22,271)	2,150,236	(5,637,644)	51,303,443	(5,659,915)	53,453,679
State and political subdivisions	(19,695)	2,677,967	(12,436,331)	63,718,600	(12,456,026)	66,396,567
Corporate bonds	-	-	(1,100,408)	7,110,141	(1,100,408)	7,110,141
Mortgage-backed securities	(9,586)	3,946,232	(15,717,704)	90,768,407	(15,727,290)	94,714,639
Total securities	$ (51,552)	$ 8,774,435	$ (34,919,013)	$ 216,786,841	$ (34,970,565)	$ 225,561,276
December 31, 2022:						
U.S. Treasury securities	$ (18,958)	$ 5,778,750	$ (239,336)	$ 2,237,109	$ (258,294)	$ 8,015,859
U.S. government sponsored agencies	(2,415,762)	45,724,018	(6,813,872)	42,606,279	(9,229,634)	88,330,297
State and political subdivisions	(2,749,090)	35,974,346	(13,830,039)	42,993,482	(16,579,129)	78,967,828
Corporate bonds	(218,144)	3,806,976	(1,028,116)	4,322,283	(1,246,260)	8,129,259
Mortgage-backed securities	(2,311,654)	39,397,901	(17,529,932)	77,979,853	(19,841,586)	117,377,754
Total securities	$ (7,713,608)	$ 130,681,991	$ (39,441,295)	$ 170,139,006	$ (47,154,903)	$ 300,820,997

Those investment securities classified as held to maturity which have an unrealized loss position at December 31, 2023 and 2022 are detailed below:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2023:						
U.S. government sponsored agencies	$ -	$ -	$ -	$ -	$ -	$ -
State and political subdivisions	(5,093)	1,747,174	(15,460)	2,053,512	(20,553)	3,800,686
Total securities	$ (5,093)	$ 1,747,174	$ (15,460)	$ 2,053,512	$ (20,553)	$ 3,800,686
December 31, 2022:						
U.S. government sponsored agencies	$ (43,269)	$ 2,953,418	$ -	$ -	$ (43,269)	$ 2,953,418
State and political subdivisions	(57,785)	4,480,270	-	-	(57,785)	4,480,270
Total securities	$ (101,054)	$ 7,433,688	$ -	$ -	$ (101,054)	$ 7,433,688

The unrealized losses on 301 investment securities available for sale and 10 investment securities held to maturity at December 31, 2023 were attributable to changes in market interest rates since the securities were purchased. Because the Corporation does not currently intend to sell the investment securities and it is not more likely than not that the Corporation will be required to sell the investment securities before recovery of their amortized cost bases, which may be maturity, the Corporation does not consider these investment securities to be impaired at December 31, 2023.

NOTE 3. INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of investment securities as of December 31, 2023 categorized by contractual maturity are shown below. Expected maturities may differ from contractual maturities of mortgage-backed securities because borrowers have the right to call or prepay obligations with or without penalties. Therefore, these securities are not presented by maturity class.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,219,678	$ 4,192,333	$ -	$ -
Due after one year through five years	24,339,801	23,494,395	3,036,233	3,019,065
Due after five years through ten years	51,040,491	46,059,472	1,302,092	1,301,823
Due after ten years	91,350,556	78,268,503	457,914	455,270
Mortgage-backed securities	129,547,848	114,037,994	-	-
	$ 300,498,374	$ 266,052,697	$ 4,796,239	$ 4,776,158

The gross gains and gross losses realized by the Corporation from sales of investment securities available for sale for the years ended December 31, 2023 and 2022 were as follows:

	Years Ended December 31,	
	2023	2022
Gross gains	$ 45,960	$ -
Gross losses	(6,850,070)	-
Net realized losses	$ (6,804,110)	$ -

Investment securities with carrying values of $103,123,699 and $70,490,376 at December 31, 2023 and 2022, respectively, were pledged to secure federal funds lines, Federal Home Loan Bank advances, and public and trust deposits as required by law and for other purposes.

Restricted equity investment securities consist of the following as of December 31, 2023 and 2022:

	December 31,	
	2023	2022
Federal Home Loan Bank of Atlanta	$ 1,184,800	$ 809,800
First National Banker's Bankshares, Inc.	893,900	893,900
Central Alabama Title Center, LLC	30,000	30,000
First Community, LP	2,500	2,500
Federal Agricultural Mortgage Corporation	10,153	10,153
	$ 2,121,353	$ 1,746,353

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Portfolio Segments and Classes

At December 31, 2023 and 2022, the composition of the loan portfolio was as follows:

	December 31, 2023	December 31, 2022
Real estate:		
Construction and land loans	$ 119,359,972	$ 89,659,666
Farmland	43,377,938	42,726,175
1-4 family residential mortgages	104,726,572	101,595,752
Multifamily	22,805,731	18,600,634
Commercial	163,670,766	157,357,619
Agricultural	45,409,497	41,853,262
Commercial	219,131,104	187,515,956
Consumer	38,212,484	37,702,020
States and political subdivisions	46,968,439	36,868,900
Other loans	8,285,430	8,635,506
Total	$ 811,947,933	$ 722,515,490

Credit Risk Management

The Corporation assigns a risk rating to each loan when approved. The rating categories are based on information about the ability of borrowers to service the debt. Such information includes, among other things, current financial information, payment history, credit documentation and current economic conditions. Loan Officers are expected and required to initiate recommendations for changes in assigned risk ratings according to changes in the overall levels of risk in each loan in their portfolio no less than monthly. The current risk rating will be reviewed from time to time by the Chief Credit Officer and the Special Assets Officer for concurrence. The Corporation uses the following guidelines in determining the appropriate risk rating:

Grade 1: Investment Grade – There is an absence of credit risk. Loans in this category are fully secured by the Corporation certificates of deposit or savings accounts (demand deposit accounts are not eligible as collateral). The certificate should be sufficient in amount to cover principal and interest.

Grade 2: Minimal Credit Risk – The overall financial condition is very strong. Businesses should have high liquidity, a history of stable and predictable earnings, a strong management team and the primary source of repayment is clear and subject to little risk. Customers should have a substantial net worth in liquid assets with a well-defined source of repayment.

Grade 3: Attractive Credit Risk – The overall financial condition is good. Financial statements are current and show satisfactory income, profits, cash flow, and debt service coverage, debt to worth ratio and credit history. Loans in this category are properly structured and documented and require only minimal supervision.

Grade 4: Average Risk – The overall financial condition is average. Credit history has been satisfactory. Refinancing could be obtained with normal effort. Financial statements are current and show some volatility in income, profits, cash flow, debt service coverage or credit history. The volatility is easily identifiable and has been addressed and does not constitute an unwarranted level of risk.

Grade 5: Acceptable Risk – The overall financial condition of the business or individual is acceptable. There is more than average credit risk and the credit should be more closely watched but there is little chance of loss. While acceptable, loans in this category may warrant close monitoring for any number of reasons including inconsistent earnings, leveraged balance sheet, economic conditions, collateral requiring close supervision, financial information that is stale or incomplete or irregular payment record.

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Management (Continued)

Grade 6: Monitor – This asset has potential weakness and deserves management attention. If left uncorrected the potential weakness may result in deterioration of the overall financial condition. There is no room for debt expansion and they are fully leveraged. If liquidation were to take place there could be a minimal loss and thus an analysis should be made to determine if a specific reserve is needed.

Grade 7: Substandard – This asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Loans in this category involve more than a normal risk. There is limited opportunity to refinance. If liquidation were to take place there could be some recognized loss exposure. If the loan is determined to be impaired, an analysis will be performed to determine the amount of reserve, if any, to be recognized.

Grade 8: Doubtful – A loss is highly likely and there probably will be a default. There is no ability to refinance. At this point collection effort should be in full process. Loans in this category will be reserved at a specific amount in line with the impairment analysis performed if the loan is determined to be impaired. There are no loans with a doubtful rating in the Corporation's portfolio as of December 31, 2023 and 2022.

These risk ratings are summarized into categories as follows: Pass includes loans with Grades 1-5, Special Mention includes loans with a Grade of 6, and Substandard/Doubtful include loans with Grades 7 and 8.

The following tables summarize the credit risk profile of our loan portfolio by internally assigned grades as of December 31, 2023 and 2022.

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
As of December 31, 2023			*(Dollars in Thousands)*			
Construction and land loans:						
Risk rating						
Pass	$ 36,849	$ 43,267	$ 28,736	$ 3,879	$ 690	$ 113,421
Special mention	326	-	17	5,457	-	5,800
Substandard	-	37	-	102	-	139
Total construction and land loans	$ 37,175	$ 43,304	$ 28,753	$ 9,438	$ 690	$ 119,360
Construction and land loans						
Current period gross write-offs	$ -	$ -	$ -	$ 400	$ -	$ 400
Farmland:						
Risk rating						
Pass	$ 6,947	$ 6,466	$ 9,416	$ 14,387	$ 237	$ 37,453
Special mention	869	461	2,606	1,382	-	5,318
Substandard	-	172	-	435	-	607
Total farmland	$ 7,816	$ 7,099	$ 12,022	$ 16,204	$ 237	$ 43,378
Farmland						
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Management (Continued)

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
As of December 31, 2023			(Dollars in Thousands)			
1-4 family residential mortgages:						
Risk rating						
Pass	$ 15,631	$ 18,325	$ 19,458	$ 42,837	$ 4,149	$ 100,400
Special mention	-	-	212	983	-	1,195
Substandard	635	176	276	2,045	-	3,132
Total 1-4 family residential mortgages	$ 16,266	$ 18,501	$ 19,946	$ 45,865	$ 4,149	$ 104,727
1-4 family residential mortgages						
Current period gross write-offs	$ -	$ -	$ 32	$ 200	$ -	$ 232
Multifamily:						
Risk rating						
Pass	$ 2,816	$ 4,761	$ 6,367	$ 8,862	$ -	$ 22,806
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total multifamily	$ 2,816	$ 4,761	$ 6,367	$ 8,862	$ -	$ 22,806
Multifamily						
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate:						
Risk rating						
Pass	$ 34,757	$ 35,972	$ 21,930	$ 65,968	$ 400	$ 159,027
Special mention	267	254	347	801	-	1,669
Substandard	61	145	55	2,714	-	2,975
Total commercial real estate	$ 35,085	$ 36,371	$ 22,332	$ 69,483	$ 400	$ 163,671
Commercial real estate						
Current period gross write-offs	$ -	$ -	$ -	$ 255	$ -	$ 255

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Management (Continued)

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
As of December 31, 2023			(Dollars in Thousands)			
Agricultural:						
Risk rating						
Pass	$ 9,021	$ 3,473	$ 1,765	$ 6,557	$ 21,775	$ 42,591
Special mention	1,026	21	517	307	931	2,802
Substandard	-	-	-	16	-	16
Total agricultural	$ 10,047	$ 3,494	$ 2,282	$ 6,880	$ 22,706	$ 45,409
Agricultural Current period gross write-offs	$ -	$ 8	$ -	$ -	$ -	$ 8
Commercial:						
Risk rating						
Pass	$ 60,752	$ 41,593	$ 33,685	$ 50,017	$ 20,232	$ 206,279
Special mention	1,042	530	2,086	3,266	500	7,424
Substandard	531	556	303	4,028	10	5,428
Total commercial	$ 62,325	$ 42,679	$ 36,074	$ 57,311	$ 20,742	$ 219,131
Commercial Current period gross write-offs	$ -	$ 94	$ 69	$ 41	$ -	$ 204
Consumer:						
Risk rating						
Pass	$ 16,897	$ 8,754	$ 4,138	$ 2,589	$ 4,282	$ 36,660
Special mention	109	258	97	166	-	630
Substandard	380	214	180	148	-	922
Total consumer	$ 17,386	$ 9,226	$ 4,415	$ 2,903	$ 4,282	$ 38,212
Consumer Current period gross write-offs	$ 50	$ 152	$ 65	$ 29	$ -	$ 296

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Management (Continued)

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
As of December 31, 2023			*(Dollars in Thousands)*			
States and political subdivisions:						
Risk rating						
Pass	$ 17,255	$ 9,630	$ 10,517	$ 7,916	$ 241	$ 45,559
Special mention	-	-	1,409	-	-	1,409
Substandard	-	-	-	-	-	-
Total states and political subdivisions	$ 17,255	$ 9,630	$ 11,926	$ 7,916	$ 241	$ 46,968
States and political subdivisions Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -
Other loans:						
Risk rating						
Pass	$ -	$ 3,500	$ 259	$ 4,515	$ -	$ 8,274
Special mention	11	-	-	-	-	11
Substandard	-	-	-	-	-	-
Total other loans	$ 11	$ 3,500	$ 259	$ 4,515	$ -	$ 8,285
Other loans Current period gross write-offs	$ 5	$ 4	$ -	$ -	$ -	$ 9

The following table summarizes the risk category of the Corporation's loan portfolio based upon the analysis performed as of December 31, 2022:

	Pass	Special Mention	Substandard	Total
		(Dollars in Thousands)		
December 31, 2022:				
Real estate:				
Construction and land loans	$ 77,957	$ 6,167	$ 5,535	$ 89,659
Farmland	39,592	2,501	633	42,726
1-4 family residential mortgages	98,159	963	2,474	101,596
Multifamily	18,601	-	-	18,601
Commercial	152,448	2,665	2,245	157,358
Agricultural	40,005	1,532	316	41,853
Commercial	170,696	11,541	5,279	187,516
Consumer	36,989	347	366	37,702
States and political subdivisions	35,366	1,503	-	36,869
Other loans	8,635	-	1	8,636
Total	$ 678,448	$ 27,219	$ 16,849	$ 722,516

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Management (Continued)

Collateral Dependent Loans

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent loans where the Corporation has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Corporation expects repayment of the loans to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the fair value of the underlying collateral less estimated cost to sell. The following table presents the amortized cost basis of collateral dependent loans, by primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans as of December 31, 2023 under CECL:

	Real Estate	Equipment	Total	ACL
December 31, 2023:		*(Dollars in Thousands)*		
Real estate mortgages:				
Construction and land loans	$ 29	$ -	$ 29	$ -
Farmland	607	-	607	-
1-4 family residential mortgages	1,311	-	1,311	50
Multifamily	-	-	-	-
Commercial	1,687	-	1,687	65
Agricultural	-	-	-	-
Commercial	-	4,316	4,316	20
Consumer	-	124	124	17
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total:	$ 3,634	$ 4,440	$ 8,074	$ 152

Past Due Loans

The table below provides an age analysis of past due loans as of December 31, 2023 and 2022:

		Past Due Status (Accruing Loans)						
	Current	30-59 Days	60-89 Days	90+ Days	Total Past Due	Nonaccrual without ACL	Nonaccrual with ACL	Total
December 31, 2023				*(Dollars in Thousands)*				
Real estate:								
Construction and land	$ 119,281	$ 35	$ 9	$ -	$ 44	$ 35	$ -	$ 119,360
Farmland	43,058	305	15	-	320	-	-	43,378
1-4 family residential mortgages	102,759	1,094	235	367	1,696	272	-	104,727
Multifamily	22,806	-	-	-	-	-	-	22,806
Commercial	162,236	772	86	-	858	476	101	163,671
Agriculture	45,346	63	-	-	63	-	-	45,409
Commercial	217,747	443	297	18	758	504	122	219,131
Consumer	37,032	632	151	48	831	262	87	38,212
State and political subdivisions	46,968	-	-	-	-	-	-	46,968
Other loans	8,279	1	4	1	6	-	-	8,285
Total:	$ 805,512	$ 3,345	$ 797	$ 434	$ 4,576	$ 1,549	$ 310	$ 811,947

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Past Due Loans (Continued)

	Current	Past Due Status (Accruing Loans) 30-59 Days	60-89 Days	90+ Days	Total Past Due	Nonaccrual	Total
December 31, 2022:	*(Dollars in Thousands)*						
Real estate:							
Construction and land loans	$ 84,588	$ 13	$ -	$ -	$ 13	$ 5,058	$ 89,659
Farmland	41,623	1,103	-	-	1,103	-	42,726
1-4 family residential mortgages	99,765	622	387	47	1,056	775	101,596
Multifamily	18,601	-	-	-	-	-	18,601
Commercial	156,855	24	-	-	24	479	157,358
Agriculture	41,441	393	-	-	393	19	41,853
Commercial	186,416	337	195	13	545	555	187,516
Consumer	36,633	681	170	42	893	176	37,702
States and political subdivisions	36,869	-	-	-	-	-	36,869
Other loans	8,634	1	-	-	1	1	8,636
Total:	$ 711,425	$ 3,174	$ 752	$ 102	$ 4,028	$ 7,063	$ 722,516

The Corporation recognized no interest income on nonaccrual loans during the years ended December 31, 2023, and 2022, respectively.

Allowance for Credit Losses

The following tables detail activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2023 and 2022. As described in *Note 1: Summary of Significant Accounting Policies*, the Corporation adopted ASU 2016-13 on January 1, 2023, which replaced the existing incurred loss methodology with the CECL methodology. Under the incurred loss methodology, reserves for credit losses were recognized only when the losses were probable or had been incurred; under CECL, the Corporation is required to recognize the full amount of expected credit losses for the lifetime of the loan, based on historical experience, current conditions, and reasonable and supportable forecasts. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Beginning Balance	Impact of Adoption of ASC 326	Charge offs	Recoveries	Provision (Credit) Allocation	Ending Balance
	(Dollars in Thousands)					
December 31, 2023:						
Real estate	$ 7,024	$ 98	$ (887)	$ 43	$ 396	$ 6,674
Agriculture	545	14	(8)	6	(212)	345
Commercial	3,256	27	(204)	130	9	3,218
Consumer	668	163	(296)	193	(69)	659
States and political subdivisions	504	-	-	-	152	656
Other loans	108	-	(9)	1	(24)	76
Total:	$ 12,105	$ 302	$ (1,404)	$ 373	$ 252	$ 11,628

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Allowance for Loan Losses – Incurred Loss Methodology

Prior to the adoption of ASU 2016-13 on January 1, 2023, the Corporation calculated the allowance for loan losses using the incurred loss methodology. The following table details activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2022:

	Beginning Balance	Charge offs	Recoveries	Provision (credit) Allocation	Ending Balance
			(Dollars in Thousands)		
December 31, 2022:					
Real estate	$ 5,591	$ -	$ 163	$ 1,270	$ 7,024
Agriculture	515	-	24	6	545
Commercial	3,110	(355)	131	370	3,256
Consumer	512	(271)	168	259	668
States and political subdivisions	362	-	-	142	504
Other loans	113	(12)	3	4	108
Total:	$ 10,203	$ (638)	$ 489	$ 2,051	$ 12,105

	Loan Balances			Allowance for Loan Loss		
	Total Loans	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Specific Reserves	General Reserves	Total Reserves
December 31, 2022:			*(Dollars in Thousands)*			
Real estate:						
Construction and land loans	$ 89,659	$ 5,050	$ 84,609	$ 300	$ 978	$ 1,278
Farmland	42,726	934	41,792	-	525	525
1-4 family residential mortgages	101,596	979	100,617	415	1477	1,892
Multifamily	18,601	-	18,601	-	255	255
Commercial	157,358	1,713	155,645	240	2,834	3,074
Agriculture	41,853	295	41,558	-	545	545
Commercial	187,516	824	186,692	480	2,776	3,256
Consumer	37,702	20	37,682	2	666	668
States and political subdivisions	36,869	-	36,869	-	504	504
Other loans	8,636	-	8,636	-	108	108
Total:	$ 722,516	$ 9,815	$ 712,701	$ 1,437	$ 10,668	$ 12,105

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Allowance for Loan Losses – Incurred Loss Methodology (Continued)

A loan was considered impaired when, based on current information and events, it was probable that the Corporation would be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The following tables detail the Bank's impaired loans, by portfolio class, as of December 31, 2022.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2022:			*(Dollars in Thousands)*		
With no related allowance recorded:					
Real estate:					
Construction and land loans	$ -	$ -	$ -	$ -	$ -
Farmland	934	934	-	1,124	60
1-4 family residential mortgages	255	255	-	333	15
Multifamily	-	-	-	-	-
Commercial	376	376	-	616	20
Agriculture	295	295	-	165	7
Commercial	47	47	-	213	5
Consumer	-	-	-	4	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with no related allowance recorded	1,907	1,907	-	2,455	107
With an allowance recorded:					
Real estate mortgages:					
Construction and land loans	$ 5,050	$ 5,050	$ 300	$ 5,037	$ 297
Farmland	-	-	-	146	-
1-4 family residential mortgages	724	724	415	683	37
Multifamily	-	-	-	-	-
Commercial	1,337	1,337	240	1,250	94
Agriculture	-	-	-	31	-
Commercial	777	849	480	690	41
Consumer	20	20	2	21	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with an allowance recorded	7,908	7,980	1,437	7,858	469
Total impaired loans:	$ 9,815	$ 9,887	$ 1,437	$ 10,313	$ 576

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Modified Loans (Formerly Troubled Debt Restructurings)

The Company offers modifications of loans to borrowers experiencing financial difficulty by providing principal forgiveness, interest rate reductions, term extensions, other than insignificant payment delays, or any combination of these.

During the year ended December 31, 2023, the Company modified two 1-4 family residential mortgages. Both loans were modified with term extensions and/or payment delays to interest only payments. The first loan had an amortized cost of $588,270 or 0.53% of 1-4 family residential mortgages at December 31, 2023. The second loan had an amortized cost of $120,640 or 0.12% of 1-4 family residential mortgages at December 31, 2023. There was no forgiveness of principal for either of the loans.

There were no loans that were modified in the previous twelve months (i.e., the twelve months prior to default) that defaulted during the year ended December 31, 2023. For purposes of this disclosure, default is defined as 90 days past due and still accruing or placement on nonaccrual status.

The Corporation has not committed to lend additional amounts to the borrowers included in the previous table.

The Corporation closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. All loans modified under ASU 2022-02 were current as of December 31, 2023.

Troubled Debt Restructurings

Prior to adoption of ASU 2016-13 and ASU 2022-02, a loan was considered a troubled debt restructuring (TDR) based on individual facts and circumstances. Restructured loans are loans on which, because of a borrower's financial difficulties, the Corporation has granted a concession that would not otherwise be considered. Modifications of terms that could potentially qualify as a restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current market rate for new debt with similar risk, or a reduction of the face amount of debt, or either forgiveness of either principal or accrued interest. The following table summarizes, as of December 31, 2022, loans that have been restructured:

	Troubled-Debt Restructurings			
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Effect on the Allowance for Loan Losses
		(Dollars in Thousands)		
December 31, 2022:				
Real estate:				
Construction and land loans	-	$ -	$ -	$ -
Farmland	-	-	-	-
1-4 family residential mortgages	2	194	182	(75)
Multifamily	-	-	-	-
Commercial	1	223	199	(175)
Agricultural	-	-	-	-
Commercial	1	451	427	(55)
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total:	4	$ 868	$ 808	$ (305)

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Troubled Debt Restructurings (Continued)

The Corporation has not forgiven any principal on the above loans. The changes in the recorded investment prior to modification and after modification are a result of principal payments made on TDR loans from date of modification to year end. At December 31, 2022, $198,671, of the above restructured loans were held as nonaccrual.

As of December 31, 2022, there were no loans restructured within the last 12 months that had subsequently defaulted.

Related Party Transactions

In the ordinary course of business, certain executive officers and directors of the Corporation, including their families and companies with which they are associated, have been granted loans. 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 are as follows:

Balance, beginning of year	$ 8,563,684
Advancements	4,044,913
Repayments	(4,044,111)
Balance, end of year	$ 8,564,486

NOTE 5. OTHER REAL ESTATE OWNED

The table below presents a summary of the activity related to other real estate owned for the years ending December 31, 2023 and 2022, respectively.

	Years Ended December 31,	
	2023	2022
Balance, beginning of year	$ -	$ 150,000
Additions	1,653,006	260,000
Sales proceeds	(75,000)	(318,553)
Internally financed sales	-	(75,000)
Net loss on sales of other real estate owned	(15,210)	(16,447)
Provision for ORE loss	(462,796)	-
Balance, end of year	$ 1,100,000	$ -

Other real estate owned by type is as follows:

	December 31,	
	2023	2022
Residential real estate	$ -	$ -
Commercial real estate	1,562,796	-
ORE valuation allowance	(462,796)	-
	$ 1,100,000	$ -

NOTE 5. OTHER REAL ESTATE OWNED (Continued)

Expenses related to other real estate owned for the year ended December 31, 2023 and 2022 are as follows:

	Years Ended December 31, 2023	2022
Net loss on sales of other real estate owned	$ 15,210	$ 16,447
Operating expenses, net of lease income	483,129	2,165
	$ 498,339	$ 18,612

NOTE 6. PREMISES AND EQUIPMENT

At December 31, 2023 and 2022, premises and equipment were as follows:

	December 31, 2023	2022
Land	$ 4,968,923	$ 6,542,264
Buildings and leasehold improvements (depreciated over 5 to 50 years)	20,472,257	20,581,063
Furniture, fixtures, and equipment (depreciated over 3 to 10 years)	14,777,208	15,789,655
Automobiles (depreciated over 3 years)	204,717	204,697
	40,423,105	43,117,679
Accumulated depreciation	(26,583,925)	(26,169,999)
	$ 13,839,180	$ 16,947,680

Depreciation expense for the years ended December 31, 2023 and 2022 was $1,366,901 and $1,497,321, respectively.

NOTE 7. DEPOSITS

At December 31, 2023 and 2022, deposits were as follows:

	December 31, 2023	2022
Noninterest-bearing accounts	$ 513,760,135	$ 582,600,867
NOW accounts	146,022,844	157,734,557
Money market investment accounts	112,617,261	146,622,221
Savings accounts	106,266,732	131,782,116
Time deposits:		
Time deposits less than $250,000	155,883,183	121,276,373
Time deposits equal to or greater than $250,000	55,302,589	29,021,670
Total deposits	$ 1,089,852,744	$ 1,169,037,804

NOTE 7. DEPOSITS (Continued)

At December 31, 2023, the contractual maturities of time deposits are as follows:

2024	$ 191,207,473
2025	10,102,142
2026	5,321,153
2027	2,372,941
2028	1,989,179
Thereafter	192,884
	$ 211,185,772

At December 31, 2023 and 2022, overdraft demand and savings deposits reclassified to loans totaled $249,139 and $553,165, respectively.

NOTE 8. PARTICIPATION IN U.S. TREASURY PROGRAMS

New Market Tax Credits

On October 28, 2022, UBCD was awarded a $45,000,000 allocation of the 2021 New Markets Tax Credits from the CDFI Fund. UBCD will deploy these tax credits to qualified projects. As of December 31, 2023, $39,500,000 has been apportioned to qualified projects and the remaining $5,500,000 has been allocated to deals expected to close in 2024.

On September 22, 2023, UBCD was awarded a $65,000,000 allocation of the 2022 New Markets Tax Credits from the CDFI Fund. UBCD will deploy these tax credits to qualified projects. As of December 31, 2023, $65,000,000 is available for use in projects expected to close in 2024 and 2025.

UB Community Development, LLC has applied for a 2023 allocation of New Markets Tax Credits, to be awarded in the third quarter of 2024.

On November 2, 2023, the Corporation received $303,688 at the unwind of its second NMTC loan pool transaction that was initiated in 2016.

On June 21, 2022, the Corporation received $1,190,859 at the unwind of its first NMTC loan pool transaction that was initiated in 2015.

Community Development Financial Institutions Income

On June 16, 2023, the Corporation received $717,900 from the Financial Assistance (FA) program 2022 round, administered by the CDFI Fund. The FA Award is earmarked to fund general lending operations.

On October 17, 2023, the Corporation received $4,957,678 from the Equitable Recovery Program (ERP) 2022 round, administered by the CDFI Fund. ERP funds are a one-time award to help the communities most impacted, recover from the COVID-19 pandemic.

On November 3, 2023, the Corporation received an award of $437,350 from the Bank Enterprise Award Program (BEA) for the 2022 award allocation, administered by the CDFI Fund. The BEA Program is a performance based grant program that provides monetary awards to FDIC insured depository institutions that successfully demonstrate an increase in their investments in mission driven lenders known as CDFIs, or in their own lending, or service activities in highly distressed communities. The BEA Program awards help offset some of the risks and/or costs associated with investing in these highly distressed communities and provide an incentive to increase their investments.

NOTE 8. PARTICIPATION IN U.S. TREASURY PROGRAMS (Continued)

Community Development Financial Institutions Income (Continued)

On November 28, 2023, the Corporation received an award of $9,000,000 from the U.S. Department of Treasury's Capital Magnet Fund (CMF) program administered by the Department of Treasury's Community Development Financial Institutions (CDFI) Fund. The award will be used to develop projects aimed at providing better housing options for low-income families and creating new economic opportunities.

On January 21, 2022, the Corporation received $122,256 from the Community Development Financial Institutions (CDFI) Small Dollar Loan Program award. The award received shall be allocated as a specific reserve for loans $2,500 and less.

On June 30, 2022, the Corporation received an award of $701,530 from the Financial Assistance (FA) program 2021 round, administered by the CDFI Fund. The FA award is earmarked to fund general lending operations.

On July 6, 2022, the Corporation received an award of $170,699 from the Bank Enterprise Award Program (BEA) for the 2021 award allocation, administered by the CDFI Fund. The BEA Program is a performance based grant program that provides monetary awards to FDIC insured depository institutions that successfully demonstrate an increase in their investments in mission driven lenders known as CDFIs, or in their own lending, or service activities in highly distressed communities. The BEA Program awards help offset some of the risks and/or costs associated with investing in these highly distressed communities and provide an incentive to increase their investments.

Emergency Capital Investment Program

In July 2022, through the US Department of Treasury's Emergency Capital Investment Program (ECIP), the Corporation issued 123,750 shares in senior preferred stock totaling $123.75 million. The ECIP funds are meant to support and strengthen underserved and low-income communities that struggled through the pandemic. Dividends will not accrue for the first two years and will begin accruing at 2.0%, maximum. Based on increases in certain types of lending, the rate could decrease.

NOTE 9. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31,	
	2023	2022
Federal Home Loan Bank Advances	$ 5,104,196	$ 5,773,269
USDA Re-Lending Program	33,123,792	10,601,350
NMTC Leverage Loans	2,564,450	2,564,450
Total other borrowings	$ 40,792,438	$ 18,939,069

NOTE 9. OTHER BORROWINGS (Continued)

Federal Home Loan Bank Advances

The Corporation's advances from the Federal Home Loan Bank of Atlanta bearing interest rates, ranging from 1.99% to 2.17% at December 31, 2023. These advances are due at various dates through 2034. The weighted average interest rate as of December 31, 2023 and 2022 was 2.10% and 2.10%, respectively.

At December 31, 2023, Federal Home Loan Bank advances were collateralized by 1-4 family first mortgages of $12,230,616, Home Equity Lines of Credit on first mortgages of $1,119,121 and investment securities of $19,017,690.

USDA Re-Lending Program

During 2016, the Corporation entered into a $40,000,000 promissory note with the United States Department of Agriculture's Community Facilities Direct Loan program, with a 40 year maturity, which will allow it to re-lend funds to eligible borrowers in rural areas in Alabama and Florida on a fixed rate structure. The outstanding balance under this note agreement was $33,123,792 and $10,601,350 as of December 31, 2023 and 2022, respectively.

NMTC Leverage Loans

As a party to NMTC transactions, Investment Funds make qualified equity investments (QEIs) in special purpose subsidiaries that make low-interest loans to qualified businesses in low-income communities. The QEIs are funded with investor equity from the tax credit recipient and leverage loans made by a respective lender in the transaction.

In January 2020, CFSA IF leveraged its $3,500,000 total qualified equity investment (QEI) in UBCD Sub-CDE Uniform Golf, LLC with a $2,564,450 leverage loan, payable to The Community Foundation of South Alabama (CFSA). The loan carries a 1.00% interest rate and CFSA IF will make interest-only payments until September 2026, when the Corporation (investor) and CFSA (project sponsor) will execute a put/call option to unwind the transaction. Upon successful execution of the put/call option, any remaining assets and liabilities of CFSA IF would transfer to the project sponsor.

In August 2020, AMCREF IF leveraged its $2,262,800 total QEI in AMCREF Fund 63, LLC with a $1,842,179 leverage loan, payable to UB. The loan carries a 4.00% interest rate and AMCREF IF will make interest-only payments over the seven-year compliance period and a balloon payment in August of 2027, at which time the investment fund will dissolve and any remaining assets of AMCREF IF would transfer to the Corporation (the sole member investor in the transaction). The AMCREF IF leveraged loan is eliminated upon consolidation.

At December 31, 2023, other borrowings are due as follows:

2026	$ 357,143
Thereafter	40,435,295
	$ 40,792,438

NOTE 10. NOTE PAYABLE TO TRUST

United Bancorp Capital Trust II

In 2007, the Corporation formed a wholly-owned grantor trust to issue cumulative trust preferred securities. The grantor trust has invested the proceeds of the trust preferred securities in junior subordinated debentures of the Corporation. The junior subordinated debentures can be redeemed prior to maturity at the option of the Corporation on or after September 30, 2011. The sole assets of the guarantor trust are the Junior Subordinated Deferrable Interest Debentures of the Corporation (the Debentures) held by the grantor trust. The debentures have the same interest rate (three month LIBOR plus 1.68%, floating) as the trust preferred securities. The Corporation has the right to defer interest payments on the Debentures at any time or from time to time for a period not exceeding 20 consecutive quarters provided that no extension period may extend beyond the stated maturity of the related Debentures. During any such extension period, distributions on the trust preferred certificates would also be deferred.

Payment of periodic cash distributions and payment upon liquidation or redemption with respect to the trust preferred securities are guaranteed by the Corporation to the extent of funds held by the grantor trust (the Preferred Securities Guarantee). The Preferred Securities Guarantee, when taken together with the Corporation's other obligations under the Debentures, constitute a full and unconditional guarantee, on a subordinated basis, by the Corporation of payments due on the trust preferred securities.

The trust preferred securities and the related debentures were issued on September 27, 2007. Distributions on the trust preferred securities are paid quarterly on March 30, June 30, September 30 and December 30 of each year. Interest on the Debentures is paid on the corresponding dates. The aggregate principal amount of Debentures outstanding at December 31, 2023 and 2022 was $0.00 and $0.00, respectively.

On September 30, 2022, the Corporation redeemed the trust preferred securities and paid off its' $10,310,000 note payable.

NOTE 11. INCOME TAXES

The components of income tax expense are as follows:

	Years Ended December 31, 2023	Years Ended December 31, 2022
Current:		
Federal	$ 7,920,823	$ 4,617,107
State	1,916,460	1,186,238
Total	9,837,283	5,803,345
Deferred:		
Federal	(332,523)	(373,937)
State	(78,844)	(90,514)
Total	(411,367)	(464,451)
Income tax expense	$ 9,425,916	$ 5,338,894

NOTE 11. INCOME TAXES (Continued)

Total income tax expense differed from the amount computed by applying the statutory federal income tax rate of 21% to pretax income is as follows:

	Years Ended December 31, 2023	2022
Income tax expense at federal statutory rate	$ 8,603,081	$ 5,044,956
Increase (decrease) resulting from:		
Tax exempt interest	(600,892)	(419,102)
Interest disallowance	20,887	9,076
State income tax, net of federal benefit	1,451,717	865,622
Premium amortization on tax exempt investment securities	80,371	93,652
Cash surrender value of life insurance	(124,103)	(118,147)
Other, net	(5,145)	(137,163)
Total income tax expense	$ 9,425,916	$ 5,338,894

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2023 and 2022 are as follows:

	December 31, 2023	2022
Deferred tax assets:		
Loans, principally due to the allowance for credit losses	$ 3,330,061	$ 3,340,417
Other real estate, principally due to difference in carrying value	155,227	-
Deferred compensation	374,910	375,019
Accrued expenses	452,008	322,368
Lease liability	79,900	44,885
Restricted stock units	36,919	30,520
Premise and equipment	211,260	67,691
Investment securities available for sale	8,611,420	11,763,712
Other	138,483	387,241
	13,390,188	16,331,853
Deferred income tax liabilities:		
Discount accretion	-	5,850
Intangible assets	108,998	130,446
Right of use - lease asset	79,900	44,885
Investments	10,575	10,575
New Market Tax Credit	120,824	93,328
	320,297	285,084
Net deferred income tax assets (liabilities)	$ 13,069,891	$ 16,046,769

The federal and state income tax returns of the Corporation for 2021, 2022, and 2023 are subject to examination, generally for three years after they were filed.

NOTE 12. STOCK BASED COMPENSATION

Stock Options

2018 Equity Incentive Plan

The United Bancorporation of Alabama, Inc. 2018 Equity Incentive Plan (formerly the 2007 Equity Incentive Plan) provides for the grant of stock options, stock appreciation rights, restricted stock awards, performance units, or any combination thereof to officers, directors, and employees of the Corporation to purchase up to an aggregate of 308,000 shares of Class A Stock. As of December 31, 2023, 233,232 shares of stock could be granted in the future. There are no outstanding stock options for years ending December 31, 2023 or 2022.

Restricted Stock

As of December 31, 2023, the Corporation has awarded stock grants in two formats to two distinct classes. Directors have been awarded grants that 100% vest as of the grant date. The second type of grant has been awarded to senior officers of the Corporation. These grants have three-year terms with one-third of the award shares vesting on each grant date anniversary. The expense of these awards is recorded on a straight-line bases over the 36-month term.

	Restricted Shares	Weighted-Average Grant Price Per Share
Balance at December 31, 2021	10,117	$ 24.59
Granted	11,421	29.00
Surrendered	(446)	25.75
Vested	(9,720)	26.04
Balance at December 31, 2022	11,372	$ 27.73
Granted	9,465	36.77
Surrendered	-	-
Vested	(9,357)	29.82
Balance at December 31, 2023	11,480	$ 29.29

As of December 31, 2023, there was $262,770 of total unrecognized compensation cost related to non-vested restricted stock, to be recognized over weighted average remaining period of 1.7 years.

NOTE 13. DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Corporation sponsors a dividend reinvestment and share purchase plan. Under the plan, all holders of record of common stock are eligible to participate in the plan. Participants in the plan may direct the plan administrator to invest cash dividends declared with respect to all or any portion of their common stock. Participants may also make optional cash payments that will be invested through the plan. All cash dividends paid to the plan administrator are invested within 30 days of cash dividend payment date. Cash dividends and optional cash payments will be used to purchase common stock of the Corporation in the open market, from newly-issued shares, from shares held in treasury, in negotiated transactions, or in any combination of the foregoing. The purchase price of the shares of common stock is based on the average market price. All administrative costs are borne by the Corporation.

For the year ended December 31, 2023, 4,628 shares were purchased under the Plan. Regular cash dividends of $0.60 per share were declared in 2023. For the year ended December 31, 2022, 4,432 shares were purchased under the Plan. Regular cash dividends of $0.40 per share were declared in 2022.

NOTE 14. EMPLOYEE BENEFIT PLANS

401(k) Employee Stock Ownership Plan

During 2017, the Corporation amended its 401(k) Savings Plan and adopted a 401(k) Employee Stock Ownership Plan (the "KSOP"), which covers substantially all employees over 20.5 years of age with at least three months of service. Employees may defer an elected percentage of their compensation bi-weekly. The Bank makes bi-weekly discretionary matching contributions of up to 5.5% of the employees' contributions, not to exceed 5.5% of the participating employees' compensation. The Corporation may also make additional discretionary contributions to the KSOP which is unrelated to any employer matching contributions. For the years ended December 31, 2023 and 2022, the Corporation expensed $538,284 and $499,999, respectively, for matching discretionary contributions to this Plan. Shares of Corporation common stock owned by the KSOP plan total 131,461 and 114,103 as of December 31, 2023 and 2022 with a fair value of $5,468,778 and $4,016,426, respectively. All KSOP shares have been fully allocated to the participants.

During the second quarter of 2019, the KSOP leveraged $2.0 million from the Corporation to purchase 100,000 shares in the Corporation's private placement. The shares are securitized by a note held by the Corporation and paid by the Bank with an interest rate of 3.15%, annual principal and interest payments of $234,559 that are due at December 31 each year until maturity of December 31, 2028. As principal payment is made towards the note, the corresponding amount of shares are to be released from the reserve and allocated to participants' accounts. As a result, the KSOP reserve shares are excluded from equity until the shares are paid in full and no longer encumbered. The balance of shares in the KSOP Reserve for the year ended December 31, 2023 and 2022 were 16,685 and 27,545 with a fair value of $694,096 and $976,549, respectively.

During the third quarter of 2021, the KSOP entered into an internal loan (employer loan) with UB to purchase 69,705 shares. The shares, being already issued and outstanding, were placed in the KSOP's account as unallocated KSOP shares. The shares are securitized by a note held by UB with an interest rate of 2.15%, annual principal and interest payments of $154,075 that are due at December 31 each year until maturity of December 31, 2030. As principal payment is made towards the note, the corresponding amount of shares are to be released and allocated to participant's accounts. As a result, the shares are excluded from equity until the shares are paid in full and no longer encumbered. The balance of shares on hold in the KSOP's account for year ended December 31, 2023 and 2022 were 49,572 and 56,071 with a fair value of $2,062,195 and $1,973,699.

Profit-Sharing Plan

The Corporation also maintains a profit–sharing plan for eligible employees. Eligibility requirements for this plan are the same as the 401(k) Employee Incentive Savings Plan. Benefits paid under the Plan are subject to approval by the Board of Directors each year. Contributions to the Plan charged to expense during 2023 and 2022 were $138,000 and $229,725, respectively.

Salary and Fee Continuation Plans

The Corporation provides a salary continuation plan for certain executive officers and a fee continuation plan for certain directors providing for death and/or retirement benefits. The present value of the estimated amounts to be paid under the plans are being accrued over the remaining service period of the executives and directors. The expense recognized for the salary and fee continuation plans amounted to $318,965 and $172,829 for the years ended December 31, 2023 and 2022, respectively. The balance of the liability for the salary and fee continuation plans included in other liabilities at December 31, 2023 and 2022 totaled $1,635,788 and $1,493,338, respectively.

The cost of the salary continuation plan described above is being offset by earnings from bank owned life insurance policies on the executives. The balance of the policy surrender values totaled $22,528,245 and $21,261,627 at December 31, 2023 and 2022, respectively. Income recognized from the increase in cash surrender value on these policies totaled $591,618 and $458,222 for the years ended December 31, 2023 and 2022, respectively.

NOTE 14. EMPLOYEE BENEFIT PLANS (Continued)

Employee Stock Purchase Plan

The Corporation sponsors an employee stock purchase plan which is available to all employees subject to certain minimum service requirements. The Plan is administered by a Board appointed committee which designates the offering period in which employees may purchase shares and the offering price. All administrative costs are borne by the Corporation. No shares were purchased under the Plan for the years ended December 31, 2023 or 2022.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS

The Corporation 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 Corporation'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.

Fair Value Hierarchy

In accordance with this guidance, the Corporation 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.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Assets 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, mortgage products 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, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy.

The following tables present financial assets measured at fair value on a recurring basis as of December 31, 2023 and 2022, respectively:

		Fair Value Measurements at December 31, 2023 Using		
	Assets Measured at Fair Value December 31, 2023	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 266,052,697	$ 3,886,250	$ 262,166,447	$ -

		Fair Value Measurements at December 31, 2022 Using		
	Assets Measured at Fair Value December 31, 2022	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 328,610,919	$ 8,015,859	$ 320,595,060	$ -

Assets Measured at Fair Value on a Nonrecurring Basis

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

Collateral Dependent Loans

Loans considered collateral dependent under ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* are loans for which, based on current information and events, it is probable that the Corporation will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Collateral dependent loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less estimated selling costs if the loan is collateral dependent. As of December 31, 2022 under the incurred methodology ASC 310-10-35, *Receivables,* these loans were known as impaired loans.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

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

Collateral Dependent Loans (Continued)

The fair value of collateral dependent loans is primarily measured based on the value of the collateral securing these loans. Impaired loans are typically classified within level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Corporation determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Other Real Estate Owned

Other real estate owned is adjusted to fair value upon transfer from the loan portfolio. Subsequently, other real estate assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the other real estate as nonrecurring Level 3.

The following tables present the assets carried on the consolidated balance sheets by caption and by level within the (FASB ASC 820) valuation hierarchy (as described above) as of December 31, 2023 and 2022, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2023 and 2022, respectively.

		Carrying Value at December 31, 2023		
	Assets Measured at Fair Value December 31, 2023	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 1,591,000	$ -	$ -	$ 1,591,000
Other real estate	1,100,000	-	-	1,100,000

		Carrying Value at December 31, 2022		
	Assets Measured at Fair Value December 31, 2022	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 6,470,849	$ -	$ -	$ 6,470,849
Other real estate	-	-	-	-

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Quantitative Disclosures for Level 3 Fair Value Measurements

The Corporation had no Level 3 assets measured at fair value on a recurring basis at December 31, 2023 or 2022.

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2023, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Collateral dependent loans	$ 1,591,000	Appraisal	Appraisal discounts (%)	15-20 %
Other real estate owned	$ 1,100,000	Appraisal	Appraisal discounts (%)	10-20 %

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2022, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 6,470,849	Appraisal	Appraisal discounts (%)	15-20 %
Other real estate owned	-	Appraisal	Appraisal discounts (%)	10-20 %

Fair Value of Financial Instruments

The assumptions used in estimating the fair value of the Corporation's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Corporation's financial instruments, but rather a good–faith estimate of the fair value of financial instruments held by the Corporation. FASB ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

***Cash and Short-Term Investments**:* Fair value approximates the carrying value of such assets.

***Investment Securities and Other Securities**:* The fair value of investment securities is based on quoted market prices. The fair value of other securities, which includes Federal Home Loan Bank stock and other correspondent stocks, approximates their carrying value.

***Loans**:* The fair value of loans is calculated using discounted cash flows and excludes lease-financing arrangements. The discount rates used to determine the present value of the loan portfolio are estimated market discount rates that reflect the credit and interest rate risk inherent in the loan portfolio. The estimated maturities are based on the Corporation's historical experience with repayments adjusted to estimate the effect of current market conditions.

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Fair Value of Financial Instruments (Continued)

***Deposits**:* The fair value of deposits with no stated maturity, such as non–interest bearing demand deposits, NOW accounts, savings and money market deposit accounts, approximates the carrying value. Certificates of deposit have been valued using discounted cash flows. The discount rates used are based on estimated market rates for deposits of similar remaining maturities.

The fair value estimates in the table below do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

***Other Borrowings**:* The fair value of the Corporation's revolving line of credit approximates the carrying value of such liabilities. The fair value of FHLB advances have been valued using discounted cash flows. The discount rates used are based on estimated market rates for borrowings of similar remaining maturities.

***Accrued Interest**:* The fair value of accrued interest receivable and payable approximates their carrying value.

***Commitments to Extend Credit and Standby Letters of Credit**:* There is no market for the commitment to extend credit and standby letters of credit and they were issued without explicit cost. Therefore, it is not practical to establish their fair value.

The carrying value and estimated fair value of the Corporation's financial instruments at December 31, 2023 and 2022 are as follows:

	Fair Value Measurements at December 31, 2023			
	Carrying Amount	Level 1	Level 2	Level 3
	(Dollars in Thousands)			
Financial assets:				
Cash and short-term investments	$ 236,407	$ 236,407	$ -	$ -
Investment securities-available for sale	266,053	3,886	262,167	-
Investment securities-held to maturity	4,796	-	4,776	-
Loans held for investment, net of the allowance for credit losses	800,320	-	777,579	1,591
Bank owned life insurance	22,528	-	22,528	-
Other equity investments	2,121	-	-	2,121
Other real estate owned	1,100	-	-	1,100
Interest receivable	8,267	-	8,267	-
Financial liabilities:				
Deposits	1,089,853	-	1,132,597	-
Other borrowings	40,792	-	40,792	-
Interest payable	788	-	788	-

NOTE 15. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Fair Value of Financial Instruments (Continued)

	Fair Value Measurements at December 31, 2022			
	Carrying Amount	Level 1	Level 2	Level 3
	(Dollars in Thousands)			
Financial assets:				
Cash and short-term investments	$ 280,683	$ 280,683	$ -	$ -
Investment securities-available for sale	328,611	8,016	320,595	-
Investment securities-held to maturity	8,684	-	8,583	-
Loans held for investment, net of the allowance for credit losses	710,411	-	682,323	6,471
Bank owned life insurance	21,262	-	21,262	-
Other equity investments	1,746	-	-	1,746
Accrued interest receivable	6,258	-	6,258	-
Financial liabilities:				
Deposits	1,169,038	-	1,180,514	-
Other borrowings	18,939	-	18,932	-
Accrued interest payable	177	-	177	-

NOTE 16. GOODWILL AND INTANGIBLE ASSETS

The Corporation recorded goodwill of $6,474,056 and a core deposit intangible in the amount of $671,000 associated with the acquisition of Town-Country National Bank.

Changes to the carrying amount of goodwill are provided in the following table.

	December 31,	
	2023	2022
Balance at beginning of year	$ 6,516,169	$ 6,474,056
Adjustment in fair market value of other restricted equities	-	42,113
Balance at end of year	$ 6,516,169	$ 6,516,169

A summary of core deposit intangible assets is set forth below.

	Years Ended December 31,	
	2023	2022
Gross carrying amount	$ 575,936	$ 643,040
Less: accumulated amortization	(67,104)	(67,104)
Net carrying amount	$ 508,832	$ 575,936

NOTE 16. GOODWILL AND INTANGIBLE ASSETS (Continued)

The core deposit intangible is amortized using a straight-line method over ten years from the date of the acquisition. Amortization expense for the year ended December 31, 2023 was $67,104.

Estimated amortization expenses related to the core deposit intangible assets for the next five years are as follows:

2024	$ 67,104
2025	67,104
2026	67,104
2027	67,104
2028	67,104
Thereafter	173,312
	$ 508,832

NOTE 17. DIVIDENDS FROM SUBSIDIARIES

Dividends paid by the Corporation are the primary source of funds available to the Corporation for payment of dividends to its stockholders and for other needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the subsidiary Corporation. In addition, the subsidiary banks are also required to maintain minimum amounts of capital to both total "risk-weighted" assets and total average assets, as defined by banking regulators. Capital adequacy considerations could further limit the availability of dividends from the subsidiary banks. The payment of dividends from the Banks are regulated by the Alabama State Banking Department and may be limited based on earnings and credit losses. Future payments of dividends by the Banks to the Corporation will be dependent on earnings, credit losses and compliance with applicable regulations of the Alabama State Banking Department and applicable federal regulators.

UBCD also has the discretion to provide dividends to the Corporation. The payment of dividends from UBCD is not regulated by the Alabama State Banking Department nor applicable federal regulators.

NOTE 18. LITIGATION

The Corporation is involved in various legal proceedings arising in connection with their business. In the opinion of management, the ultimate resolution of these proceedings is not expected to have a material adverse effect upon the financial statements of the Corporation.

NOTE 19. COMMITMENTS

The Corporation leases certain property and equipment for use in its business. These leases have lease terms generally not in excess of five years. The Corporation is not committed to any operating leases, which have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2023.

Rental expense for all operating leases charged to earnings aggregated $124,573 and $141,943 for the years ended December 31, 2023 and 2022, respectively.

NOTE 19. COMMITMENTS (Continued)

The Corporation 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 instruments involve elements of credit risk in excess of the amounts recognized in the consolidated financial statements.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in making conditional obligations as it does for on-balance sheet instruments.

The financial instruments whose contractual amounts represent credit risk as of December 31, 2023 and 2022 are approximately as follows:

	December 31,	
	2023	2022
Commitments to extend credit	$ 204,062,650	$ 161,309,330
Standby letters of credit	3,737,102	2,970,029
	$ 207,799,752	$ 164,279,359

Standby letters of credit are commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees 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 loan facilities to customers. The Corporation holds various assets as collateral supporting those commitments for which collateral is deemed necessary.

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 Corporation 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 consolidated balance sheets within other liabilities.

The following table presents the balance and activity in the allowance for credit losses for unfunded commitments for the year ended December 31, 2023.

	Allowance for Credit Losses – Unfunded Commitments
Beginning balance	$ -
Adjustment to allowance for the adoption of ASU 2016-13	45,686
Change in unfunded commitments	863,655
Ending balance	$ 909,341

NOTE 20. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 organized within noninterest income for the twelve months ended December 31, 2023 and 2022. Items outside of the scope of ASC 606 are noted as such (a).

	Years Ended December 31,	
	2023	2022
Noninterest income:		
Service charges and fees	$ 6,601,942	$ 6,448,452
CDFI award income	15,112,928	994,485
New market tax credit sub-allocation and placement fees	2,466,945	2,593,333
Consulting and asset management fees	221,625	428,450
Mortgage loan and related fees (a)	107,765	425,752
Other	3,337,229	3,772,959
Total noninterest income	$ 27,848,434	$ 14,663,431

(a) Not within scope of ASC 606.

A description of the Corporation's significant revenue streams accounted under ASC 606 follows:

Service charges and fees*:* Revenue from service charges on deposit accounts is earned through cash management, wire transfer, overdraft, non-sufficient funds and other deposit-related services. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customer's accounts. This category also includes interchange fees from consumer credit and debit cards processed by card association networks, as well as merchant discounts and other card-related services. Interchange rates are generally set by credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month.

CDFI award income: The Corporation received awards from the U.S. Department of Treasury's CDFI Fund for both the Capital Magnet Fund (CMF),Financial Assistance (FA), Bank Enterprise Award (BEA) and Equitable Recovery Program (ERP) programs. The awards are recognizable upon receipt with no contractual terms associated with the award.

New market tax credit sub-allocation and placement fees*:* Revenues from New Market Tax Credit (NMTC) sub-allocation and placement fees are earned in connection with the closing of each NMTC transaction. Placement Fees are received from the Investment Fund and sub-allocation fees from the Sub-CDE level in the transaction. All fees are documented in a Fee Agreement at the closing of the transaction. As stated in ASC 606, "an entity shall recognize revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer". The Fee Agreement is a negotiated document that states the Corporation (or its subsidiaries) has performed the services necessary to earn the Sub-Allocation and Placement Fee. The fees are earned when the Corporation (or its subsidiaries) has transferred NMTC allocation to the Sub-CDE and has helped the Investment Fund successfully deploy its Qualified Equity Investment (QEI) into the Sub-CDE such that the tax credit investor is able to begin utilizing tax credits and the Sub-CDE is able to fulfill its lending obligations. Through the Fee Agreement, the payor parties agree to pay the Corporation (or its subsidiaries) for these completed services, satisfying all conditions precedent to recognize the Sub-Allocation and Placement fee revenue.

NOTE 20. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Consulting and asset management fees: The Corporation (or its subsidiaries) provides consulting services to a client when NMTC expertise is needed to structure a transaction. These fees are earned when the Corporation (or its subsidiaries) assists in sourcing NMTC allocation for the project, structuring the transaction, securing an investor to purchase the credits, and assisting in the overall transaction closing. Fees are documented in a Fee Agreement with the client and are recognized when the NMTC transaction closes. Asset Management (A/M) Fees are earned by the Corporation (or its subsidiaries) for managing activity throughout the seven-year compliance period for the Investor, Investment Fund, and/or the Sub-CDE in a transaction. UBCD is the Corporation's subsidiary responsible for the management and thus receives the fees. Investor and Investment Fund A/M fees are typically received upon the closing of a transaction. Sub-CDE A/M fees are typically received quarterly throughout the seven-year period. UBCD manages activity for all three entity types in some transactions, but not in all. In some transactions, UBCD only manages for the Investor and Investment Fund and in others only for the Sub-CDE. The management fees are documented in a negotiated Fee Agreement along with agreed upon responsibilities of the manager.

Other income: Other operating income primarily consist of revenues generated from ATM fees and safe deposit box rentals. ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. Safe deposit box rentals income are recognized on a monthly basis as the Corporation's performance obligation for these services is satisfied.

NOTE 21. OTHER NONINTEREST EXPENSE

Components of other noninterest expense considered significant by the Corporation for the years ended December 31, 2023 or 2022, respectively, include the following:

	Years Ended December 31,	
	2023	2022
Accounting and audit	$ 863,287	$ 746,129
Professional fees	2,037,616	452,035
Legal fees	294,518	210,189
Advertising	1,117,597	735,879
Card-based expense	1,896,395	1,969,640
Network and communications	1,892,474	1,125,979
Internet and mobile banking	361,163	327,530
Core processing	1,272,064	1,152,776
Other data processing	699,223	466,729
FDIC deposit insurance	459,776	375,920
Provision for ORE loss	462,796	-
Other	3,767,427	3,670,094
	$ 15,124,336	$ 11,232,900

NOTE 22. CONCENTRATIONS OF CREDIT RISK

The Corporation originates primarily commercial, agricultural, residential, and consumer loans to customers in its primary market areas. The ability of the majority of the Corporation's customers to honor their contractual loan obligations is dependent on the economy in these areas. As of December 31, 2023 and 2022, approximately 49.9% and 51.4%, respectively, of the Corporation's loans were commercial loans, including those secured by real estate. The Corporation's commercial customers are primarily small to middle market enterprises. The Corporation also specializes in agricultural loans, including loans secured by farmland, which represented approximately 11.1% and 11.8% of the Corporation's total loans at December 31, 2023 and 2022, respectively.

Total loans secured by real estate was approximately 55.9% and 56.7% of the Corporation's loan portfolio at December 31, 2023 and 2022, of which a substantial portion is secured by real estate in the Corporation's market areas. At December 31, 2023 and 2022, real estate construction loans accounted for approximately 14.7% and 12.4%, respectively, of the total loan portfolio, while 1-4 family residential mortgage loans made up approximately 12.9% and 14.1%, respectively, of the loan portfolio. A more complete discussion and analysis of the Corporation's loan types and concentrations and the related credit risk is set forth in Note 4.

UB, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined, or approximately $32,810,000 or on an unsecured basis in excess of 10% of capital, as defined, or approximately $16,405,000. TCUB, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined, or approximately $6,609,000 or on an unsecured basis in excess of 10% of capital, as defined, or approximately $3,305,000.

NOTE 23. REGULATORY MATTERS

United Bank

UB 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 UB 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.

UB is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2023, approximately $36,065,000 of retained earnings were available for dividend declaration without regulatory approval.

Quantitative measures established by regulation to ensure capital adequacy require UB to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, UB is subject to an institution-specific capital buffer, which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. Management believes, as of December 31, 2023 and 2022, that UB meets all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent notification from the Federal Deposit Insurance Corporation categorized UB as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed UB's category.

NOTE 23. REGULATORY MATTERS (Continued)

United Bank (Continued)

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

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2023:						
Total Capital to Risk-Weighted Assets	$ 163,400	18.439 %	$ 93,049	10.500%	$ 88,618	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 152,321	17.188 %	$ 75,326	8.500%	$ 70,895	8.000%
CET1 Capital to Risk-Weighted Assets	$ 152,321	17.188 %	$ 62,033	7.000%	$ 57,602	6.500%
Tier 1 Capital to Average Total Assets	$ 152,321	12.479 %	$ 48,823	4.000%	$ 61,029	5.000%
As of December 31, 2022:						
Total Capital to Risk-Weighted Assets	$ 135,630	17.396 %	$ 81,861	10.500%	$ 77,963	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 125,867	16.145 %	$ 66,269	8.500%	$ 62,370	8.000%
CET1 Capital to Risk-Weighted Assets	$ 125,867	16.145 %	$ 54,574	7.000%	$ 50,676	6.500%
Tier 1 Capital to Average Total Assets	$ 125,867	10.767 %	$ 46,761	4.000%	$ 58,451	5.000%

Town-Country United Bank

TCUB 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 TCUB's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, TCUB 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.

TCUB is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2023, approximately $4,048,000 of retained earnings were available for dividend declaration without regulatory approval.

Quantitative measures established by regulation to ensure capital adequacy require the TCUB to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, TCUB is subject to an institution-specific capital buffer, which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. Management believes, as of December 31, 2023 and 2022 that TCUB meets all capital adequacy requirements to which it is subject.

The federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by TCUB as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

NOTE 23. REGULATORY MATTERS (Continued)

Town-Country United Bank (Continued)

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirement in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2023, TCUB was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

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

	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions (CBLR Framework)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2023:						
Tier 1 Capital (to Average Assets)	$ 24,785	19.776 %	$ 11,279	9.000%	$ 11,279	>=9.000%
As of December 31, 2022:						
Tier 1 Capital (to Average Assets)	$ 23,246	19.293 %	$ 10,241	9.000%	$ 10,241	>=9.000%

MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION

We have audited the consolidated financial statements of **United Bancorporation of Alabama, Inc. and Subsidiaries**, as of and for the years ended December 31, 2023 and 2022, and our report thereon dated March 21, 2024, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1 and 2.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 54 and 55 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mauldin & Jenkins, LLC

Birmingham, Alabama
March 21, 2024

SUPPLEMENTAL INFORMATION

CONSOLIDATING INFORMATION

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

BALANCE SHEET
DECEMBER 31, 2023

Assets	2023								
	UBA	UB	TCUB	UBCD	CFSA IF	AMCREF IF	PRECONSOLIDATED	ELIMINATIONS	CONSOLIDATED
Cash and due from banks	$ 5,290,167	42,615,490	2,834,946	6,770,162	3,435	16,400	57,530,600	(12,080,164)	45,450,436
Interest-bearing deposits in banks	67,336,229	106,467,112	1,602,859	-	-	-	175,406,200	-	175,406,200
Federal funds sold	-	8,275,000	7,275,000	-	-	-	15,550,000	-	15,550,000
Cash and short-term investments	72,626,396	157,357,602	11,712,805	6,770,162	3,435	16,400	248,486,800	(12,080,164)	236,406,636
Investment in subsidiaries	165,795,742	-	-	22,642	-	2,272,168	168,090,552	(166,366,078)	1,724,474
Securities available for sale, at fair value	7,837,514	220,564,579	37,650,604	-	-	-	266,052,697	-	266,052,697
Securities held to maturity, at amortized cost	-	4,796,239	-	-	-	-	4,796,239	-	4,796,239
Restricted equity securities, at cost	-	1,837,653	283,700		-	-	2,121,353	-	2,121,353
Loans held for investment	-	753,078,200	60,711,912	-	-	-	813,790,112	(1,842,179)	811,947,933
Less: Allowance for credit losses	-	10,401,842	1,226,514	-	-	-	11,628,356	-	11,628,356
Loans, net	-	742,676,358	59,485,398	-	-	-	802,161,756	(1,842,179)	800,319,577
NMTC Sub-CDE QLICI Loans	-	-	-	-	3,465,000	-	3,465,000	-	3,465,000
Premises and equipment, net	-	12,292,425	1,546,755	-	-	-	13,839,180	-	13,839,180
Interest receivable	74,775	7,487,910	690,389	-	-	-	8,253,074	14,291	8,267,365
ESOP note receivable	333,667	-	-	-	-	-	333,667	(333,667)	-
Bank owned life insurance	-	18,322,220	4,206,025	-	-	-	22,528,245	-	22,528,245
Other real estate owned, net	-	1,100,000	-	-	-	-	1,100,000	-	1,100,000
Core Deposit Intangible	-	-	508,832	-	-	-	508,832	-	508,832
Goodwill	-	-	6,516,169	-	-	-	6,516,169	-	6,516,169
Other assets	4,704,972	12,858,496	2,278,387	97,779	16,536	173,270	20,129,440	2,211,813	22,341,253
Total assets	$ 251,373,066	1,179,293,482	124,879,064	6,890,583	3,484,971	2,461,838	1,568,383,004	(178,395,984)	1,389,987,020
Liabilities and Stockholders' Equity									
Deposits									
Noninterest-bearing	$ -	503,588,683	22,251,616	-	-	-	525,840,299	(12,080,164)	513,760,135
Interest-bearing	-	500,986,026	75,106,583	-	-	-	576,092,609	-	576,092,609
Total deposits	-	1,004,574,709	97,358,199	-	-	-	1,101,932,908	(12,080,164)	1,089,852,744
Interest payable	-	682,140	106,110	-	-	-	788,250	-	788,250
Other borrowings	-	38,561,655	-	-	2,564,450	1,842,179	42,968,284	(2,175,846)	40,792,438
Allowance for credit losses on off-0balance sheet credit exposures	-	863,655	45,686	-	-	-	909,341	-	909,341
Accrued expenses and other liabilities	2,737,082	3,250,204	364,330	429,414	1,129	-	6,782,159	2,226,104	9,008,263
Total liabilities	2,737,082	1,047,932,363	97,874,325	429,414	2,565,579	1,842,179	1,153,380,942	(12,029,906)	1,141,351,036
Commitments (Note 19)									
Stockholders' equity									
Preferred stock	123,750,000	-	-	-	-	-	123,750,000	-	123,750,000
Class A common stock	38,338	28,000	75,000	50,000	1,097,097	706,094	1,994,529	(1,956,191)	38,338
Class B common stock	-	-	-	-	-	-	-	-	-
Additional paid-in capital	35,731,789	46,053,690	27,725,500		-	-	109,510,979	(73,779,190)	35,731,789
Retained earnings	125,622,945	107,568,131	4,018,165	6,411,169	(177,705)	(86,435)	243,356,270	(117,733,325)	125,622,945
Accumulated other comprehensive loss, net of tax	(25,834,256)	(20,963,584)	(4,813,926)	-	-	-	(51,611,766)	25,777,510	(25,834,256)
	259,308,816	132,686,237	27,004,739	6,461,169	919,392	619,659	427,000,012	(167,691,196)	259,308,816
Less treasury shares, at cost	9,084,944	-	-	-	-	-	9,084,944	-	9,084,944
Less unvested restricted stock and unallocated ESOP shares	1,587,888	1,325,118	-	-	-	-	2,913,006	(1,325,118)	1,587,888
Total stockholders' equity	248,635,984	131,361,119	27,004,739	6,461,169	919,392	619,659	415,002,062	(166,366,078)	248,635,984
Total liabilities and stockholders' equity	$ 251,373,066	1,179,293,482	124,879,064	6,890,583	3,484,971	2,461,838	1,568,383,004	(178,395,984)	1,389,987,020

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2023

	2023								
	UBA	UB	TCUB	UBCD	CFSA IF	AMCREF IF	PRECONSOLIDATED	ELIMINATIONS	CONSOLIDATED
Interest income									
Interest and fees on loans	$ -	43,013,550	6,161,844	-	36,397	-	49,211,791	(74,708)	49,137,083
Interest on investment securities:									
Taxable securities	664,983	7,439,834	558,101	-	-	-	8,662,918	-	8,662,918
Nontaxable securities	-	780,884	137,736	-	-	-	918,620	-	918,620
Total investment income	664,983	8,220,718	695,837	-	-	-	9,581,538	-	9,581,538
Other interest income	3,165,619	4,083,750	236,088	-	-	-	7,485,457	(17,353)	7,468,104
Total interest income	3,830,602	55,318,018	7,093,769	-	36,397	-	66,278,786	(92,061)	66,186,725
Interest expense									
Interest on deposits	-	5,144,759	1,718,249	-	-	-	6,863,008	-	6,863,008
Interest on other borrowings and note payable	-	556,097	-	-	25,645	74,711	656,453	(92,061)	564,392
Total interest expense	-	5,700,856	1,718,249	-	25,645	74,711	7,519,461	(92,061)	7,427,400
Net interest income	3,830,602	49,617,162	5,375,520	-	10,752	(74,711)	58,759,325	-	58,759,325
Provision for credit losses	-	1,040,294	75,000	-	-	-	1,115,294	-	1,115,294
Net interest income after provision for credit losses	3,830,602	48,576,868	5,300,520	-	10,752	(74,711)	57,644,031	-	57,644,031
Noninterest income:									
Service charges and fees	-	5,599,736	1,002,206	-	-	-	6,601,942	-	6,601,942
CDFI award income	-	15,112,928	-	-	-	-	15,112,928	-	15,112,928
New market tax credit sub-allocation and placement fees	-	-	-	2,466,945	-	-	2,466,945	-	2,466,945
Consulting and asset management fees	-	-	-	221,625	-	-	221,625	-	221,625
Mortgage loan and related fees	-	107,765	-	-	-	-	107,765	-	107,765
Other	29,541,640	2,470,515	112,554	926,695	220	87,075	33,138,699	(29,801,470)	3,337,229
Total noninterest income	29,541,640	23,290,944	1,114,760	3,615,265	220	87,075	57,649,904	(29,801,470)	27,848,434
Noninterest expense:									
Salaries and benefits	223,703	16,812,586	2,055,992	144,000	-	-	19,236,281	-	19,236,281
Net occupancy expense	101	3,123,237	237,349	-	-	-	3,360,687	-	3,360,687
Investment securities losses, net	-	6,804,110	-	-	-	-	6,804,110	-	6,804,110
Other	1,152,324	11,886,102	1,777,227	756,312	11,050	41,500	15,624,515	(500,179)	15,124,336
Total noninterest expense	1,376,128	38,626,035	4,070,568	900,312	11,050	41,500	45,025,593	(500,179)	44,525,414
Income before income tax expense	31,996,114	33,241,777	2,344,712	2,714,953	(78)	(29,136)	70,268,342	(29,301,291)	40,967,051
Income tax expense	454,979	7,669,101	627,721	683,417	(2,323)	(6,979)	9,425,916	-	9,425,916
Net income	31,541,135	25,572,676	1,716,991	2,031,536	2,245	(22,157)	60,842,426	(29,301,291)	31,541,135
Net income available to common shareholders	$ 31,541,135	25,572,676	1,716,991	2,031,536	2,245	(22,157)	60,842,426	(29,301,291)	31,541,135

See accompanying notes to consolidated financial statements