

Report
of
FRANKEWING BANCSHARES, INC.
FRANKEWING, TENNESSEE
December 31, 2023 and 2022

FRANKEWING BANCSHARES, INC.
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Years Ended December 31, 2023 and 2022

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PUTMAN & HANCOCK
Certified Public Accountants

219 East College Street
P.O. Box 722
Fayetteville, Tennessee 37334

Phone: (931) 433-1040
Fax: (931) 433-9290
www.putmanandhancock.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Frankewing Bancshares, Inc.
Frankewing, Tennessee

Opinion

We have audited the accompanying consolidated financial statements of Frankewing Bancshares, Inc., (a Tennessee corporation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frankewing Bancshares, Inc. 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Frankewing Bancshares, Inc. 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 these 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Frankewing Bancshares, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Frankewing Bancshares, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Frankewing Bancshares, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Putman & Hancock

Fayetteville, Tennessee
March 4, 2024

FRANKEWING BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and due from banks	\$ 9,034,000	\$ 9,931,499
Interest-bearing deposits with banks	40,914,801	37,856,523
Securities available for sale	34,250,058	32,851,532
Loans, net of unearned income	407,440,604	389,618,996
Allowance for credit losses	(4,714,236)	(5,981,531)
Total net loans	402,726,368	383,637,465
Premises and equipment	13,093,396	13,427,141
Loans held for sale	8,105,532	-
Company-owned life insurance	8,302,193	8,085,440
Accrued interest receivable	3,154,874	2,269,780
Deferred tax assets, net	2,403,533	1,654,664
Prepaid taxes	1,342,130	-
Other assets	1,270,827	1,116,237
TOTAL ASSETS	<u>\$ 524,597,712</u>	<u>\$ 490,830,281</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Interest bearing	\$ 375,107,126	\$ 347,887,026
Noninterest bearing	96,339,033	98,133,265
Total deposits	471,446,159	446,020,291
Advances from FHLB	380,458	623,359
Other borrowed funds	9,908,333	-
Allowance for credit losses - unfunded commitments	828,208	-
Accrued interest payable	600,371	362,477
Accrued expenses	1,039,526	1,078,745
TOTAL LIABILITIES	<u>484,203,055</u>	<u>448,084,872</u>
STOCKHOLDERS' EQUITY		
Common stock, \$1.25 par value; 10,000,000 shares authorized, 1,526,280 shares issued and outstanding	1,907,850	1,907,850
Treasury stock, 25,290 and 8,667 shares, respectively, at cost	(509,589)	(150,749)
Additional paid-in capital	1,299,731	1,269,285
Retained earnings	40,304,206	42,907,436
Accumulated other comprehensive income, net	(2,607,541)	(3,188,413)
TOTAL STOCKHOLDERS' EQUITY	<u>40,394,657</u>	<u>42,745,409</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 524,597,712</u>	<u>\$ 490,830,281</u>

The accompanying notes are an integral part of these financial statements.

FRANKEWING BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
INTEREST INCOME		
Loans, including fees	\$ 25,836,909	\$ 19,222,513
Securities:		
Taxable	461,350	261,118
Non-taxable	227,047	279,000
Interest-bearing deposits	2,447,634	430,062
Total Interest Income	<u>28,972,940</u>	<u>20,192,693</u>
INTEREST EXPENSE		
Interest on deposits:		
Transaction accounts	354,354	205,377
Money market deposit accounts	212,525	107,588
Other savings deposits	22,700	26,859
Time certificates of deposit greater than \$250,000	2,452,032	900,479
All other time deposits	6,985,979	2,097,728
Interest on other borrowed funds	453,830	17,989
Total Interest Expense	<u>10,481,420</u>	<u>3,356,020</u>
NET INTEREST INCOME	18,491,520	16,836,673
Provision for credit loss - loans	9,196,792	775,000
Provision for credit loss - unfunded commitments	828,208	-
Total Provision for Credit Losses	<u>10,025,000</u>	<u>775,000</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<u>8,466,520</u>	<u>16,061,673</u>
OTHER INCOME		
Service charges on deposit accounts	510,823	515,481
Interchange income	916,773	848,342
Gain on sale of mortgage loans	1,081,602	18,192
Service charges and fees - mortgage	318,014	14,606
Other service charges and fees	478,223	415,308
Dividends	64,172	47,903
Security gains (losses), net	(107,633)	(6,596)
Gain (loss) on disposition of assets, net	2,429	-
Income from company-owned life insurance	216,753	195,073
Total Other Income	<u>3,481,156</u>	<u>2,048,309</u>
OTHER EXPENSES		
Salaries and employee benefits	8,315,344	6,830,885
Occupancy expense, net	474,870	502,493
Service contracts	311,789	274,753
Data processing	1,441,684	1,217,412
ATM expense	618,739	519,391
Depreciation	726,766	586,474
Other operating expenses	3,281,053	2,331,654
Total Other Expenses	<u>15,170,245</u>	<u>12,263,062</u>
Net Income (loss) before income taxes	(3,222,569)	5,846,920
Provision (benefit) for income taxes	(964,507)	1,431,699
NET INCOME (LOSS)	<u>(2,258,062)</u>	<u>4,415,221</u>
OTHER COMPREHENSIVE INCOME (LOSS)		
Reclassification adjustment net of tax (benefit) of (\$28,130) and (\$1,724), respectively	79,503	4,872
Change in unrealized gains/(losses) on AFS securities, net of tax expense (benefit) of \$177,395 and (\$1,094,073), respectively	501,369	(3,092,163)
Other comprehensive income	580,872	(3,087,291)
COMPREHENSIVE INCOME (LOSS)	<u>\$ (1,677,190)</u>	<u>\$ 1,327,930</u>

The accompanying notes are an integral part of these financial statements.

FRANKEWING BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (2,258,062)	\$ 4,415,221
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for credit loss - loans	9,196,792	775,000
Provision for credit loss - unfunded commitments	828,208	-
Depreciation and amortization of premises and equipment	726,766	586,474
Loss on sale of securities	107,633	6,596
(Gain) on disposition of assets, net	(2,429)	-
Increase in cash surrender value of company-owned life insurance	(216,753)	(195,073)
Amortization (accretion) of securities, net	114,717	194,398
Net (increase) in loans held for sale	(8,105,532)	-
(Increase) in interest receivable	(885,094)	(586,069)
(Increase) in deferred tax assets	(957,939)	(54,715)
(Increase) decrease in other assets	(282,190)	71,768
(Increase) in prepaid taxes	(1,342,130)	-
Increase in accrued interest payable	246,227	194,272
(Decrease) in accrued expenses	(39,219)	(46,086)
	<hr/>	<hr/>
Cash Provided (Used) by Operating Activities	(2,869,005)	5,361,786
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities available for sale	(6,791,604)	(4,969,733)
Proceeds from maturities and calls of securities available for sale	146,052	593,709
Proceeds from sales of securities available for sale	5,814,618	1,588,409
Proceeds from redemption of FHLB stock	127,600	86,000
(Increase) in interest-bearing deposits with banks	(3,058,278)	(2,240,410)
Net (increase) in loans	(28,285,695)	(78,029,837)
Purchase of company-owned life insurance	-	(340,000)
Proceeds from sale of equipment	15,000	-
Capital expenditures, net	(405,592)	(1,797,762)
	<hr/>	<hr/>
Cash (Used) by Investing Activities	(32,437,899)	(85,109,624)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	25,425,868	76,129,740
Cash dividends paid	(345,168)	(576,573)
Sale of treasury stock	76,066	308,208
Purchase of treasury stock	(404,460)	(6,000)
Payments to FHLB	(242,901)	(336,679)
Issuance costs paid on borrowings	(100,000)	-
Borrowings from other banks	10,000,000	-
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Cash Provided by Financing Activities	34,409,405	75,518,696
(DECREASE) IN CASH, net	(897,499)	(4,229,142)
CASH AND CASH EQUIVALENTS, beginning of year	9,931,499	14,160,641
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 9,034,000</u></u>	<u><u>\$ 9,931,499</u></u>

The accompanying notes are an integral part of these financial statements.

FRANKEWING BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2023 and 2022

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Total Stockholders' Equity
Balance at December 31, 2021	\$ 1,907,850	\$ (369,675)	\$ 1,186,003	\$ 39,068,788	\$ (101,122)	\$ 41,691,844
Comprehensive income:						
Net income 2022	-	-	-	4,415,221	-	4,415,221
Change in unrealized gains (losses) on AFS securities, net of tax	-	-	-	-	(3,092,163)	(3,092,163)
Less reclassification adjustment, net of income tax (benefit) of (\$1,724)	-	-	-	-	4,872	4,872
Total comprehensive income						1,327,930
Sale of treasury stock	-	224,926	83,282	-	-	308,208
Purchase of treasury stock	-	(6,000)	-	-	-	(6,000)
Cash dividends paid	-	-	-	(576,573)	-	(576,573)
Balance at December 31, 2022	1,907,850	(150,749)	1,269,285	42,907,436	(3,188,413)	42,745,409
Comprehensive income (loss):						
Net income (loss) 2023	-	-	-	(2,258,062)	-	(2,258,062)
Change in unrealized gains (losses) on AFS securities, net of tax	-	-	-	-	501,369	501,369
Less reclassification adjustment, net of income tax (benefit) of (\$28,130)	-	-	-	-	79,503	79,503
Total comprehensive income (loss)						(1,677,190)
Sale of treasury stock	-	45,620	30,446	-	-	76,066
Purchase of treasury stock	-	(404,460)	-	-	-	(404,460)
Cash dividends paid	-	-	-	(345,168)	-	(345,168)
Balance at December 31, 2023	<u>\$ 1,907,850</u>	<u>\$ (509,589)</u>	<u>\$ 1,299,731</u>	<u>\$ 40,304,206</u>	<u>\$ (2,607,541)</u>	<u>\$ 40,394,657</u>

The accompanying notes are an integral part of these financial statements.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

Frankewing Bancshares, Inc., through its bank subsidiary provides domestic financial services in Giles, and Lawrence Counties in Tennessee and Madison County in Alabama, to customers who are predominantly small and middle-market businesses and low to middle income individuals. The accounting and reporting policies of the Corporation and its bank subsidiary conform to accounting principles generally accepted in the United States of America and to general practices within the financial services industry. A description of the significant accounting policies is presented below.

Accounting Standards Codification —The Accounting Standards Codification ("ASC"), also known collectively as the "Codification," issued by the Financial Accounting Standards Board ("FASB") is considered the single source of authoritative U. S. GAAP accounting and reporting standards.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements and notes thereto include the accounts of Frankewing Bancshares, Inc., and its wholly-owned subsidiary, Bank of Frankewing, Inc., (collectively referred to herein as the "Bank" or "Corporation"). All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to determination of the allowance for credit losses and fair values of financial instruments.

Statements of Cash Flows

For the purpose of the consolidated statement of cash flows, the Corporation considers cash equivalents as those amounts included in the balance sheet captions cash and due from banks and federal funds sold. The Corporation maintains deposits in excess of the Federal insurance amounts with other financial institutions. Management makes deposits only with financial institutions it considers financially sound. Cash flows from operating activities reflect interest paid of \$10,235,192 and \$3,161,748 and income taxes paid of \$1,438,938 and \$1,295,474 for the years ended December 31, 2023 and 2022, respectively.

Interest-Bearing Deposits with Other Banks

Interest-bearing balances with other banks mature within six years and are carried at cost.

Securities

Securities are classified at the time of purchase as available for sale. Securities available for sale represent those securities intended to be held for an indefinite period, including securities that management intends to use as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital or other similar factors. Securities available for sale are carried at fair value. Unrealized holding gains and losses for available for sale securities are reported, net of tax, in other comprehensive income. The amortized cost of all securities is adjusted for amortization of premium and accretion of discount to maturity, or earlier call date if appropriate. Such amortization and accretion is included in interest income from securities. Gains and losses from sales of available for sale securities are computed using the specific identification method.

For available-for-sale debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments, performance on any underlying collateral, and adverse conditions specifically related to the security, among other factors. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities (Continued)

value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

Accrued interest receivable on available-for-sale debt securities totaled \$182,876 at December 31, 2023 and is excluded from the estimate of credit losses.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of unearned income and deferred loan fees and costs. Loan origination and commitment fees, net of certain direct origination costs, are deferred and recognized in interest income using a method to approximate the level-yield method without anticipating prepayments. Interest income on loans is accrued based on the unpaid principal balance. Accrued interest receivable related to loans totaled \$2,964,700 at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Allowance for Credit Losses

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. 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, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified the following portfolio segments and perceived risks for each:

Commercial and Industrial loans include loans for commercial or industrial purposes to business enterprises that are not secured by real estate. Commercial and Industrial loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business. Commercial and Industrial loans are generally secured by accounts receivable, inventory and equipment. The collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. The Bank seeks to minimize these risks through its underwriting standards.

Agricultural loans include loans to finance agricultural production and other loans to farmers that are not secured by real estate. Loans to farmers are subject to the inherent risks in farming, such as unpredictable weather and market prices for goods produced from farming operations.

Residential Real Estate loans include loans secured by residential real estate, including single-family and multi-family dwellings. Mortgage title insurance and hazard insurance are normally required. Adverse economic conditions in the Bank's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.

Construction Real Estate loans include loans to finance the process of improving land preparatory to erecting new structures or the on-site construction of industrial, commercial, residential or farm buildings. Construction and land development loans also include loans secured by vacant land, except land known to be used or usable for agricultural purposes. Construction loans generally are made for relatively short terms. They generally are more vulnerable to changes in economic conditions. Further, the nature of these loans is such that they are more difficult to evaluate and monitor. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost of the project. Periodic site inspections are made on construction loans.

Commercial Real Estate loans include loans secured by non-residential real estate, including farmland and improvements thereon. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions may affect the repayment ability of these loans.

Consumer loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate. Consumer loans are generally secured by vehicles and other household goods. The collateral securing consumer loans may depreciate over time. The Bank seeks to minimize these risks through its underwriting standards.

Other loans include but are not limited to loans to states and political subdivisions in the U.S. Loans to states and political subdivisions are generally subject to the risk that the borrowing municipality or political subdivision may lose a significant portion of its tax base or that the project for which the loan was made may produce inadequate revenue.

For each pool, the Bank determines its average historical loss rate using data from the past twenty years. The expected remaining life of each pool is determined using a weighted average methodology adjusted for expected prepayment considerations. The average annual charge off rate is applied to this remaining term to determine the unadjusted historical charge-off rate for the expected remaining life of each pool.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and current and future economic conditions not already captured with immediate reversion to historical loss information for future periods beyond which the Bank is able to make or obtain reasonable and supportable forecasts.

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

Allowance for Credit Losses - Unfunded Commitments

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

The Bank records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Bank's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for credit losses - unfunded commitments is included in other liabilities on the Bank's consolidated balance sheets.

Mortgage Banking

The Bank originates mortgage loans and sells them to third party investors such as PennyMac Correspondent, Amerihome Mortgage, Planet Home Loans, the Money Source, First Community Bank, Renasant Bank, and Capital Mortgage Services. These loans comply with Fannie Mae, Freddie Mac, the Federal Housing Administration, Veterans Affairs, or USDA Agency guidelines along with others that comply with the Non QM Guidelines. These loans are funded in two ways: (1) directly through the secondary market as brokered transactions or (2) with the Bank's funds as correspondent transactions. The ones funded with the Bank's funds are booked as mortgage loans held for sale until the third-party investor purchases the loans from the Bank. These loans are carried at the lower of amortized cost or fair value, as determined by outstanding commitments from investors. All sales are made without recourse. The Bank does not securitize mortgage loans and does not retain servicing for loans sold. The Bank processed 173 loans totaling \$45,855,059 and brokered 10 loans totaling \$2,429,954 in 2023 and processed 49 loans totaling \$11,694,418 in 2022. The Bank recognized income from commissions of \$298,930 and \$196,603 for the years ending December 31, 2023 and 2022, respectively. The Bank recognized a gain on mortgage loans held for sale of \$1,081,602 and \$18,192 for the years ending December 31, 2023 and 2022, respectively. The Bank had loans totaling \$8,105,532 and \$0- held for sale as of December 31, 2023 and 2022.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgage Banking Derivatives

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market are accounted for as non-designated derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair values of the derivatives are included in net gains on sales of loans.

Other Real Estate Owned

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value as discussed later in a separate note. Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by independent appraisers whose qualifications have been reviewed and verified by the Bank. At December 31, 2023, the Bank's recorded investment in consumer mortgage loans secured by residential real estate properties where formal foreclosure procedures were in process was \$-0-.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line and various accelerated methods at rates calculated to amortize the cost of the assets over their estimated useful lives. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Estimated useful lives are twenty five to thirty nine years for premises and related components and five to ten years for equipment. No interest expense was capitalized in 2023 or 2022 related to major additions.

Company-Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Company-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Long-Lived Assets

The Corporation reviews long-lived assets (including foreclosed assets) and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Corporation has recognized impairment losses related to its long-lived assets as further described in Note N.

Income Taxes

The provision for income taxes is based on the income reported for financial statement purposes (after exclusion of non-taxable income such as interest on state and municipal securities, if any). It includes deferred taxes resulting from the recognition of certain revenues and expenses in different periods for tax reporting purposes. The current income tax provision approximates taxes to be paid or refundable for the applicable period. Balance sheet amounts for deferred taxes are recognized on the temporary differences between the basis of assets and liabilities as measured by tax laws and their basis as reported in the financial statements.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Bank follows the provisions of ASC 740-10 *Income Taxes*, including guidance previously known as FASB Interpretation FIN 48, *Accounting for Uncertainty in Income Taxes*. This guidance provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Accordingly, the Bank may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based upon the largest benefit that has a greater than 50% likelihood of being realized upon the ultimate settlement. This guidance also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures.

The Bank recognizes interest and/or penalties related to income tax matters in the provision for income taxes. The Bank is subject to U.S. Federal income tax as well as income tax of the State of Tennessee. The Bank is no longer subject to examination by U.S. Federal and Tennessee taxing authorities for the years before 2020.

Advertising Costs

The Corporation expenses the costs of advertising when these costs are incurred.

Segments of an Enterprise and Related Information

The Corporation operates in only one operating segment (banking). Therefore, no additional segment financial information or disclosures are presented.

Compensated Absences

The Bank provides paid time off (PTO) benefits to employees. Any accumulated benefits are forfeited in the event of termination or resignation except in the case of retirement of employees over 60 years of age. Except for amounts obligated for retirement of employees over 60 years or amounts eligible for buyback per policy, the costs of benefits are recorded as a charge to expense when paid. A liability of \$170,136 and \$192,052 has been recorded as of December 31, 2023 and 2022, respectively for these benefits.

Comprehensive Income

Comprehensive income includes net income and all other changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income includes revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. Comprehensive income and accumulated other comprehensive income are reported net of related income taxes.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not anticipate that the ultimate liability arising from litigation outstanding at December 31, 2023 will have a material adverse effect on the financial statements.

Restrictions on Cash

On March 15, 2020, the Federal Reserve Board reduced reserve requirement ratios to zero percent, eliminating reserve requirements for all depository institutions, effective March 26, 2020.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to stockholders. These restrictions pose no practical limit on the ability of the Bank and holding company to pay dividends at historical levels.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note herein. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Other Investments

The Bank maintains equity investments with certain entities in which it has an ongoing business relationship i.e., Federal Home Loan Bank ("FHLB"). The Bank has determined that it is not practicable to estimate the fair value of the FHLB investment. This investment is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. These investments are included in the accompanying balance sheets in other assets.

Concentration of Credit Risk

Most of the Bank's business activity is with customers located within Giles, Lawrence, and adjacent counties in Tennessee and northern Alabama. Therefore, the Bank's exposure to credit risk is significantly affected by changes in the economy in these areas.

New Accounting Standard

On January 1, 2023, the Bank 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 debt 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. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, net investments in leases and off-balance-sheet (OBS) 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 adoption of ASC 326 had an insignificant impact on the Bank's assets and OBS credit exposures; therefore, no adjustment was recorded to retained earnings as of January 1, 2023 for the cumulative effect of adopting ASC 326.

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

Reclassifications

Certain reclassifications have been made in the 2022 financial statements to conform to the 2023 financial statements presentation. Such reclassifications had no effect on the results of operations as previously reported.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B - SECURITIES

The following is a summary of the amortized cost and estimated fair value of securities available for sale as of December 31:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2023</u>				
U.S. Government agencies	\$ 15,874,482	\$ 1,491	\$ 1,461,994	\$ 14,413,979
Commercial mortgage backed securities	253,867	-	314	253,553
Mortgage backed securities	4,311,286	3,839	169,264	4,145,861
State and municipal	12,333,975	9,134	1,270,845	11,072,264
State and municipal - taxable	5,002,755	2,296	640,650	4,364,401
TOTAL	<u>\$ 37,776,365</u>	<u>\$ 16,760</u>	<u>\$ 3,543,067</u>	<u>\$ 34,250,058</u>
<u>2022</u>				
U.S. Government agencies	\$ 14,638,500	\$ -	\$ 1,823,637	\$ 12,814,863
Mortgage backed securities	1,791,694	-	141,172	1,650,522
State and municipal	15,438,014	52	1,570,570	13,867,496
State and municipal - taxable	5,299,573	-	780,922	4,518,651
TOTAL	<u>\$ 37,167,781</u>	<u>\$ 52</u>	<u>\$ 4,316,301</u>	<u>\$ 32,851,532</u>

There is no allowance for credit losses on available for sale securities.

The following is a summary of the amortized cost and estimated fair value of securities by contractual maturity as of December 31, 2023:

	Cost	Fair Value
Due in less than one year	\$ 749,219	\$ 735,876
Due after one year through five years	15,079,355	14,071,276
Due after five years through ten years	12,466,912	10,994,286
Due after ten years	9,480,879	8,448,620
TOTAL	<u>\$ 37,776,365</u>	<u>\$ 34,250,058</u>

At year end 2023 and 2022, there were no holdings of securities of any one issuer, other than U.S. Government agencies, in an amount greater than 10% of shareholders' equity.

At December 31, 2023, the Bank had \$32,114,801 of investments with \$3,543,067 of unrealized losses on these investments. \$2,761,755 of these investments with \$49,492 of unrealized losses had been at a loss position for less than 12 months. \$29,353,046 of these investments with \$3,493,575 of unrealized losses had been at a loss for 12 months or longer. The Bank believes that these securities are only temporarily impaired and that the full principal will be collected as anticipated. Of the total, \$13,931,180 or 43% is guaranteed by the U.S. Government or its agencies. As of December 31, 2023, \$10,910,332 or 34% are obligations of states or political subdivisions, \$4,135,569 or 13% are taxable obligations of states or political subdivisions, \$253,554 or 1% are commercial mortgage-backed securities, and \$2,884,166 or 9% are mortgage-backed securities. The primary cause for unrealized losses within the portfolio is the impact movements in market rates have had in comparison to the underlying yields on these securities.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B – SECURITIES (CONTINUED)

The tables below summarize the Bank's investments which were at an unrealized loss position as of December 31, 2023 and 2022.

<u>2023</u> <u>Description of Securities</u>	<u># of securities</u>	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
		<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U. S. Government agencies	39	\$ 748,579	\$ 1,421	\$ 13,182,601	\$ 1,460,572	\$ 13,931,180	\$ 1,461,993
Commercial mortgage backed securities	1	253,554	314	-	-	253,554	314
Mortgage backed securities	6	1,355,928	31,743	1,528,238	137,521	2,884,166	169,264
Obligations of states and political subdivisions	59	202,591	6,769	10,707,741	1,264,077	10,910,332	1,270,846
Obligations of states and political subdivisions - taxable	12	201,103	9,245	3,934,466	631,405	4,135,569	640,650
Total Temporarily Impaired Securities	117	\$ 2,761,755	\$ 49,492	\$ 29,353,046	\$ 3,493,575	\$ 32,114,801	\$ 3,543,067

<u>2022</u> <u>Description of Securities</u>	<u># of securities</u>	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
		<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U. S. Government agencies	37	\$ 1,659,887	\$ 44,741	\$ 11,154,976	\$ 1,778,896	\$ 12,814,863	\$ 1,823,637
Mortgage backed securities	5	1,318,443	75,877	332,079	65,294	1,650,522	141,171
Obligations of states and political subdivisions	75	6,206,511	537,127	7,656,243	1,033,443	13,862,754	1,570,570
Obligations of states and political subdivisions - taxable	14	670,475	38,519	3,848,176	742,404	4,518,651	780,923
Total Temporarily Impaired Securities	131	\$ 9,855,316	\$ 696,264	\$ 22,991,474	\$ 3,620,037	\$ 32,846,790	\$ 4,316,301

Net gains realized from securities transactions for 2023 and 2022 were as follows:

<u>2023</u>	<u>Proceeds</u>		<u>Gross Realized</u>		<u>Net Realized</u>
		<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	
Securities matured or called	\$ 146,052	\$ 146,052	\$ -	\$ -	\$ -
Securities sold	5,814,618	5,922,251	5,120	112,753	(107,633)
TOTAL	\$ 5,960,670	\$ 6,068,303	\$ 5,120	\$ 112,753	\$ (107,633)

<u>2022</u>	<u>Proceeds</u>		<u>Gross Realized</u>		<u>Net Realized</u>
		<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	
Securities matured or called	\$ 593,709	\$ 594,251	\$ 316	\$ 858	\$ (542)
Securities sold	1,588,409	1,594,463	2,422	8,476	(6,054)
TOTAL	\$ 2,182,118	\$ 2,188,714	\$ 2,738	\$ 9,334	\$ (6,596)

Income tax expense (benefit) attributable to securities transactions was (\$28,130) and (\$1,724) for 2023 and 2022, respectively. Securities with a carrying value of \$15,225,000 and \$10,100,000 as of December 31, 2023 and 2022, respectively, were pledged to secure public monies and for other purposes as required or permitted by law.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES

A summary of major classifications of loans as of December 31 are as follows:

<u>Loan Classification</u>	<u>2023</u>	<u>2022</u>
Commercial and industrial	\$ 46,651,501	\$ 64,831,758
Agricultural	8,733,053	9,664,200
Real estate - residential	128,938,614	117,925,158
Real estate - construction and development	57,389,187	49,927,503
Real estate - commercial	148,061,862	130,631,716
Consumer	16,670,652	15,344,265
Other loans	<u>2,387,120</u>	<u>2,527,795</u>
	408,831,989	390,852,395
Less unearned income and deferred fees, net	<u>(1,391,385)</u>	<u>(1,233,399)</u>
	407,440,604	389,618,996
Allowance for credit losses	<u>(4,714,236)</u>	<u>(5,981,531)</u>
TOTAL	<u>\$ 402,726,368</u>	<u>\$ 383,637,465</u>

The Bank has provided a blanket pledge of first mortgage loans against single family, 1-4 unit residential properties, included in real estate - residential loans in the table above, to secure any advances from FHLB as described in Note K.

Certain related parties (principally directors and officers, including their families and companies in which they are principal owners) were loan customers of the Bank during 2023 and 2022. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than a normal risk of collectability.

The following table summarizes activity for these loans for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ 3,518,000	\$ 3,227,000
Additions	1,966,000	2,182,000
Repayments	<u>(1,818,000)</u>	<u>(1,891,000)</u>
Balance at end of year	<u>\$ 3,666,000</u>	<u>\$ 3,518,000</u>
Total including undisbursed commitments to extend credit to related parties, end of year	<u>\$ 4,159,000</u>	<u>\$ 3,932,000</u>

The Bank's loan portfolio is diversified by type of credit risk. However, the ability of its customers to honor their contracts is to some extent dependent upon their regional economic condition. In order to mitigate the impact of credit risk, management strives to identify loans having trouble early enough to correct the problems and to maintain an allowance for credit losses to cover inherent losses in the loan portfolio.

The table below summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023 under the CECL methodology.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

	Commercial		Real Estate					
2023	& Industrial	Agricultural	Residential	Construction	Commercial	Consumer	Other	Total
Beginning balance	\$ 1,369,837	\$ 114,581	\$ 1,925,620	\$ 291,232	\$ 2,061,487	\$ 191,713	\$ 27,061	\$ 5,981,531
Charge offs	(10,319,915)	-	-	-	-	(221,824)	-	(10,541,739)
Recoveries	18,046	-	15,681	-	6,544	37,381	-	77,652
Provision	10,410,261	154,196	(877,730)	764,366	(1,326,625)	48,507	23,817	9,196,792
Ending Balance	\$ 1,478,229	\$ 268,777	\$ 1,063,571	\$ 1,055,598	\$ 741,406	\$ 55,777	\$ 50,878	\$ 4,714,236

There were two significant borrower relationships negatively impacted by circumstances specific to their businesses which resulted in abnormally high charge off amounts in the current year.

Prior to the adoption of ASC 326 on January 1, 2023, the Bank calculated the allowance for credit losses under the incurred loss methodology. The following tables are disclosures related to the allowance for credit losses in prior periods.

	Commercial		Real Estate					
2022	& Industrial	Agricultural	Residential	Construction	Commercial	Consumer	Other	Total
Beginning balance	\$ 1,048,546	\$ 117,728	\$ 1,475,871	\$ 324,886	\$ 1,915,552	\$ 206,623	\$ 49,904	\$ 5,139,110
Charge offs	(1,907)	-	-	-	(4,140)	(71,558)	-	(77,605)
Recoveries	41,463	-	62,109	-	4,328	37,126	-	145,026
Provision	281,735	(3,147)	387,640	(33,654)	145,747	19,522	(22,843)	775,000
Ending Balance	\$ 1,369,837	\$ 114,581	\$ 1,925,620	\$ 291,232	\$ 2,061,487	\$ 191,713	\$ 27,061	\$ 5,981,531

Ending allowance

balance attributable:

Individually evaluated

for impairment	\$ 519,091	\$ -	\$ 98,831	\$ -	\$ -	\$ -	\$ -	\$ 617,922
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Collectively evaluated

for impairment	850,746	114,581	1,826,789	291,232	2,061,487	191,713	27,061	5,363,609
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Total ending balance	<u>\$ 1,369,837</u>	<u>\$ 114,581</u>	<u>\$ 1,925,620</u>	<u>\$ 291,232</u>	<u>\$ 2,061,487</u>	<u>\$ 191,713</u>	<u>\$ 27,061</u>	<u>\$ 5,981,531</u>
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Ending loan balance:

Individually evaluated

for impairment	\$ 870,931	\$ -	\$ 277,750	\$ -	\$ 1,777,530	\$ -	\$ -	\$ 2,926,211
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Collectively evaluated

for impairment	63,960,827	9,664,200	117,647,408	49,927,503	128,854,186	15,344,265	2,527,795	387,926,184
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Total ending balance	<u>\$ 64,831,758</u>	<u>\$ 9,664,200</u>	<u>\$ 117,925,158</u>	<u>\$ 49,927,503</u>	<u>\$ 130,631,716</u>	<u>\$ 15,344,265</u>	<u>\$ 2,527,795</u>	<u>\$ 390,852,395</u>
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Impaired Loan Disclosure (Prior Periods)

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable that the Bank would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Bank would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Bank considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The Bank individually assessed for impairment all loans graded substandard or doubtful in excess of \$250,000 and all troubled debt restructurings. The tables below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2022:

<u>2022</u>	<u>Unpaid Principal Balance</u>	<u>Loan Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial and Industrial	\$ -	\$ -	\$ -	\$ -	\$ -
Agricultural	-	-	-	-	-
Real Estate:					
Residential	48,419	48,419	-	51,347	2,049
Construction	-	-	-	-	-
Commercial	1,777,530	1,777,530	-	2,697,735	81,823
Consumer	-	-	-	-	-
Other	-	-	-	-	-
With an allowance recorded:					
Commercial and Industrial	870,931	870,931	519,091	998,836	33,295
Agricultural	-	-	-	-	-
Real Estate:					
Residential	229,331	229,331	98,831	114,666	9,261
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Other	-	-	-	-	-
Totals:					
Commercial and Industrial	870,931	870,931	519,091	998,836	33,295
Agricultural	-	-	-	-	-
Real Estate:					
Residential	277,750	277,750	98,831	166,013	11,310
Construction	-	-	-	-	-
Commercial	1,777,530	1,777,530	-	2,697,735	81,823
Consumer	-	-	-	-	-
Other	-	-	-	-	-
Total	<u>\$ 2,926,211</u>	<u>\$ 2,926,211</u>	<u>\$ 617,922</u>	<u>\$ 3,862,584</u>	<u>\$ 126,428</u>

The average investment in nonaccrual loans was \$494,048 for 2022. Interest income not recognized on nonaccrual loans was \$-0- in 2022. The following table presents an analysis of past-due loans as of December 31, 2023:

<u>2023</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More and Still Accruing</u>	<u>Nonaccrual Loans</u>	<u>Current Loans</u>	<u>Total Loans</u>
Commercial and Industrial	\$ 271,273	\$ -	\$ 3,651,244	\$ 42,728,984	\$ 46,651,501
Agricultural	4,722	-	-	8,728,331	8,733,053
Real Estate:					
Residential	1,033,856	-	65,003	127,839,755	128,938,614
Construction	337,622	-	-	57,051,565	57,389,187
Commercial	1,028,399	-	17,512,377	129,521,086	148,061,862
Consumer	133,719	14,831	-	16,522,102	16,670,652
Other	-	-	-	2,387,120	2,387,120
Total	<u>\$ 2,809,591</u>	<u>\$ 14,831</u>	<u>\$ 21,228,624</u>	<u>\$ 384,778,943</u>	<u>\$ 408,831,989</u>

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table presents an analysis of past-due loans as of December 31, 2022:

<u>2022</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More and Still Accruing</u>	<u>Nonaccrual Loans</u>	<u>Current Loans</u>	<u>Total Loans</u>
Commercial and Industrial	\$ 3,358,253	\$ 796,977	\$ -	\$ 60,676,528	\$ 64,831,758
Agricultural	-	-	-	9,664,200	9,664,200
Real Estate:					
Residential	275,811	70,898	-	117,578,449	117,925,158
Construction	113,307	-	-	49,814,196	49,927,503
Commercial	1,111,451	1,291,005	-	128,229,260	130,631,716
Consumer	99,248	-	-	15,245,017	15,344,265
Other	-	-	-	2,527,795	2,527,795
Total	<u>\$ 4,958,070</u>	<u>\$ 2,158,880</u>	<u>\$ -</u>	<u>\$ 383,735,445</u>	<u>\$ 390,852,395</u>

The following table is a summary of the Bank's nonaccrual loans by major categories for the periods indicated:

<u>December 31, 2023</u>					
	<u>Nonaccrual Loans with No Allowance</u>	<u>Nonaccrual Loans with an Allowance</u>	<u>Total Nonaccrual Loans</u>	<u>Loans past due over 90 days still accruing</u>	
Commercial and Industrial	\$ 3,651,245	\$ -	\$ 3,651,245	\$ -	-
Agricultural	-	-	-	-	-
Real Estate:					
Residential	65,003	-	65,003	-	-
Construction	-	-	-	-	-
Commercial	13,272,092	4,240,284	17,512,376	-	-
Consumer	-	-	-	-	14,831
Other	-	-	-	-	-
Total	<u>\$ 16,988,340</u>	<u>\$ 4,240,284</u>	<u>\$ 21,228,624</u>	<u>\$ 14,831</u>	<u>-</u>

The Bank recognized \$-0- of interest income on nonaccrual loans during the year ended December 31, 2023.

The following table represents the accrued interest receivable written off by reversing interest income during the year ended December 31, 2023:

	<u>For the Year Ended December 31, 2023</u>
Commercial and Industrial	\$ 151,380
Agricultural	-
Real Estate:	
Residential	436
Construction	-
Commercial	464,290
Consumer	-
Other	-
Total	<u>\$ 616,106</u>

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The Bank designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the Bank designates as having higher risk. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral dependent loans, the Bank has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The following table presents an analysis of collateral-dependent loans by type of collateral as of December 31, 2023:

	Residential <u>Properties</u>	Business <u>Assets</u>	<u>Land</u>	Commercial <u>Property</u>	<u>Other</u>	Total <u>Loans</u>
Commercial and Industrial	\$ -	\$ 376,075	\$ 3,675,862	\$ -	\$ 74,268	\$ 4,126,205
Agricultural	-	-	-	-	-	-
Real Estate:						
Residential	8,452,660	-	-	-	-	8,452,660
Construction	533,912	-	-	3,322,427	-	3,856,339
Commercial	540,478	-	2,320,433	15,470,993	-	18,331,904
Consumer	-	-	-	-	160,453	160,453
Other	-	-	-	-	-	-
Total	<u>\$ 9,527,050</u>	<u>\$ 376,075</u>	<u>\$ 5,996,295</u>	<u>\$ 18,793,420</u>	<u>\$ 234,721</u>	<u>\$ 34,927,561</u>

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification.

In some cases, the Bank will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

The following table shows the amortized cost basis as of December 31, 2023 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

	Interest Rate Reduction		
	Amortized Cost	% of Total Loan	
	<u>Basis</u>	<u>Type</u>	<u>Financial Effect</u>
Commercial and Industrial	\$ -	0%	
Agricultural	-	0%	
			Customer was granted a lower interest rate
Residential real estate	711,268	0.55%	(3.85%) than what was typically being offered.
Construction real estate	-	0%	
			Customer was granted a lower interest rate
Commercial real estate	3,373,000	2.28%	(8.25%) than what was typically being offered.
Consumer	-	0%	
Other	-	0%	
	<u>\$ 4,084,268</u>		

Upon the Bank's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

The following table provides the amortized cost basis of loans that had a payment default during the period and were modified in the 12 months before default to borrowers experiencing financial difficulty:

Amortized Cost Basis of Modified Loans
That Subsequently Defaulted

	Interest Rate
	<u>Reduction</u>
Commercial and Industrial	\$ -
Agricultural	-
Residential real estate	711,268
Construction real estate	-
Commercial real estate	3,373,000
Consumer	-
Other	-
Total	<u>\$ 4,084,268</u>

The Bank closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months:

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

		<u>Payment Status (Amortized Cost Basis)</u>		
		30-89 Days Past		90+ Days Past
	<u>Current</u>	<u>Due</u>		<u>Due</u>
Commercial and Industrial	\$ -	\$ -	\$ -	-
Agricultural	-	-	-	-
Residential real estate	711,268	-	-	-
Construction real estate	-	-	-	-
Commercial real estate	-	-	-	3,373,000
Consumer	-	-	-	-
Other	-	-	-	-
Total	<u>\$ 711,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,373,000</u>

During previous years, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk, or a permanent reduction of the recorded investment in the loan. No loans were modified as troubled debt restructurings during the year ended December 31, 2022.

The Bank has allocated \$- of specific reserves to customers whose loan terms have been modified in troubled debt restructures as of December 31, 2023 and 2022. The Bank has not committed to lend any additional amounts as of December 31, 2023 and 2022 to customers with outstanding loans that have been classified as troubled debt restructures.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. This evaluation is performed under the Bank's internal underwriting policy.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. The Bank uses the following definitions for risk ratings, which are updated annually.

Marginal/Workout. Loans classified as marginal/workout have a potential weakness that deserves management's close attention. These loans would score less than acceptable in more than one of the factors mentioned above.

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

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

Loans not meeting the criteria above that are analyzed individually as part of the described process are termed "pass" rated loans. An analysis of loans by risk category is performed quarterly. The following tables present the Bank's recorded investment in loans by credit quality indicators as of December 31, 2023 and 2022:

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

<u>2023</u>	<u>Pass</u>	<u>Marginal Workout</u>	<u>Substandard</u>	<u>Doubtful</u>
Commercial and Industrial	\$ 39,376,686	\$ 3,439,123	\$ 3,835,691	\$ -
Agricultural	7,074,884	1,657,629	540	-
Real Estate:				
Residential	113,952,258	13,520,940	1,465,416	-
Construction	50,566,191	6,289,085	533,912	-
Commercial	123,065,118	14,693,675	10,303,068	-
Consumer	15,950,831	529,583	190,239	-
Other	2,387,120	-	-	-
Total	<u>\$ 352,373,088</u>	<u>\$ 40,130,035</u>	<u>\$ 16,328,866</u>	<u>\$ -</u>
<u>2022</u>	<u>Pass</u>	<u>Marginal Workout</u>	<u>Substandard</u>	<u>Doubtful</u>
Commercial and Industrial	\$ 59,265,916	\$ 4,680,546	\$ 885,296	\$ -
Agricultural	8,249,417	1,414,783	-	-
Real Estate:				
Residential	112,061,961	5,174,567	688,630	-
Construction	47,485,416	2,442,087	-	-
Commercial	118,183,316	10,105,412	2,342,988	-
Consumer	14,753,774	550,598	39,893	-
Other	2,527,795	-	-	-
Total	<u>\$ 362,527,595</u>	<u>\$ 24,367,993</u>	<u>\$ 3,956,807</u>	<u>\$ -</u>

The Bank maintains a separate reserve for credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheets. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Bank's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. The Bank has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Bank can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Bank or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

For the year ended December 31, 2023, the Bank recorded a provision for credit losses for unfunded commitments of \$828,208. At December 31, 2023, the liability for credit losses on off-balance-sheet credit exposures included in other liabilities was \$828,208.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE D - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31:

	<u>Cost</u>	<u>Accumulated Depreciation/ Amortization</u>	<u>Carrying Amount</u>
<u>2023</u>			
Land	\$ 2,169,573	\$ -	\$ 2,169,573
Construction work in process	16,152	-	16,152
Building	12,698,825	3,397,055	9,301,770
Equipment	<u>4,081,447</u>	<u>2,475,546</u>	<u>1,605,901</u>
	<u>\$ 18,965,997</u>	<u>\$ 5,872,601</u>	<u>\$ 13,093,396</u>
<u>2022</u>			
Land	\$ 2,169,573	\$ -	\$ 2,169,573
Building	12,562,908	3,058,089	9,504,819
Equipment	<u>3,910,334</u>	<u>2,157,585</u>	<u>1,752,749</u>
	<u>\$ 18,642,815</u>	<u>\$ 5,215,674</u>	<u>\$ 13,427,141</u>

Depreciation expense totaled \$726,766 and \$586,474 for 2023 and 2022, respectively.

NOTE E - OTHER ASSETS

The following is a summary of other assets as of December 31:

	<u>2023</u>	<u>2022</u>
Federal Home Loan Bank stock, at cost	\$ 412,700	\$ 540,300
Prepaid expense	494,289	429,238
Interest rate lock derivative (at fair value)	288,131	-
Other	<u>75,707</u>	<u>146,699</u>
	<u>\$ 1,270,827</u>	<u>\$ 1,116,237</u>

NOTE F - DEPOSITS

The following is a summary of deposits as of December 31:

	<u>2023</u>	<u>2022</u>
Noninterest bearing:		
Demand	\$ 96,339,033	\$ 98,133,265
Interest bearing:		
Demand	23,934,409	22,877,384
Savings and money market	70,450,235	79,827,416
Other time deposits	194,459,230	154,924,659
Certificates of deposit greater than \$250,000	<u>86,263,252</u>	<u>90,257,567</u>
	<u>\$ 471,446,159</u>	<u>\$ 446,020,291</u>

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE F - DEPOSITS (CONTINUED)

The aggregate maturities of time deposits as of December 31, 2023 are summarized as follows:

Time Deposits:

Due in one year or less	\$ 213,254,695
Due after one year through three years	51,398,044
Due after three years	<u>16,069,743</u>
	<u>\$ 280,722,482</u>

Overdraft deposits of \$144,883 and \$155,698 have been reclassified to loans at December 31, 2023 and 2022, respectively.

Deposits held by principal officers, directors, and their affiliates as of year-end 2023 and 2022 were approximately \$7,024,000 and \$6,070,000, respectively.

NOTE G - INCOME TAXES

The following is a summary of the components of income taxes (benefits) for the years ended December 31:

Current:	<u>2023</u>	<u>2022</u>
Federal	\$ (6,568)	\$ 1,104,033
State	<u>-</u>	<u>386,235</u>
	<u>(6,568)</u>	<u>1,490,268</u>
Deferred:		
Federal	125,775	(44,002)
State	<u>41,636</u>	<u>(14,567)</u>
	<u>167,411</u>	<u>(58,569)</u>
Benefits of net operating loss carryforwards		
Federal	(858,112)	-
State	<u>(267,238)</u>	<u>-</u>
	<u>(1,125,350)</u>	<u>-</u>
Provision (benefit) for income taxes	<u>\$ (964,507)</u>	<u>\$ 1,431,699</u>

Income taxes varied from the amount computed at the statutory federal income tax rate for December 31 as reflected below:

	<u>2023</u>	<u>2022</u>
Federal taxes at statutory rate	\$ (676,739)	\$ 1,227,853
Increase (decrease) resulting from tax effect of:		
State income taxes, net of federal benefit	(179,231)	293,618
Tax exempt income	(110,800)	(120,257)
Other, net	<u>2,263</u>	<u>30,485</u>
Provision (benefit) for income taxes	<u>\$ (964,507)</u>	<u>\$ 1,431,699</u>

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE G - INCOME TAXES (CONTINUED)

Significant components of the Bank's net deferred tax assets (liabilities) as of December 31 are as follows:

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Allowance for credit losses	\$ 866,471	\$ 1,037,058
Net unrealized loss on securities	918,766	1,127,836
Net operating loss carryforwards	1,125,350	-
Deferred compensation	<u>46,819</u>	<u>71,285</u>
	2,957,406	2,236,179
Deferred tax liabilities:		
Depreciation	<u>(553,873)</u>	<u>(581,515)</u>
	<u>\$ 2,403,533</u>	<u>\$ 1,654,664</u>

Included in deferred tax assets are tax benefits associated with net operating loss carryforwards totaling \$1,125,350. Of this, the federal portion, \$858,112, does not expire, while the state portion will expire if unused at the end of 2038.

Based on an assessment of all the evidence available at December 31, 2023, management concludes that it is more likely than not that its net deferred tax asset will be realized and, therefore, a valuation allowance is not necessary as of December 31, 2023.

The Corporation has no amounts recorded for unrecognized tax benefits or amounts accrued for interest and penalties for the year ended December 31, 2023.

NOTE H - OTHER OPERATING EXPENSES

The following table summarizes the components of other operating expenses for 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Director's fees	\$ 165,550	\$ 166,550
Director's benefit plan	14,388	20,264
Advertising	332,086	196,407
Professional fees	278,976	203,501
Insurance	111,628	81,240
Other equipment expense	86,788	90,797
Supplies expense	109,587	92,110
Postage and courier expenses	16,298	7,714
Telephone	332,160	279,822
Education	82,483	45,981
Examination and assessment fees	524,465	268,205
Network monitoring expense	191,389	122,276
Mortgage related expenses	193,529	58,685
Other	<u>841,726</u>	<u>698,102</u>
	<u>\$ 3,281,053</u>	<u>\$ 2,331,654</u>

NOTE I - PROFIT SHARING PLAN

The Bank has a non-contributory trustee profit-sharing retirement plan covering all officers and employees of the Bank who are over the age of 21 and have completed three years of service. The Board of Directors determines the amount to be contributed to the plan annually. The plan's annual expense for 2023 and 2022 was \$389,181 and \$367,402, respectively.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE J – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

The following summarizes the Bank's involvement in financial instruments with off-balance-sheet risk as of December 31:

	<u>Contract or Notional Amount</u>	
	<u>2023</u>	<u>2022</u>
Commitments to extend credit - fixed rate	\$ 58,857,430	\$ 55,066,947
Commitments to extend credit - variable rate	15,482,450	12,952,945
Standby letters of credit	1,677,953	1,427,084

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

Collateral held varies but may include certificates of deposits, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

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

NOTE K – OTHER BORROWED FUNDS

The Bank has an agreement with the Federal Home Loan Bank (FHLB) which allows it to borrow against its 1-4 family real estate mortgages. Outstanding advances totaled \$380,458 and \$623,359 at December 31, 2023 and 2022, respectively. Any borrowed funds are secured by a blanket pledge of first mortgage loans against single family, 1-4 unit residential properties subject to examination by FHLB. The Bank has two separate notes outstanding with FHLB. The first note accrues interest at a fixed rate of 1.4% with maturity on July 1, 2025. The second note accrues interest at a fixed rate of 2.72% with maturity on April 1, 2028.

Other borrowings include a \$10,000,000 note payable by the Holding Company to another financial institution. The note accrues interest at a rate of 6.88% and matures on May 18, 2030. The note is secured by Bank stock. Issuance costs incurred are reflected as a direct reduction of this note and are being amortized over the life of the loan. Current year amortization expense is \$8,333 and is included in interest expense on the Consolidated Statements of Income and Comprehensive Income.

Other borrowings on the Consolidated Balance Sheets as of December 31, 2023 and 2022 are as follows:

	December 31, 2023	December 31, 2022
Other Borrowed Funds	\$ 10,000,000	\$ -
Less prepaid issuance costs	(91,667)	-
Total Other Borrowed Funds	<u>\$ 9,908,333</u>	<u>\$ -</u>

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE K - OTHER BORROWED FUNDS (CONTINUED)

The following summarizes the Corporation's borrowed funds maturities as of December 31:

2024	\$ 1,587,001
2025	1,517,485
2026	1,471,735
2027	1,453,742
2028	1,421,923
Thereafter	<u>2,836,905</u>
	<u>\$ 10,288,791</u>

At December 31, 2023 the Bank has unsecured lines of credit of \$14,000,000 for federal fund purchases with a maturity of the next banking day for daylight overdrafts.

The Bank has a depositor agreement with StoneCastle Cash Management, LLC, who offers cash management services as a fiduciary to its customers and acting as an administrator through its Federally Insured Cash Account (FICA). The FICA Funding Network strives to provide banks with an efficient, reliable and proactive way to manage their primary and contingency funding. Via a single standard business money market or savings account, their network provides funding representing hundreds of AML/BSA pre-screened depositors. The Bank determines the funding level that best suits its specific asset and liability strategy. At December 31, 2023, the Bank had a money market account in its deposits in the amount of \$7,927 related to this program.

NOTE L - REGULATORY REQUIREMENTS AND RESTRICTIONS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of its assets, liabilities, and certain off balance-sheet items as calculated under regulatory accounting practices. Its capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Under the General Applicable Rule, quantitative measures established by regulation to ensure capital adequacy require it to maintain minimum amounts and ratios of total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), Common Equity Tier I capital to risk-weighted assets (as defined in the regulations), and Tier I capital to adjusted total assets (as defined). In 2018, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), which directed regulatory agencies to establish the CBLR (Community Bank Leverage Ratio) framework as a simple alternative to assess the capital adequacy of banks with less than \$10 billion in total consolidated assets. The final rule defining the CBLR framework was published in 2019 and became effective January 1, 2020. This allows qualifying community banking organizations to opt into the CBLR framework, thereby removing the requirement to calculate or report risk-based capital. Management has

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE L - REGULATORY REQUIREMENTS AND RESTRICTIONS (CONTINUED)

opted into the CBLR framework and believes it meets all the capital adequacy requirements to which they are subject as of December 31, 2023 and 2022.

The most recent notification from regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, it will have to maintain a minimum Tier I leverage ratio as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed its category.

		For Capital	To Be Well Capitalized
	<u>Actual</u>	<u>Adequacy Purposes</u>	<u>Under Prompt Corrective</u>
As of December 31, 2023			<u>Action Provisions</u>
Amount:			
Tier I Capital	\$ 51,655,875	\$ 48,330,990	\$ 48,330,990
Ratio:			
Tier I Capital			
(to Average Assets)	9.62%	9.00%	9.00%
As of December 31, 2022	<u>Actual</u>	<u>For Capital</u>	<u>To Be Well Capitalized</u>
Amount:		<u>Adequacy Purposes</u>	<u>Under Prompt Corrective</u>
Tier I Capital	\$ 45,235,069	\$ 42,213,960	\$ 42,213,960
Ratio:			
Tier I Capital			
(to Average Assets)	9.64%	9.00%	9.00%

NOTE M - FAIR VALUES OF FINANCIAL INSTRUMENTS

Carrying amounts and estimated fair values of financial instruments were as follows at year-end:

		Fair Value Measurement		
<u>2023</u>	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Cash and cash equivalents	\$ 9,034,000	\$ 9,034,000	\$ -	\$ -
Interest-bearing deposits	40,914,801	40,915,000	-	-
Securities available for sale	34,250,058	-	34,250,000	-
Loans, net	402,726,368	-	-	398,095,000
Derivatives, included in other assets	288,131	-	288,000	-
Restricted equity stock, included				
in other assets	412,700	-	-	412,700
Loans held for sale	8,105,532	-	8,106,000	-
Accrued interest receivable	3,154,874	7,000	183,000	2,965,000
Financial liabilities:				
Deposits	471,446,159	160,322,000	278,227,000	-
Accrued interest payable	600,371	22,000	578,000	-
Off-balance sheet credit-related items:				
Loan commitments	\$ -	\$ -	\$ -	\$ -

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE M – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

<u>2022</u>	<u>Carrying Value</u>	<u>Fair Value Measurement</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Cash and cash equivalents	\$ 9,931,499	\$ 9,931,000	\$ -	\$ -
Interest-bearing deposits	37,856,523	37,857,000	-	-
Securities available for sale	32,851,532	-	32,852,000	-
Loans, net	383,637,465	-	-	380,860,000
Restricted equity stock, included in other assets	540,300	-	-	540,300
Accrued interest receivable	2,269,780	6,000	163,000	2,101,000
Financial liabilities:				
Deposits	446,020,291	169,312,742	237,512,594	-
Accrued interest payable	362,477	12,000	350,000	-
Off-balance sheet credit-related items:				
Loan commitments	\$ -	\$ -	\$ -	\$ -

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, restricted equity stock, loans held for sale, accrued interest receivable and payable, demand deposits, and loans or deposits that reprice frequently and fully, which are classified as Level 1. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer; these are included in Level 2. For loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price. The carrying amounts of the respective accrued interest amounts approximate fair value of the related assets and liabilities classification in Level 1, Level 2, or Level 3. The fair value of off-balance-sheet items is considered nominal.

NOTE N – FAIR VALUE MEASUREMENTS

The Corporation has adopted the provisions of ASC 820-10, *Fair Value Measurements and Disclosures*. Among other things, ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements defined as Level 1 - inputs for quoted market prices for identical assets or liabilities in active markets; Level 2 - inputs include quoted market prices for similar assets and liabilities in active markets and inputs that are observable either directly or indirectly and; Level 3 - inputs that are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value, as well as the general classification of such assets pursuant to the valuation hierarchy. The Bank has no liabilities carried at fair value.

Securities available for sale - The fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy.

Derivatives - The fair values of non-designated derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked and are classified within Level 2 of the valuation hierarchy.

Impaired loans - Impaired loans are classified within Level 3 of the valuation hierarchy.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE N – FAIR VALUE MEASUREMENTS (CONTINUED)

Other real estate - Other real estate is initially recorded at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. Other real estate is included in Level 3 of the valuation hierarchy.

Company-Owned Life Insurance - The carrying amount of the cash surrender value of company-owned life insurance is based on information received from the insurance carriers indicating the financial performance of the policies and the amount the Bank would receive should the policies be surrendered. The Bank reflects these assets within Level 3 of the valuation hierarchy.

Assets measured at fair value on a recurring basis at December 31,

	Fair Value	Quoted Prices in Active Markets for Identical Assets / Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2023</u>				
Available-for-sale securities	\$ 34,250,058	\$ -	\$ 34,250,058	\$ -
Derivatives	288,131	-	288,131	-
Total assets, at fair value	<u>\$ 34,538,189</u>	<u>\$ -</u>	<u>\$ 34,538,189</u>	<u>\$ -</u>
<u>2022</u>				
Available-for-sale securities	\$ 32,851,532	\$ -	\$ 32,851,532	\$ -
Total assets, at fair value	<u>\$ 32,851,532</u>	<u>\$ -</u>	<u>\$ 32,851,532</u>	<u>\$ -</u>

Assets measured at fair value on a nonrecurring basis at December 31,

<u>2023</u>				
Impaired loans (1)	\$ 34,927,561	\$ -	\$ -	\$ 34,927,561
Company-owned life insurance	8,302,193	-	-	8,302,193
	<u>\$ 43,229,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,229,754</u>
<u>2022</u>				
Impaired loans (1)	\$ 2,926,211	\$ -	\$ -	\$ 2,926,211
Company-owned life insurance	8,085,440	-	-	8,085,440
	<u>\$ 11,011,651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,011,651</u>

(1) There were \$34,927,561 and \$2,926,211 in impaired loans measured for impairment using the fair value of the collateral at December 31, 2023 and 2022, respectively, resulting in an additional provision for loan losses of \$473,783 and \$617,922 respectively. There were no impaired loans measured for impairment using the present value of discounted cash flows at December 31, 2023 and 2022. The qualitative information for Level 3 fair value measurement is a valuation technique based on sales comparative approach with adjustments for differences between comparable sales with a discount on appraisal ranging from 10 - 30%.

**FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE O - COMMITMENTS AND CONTINGENCIES

The Bank is committed under a noncancelable operating lease for office equipment. Lease expenditures under this operating lease totaled \$2,618 for the years ended December 31, 2023 and 2022. The Bank's lease liability as calculated under FASB ASU No. 2016-02 was determined to be immaterial to the financial statements.

In addition, the Bank has outsourced its ATM services. Under these agreements, the Bank pays a branding fee to allow its advertising on the machines.

The Bank's total commitment under leasing and outsourcing arrangements totaled \$318,351 at December 31, 2023.

NOTE P - REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within Other (non-interest) Income. The table below presents the Bank's sources of Other Income for the years ended December 31, 2023 and 2022. Items outside the scope of ASC 606 are noted as such.

<u>Other Income</u>	<u>2023</u>	<u>2022</u>
Service charges on deposit accounts	\$ 510,823	\$ 515,481
Interchange income	916,773	848,342
Gain on sale of mortgage loans (a)	1,081,602	18,192
Service charges and fees - mortgage	318,014	14,606
Other service charges and fees	478,223	415,308
Dividends (a)	64,172	47,903
Security gains (losses), net (a)	(107,633)	(6,596)
Gain (loss) on disposition of assets, net (a)	2,429	-
Income from company-owned life insurance (a)	216,753	195,073
	<u>\$ 3,481,156</u>	<u>\$ 2,048,309</u>

(a) Not within the scope of ASC 606.

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

Service Charges on Deposit Accounts: The Bank earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income: The Bank earns interchange fees from debit/credit cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Investment Brokerage Fees (Net): The Bank earns fees from investment brokerage services provided to its customers by a third-party service provider. The Bank receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The fees are recognized monthly.

FRANKEWING BANCSHARES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE P - REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Gains/Losses on Sales of OREO: The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of OREO to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

NOTE Q - MORTGAGE BANKING DERIVATIVES

Commitments to fund certain mortgage loans (interest rate lock commitments) to be sold into the secondary market are considered derivatives. The mortgage banking derivatives are not designated in hedge relationships. The fair value of mortgage banking derivatives included in the Consolidated Balance Sheets as of December 31, 2023 was \$288,131 for interest rate lock commitments and is included in other assets. Net gains (losses) relating to non-designated derivative instruments are included in gain on sale of mortgage loans in the Consolidated Statements of Income and Comprehensive Income.

NOTE R - SUBSEQUENT EVENTS

Subsequent to year end, the Bank received a preliminary report of findings resulting from a regulatory examination covering a period ending in 2023. The regulatory authorities have indicated that they will pursue formal enforcement procedures to mandate actions by the Bank to improve among other things, capital adequacy, asset quality, and oversight. In addition, the Bank may be subject to restrictions limiting dividend and bonus payments, asset growth, and the use of certain funding sources such as brokered deposits.

NOTE S - DATE OF MANAGEMENT'S REVIEW

The Bank did not have any other subsequent events through March 4, 2024, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2023.