SOUTHPOINT BANCSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Warren Averett
CPAs AND ADVISORS

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Warren Averett
CPAs AND ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
SouthPoint Bancshares, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of SouthPoint Bancshares, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SouthPoint Bancshares, Inc. and Subsidiaries as of December 31, 2019 and 2018, 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.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets, consolidating statements of income, and consolidating statements of changes in shareholders' equity are presented for purposes of additional analysis of the consolidated financial statements, rather than to present financial position, results of operations, and changes in shareholders' equity of the individual companies, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Warren Averett, LLC

Birmingham, Alabama
February 24, 2020

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS	2019	2018
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 8,099,611	$ 3,445,526
Interest-bearing deposits in other banks	4,408,529	4,220,934
Total cash and cash equivalents	12,508,140	7,666,460
Securities available-for-sale	37,158,105	36,416,858
Loans held-for-sale	8,250,736	4,663,583
Loans, net of allowance for loan losses	332,491,139	297,338,205
Premises and equipment, net	11,749,623	12,095,154
Other real estate	88,779	221,179
Bank-owned life insurance	3,333,828	3,264,252
Deferred tax assets	-	159,075
Other assets	2,750,487	3,348,197
Investment in income housing tax credits	1,812,083	-
TOTAL ASSETS	$ 410,142,920	$ 365,172,963
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS		
Interest-bearing	$ 328,324,026	$ 278,574,058
Noninterest-bearing	39,797,723	35,201,421
Total deposits	368,121,749	313,775,479
FHLB advances	-	17,000,000
Accounts payable and accrued liabilities	2,787,329	1,538,964
Line-of-credit	2,242,949	2,242,949
Deferred tax liabilities	112,592	-
TOTAL LIABILITIES	373,264,619	334,557,392
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value; 10,000,000 shares authorized and none issued or outstanding	-	-
Common stock, $1 par value; 10,000,000 shares authorized; 2,137,016 and 2,133,166 shares issued at December 31, 2019 and 2018, respectively, and 2,001,783 and 1,997,001 shares outstanding at December 31, 2019 and 2018, respectively	2,137,016	2,133,166
Additional paid-in capital	20,489,983	20,401,348
Retained earnings	15,162,225	10,155,627
Accumulated other comprehensive income (loss)	659,792	(493,030)
Treasury stock,135,233 and 136,165 shares at cost at December 31, 2019 and 2018, respectively	(1,570,715)	(1,581,540)
Total shareholders' equity	36,878,301	30,615,571
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 410,142,920	$ 365,172,963

See notes to the consolidated financial statements.

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
INTEREST INCOME		
Interest and fees on loans	$ 18,094,265	$ 14,597,630
Interest on investment securities	1,186,049	1,301,882
Total interest income	19,280,314	15,899,512
INTEREST EXPENSE		
Interest on deposits	5,011,964	3,234,083
Interest on borrowed funds	323,427	402,092
Total interest expense	5,335,391	3,636,175
NET INTEREST INCOME	13,944,923	12,263,337
PROVISION FOR LOAN LOSSES	240,000	10,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,704,923	12,253,337
NONINTEREST INCOME		
Service charges, fees, and commissions	676,178	581,958
Mortgage origination and servicing-release premium fees	5,595,744	4,320,655
Gain (loss) on sale of available-for-sale securities, net	2,133	74,841
Other	121,063	129,206
Total noninterest income	6,395,118	5,106,660
NONINTEREST EXPENSES		
Salaries and employee benefits	8,791,547	7,554,730
Net occupancy expenses	824,827	817,661
Other real estate recoveries	(51,539)	(82,288)
Operating expenses	4,228,017	3,711,033
Total noninterest expenses	13,792,852	12,001,136
INCOME BEFORE INCOME TAXES	6,307,189	5,358,861
INCOME TAX EXPENSE	(1,308,980)	(996,129)
NET INCOME	$ 4,998,209	$ 4,362,732

See notes to the consolidated financial statements.

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
NET INCOME	$ 4,998,209	$ 4,362,732
OTHER COMPREHENSIVE INCOME (LOSS)		
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	1,153,270	(560,847)
Reclassification adjustment for losses on securities available-for-sale realized in net income, net of taxes	(448)	(59,124)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	1,152,822	(619,971)
TOTAL COMPREHENSIVE INCOME	$ 6,151,031	$ 3,742,761

See notes to the consolidated financial statements.

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
BALANCE AT DECEMBER 31, 2017	$ 2,124,000	$ 20,300,070	$ 5,792,895	$ 126,941	$ (1,581,540)	$ 26,762,366
Net income	-	-	4,362,732	-	-	4,362,732
Other comprehensive loss	-	-	-	(619,971)	-	(619,971)
Share-based compensation	-	38,484	-	-	-	38,484
Stock options exercised	9,166	62,794	-	-	-	71,960
BALANCE AT DECEMBER 31, 2018	2,133,166	20,401,348	10,155,627	(493,030)	(1,581,540)	30,615,571
Net income	-	-	4,998,209	-	-	4,998,209
Other comprehensive income	-	-	-	1,152,822	-	1,152,822
Share-based compensation	-	8,747	-	-	-	8,747
Stock options exercised	3,850	79,888	-	-	-	83,738
Treasury stock sold	-	-	8,389	-	10,825	19,214
BALANCE AT DECEMBER 31, 2019	$ 2,137,016	$ 20,489,983	$ 15,162,225	$ 659,792	$ (1,570,715)	$ 36,878,301

See notes to the consolidated financial statements.

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,998,209	$ 4,362,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	536,428	546,358
Proceeds from loans held-for-sale	98,105,923	98,105,923
Origination of loans held-for-sale	(101,693,076)	(97,229,084)
Provision for loan losses	240,000	10,000
Net realized (gain) on investments	(2,133)	(74,841)
Loss (Gain) on disposal of property and equipment	29,002	(52,030)
Realized gains on disposition and write down of other real estate, net	(8,186)	(89,995)
Amortization of premiums and discounts on securities available-for-sale, net	255,649	225,511
Share-based compensation	8,747	38,484
Deferred income tax expense	(34,780)	534,699
Increase in cash surrender value of life insurance	(69,576)	(72,166)
Decrease in FHLB stock	227,900	438,900
Change in other assets	369,810	(712,697)
Change in accounts payable and accrued liabilities	1,248,365	(703,021)
Net cash provided by operating activities	4,212,282	5,328,773

See notes to the consolidated financial statements.

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of premises and equipment	$ (229,014)	$ (37,699)
Payments for construction-in-progress	-	(2,733,134)
Proceeds from sale of premises and equipment	9,115	1,660,474
Net change in loans	(35,392,934)	(56,537,136)
Pay downs, calls, and maturities of available-for-sale securities	1,659,425	1,045,465
Purchase of available-for-sale securities	(12,373,924)	(2,776,320)
Sales of available-for-sale securities	11,179,005	5,541,700
Federal funds purchased	-	(1,249,000)
Net proceeds from disposition of foreclosed real estate	140,586	127,497
Invesment in income housing tax credits	(1,812,083)	-
Net cash used in investing activities	(36,819,824)	(54,958,153)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	54,346,270	64,591,751
Sale of treasury stock	-	-
Net change in line-of-credit	-	504,997
Payments on FHLB advance line	(17,000,000)	(11,000,000)
Proceeds from exercise of stock options	83,738	71,960
Sale of treasury stock	19,214	-
Net cash provided by financing activities	37,449,222	54,168,708
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,841,680	4,539,328
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,666,460	3,127,132
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,508,140	$ 7,666,460

See notes to the consolidated financial statements.

1. ORGANIZATION

SouthPoint Bancshares, Inc. (the Company), an Alabama corporation, operates primarily in the domestic commercial banking industry. The Company's subsidiary, SouthPoint Bank (the Bank), was formed and incorporated in 2005 as a state-chartered bank under the Code of Alabama 1975, as amended. The Bank provides full-service banking to customers primarily located in central Alabama. The Bank is subject to regulation by the State of Alabama Banking Department and the Federal Deposit Insurance Corporation (FDIC). The Bank operates from its four branch locations in and around Birmingham, Alabama, and five loan production offices located throughout the State of Alabama. SPB Properties, LLC holds certain assets of the Bank and is a wholly-owned subsidiary of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank, and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated. Unless otherwise indicated herein, the financial results of the Company refer to the Company and the Bank and its subsidiary on a consolidated basis. The consolidated financial statements of the Company are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents

For the purpose of cash flows, the Company considers cash on hand and cash or cash equivalents on deposit with other banks, due from banks, and federal funds sold to be cash equivalents. The Company maintains various correspondent or other bank accounts, which may, at times, have balances that exceed the FDIC insurance coverage. The amount by which cash and cash equivalents exceeded FDIC insurance coverage at December 31, 2019, was approximately $1,828,500. The Company has not and does not expect to incur losses with these bank accounts.

Securities Available-for-Sale

Securities available-for-sale represent those securities which the Company has designated for sale. Such securities are carried at fair value with unrealized gains and losses reported as accumulated other comprehensive income (loss), net of any related deferred taxes, in a separate component of shareholders' equity until realized. Gains or losses realized on disposition are based on the net proceeds and the adjusted carrying amount on the securities sold, using the specific identification method, and are included in noninterest income or expense in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Estimated fair values are provided by security dealers who have obtained quoted prices (Note 17). Securities may be pledged as collateral for customer deposits and to the FHLB (Note 3).

Loans
The Company grants commercial, real estate, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and real estate loans throughout Alabama. Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees.

Loan origination or commitment fees are deferred and accreted using the interest method over the life of the loan. Direct loan origination costs are capitalized and amortized over the life of the loan as a reduction of the loan yield as an offset to interest and fees on loans. Amortization of deferred loan fees is discontinued if a loan is placed on nonaccrual status.

Allowance for Loan Losses
The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of a loan balance is remote. Subsequent recoveries, if any, are credited to the allowance.

As part of management's assessment of the allowance for loan losses, management segregates the loan portfolio into the following segments: commercial, financial, and agricultural; real estate – construction; real estate – mortgage; consumer and other. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as information becomes available and as economic conditions change.

The allowance for loan losses consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance for losses is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors, which includes trend assessments in delinquent and nonaccrual loans, unanticipated charge-offs, prevailing economic conditions, changes in lending personnel experience, changes in lending policies or procedures, and other influencing factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance for loan losses reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Generally, impaired loans include loans on nonaccrual status, loans that have been assigned a specific allowance for credit losses, loans that have been partially charged off, and loans designated as troubled debt restructurings.

While management believes that it has established the allowance for loan losses in accordance with GAAP and has taken into account the views of its regulators and the current economic environment, there can be no assurance that in the future the Bank's regulators or its economic environment will not require further increases in the allowance for losses.

Income Recognition on Impaired and Nonaccrual Loans
Loans, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-collateralized and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as nonaccrual.

Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms of principal and interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

While a loan is classified as nonaccrual, and the future collectability of the recorded loan balance is doubtful, collections of principal and interest are generally applied as a reduction to principal outstanding. When the future collectability of the recorded loan balance is expected, interest income may be recognized. In the case where a nonaccrual loan has been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Mortgage Loans Held-for-Sale and Mortgage Banking Derivatives
The Company, through the Bank, enters into mandatory delivery of a portion of its residential mortgage loans originated for sale in the secondary market. In connection with mandatory delivery, mortgage loans held-for-sale are carried at fair value under the fair value option with changes in fair value recognized in current period earnings.

Fair value of mortgage loans held for sale is typically calculated using observable market information including pricing from actual market transactions, investor commitment prices, or broker quotations. Fair value for mortgage loans covered by investor commitments is generally based on commitment prices and the value for uncommitted loans is generally based on current delivery prices.

In connection with its mortgage banking activities, the Company enters into loan commitments, considered derivative instruments, to fund residential mortgage loans with applicants. These interest rate lock commitments (IRLC) represent an agreement to extend credit to a mortgage loan applicant whereby the interest rate on the loan is set prior to funding. The loan commitment binds the Company (subject to the loan approval process) to fund the loan at a specified rate, regardless of whether interest rates have changed between the commitment date through the funding date or expiration date. The loan commitments generally range between 15 and 60 days; however, the borrower is not obligated to obtain the loan. The Company is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Forward delivery commitments on mortgage-backed securities are used to manage the interest rate risk and price risk. Historical commitment-to-closing ratios are considered to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs.

Gains and losses from the sale of mortgages are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale, and are recorded in gain on sale of mortgage loans held for sale in the statements of income. The sales proceeds reflect the cash received. Gain on sale of mortgage loans held for sale also includes the unrealized gains and losses associated with the mortgage loans held for sale and the realized and unrealized gains and losses from derivatives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Other Real Estate

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. No write-downs occurred in 2019 or 2018.

After foreclosure, valuations are periodically performed by management, and property held-for-sale is carried at the lower of the new cost basis or fair value less estimated costs to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized (up to fair value less estimated selling costs), whereas costs relating to holding property are expensed.

Any subsequent write-downs of amounts recorded as other real estate are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less estimated costs to sell.

Bank-Owned Life Insurance

The Bank purchased life insurance policies on certain employees. These policies are recorded at their cash surrender value or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in noninterest income. The Bank is the named beneficiary for each policy.

Premises and Equipment

Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Expenditures for additions and improvements that extend the useful life of an asset are capitalized. Expenditures for repairs and maintenance are charged to expense when incurred. Assets which are disposed of are removed from the accounts, and the resulting gains or losses are recorded in other operating income or expenses. Depreciation is computed by the straight-line method based on the depreciable lives of individual assets, ranging from three to 40 years.

FHLB Stock and Borrowings (Advances)

The Company is a member and has purchased stock in the Federal Home Loan Bank of Atlanta (FHLB). The stock consists of Subclass B1 membership stock and Subclass B2 activity (advance-based) stock, which is determined based on the amount of advances outstanding.

Borrowings represent advances under an advance and security agreement with the FHLB, as well as secured borrowings with the Federal Reserve Bank of Atlanta (FRB) Discount Window under a similar security agreement. Under the terms of the agreements, the Company is required to maintain qualifying collateral, consisting primarily of investment securities and loans, which are based on collateral rates set by the FHLB and the FRB.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Advertising
Advertising costs are expensed as incurred.

Income Taxes
The Company files a consolidated federal income tax return and separate State of Alabama excise tax returns. The subsidiaries provide for income taxes on a separate basis and remit to the Company amounts determined to be currently payable. These returns are filed using the accrual basis of accounting. Provisions for income taxes are based on amounts reported in the statements of income (after exclusion of nontaxable income, such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes.

Stock Options
The Board of Directors approved the 2015 Stock Incentive Plan (Stock Plan), which amended, restated, and replaced the 2005 Stock Incentive Plan, which expired in October 2015. The 2015 Stock Plan permitted the granting of nonstatutory (nonqualified), incentive, and restricted stock option awards, to enhance shareholder investment by attracting, retaining, and motivating key employees and directors of the Company and to align the interests of management with those of shareholders. The maximum number of shares to be issued under the Stock Plan are 315,150. See Note 14 for activity of the 2015 Stock Plan.

The option price is determined by the Board of Directors or a committee appointed by the Board of Directors to administer the Stock Plan, who may use the latest stock trade information or an independent valuation. Options granted are generally subject to vesting in equal increments over a vesting period of at least three years.

The Company uses a stock valuation model for stock awards issued pursuant to the 2015 Stock Plan, which results in share-based compensation expense. The Company uses the Black-Scholes fair value model for determining option value and share-based payments, which includes such factors as expected term, interest rate, forfeiture estimates, volatility, and dividend yield, to estimate compensation expense associated with the stock option awards.

Financial Instruments
The Company uses fair value methods and measurements to determine fair value for certain assets and liabilities for recording and disclosure purposes. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined by quoted market prices. The fair value guidance established three categories within a fair value hierarchy, which are presented below:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access.

- Level 2 – Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, volatilities, and default rates, and inputs that are derived principally from or corroborated by observable market data.

- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

Additional guidance is available for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, including guidance on circumstances that may indicate that a transaction is not orderly and requires additional disclosures about fair value measurements.

The Company also reports fair value measurement of nonfinancial assets and liabilities. These measurements occur on a nonrecurring basis, and recognition at fair value occurs when nonfinancial assets and liabilities are deemed to be other-than-temporarily impaired.

Statements of Cash Flows
The following is a supplemental disclosure to the consolidated statements of cash flows for the years ended December 31:

	2019	2018
Cash paid during the year for interest	$ 5,294,193	$ 3,631,345
Cash paid during the year for income taxes	545,000	972,962
Noncash disclosures:		
Loans transferred to foreclosed real estate during the year	-	-
Sales of foreclosed real estate financed through loans	-	7,201
Net increase (decrease) in unrealized gains and losses on securities available-for-sale, net of deferred taxes of $306,447 for 2019 and $164,804 for 2018	1,152,822	(619,970)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

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

Investment in securities available-for-sale is exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and that the values of the Bank's investments are sensitive to changes in economic and regulatory conditions, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the value of those investments reported.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic and regulatory environment and local market conditions. The Bank's loans are generally secured by specific items of collateral, including real property, consumer, and business assets. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

Although the Company has a diversified loan portfolio, and management uses available information to recognize losses on loans, further reduction in the carrying amounts of loans may be necessary based on changes in local economic conditions or other factors.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Retirement Plan

The Company participates in the SouthPoint Bank 401(k) Employee Stock Ownership Plan. The Plan is a 401(k) Plan and is designed to follow the regulations under the Internal Revenue Code (IRC). The Company's expense related to the plan for the years ended December 31, 2019 and 2018, amounted to approximately $115,000 and $101,000 respectively, and is included in salaries and employee benefits expense on the consolidated statements of income.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these consolidated financial statements through February 24, 2020, the date that the consolidated financial statements were available to be issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

Certain reclassifications were made to the 2018 financial statement presentation to conform to the 2019 financial statement presentation. Reclassification adjustments included in net income were not considered material for each period presented.

Recently Adopted and Issued Accounting Pronouncements

On January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers,* and all subsequent amendments to the ASU (collectively, Accounting Standard Codification 606 [ASC 606]), which creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Company's revenues come from interest income on loans and investments that are outside the scope of ASC 606. Services within the scope of ASC 606 include deposit service charges on deposits and the sale of OREO. Services that are within scope of ASC 606 are presented within Noninterest Income. Accordingly, the adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842).* The amendments in this ASU affect all companies and other organizations that lease assets. This ASU will require organizations that lease assets, referred to as "leases," to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The accounting by organizations that own the assets leased by the lessee, known as lessor accounting, will remain largely unchanged from current GAAP (Topic 840). In November 2019 the FASB issued ASU 2019-10, which delayed the effective dates for non-public companies to fiscal years beginning after December 15, 2020. The Company is reviewing the impact that the adoption of this ASU may have on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In June 2016, the FASB issued ASU 2016-13 and in November 2018 issued ASU 2018-19, *Financial Instruments – Credit Losses (Topic 326)*. The amendments in this ASU cover three areas: assets measured at amortized cost, available-for-sale debt securities, and the effective dates of the standard. For assets measured at amortized cost, the amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. For available-for-sale debt securities, credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. Available-for-sale accounting recognizes that value may be realized either through collection of contractual cash flows or through sale of the security. Therefore, the amendments limit the amount of the allowance for credit losses to the amount by which fair value is below amortized cost because the classification as available-for-sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value. In November 2019 the FASB issued ASU 2019-10, which delayed the effective dates of the amendments in this ASU for fiscal years beginning after December 15, 2022. All entities may adopt the amendments in this ASU as early as the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is reviewing the impact that the adoption of this ASU may have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For non-public entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in ASU 2017-08 on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is reviewing the impact that the adoption of this ASU may have on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvement to Financial Instruments – Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendments in this ASU clarify certain aspects of the guidance issued in ASU 2016-01, in the areas of: (1) equity securities without a readily determinable fair value – discontinuation, (2) equity securities without a readily determinable fair value – adjustments, (3) forward contracts and purchased options, (4) presentation requirements for certain fair value option liabilities, (5) fair value option liabilities dominated in a foreign currency, and (6) transition guidance for equity securities without a readily determinable fair value. For non-public companies, the effective date of this ASU is the same as the effective date of ASU 2016-01, which is January 1, 2019. The adoption of the amendment and adoption of this ASU did not have a material effect on the Company's consolidated financial statements.

3. SECURITIES AVAILABLE-FOR-SALE

Investment securities available-for-sale consisted of the following at December 31, 2019 and 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2019:				
Mortgage-backed securities	$ 7,002,350	$ 33,892	$ (53,906)	$ 6,982,336
State, county, and municipal securities	28,320,575	882,165	(26,971)	29,175,769
Trust preferred security	1,000,000	-	-	1,000,000
	$ 36,322,925	$ 916,057	$ (80,877)	$ 37,158,105

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of December 31, 2018:				
Mortgage-backed securities	$ 6,824,168	$ -	$ (164,150)	$ 6,660,018
State, county, and municipal securities	29,216,780	49,140	(509,080)	28,756,840
Trust preferred security	1,000,000	-	-	1,000,000
	$ 37,040,948	$ 49,140	$ (673,230)	$ 36,416,858

At December 31, 2019, the Company had six investment securities in an unrealized loss position for less than 12 months with a fair value of $8,700,634 and unrealized losses totaling $80,877, and no securities in a loss positions greater than 12 months.

3. SECURITIES AVAILABLE-FOR-SALE – CONTINUED

At December 31, 2018, the Company had 19 investment securities in an unrealized loss position for less than 12 months with a fair value of $9,579,423 and unrealized losses totaling $122,496, and 26 investment securities in an unrealized loss position for 12 months or more with a fair value of $14,557,764 and unrealized losses totaling $550,734.

The unrealized losses are considered by management to be temporary since the Company does not have the intent to sell any of these securities prior to recovery and it is more likely than not that the Bank will not have to sell the debt securities prior to recovery of fair value at a minimum up to the cost of the investment.

The net unrealized gain of $659,180 is shown net of related deferred tax of $175,388 as of December 31, 2019 (loss of $493,030 is shown net of related deferred tax of $131,059 in 2018), and is reported as accumulated other comprehensive income (net of tax) in the accompanying consolidated financial statements.

There were no held-to-maturity or trading investments at December 31, 2019 or 2018.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2019, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Amounts maturing:		
After five years through 10 years	$ 2,725,202	$ 2,774,510
After 10 years through 15 years	12,270,365	12,594,817
After 15 years	21,327,358	21,788,778
	$ 36,322,925	$ 37,158,105

Expected maturities of mortgage-backed securities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment securities with an approximate fair value of $24,218,141 and $17,199,581 were pledged as collateral for deposits held under the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program as of December 31, 2019 and 2018, respectively. The Company also pledged investments with fair values of approximately $0 for FHLB advances and $0 for Federal Fund lines of credit as of December 31, 2019 and 2018. The Company also holds certain restrictive investments in FHLB stock (Note 7).

4. LOANS

The composition of loans by primary loan classification and by performing and impaired loan status as of December 31, 2019 and 2018, are as follows:

	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Subtotal	Allowance for Loan Losses	Net Loans
2019							
Performing loans	$ 77,672,288	$ 43,427,756	$ 206,313,399	$ 8,663,420	$ 336,076,863	$ (3,585,724)	$ 332,491,139
Impaired loans	-	-	-	-	-	-	-
	$ 77,672,288	$ 43,427,756	$ 206,313,399	$ 8,663,420	$ 336,076,863	$ (3,585,724)	$ 332,491,139

	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Subtotal	Allowance for Loan Losses	Net Loans
2018							
Performing loans	$ 65,746,677	$ 40,871,985	$ 182,496,751	$ 10,570,619	$ 299,686,032	$ (3,088,980)	$ 296,597,052
Impaired loans	1,078,721	-	128,292	-	1,207,013	(465,860)	741,153
	$ 66,825,398	$ 40,871,985	$ 182,625,043	$ 10,570,619	$ 300,893,045	$ (3,554,840)	$ 297,338,205

Changes in the allowance for loan losses for the years ended December 31 were as follows:

	2019	2018
Balance at beginning of year	$ 3,554,840	$ 3,566,361
Charge-offs	(421,005)	(92,711)
Recoveries	211,889	71,190
Net recoveries (charge-offs)	(209,116)	(21,521)
Provision	240,000	10,000
Ending balance	$ 3,585,724	$ 3,554,840

At December 31, 2019 and 2018, there were no loans classified as nonaccrual that were not deemed to be impaired. At the date such loans were placed on nonaccrual status, the Bank reversed all previously accrued interest income against current year earnings. Had such nonaccrual loans been on accrual status, interest income would have been greater by approximately $16,000 for the year ended December 31, 2019, and $76,000 for the year ended December 31, 2018.

4. LOANS – CONTINUED

The allocation and changes in the allowance for loan losses, by loan classification, as of and for the years ended December 31, 2019 and 2018, are as follows:

	Commercial, Financial and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Unallocated	Total
Balance at December 31, 2018	$ 1,160,093	$ 411,087	$ 1,775,253	$ 14,694	$ 193,713	$ 3,554,840
Charge-offs	(382,214)	-	-	(38,791)	-	(421,005)
Recoveries	173,654	-	6,417	31,818	-	211,889
Net charge-offs	(208,560)	-	6,417	(6,973)	-	(209,116)
Provision	523,645	92,806	55,969	19,892	(452,312)	240,000
Balance at December 31, 2019	$ 1,475,178	$ 503,893	$ 1,837,639	$ 27,613	$ (258,599)	$ 3,585,724

	Commercial, Financial and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Unallocated	Total
Balance at December 31, 2017	$ 1,195,304	$ 318,281	$ 1,682,640	$ 62,813	$ 307,323	$ 3,566,361
Charge-offs	(2,988)	-	(12,022)	(77,701)	-	(92,711)
Recoveries	-	-	61,500	9,690	-	71,190
Net charge-offs	(2,988)	-	49,478	(68,011)	-	(21,521)
Provision	(32,223)	92,806	43,135	19,892	(113,610)	10,000
Balance at December 31, 2018	$ 1,160,093	$ 411,087	$ 1,775,253	$ 14,694	$ 193,713	$ 3,554,840

4. LOANS – CONTINUED

Risk ratings are categorized as pass, special mention, substandard, substandard-impaired, or doubtful. Management believes that the categories follow those outlined by the Bank's primary regulator. Pass rated loans include all risk rated credits other than those included in special mention, substandard, and doubtful, which are defined as follows:

- Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date.

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

- Substandard-impaired loans are substandard loans that may have been placed on nonaccrual, may have an associated allowance for loan losses, and may have a partial charge off for the loan.

- Doubtful loans have all the characteristics of substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The Bank considers all doubtful loans to be impaired and places all such loans on nonaccrual status.

The following table outlines the amount of each loan classification based on internally assigned risk ratings as of December 31, 2019 and 2018:

2019	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Total
Grade:					
Pass	$ 77,474,742	$ 43,427,756	$ 201,312,087	$ 8,663,420	$ 330,878,005
Special mention	149,189	-	4,626,865	-	4,776,054
Substandard	48,357	-	374,447	-	422,804
Total	$ 77,672,288	$ 43,427,756	$ 206,313,399	$ 8,663,420	$ 336,076,863

4. LOANS – CONTINUED

2018	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Total
Grade:					
Pass	$ 65,405,649	$ 40,507,780	$ 182,451,813	$ 10,570,619	$ 298,935,861
Special mention	341,028	364,205	44,938	-	750,171
Substandard	1,078,721	-	128,292	-	1,207,013
Total	$ 66,825,398	$ 40,871,985	$ 182,625,043	$ 10,570,619	$ 300,893,045

Past due balances and loans on nonaccrual status at December 31, 2019 and 2018, by loan classification, are as follows:

2019	Past Due 30-89 Days and Still Accruing	Past Due 90 days or more and Still Accruing	Total Past Due and Performing	Loans on Nonaccrual Status	Current	Total Loans
Commercial, financial, and agricultural	$ 426,167	$ -	$ 426,167	$ 48,357	$ 77,197,764	$ 77,672,288
Real estate – construction	-	-	-	-	43,427,756	43,427,756
Real estate – mortgage	739,110	274,956	1,014,066	374,447	204,924,886	206,313,399
Consumer and other	-	-	-	-	8,663,420	8,663,420
	$ 1,165,277	$ 274,956	$ 1,440,233	$ 422,804	$ 334,213,826	$ 336,076,863

2018	Past Due 30-89 Days and Still Accruing	Past Due 90 days or more and still Accruing	Total Past Due and Performing	Loans on Nonaccrual Status	Current	Total Loans
Commercial, financial, and agricultural	$ 433,306	$ -	$ 433,306	$ 1,078,721	$ 65,313,371	$ 66,825,398
Real estate – construction	-	-	-	-	40,871,985	40,871,985
Real estate – mortgage	1,137,078	146,342	1,283,420	-	181,341,623	182,625,043
Consumer and other	-	-	-	-	10,570,619	10,570,619
	$ 1,570,384	$ 146,342	$ 1,716,726	$ 1,078,721	$ 298,097,598	$ 300,893,045

4. LOANS – CONTINUED

The following tables provide details on impaired loans as of December 31, 2019 and 2018, including the average recorded investment of impaired loans and interest income recognized for the years ended December 31, 2019 and 2018. There were no impaired loans as of December 31, 2019.

	At December 31, 2019			For the Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial, financial, and agricultural	$ -	$ -	$ -	$ -	$ -
Real estate – mortgage	-	-	-	-	-
	-	-	-	-	-
Impaired loans with a recorded allowance:					
Commercial, financial, and agricultural	-	-	-	-	-
Real estate – mortgage	-	-	-	-	-
	-	-	-	-	-
Total impaired loans	$ -	$ -	$ -	$ -	$ -

	At December 31, 2018			For the Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial, financial, and agricultural	$ -	$ -	$ -	$ -	$ -
Real estate – mortgage	130,893	128,292	-	133,758	8,818
	130,893	128,292	-	133,758	8,818
Impaired loans with a recorded allowance:					
Commercial, financial, and agricultural	1,078,721	1,078,721	465,860	1,078,876	(3,190)
Real estate – mortgage	-	-	-	-	-
	1,078,721	1,078,721	465,860	1,078,876	(3,190)
Total impaired loans	$ 1,209,614	$ 1,207,013	$ 465,860	$ 1,212,634	$ 5,628

4. LOANS – CONTINUED

The following table details the number of troubled debt restructurings by loan classification as of December 31, 2019 and 2018:

2019 Troubled Debt Restructurings	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Real estate – mortgage	0	$ -	$ -
	0	$ -	$ -

2018 Troubled Debt Restructurings	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Real estate – mortgage	0	$ -	$ -
	0	$ -	$ -

There were no new troubled debt restructurings during 2019 or 2018. There were also no debt restructurings during 2018 that subsequently defaulted during 2019.

Impaired loans also include loans that the Company may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses, if any, that the Company may have to otherwise incur. These loans are classified as impaired loans and, if on nonaccrual status as of the date of restructuring, the loans are included in the nonperforming loan balances noted above.

The Company entered into the mortgage loan resale market during 2007 and executed investor agreements for the sale of certain mortgage loans originated and any related servicing. The agreements vary by investor but may include recourse provisions based on conditions specified in the agreements, such as early payment default or early payoff. All agreements are subject to breach of contract clauses. Total mortgage loans sold to investors subject to recourse provisions were approximately $37,018,149 and $19,820,000 as of December 31, 2019 and 2018, respectively. The Company did not record an estimate of the potential recourse liability as of December 31, 2019 or 2018.

The Company has elected to hold certain mortgage loans originated by the mortgage division of the Bank, and contracts with a third-party service provider for servicing. Mortgage loans held by the Company and serviced by a third-party were approximately $20,560,000 and $16,543,000 as of December 31, 2019 and 2018, respectively, and are reported in loans in the consolidated balance sheets.

4. LOANS – CONTINUED

The Company was a participant in the U.S. Department of Treasury State Small Business Credit Initiative through the Small Business Jobs Act of 2010 (SSBCI). The State of Alabama provided these funds to banks through the Alabama Department of Economic and Community Affairs (ADECA). The SSCBI Board voted to close out the Alabama SSCBI Program effective July 31, 2019. The banks that participated in the SSBCI/ADECA received funds that approximated 30% of the outstanding balances of these loans. The Company received approximately $616,000 for the guaranteed portion. These loans had initial terms of up to 5 years. Since the Company will now be assuming more of the credit risk by the loss of the guaranteed portion, the Company assessed the credit risk of these loans and charged off approximately $115,000. The remaining amount of approximately $501,000 will be accreted through January 31, 2022 which represents the remaining life of these loans. If a portion of these loans are paid off or charged off then the balance to be accreted will be adjusted.

5. PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31 are summarized below:

	2019	2018
Land	$ 2,761,209	$ 2,761,209
Buildings and improvements	7,298,215	7,158,345
Equipment	2,670,827	2,634,702
Furniture and fixtures	1,778,212	1,771,555
Software	80,104	80,104
Vehicles	88,985	74,157
	14,677,552	14,480,072
Less accumulated depreciation	2,927,929	2,384,918
	$ 11,749,623	$ 12,095,154

6. DEPOSITS

The Company has approximately $62,642,000 of time deposits greater than the FDIC insurance limit of $250,000 at December 31, 2019 ($26,586,000 at December 31, 2018). The maturity schedule for all outstanding time deposits as of December 31, 2019, is as follows:

2020	$ 98,968,231
2021	28,859,186
2022	15,369,016
2023	910,998
2024	917,575
	$ 145,025,006

7. FHLB STOCK AND BORROWINGS

During 2019, the Company held Subclass B1 membership stock and Subclass B2 activity-based stock with the FHLB for a total cost of $328,600 ($1,000,700 in 2018). The Bank earns quarterly dividends on the stock. The stock is a restricted investment reported at cost and included in other assets. These investments were not evaluated for impairment as the Company did not identify any events or changes in circumstances that may have a significant adverse effect on the fair value of these investments. The Company estimated that the fair value was equal to cost and not impaired.

There were no advances under the FHLB agreement as of December 31 2019, (one for $17,000,000 as of December 31, 2018). At December 31, 2018 the variable daily rate credit interest rate was at 2.57% which matured on August 7, 2019. The Bank also has a $20,000,000 FHLB letter of credit in favor of the State of Alabama to provide additional collateral for public deposits held for customers under the SAFE Program.

Certain investment securities, on occasion, are held as collateral for the FHLB advances (Note 3). Additional qualifying collateral for the FHLB advances and letter of credit is determined using loan advance rates specified in the agreement and consisted of certain commercial and real estate loans totaling approximately $84,474,000 and $74,419,000 as of December 31, 2019 and 2018, respectively.

The Company has several unsecured correspondent bank federal funds lines of credit and one secured repurchase agreement line of credit with total commitments of $23,000,000 and $33,600,000 as of December 31, 2019 and 2018, respectively, which are subject to renewal on various dates. The Company also has access to borrow funds from the Federal Reserve Bank discount window of approximately $169,078 and $226,466, which is determined based on available bank collateral and secured by loans of $235,000 and $302,000 at December 31, 2019 and 2018, respectively (no borrowings outstanding for 2019 or 2018).

8. LINE OF CREDIT

Under the terms of a line-of-credit agreement, the Company has granted Noble Bank & Trust a security interest in the common stock of the Bank. Under terms of the agreement, the Company may borrow up to $4,000,000 at prime rate (with a minimum of 4.0%). At December 31, 2019, the interest rate was 5.5% and the outstanding balance was $2,242,949. ($2,242,949 at December 31, 2018) The line-of-credit agreement matured in January 31, 2020. Management renewed the line-of-credit on February 4, 2020. Under the new agreement the Company may borrow up to $3,239,500 at prime rate (with a minimum of 4%). The maturity date of the line-of-credit was extended to March 4, 2027.

9. LEASES

The Company leases certain office space and equipment under various operating leases. The approximate future minimum values of lease payments under these leases are as follows as of December 2019:

2020	$ 250,036
2021	211,312
2022	183,129
2023	152,637
2024	155,690
Thereafter	1,867,058
	$ 2,819,862

Total rent expense, net of rental income, was approximately $288,399 and $271,303 for 2019 and 2018, respectively.

10. INCOME TAXES

Provisions for federal and state income taxes are based on amounts reported in the statements of income (after exclusion of nontaxable income items such as interest earned on tax-exempt municipal securities and bank-owned life insurance) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes.

Federal and state income taxes receivable (payable) were $169,932 and $(336,727) at December 31, 2019, and $329,151 and $0 at December 31, 2018, respectively.

The components of income tax expense (benefit) for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Current:		
Federal	$ 1,007,033	$ 461,430
State	336,727	-
	1,343,760	461,430
Deferred:		
Federal	(24,852)	451,569
State	(9,928)	83,130
	(34,780)	534,699
Income tax expense	$ 1,308,980	$ 996,129

The components of the net deferred tax asset (liability) included in other assets as of December 31, 2019 and 2018, are as follows:

	2019	2018
Deferred tax asset:		
Federal	$ 891,600	$ 778,533
State	172,234	150,392
	1,063,834	928,925
Deferred tax liability:		
Federal	1,026,119	631,456
State	164,339	147,298
	1,190,458	778,754
Net operating loss carryforward	14,032	8,904
Net deferred tax (liability) asset	$ (112,592)	$ 159,075

10. INCOME TAXES – CONTINUED

The tax effects of each type of income and expense item that gave rise to deferred taxes as of December 31 were as follows:

	2019	2018
Allowance for loan losses	$ 568,670	$ 508,534
Net unrealized losses (gains) on securities available-for-sale	(175,388)	131,059
Deferred compensation	66,314	43,700
Depreciation	(769,957)	(681,250)
Deferred loan fees	201,830	167,806
Deferred loan costs	(63,219)	(62,551)
Net operating loss carryforwards	14,032	8,904
Other real estate owned reserve	22,698	31,758
Interest rate lock commitments and forward contracts	(126,310)	(123,434)
Organizational costs	3,380	3,672
Prepaid expense	(54,202)	(40,977)
Other	199,560	171,854
Net deferred tax (liability) asset	$ (112,592)	$ 159,075

Income taxes for financial reporting purposes differ from the amount computed by applying the statutory federal income tax rate of 21% for the years ended December 31, 2019 and 2018, for the reasons below:

	2019	2018
Tax expense on income computed at statutory federal income tax rate	$1,324,509	$1,125,365
Increase (decrease) in taxes resulting from:		
State income tax, net of federal income tax benefit	256,087	83,130
Taxable exempt interest	(166,052)	(166,428)
Miscellaneous non-deductible items	10,931	13,744
Change in cash surrender value of bank-owned life insurance	(12,351)	(13,529)
Investment tax credit	(113,274)	(46,153)
Other	9,130	-
Income tax expense	$1,308,980	$ 996,129

10. INCOME TAXES – CONTINUED

Pursuant to ASC 740-10-30-2, deferred tax assets and liabilities are measured using enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. On December 22, 2017, the President of the United States signed the “Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018” (referred to as the “Tax Cuts and Jobs Act”). The Act provided for a reduction in the corporate tax rate from a maximum tax rate of 34% to a flat tax rate of 21%. The current tax expense rate of 21% was effective beginning January 1, 2018. Additionally, deferred tax assets and liabilities are subject to a more likely than not test. Management believes that it is more likely than not that the net deferred tax assets or liabilities will be realized based on future operations of the Company and Bank.

The Company measures and recognizes tax positions taken or expected to be taken in a tax return that directly or indirectly affects amounts reported in the Company’s consolidated financial statements and reviews its income tax positions to determine if each position meets a "more likely than not" threshold of expectation of prevailing. As of December 31, 2019 and 2018, the Company has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements under the current guidance. Under statute, the Company is subject to Internal Revenue Service and state taxing authority review for tax years 2016 through 2018. The Company has filed tax returns through 2018.

The Company invests in qualified affordable housing projects. At December 31, 2019 and 2018, the balance of the investment for qualified affordable housing projects was $1,812,083 and $ -0-. These balances are reflected in the assets section on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $3,045,205 and $ -0- at December 31, 2019 and 2018. The Company expects to fulfill these commitments during the years ended 2020 and 2021.

During the years ended December 31, 2019 and 2018, the Company recognized amortization expense of $302,814 and $ -0- , respectively, which was included within income tax expense on the consolidated statements of income.

Additionally, during the years ended December 31, 2019 and 2018, the Company recognized tax credits and other benefits from its investment in affordable house tax credits of $375,247 and $ -0-, respectively and is included in income taxes receivable. During the years ending December 31, 2019 and 2018, the Company did not incur impairment losses.

11. CONCENTRATION OF CREDIT RISK

Most of the Company's deposit and lending activities are with customers located within Alabama. The Company grants commercial, residential, and consumer loans primarily to customers in Alabama. The concentrations of loans by type are set forth in Note 4.

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

The Company may require collateral or other security to support financial instruments with credit risk. The total collateral values, which consisted primarily of real estate, accounts receivable, inventory, and equipment and may be cross-collateralized for loans, was greater than the secured letters of credit. There was no liability recorded for these guarantees at December 31, 2019 or 2018.

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 commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Performance and financial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extended loan facilities to customers. The approximate outstanding notional amount of off-balance-sheet risk at December 31 is as follows:

	2019	2018
Performance and financial letters of credit	$ 118,000	$ 118,000
Unused lines of credit	98,659,000	62,166,000
	$ 98,777,000	$ 62,284,000

13. REGULATORY CAPITAL

The Company is subject to various regulatory capital requirements administered by its primary federal regulator, the FDIC. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the consolidated financial statements. 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 the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

The Company's 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. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations) and Tier 1 capital to adjusted total assets (as defined).

In July 2013, the banking regulators published Final Rules establishing a new comprehensive capital framework for U.S. banking organizations (the Final Rules). The Final Rules implement the Basel Committee of Banking Supervision's framework known as Basel III, as well as certain provisions of the Dodd-Frank Act. The Final Rules, which define the components of capital and also address risk weights, became effective on January 1, 2015. The Final Rules include a new capital ratio designated as Common Equity Tier 1 ratio, which is a tighter definition of Tier 1 capital, an increase in Tier 1 capital ratio from 4.0% to 6.0%; a framework for countercyclical buffers; adjustments to prompt corrective action thresholds; short- and medium-term quantitative liquidity ratios and establishes criteria that instruments must meet in order to be considered regulatory capital.

13. REGULATORY CAPITAL – CONTINUED

The required minimum conservation buffer was phased in incrementally starting at 0.625% on January 1, 2016, increasing to 1.25% on January 1, 2017, increasing to 1.875% on January 1, 2018, and increasing to 2.50% on January 1, 2019. When the new capital rule is fully phased in, the minimum capital requirements plus the conservation buffer will exceed the Prompt Corrective Action well-capitalized thresholds.

The Company's and the Bank's actual and required capital amounts and ratios under the new guidance are as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes (includes the conservation buffer for the Bank only)		To Be Well-Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Common Equity Tier 1 capital (to risk-weighted assets)						
Consolidated	$ 37,538	9.83%	$ 17,183	4.50%	N/A	N/A
Bank	38,255	10.02%	26,722	7.00%	$ 24,813	6.50%
Tier 1 Capital Ratio (to risk-weighted assets)						
Consolidated	37,538	9.83%	22,911	6.00%	N/A	N/A
Bank	38,255	10.02%	32,448	8.50%	30,539	8.00%
Total Capital Ratio (to risk-weighted assets)						
Consolidated	41,124	10.77%	30,548	8.00%	N/A	N/A
Bank	41,841	10.96%	40,082	10.50%	38,174	10.00%
Tier 1 Leverage Ratio (to average assets)						
Consolidated	37,538	9.25%	16,224	4.00%	N/A	N/A
Bank	38,255	9.43%	16,220	4.00%	20,276	5.00%

	Actual		For Capital Adequacy Purposes (includes the conservation buffer for the Bank only)		To Be Well-Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Common Equity Tier 1 capital (to risk-weighted assets)						
Consolidated	$ 31,109	9.33%	$ 17,183	4.50%	N/A	N/A
Bank	33,093	9.92%	21,264	6.375%	$ 21,681	6.50%
Tier 1 Capital Ratio (to risk-weighted assets)						
Consolidated	31,109	9.33%	20,013	6.00%	N/A	N/A
Bank	33,093	9.92%	26,267	7.875%	26,684	8.00%
Total Capital Ratio (to risk-weighted assets)						
Consolidated	34,664	10.39%	26,684	8.00%	N/A	N/A
Bank	36,648	10.99%	32,938	9.875%	33,355	10.00%
Tier 1 Leverage Ratio (to average assets)						
Consolidated	31,109	8.52%	14,603	4.00%	N/A	N/A
Bank	33,093	9.06%	14,603	4.00%	18,254	5.00%

13. REGULATORY CAPITAL – CONTINUED

As of December 31, 2019 and 2018, the Company was categorized as well-capitalized under the regulatory framework for prompt corrective action. To remain categorized as well-capitalized, the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the above table. There are no conditions or events since the most recent notification that management believes have changed the Company's prompt corrective action category.

14. STOCK OPTIONS

The Bank established the 2015 Stock Incentive Plan (Stock Plan), which is an incentive stock plan for key employees and directors. The Stock Plan permits the granting of three types of awards which are non-statutory stock options, incentive stock options, and restricted stock awards.

Incentive Stock Options
The Board of Directors granted stock options under the employee stock incentive plan to certain employees and directors of the Bank in previous years. 77,001 stock options issued in 2015 are still outstanding and vest over a four- or three-year period. During 2017, stock options for 80,000 shares were issued to certain employees and directors. The 2017 stock option awards vest immediately or annually over a three-year period. There were no stock options issued in 2018 and 2019.

Restricted Stock Awards
During 2017, the Company issued 2,500 restricted stock grants, to directors, that were held in escrow and vested on June 18, 2018. During 2019, the Company issued 2,500 restricted stock grants, to directors, that were held in escrow and vested on May 20, 2019.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options issued. The Bank obtained an independent valuation to determine the stock option valuations for stock options related to the issuance of 2017 and 2015 stock options. The option price for the 2017 and 2015 stock options were equal to the estimated valuation of the Company's stock at the date of grant. Total share-based compensation related to the 2015 Stock Plan was recorded annually over the service or vesting period of the options and was fully expensed as of December 31, 2019. There was $88,738 in share-based compensation recorded for 2019 ($38,484 for 2018).

14. STOCK OPTIONS – CONTINUED

The following table summarizes the weighted average assumptions and calculated value of the stock options using the Black-Scholes option pricing model:

Risk-free interest rate	2.9%
Expected volatility	19.8%
Expected life in years	3.00
Service period in years	10.00
Weighted average fair value of options granted	$1.95

The following table summarizes the activity related to options during 2019 and 2018:

	Number of Shares	Weighted-Average Exercise Price
Options outstanding, December 31, 2017:	159,501	$10.76
Grants in 2018	-	
Exercises in 2018	(9,166)	
Cancellations and forfeitures in 2018	-	
Options expired in 2018	(3,334)	
Options outstanding, December 31, 2018:	147,001	$11.49
Grants in 2019	3,850	
Exercises in 2019	(3,850)	
Cancellations and forfeitures in 2019	-	
Options expired in 2019	-	
Options outstanding, December 31, 2019	147,001	$21.75

The maximum number of shares to be issued under the 2015 Stock Plan is 315,150 shares of common stock. At December 31, 2019, 132,134 shares were available to be issued.

	2019	2018
Options exercisable, December 31	144,502	131,084
Weighted average remaining contractual life:		
Options granted in 2015	5.6 years	6.6 years
Options granted in 2017	7.5 years	8.5 years

15. RELATED PARTY AND PARTY-IN-INTEREST TRANSACTIONS

The Company issued overdraft lines of credit for executive officers and directors of the Company. As of December 31, 2019, loans outstanding to executive officers, directors, principal shareholders, and their affiliates totaled approximately $12,257,000 ($3,251,000 in 2018) under loan commitments totaling $3,641,000 ($4,326,000 in 2018) (including the overdraft lines of credit).

The Company holds interest-bearing and noninterest-bearing deposits from executive officers, directors, principal shareholders, and their affiliates of approximately $8,431,000 and $2,859,000 as of December 31, 2019 and 2018, respectively.

16. OTHER EXPENSES

Other expenses that exceed 1.0% of the aggregate of total interest income and other income for the years ended December 31 are as follows:

	2019	2018
Data processing	$ 1,028,725	$ 894,194
Professional fees	654,273	686,063
Supervisory assessments	-	253,962

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company reports fair value using the established categories within the fair value hierarchy (Note 2). The valuation methodologies used to determine the fair values of assets and liabilities reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of financial assets and financial liabilities based on quoted market prices, where available.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash Equivalents and Short-Term Investments – For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

Securities – For securities available-for-sale, fair values are based on quoted market prices or dealer quotes. For other investments, fair value is estimated to be approximately the carrying amount.

Loans and Loans Held-for-Sale – For certain homogeneous categories of loans, such as some residential mortgage and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and maturities.

Derivatives – The Bank estimates the fair value of IRLCs based on the value of the underlying mortgage loan, quoted Agency mortgage-backed security (MBS) prices, and the probability that the mortgage loan will fund within the terms of the IRLC. The Bank estimates the fair value of forward sales commitments on quoted MBS prices.

Bank-Owned Life Insurance – Bank-owned life insurance is valued at the underlying cash surrender value of the policies, which represents the current value of the policies.

Deposits – The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The recorded value of fixed-maturity certificates of deposit approximates the fair value as interest rates approximate market rates.

Borrowings – Rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate fair value of existing borrowings.

Commitments to Extend Credit, Standby Letters of Credit, and Financial Guarantees Written – The fair value of commitments, letters of credit, and financial guarantees is estimated to be approximately the fees charged for these arrangements.

Impaired Loans – Nonrecurring fair value adjustments to impaired loans reflect full or partial write-downs that are based on the loan's observable market price or current appraised value of the underlying collateral.

Other Real Estate – Other real estate consists primarily of commercial or residential property or land. The fair values of other real estate are primarily based on independent appraisals of the underlying properties, net of any estimated selling costs. Nonrecurring fair value adjustments to other real estate reflect full or partial write-downs that are based on the real estate's observable market price or current appraised value of the underlying collateral.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

Items Measured at Fair Value on a Recurring Basis

The following fair value hierarchy table presents information about the Bank's assets and liabilities measured at fair value on a recurring basis:

		Fair Value Measurement at Report Date Using		
		Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
As of December 31, 2019	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Securities available-for-sale				
Mortgage-backed securities	$ 6,982,336	$ -	$ 6,982,336	$ -
State, county, and municipal securities	29,175,769	-	29,175,769	-
Trust preferred security	1,000,000	-	-	1,000,000
	37,158,105	-	36,158,105	1,000,000
Loans held-for-sale	8,250,736	-	8,250,736	-
Derivative asset	213,108	-	213,108	-
Total assets	$ 45,621,949	$ -	$ 44,621,949	$ 1,000,000
As of December 31, 2018	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Securities available-for-sale				
Mortgage-backed securities	$ 6,660,018	$ -	$ 6,660,018	$ -
State, county, and municipal securities	28,756,840	-	28,756,840	-
Trust preferred security	1,000,000	-	-	1,000,000
	36,416,858	-	35,416,858	1,000,000
Loans held-for-sale	4,663,583	-	4,663,583	-
Derivative asset	234,127	-	234,127	-
Total assets	$ 41,314,568	$ -	$ 40,314,568	$ 1,000,000

17. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The table below sets forth a summary of changes in the fair value of the Company's Level 3 investment assets for the years ended December 31, 2019 and 2018:

	Trust Preferred Security
Beginning balance – December 31, 2017	$ 1,000,000
Total purchases, sales, issuances, and settlements (net) or gains related to instruments still held	-
Ending balance – December 31, 2018	1,000,000
Total purchases, sales, issuances, and settlements (net) or gains or losses (realized and unrealized)	-
Ending balance – December 31, 2019	$ 1,000,000

The Bank has one Level 3 investment in a trust preferred security that is reported at cost. Cost approximates fair value of this security at the reported date.

Items Measured at Fair Value on a Nonrecurring Basis

The following fair value hierarchy table presents information about the Bank's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2019 and 2018:

		Fair Value Measurement at Report Date Using		
		Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2019	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Impaired loans, net	$ -	$ -	$ -	$ -
Other real estate	88,779	-	-	88,779
Total assets	$ 88,779	$ -	$ -	$ 88,779
December 31, 2018	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Impaired loans, net	$ 741,153	$ -	$ -	$ 741,153
Other real estate	221,179	-	-	221,179
Total assets	$ 962,332	$ -	$ -	$ 962,332

17. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The estimated fair values of the Bank's financial instruments as of December 31 are as follows:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in Thousands)			
Financial assets:				
Cash and short-term investments	$ 12,508	$ 12,508	$ -	$ -
Bank-owned life insurance	3,334	3,334	3,264	3,264
Loans and loans held-for-sale	340,742	344,381	302,002	301,001
Financial liabilities:				
Deposits	368,122	367,718	313,962	305,713
Long-term debt	-	-	17,000	17,000
Unrecognized financial instruments:				
Commitments to extend credit	98,777	988	62,284	623

18. MORTGAGE BANKING ACTIVITY

During 2017, the Company, through the Bank, began entering into interest rate lock commitments (IRLCs) with customers who have applied for residential mortgage loans and meet certain credit and underwriting criteria. These commitments expose the Company to market risk if interest rates change, and the loan is not economically hedged or committed to an investor. Commitments to originate loans do not necessarily reflect future cash requirements as some commitments are expected to expire without being drawn upon. Total commitments to originate loans carried a notional amount of $7,622,871 and $10,779,000 at December 31, 2019 and 2018, respectively. The related interest rate lock commitment derivative asset was approximately $213,000 and $234,000 at December 31, 2019 and 2018, respectively. The amount of the loss, net of the fair value of the mortgage-backed securities TBAs, was approximately $20,000 for the year ended December 31, 2019, and the gain, net of the fair value of the mortgage-backed securities TBAs, was $38,000 for the year ended December 31, 2018, and is included in the consolidated statement of income in other noninterest income.

19. CONDENSED PARENT COMPANY INFORMATION

Statement of Financial Condition at December 31:

ASSETS

	2019	2018
Cash and due from banks – eliminated upon consolidation	$ 123,464	$ 199,143
Investment in subsidiary (equity method) – eliminated upon consolidation	38,914,798	32,600,061
Deferred tax asset	83,726	56,276
Other assets	26,957	26,646
TOTAL ASSETS	$ 39,148,945	$ 32,882,126

LIABILITIES AND SHAREHOLDERS' EQUITY

	2019	2018
Line-of-credit	$ 2,242,949	$ 2,242,949
Other liabilities	27,695	23,606
TOTAL LIABILITIES	2,270,644	2,266,555
TOTAL SHAREHOLDERS' EQUITY	36,878,301	30,615,571
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 39,148,945	$ 32,882,126

19. CONDENSED PARENT COMPANY INFORMATION – CONTINUED

Statement of Income for the Years Ended December 31:

	2019	2018
INCOME		
Dividends	$ -	$ -
TOTAL INCOME	-	-
EXPENSES		
Interest on line-of-credit	120,107	86,774
Other expenses	97,593	54,168
TOTAL EXPENSES	217,700	140,942
Loss before income taxes and equity in undistributed earnings of subsidiary	(217,700)	(140,942)
Income tax benefit	53,994	32,764
Loss before equity in undistributed earnings of subsidiary	(163,706)	(108,178)
Equity in undistributed earnings of subsidiary	5,161,915	4,470,910
NET INCOME	$ 4,998,209	$ 4,362,732

19. CONDENSED PARENT COMPANY INFORMATION – CONTINUED

Statement of Cash Flows for the Years Ended December 31:

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,998,209	$ 4,362,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(5,161,915)	(4,470,910)
Share-based compensation match	83,738	38,484
Deferred income expense	(27,450)	(11,514)
Other, net	3,778	(468,910)
NET CASH USED BY OPERATING ACTIVITIES	(103,640)	(550,118)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line-of-credit		504,997
Treasury stock sold (purchased)	19,214	-
Common stock	-	-
APIC	8,747	
Stock options exercised	-	71,960
NET CASH PROVIDED BY FINANCING ACTIVITIES	27,961	576,957
NET CHANGE IN CASH AND CASH EQUIVALENTS	(75,679)	26,839
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	199,143	172,304
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 123,464	$ 199,143
Cash paid during the year for interest	$ 120,107	$ 86,774

SUPPLEMENTARY INFORMATION

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2019

	SouthPoint Bancshares, Inc.	SouthPoint Bank	Eliminations	Consolidation
ASSETS				
CASH AND CASH EQUIVALENTS				
Cash and due from banks	$ 123,464	$ 8,099,611	$ (123,464)	$ 8,099,611
Interest-bearing deposits with other banks	-	4,408,529	-	4,408,529
TOTAL CASH AND CASH EQUIVALENTS	123,464	12,508,140	(123,464)	12,508,140
Investment in subsidiary – SouthPoint Bank	38,914,798	-	(38,914,798)	-
Securities available-for-sale	-	37,158,105	-	37,158,105
Loans held-for sale	-	8,250,736	-	8,250,736
Loans, net of allowance for loan losses	-	332,491,139	-	332,491,139
Premises and equipment, net	-	11,749,623	-	11,749,623
Other real estate	-	88,779	-	88,779
Bank-owned life insurance	-	3,333,828	-	3,333,828
Deferred tax assets	-	-	-	-
Other assets	26,957	2,723,530	-	2,750,487
Investment in income housing tax credits	-	1,812,083		1,812,083
TOTAL ASSETS	$ 39,065,219	$ 410,115,963	$ (39,038,262)	$ 410,142,920
LIABILITIES AND SHAREHOLDERS' EQUITY				
DEPOSITS				
Interest bearing	$ -	$ 328,324,026	$ -	$ 328,324,026
Noninterest bearing	-	39,921,187	(123,464)	39,797,723
TOTAL DEPOSITS	-	368,245,213	(123,464)	368,121,749
Accounts payable and accrued liabilities	27,695	2,759,634	-	2,787,329
Line of credit	2,242,949	-	-	2,242,949
Deferred tax liabilities	(83,726)	196,318		112,592
TOTAL LIABILITIES	2,186,918	371,201,165	(123,464)	373,264,619
SHAREHOLDERS' EQUITY				
Preferred stock, $1 par value; 10,000,000 shares authorized and none issued or outstanding	-	-	-	-
Common stock, $1 par value; 10,000,000 shares authorized; 2,137,016 shares issued and 2,001,783 shares outstanding	2,137,016	2,101,001	(2,101,001)	2,137,016
Additional paid-in capital	20,489,983	20,423,169	(20,423,169)	20,489,983
Retained earnings	15,162,225	15,730,836	(15,730,836)	15,162,225
Accumulated other comprehensive loss:				
Unrealized losses on securities, net of taxes	659,792	659,792	(659,792)	659,792
Treasury stock,135,290 shares at cost	(1,570,715)	-	-	(1,570,715)
TOTAL SHAREHOLDERS' EQUITY	36,878,301	38,914,798	(38,914,798)	36,878,301
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 39,065,219	$ 410,115,963	$ (39,038,262)	$ 410,142,920

See independent auditors’ report.

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	SouthPoint Bancshares, Inc.	SouthPoint Bank	Eliminations	Consolidation
INTEREST INCOME				
Interest and fees on loans	$ -	$ 18,094,265	$ -	$ 18,094,265
Interest on investment securities	-	1,186,049	-	1,186,049
TOTAL INTEREST INCOME	-	19,280,314	-	19,280,314
INTEREST EXPENSE				
Interest expense on deposits	-	5,011,964	-	5,011,964
Interest on borrowed funds	120,107	203,320	-	323,427
TOTAL INTEREST EXPENSE	120,107	5,215,284	-	5,335,391
NET INTEREST INCOME (EXPENSE)	(120,107)	14,065,030	-	13,944,923
Provision for loan losses	-	240,000	-	240,000
NET INTEREST INCOME (EXPENSE) AFTER PROVISION FOR LOAN LOSSES	(120,107)	13,825,030	-	13,704,923
NONINTEREST INCOME				
Service charges, fees, and commissions	-	676,178	-	676,178
Mortgage origination and servicing-release premium fees	-	5,595,744	-	5,595,744
Net loss on sale of available-for-sale securities	-	2,133	-	2,133
Other	-	121,063	-	121,063
TOTAL NONINTEREST INCOME	-	6,395,118	-	6,395,118
NONINTEREST EXPENSES				
Salaries and employee benefits	92,485	8,699,062	-	8,791,547
Net occupancy expenses	-	824,827	-	824,827
Other real estate costs	-	(51,539)	-	(51,539)
Operating expenses	5,108	4,222,909	-	4,228,017
TOTAL NONINTEREST EXPENSES	97,593	13,695,259	-	13,792,852
Equity in subsidiary undistributed earnings – SouthPoint Bank	5,161,915	-	(5,161,915)	-
INCOME BEFORE INCOME TAXES	4,944,215	6,524,889	(5,161,915)	6,307,189
Income tax (benefit) expense	(53,994)	1,362,974	-	1,308,980
NET INCOME	$ 4,998,209	$ 5,161,915	$ (5,161,915)	$ 4,998,209

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SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	SouthPoint Bancshares, Inc.	SouthPoint Bank	Eliminations	Consolidation
COMMON STOCK				
2,137,016 shares issued and 1,997,001 shares outstanding	$ 2,137,016	$ 2,101,001	$ (2,101,001)	$ 2,137,016
ADDITIONAL PAID-IN CAPITAL	20,489,983	20,423,169	(20,423,169)	20,489,983
RETAINED EARNINGS				
Balance at December 31, 2018	10,155,627	10,568,921	(10,568,921)	10,155,627
Net income for the year	4,998,209	5,161,915	(5,161,915)	4,998,209
Treasury stock sold	8,389	-	-	8,389
Balance at December 31, 2019	15,162,225	15,730,836	(15,730,836)	15,162,225
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Unrealized losses on securities, net	659,792	659,792	(659,792)	659,792
TREASURY STOCK				
136,165 shares at cost	(1,570,715)	-	-	(1,570,715)
TOTAL SHAREHOLDERS' EQUITY	$ 36,878,301	$ 38,914,798	$ (38,914,798)	$ 36,878,301

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SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2018

	SouthPoint Bancshares, Inc.	SouthPoint Bank	Eliminations	Consolidation
ASSETS				
CASH AND CASH EQUIVALENTS				
Cash and due from banks	$ 199,143	$ 3,445,526	$ (199,143)	$ 3,445,526
Interest-bearing deposits with other banks	-	4,220,934	-	4,220,934
TOTAL CASH AND CASH EQUIVALENTS	199,143	7,666,460	(199,143)	7,666,460
Investment in subsidiary – SouthPoint Bank	32,600,061	-	(32,600,061)	-
Securities available-for-sale	-	36,416,858	-	36,416,858
Loans held-for sale	-	4,663,583	-	4,663,583
Loans, net of allowance for loan losses	-	297,338,205	-	297,338,205
Premises and equipment, net	-	12,095,154	-	12,095,154
Other real estate	-	221,179	-	221,179
Bank-owned life insurance	-	3,264,252	-	3,264,252
Deferred tax assets	56,276	102,799	-	159,075
Other assets	26,646	3,321,551	-	3,348,197
TOTAL ASSETS	$ 32,882,126	$ 365,090,041	$ (32,799,204)	$ 365,172,963
LIABILITIES AND SHAREHOLDERS' EQUITY				
DEPOSITS				
Interest-bearing	$ -	$ 278,574,058	$ -	$ 278,574,058
Noninterest-bearing	-	35,400,564	(199,143)	35,201,421
TOTAL DEPOSITS	-	313,974,622	(199,143)	313,775,479
FHLB advances	-	17,000,000	-	17,000,000
Accounts payable and accrued liabilities	23,606	1,515,358	-	1,538,964
Line of credit	2,242,949	-	-	2,242,949
TOTAL LIABILITIES	2,266,555	332,489,980	(199,143)	334,557,392
SHAREHOLDERS' EQUITY				
Preferred stock, $1 par value; 10,000,000 shares authorized and none issued or outstanding	-	-	-	-
Common stock – par value $1 per share; 10,000,000 shares authorized, 2,124,000 shares issued, and 1,987,835 shares outstanding	2,133,166	2,101,001	(2,101,001)	2,133,166
Additional paid-in capital	20,401,348	20,423,169	(20,423,169)	20,401,348
Retained earnings	10,155,627	10,568,921	(10,568,921)	10,155,627
Accumulated other comprehensive loss:				
Unrealized losses on securities, net of taxes	(493,030)	(493,030)	493,030	(493,030)
Treasury stock, 136,165 shares at cost	(1,581,540)	-	-	(1,581,540)
TOTAL SHAREHOLDERS' EQUITY	30,615,571	32,600,061	(32,600,061)	30,615,571
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 32,882,126	$ 365,090,041	$ (32,799,204)	$ 365,172,963

See independent auditors' report.

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	SouthPoint Bancshares, Inc.	SouthPoint Bank	Eliminations	Consolidation
INTEREST INCOME				
Interest and fees on loans	$ -	$ 14,597,630	$ -	$ 14,597,630
Interest on investment securities	-	1,301,882	-	1,301,882
TOTAL INTEREST INCOME	-	15,899,512	-	15,899,512
INTEREST EXPENSE				
Interest expense on deposits	-	3,234,083	-	3,234,083
Interest on borrowed funds	86,774	315,318	-	402,092
TOTAL INTEREST EXPENSE	86,774	3,549,401	-	3,636,175
NET INTEREST INCOME (EXPENSE)	(86,774)	12,350,111	-	12,263,337
Provision for loan losses	-	10,000	-	10,000
NET INTEREST INCOME (EXPENSE) AFTER PROVISION FOR LOAN LOSSES	(86,774)	12,340,111	-	12,253,337
NONINTEREST INCOME				
Service charges, fees, and commissions	-	581,958	-	581,958
Mortgage origination and servicing-release premium fees	-	4,320,655	-	4,320,655
Net gain on sale of available-for-sale securities	-	74,841	-	74,841
Other	-	129,206	-	129,206
TOTAL NONINTEREST INCOME	-	5,106,660	-	5,106,660
NONINTEREST EXPENSES				
Salaries and employee benefits	40,984	7,513,746	-	7,554,730
Net occupancy expenses	-	817,661	-	817,661
Other real estate costs	-	(82,288)	-	(82,288)
Operating expenses	13,184	3,697,849	-	3,711,033
TOTAL NONINTEREST EXPENSES	54,168	11,946,968	-	12,001,136
Equity in subsidiary undistributed earnings – SouthPoint Bank	4,470,910	-	(4,470,910)	-
INCOME BEFORE INCOME TAXES	4,329,968	5,499,803	(4,470,910)	5,358,861
Income tax expense	(32,764)	1,028,893	-	996,129
NET INCOME	$ 4,362,732	$ 4,470,910	$ (4,470,910)	$ 4,362,732

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SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	SouthPoint Bancshares, Inc.	SouthPoint Bank	Eliminations	Consolidation
COMMON STOCK				
2,133,166 shares issued and 1,997,001 shares outstanding	$ 2,133,166	$ 2,101,001	$ (2,101,001)	$ 2,133,166
ADDITIONAL PAID-IN CAPITAL	20,401,348	20,423,169	(20,423,169)	20,401,348
RETAINED EARNINGS				
Balance at December 31, 2017	5,792,895	6,098,011	(6,098,011)	5,792,895
Net income for the year	4,362,732	4,470,910	(4,470,910)	4,362,732
Balance at December 31, 2018	10,155,627	10,568,921	(10,568,921)	10,155,627
ACCUMULATED OTHER COMPREHENSIVE GAIN				
Unrealized gains on securities, net	(493,030)	(493,030)	493,030	(493,030)
TREASURY STOCK				
136,165 shares at cost	(1,581,540)	-	-	(1,581,540)
TOTAL SHAREHOLDERS' EQUITY	$ 30,615,571	$ 32,600,061	$(32,600,061)	$ 30,615,571

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