Southpoint Bancshares, Inc. and Subsidiary

Consolidated Financial Statements and Supplemental Information

Years Ended December 31, 2021 and 2020

INDEX

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
SouthPoint Bancshares, Inc. and Subsidiary
Birmingham, Alabama

Opinion

We have audited the accompanying consolidated financial statements of SouthPoint Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SouthPoint Bancshares, Inc. and Subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SouthPoint Bancshares, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

To the Board of Directors and Shareholders
SouthPoint Bancshares, Inc. and Subsidiary
Birmingham, Alabama

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SouthPoint Bancshares, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SouthPoint Bancshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Saltmarsh Cleaveland & Gund

Pensacola, Florida
March 31, 2022

SouthPoint Bancshares, Inc. and Subsidiary
Consolidated Balance Sheets

December 31, 2021 and 2020	2021	2020
ASSETS		
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 2,367,740	$ 3,274,733
Interest-bearing deposits in other banks	35,966,141	12,356,622
Total cash and cash equivalents	38,333,881	15,631,355
Securities available-for-sale	46,450,354	79,615,294
Loans held-for-sale	7,362,718	13,885,193
Loans, net of allowance for loan losses	594,962,305	440,043,763
Accrued interest interest receivable	2,425,689	2,435,171
Premises and equipment, net	11,541,674	12,126,633
Other real estate	243,995	-
Bank-owned life insurance	3,873,704	3,400,249
Deferred tax assets	2,318,971	228,573
Investment in low income housing tax credits	3,788,291	3,597,049
Other assets	2,437,265	3,020,301
TOTAL ASSETS	$ 713,738,847	$ 573,983,581
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Interest-bearing	$ 498,575,664	$ 376,170,920
Noninterest-bearing	75,694,341	57,223,979
Total deposits	574,270,005	433,394,899
Other Borrowings	53,584,372	89,298,486
Line-of-Credit	-	1,242,950
Subordinated debentures	29,437,340	-
Accrued expense and other liabilities	4,654,535	4,047,886
Total liabilities	661,946,252	527,984,221
Committments and Contingencies	-	-
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; 2,144,466 and 2,140,866 shares issued at December 31, 2021 and 2020, respectively, and 2,020,396 and 2,010,834 shares outstanding at December 31, 2021 and 2020, respectively.	2,144,466	2,140,866
Additional paid-in capital	20,812,651	20,624,576
Retained earnings	30,264,062	22,491,100
Accumulated other comprehensive income	12,474	2,253,124
Treasury stock, 124,070 and 130,032 shares at cost at December 31, 2021 and 2020 respectively	(1,441,058)	(1,510,306)
Total stockholders' equity	51,792,595	45,999,360
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 713,738,847	$ 573,983,581

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc. and Subsidiary
Consolidated Statements of Income

Years Ended December 31, 2021 and 2020	2021	2020
INTEREST INCOME		
Interest and fees on loans	$ 26,289,564	$ 20,422,651
Interest on investment securities	1,633,850	1,514,097
Interest on other	33,141	40,573
Total interest income	27,956,555	21,977,321
INTEREST EXPENSE		
Interest expense on deposits	3,221,957	4,251,220
Interest on borrowed funds	945,569	241,830
Total interest expense	4,167,526	4,493,050
NET INTEREST INCOME	23,789,029	17,484,271
Provision for loan losses	4,115,791	2,252,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	19,673,238	15,232,271
NONINTEREST INCOME		
Service charges, fees and commissions	596,599	528,389
Mortgage origination and servicing-release premium fees	12,193,661	14,465,456
Net gain on sale of available-for-sale securities	1,647,173	86,348
Other income	315,185	324,532
Total noninterest income	14,752,618	15,404,725
NONINTEREST EXPENSES		
Salaries and employee benefits	15,988,090	14,915,098
Data processing expenses	1,670,076	1,463,262
Net occupancy expenses	1,078,499	900,377
Professional fees	1,637,633	1,140,357
Other operating expenses	4,084,076	2,799,242
Total noninterest expenses	24,458,374	21,218,336
INCOME BEFORE INCOME TAXES	9,967,482	9,418,660
INCOME TAX EXPENSE	2,194,520	2,089,785
NET INCOME	$ 7,772,962	$ 7,328,875

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020	2021	2020
NET INCOME	$ 7,772,962	$ 7,328,875
Other comprehensive (loss) income:		
Unrealized (loss) gain arising during the period on securities available-for-sale, net of tax of $233,439 in 2021 and $441,677 in 2020	(878,171)	1,661,547
Reclassification adjustment for net gains realized in net income , net of tax of $362,178 in 2021 and $18,133 in 2020	(1,362,479)	(68,215)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(2,240,650)	1,593,332
Total comprehensive income	$ 5,532,312	$ 8,922,207

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balances at January 1, 2020	$ 2,137,016	$ 20,489,983	$ 15,162,225	$ 659,792	$ (1,570,715)	$ 36,878,301
Net income	-	-	7,328,875	-	-	7,328,875
Other comprehensive income	-	-	-	1,593,332	-	1,593,332
Share-based compensation	-	3,066	-	-	-	3,066
Restricted stock awards	3,850	77,000	-	-	-	80,850
Treasury stock issued to ESOP	-	54,527	-	-	60,409	114,936
Balances at December 31, 2020	2,140,866	20,624,576	22,491,100	2,253,124	(1,510,306)	45,999,360
Net income	-	-	7,772,962	-	-	7,772,962
Other comprehensive loss	-	-	-	(2,240,650)	-	(2,240,650)
Restricted stock awards	3,600	105,300	-	-	-	108,900
Treasury stock issued to ESOP	-	82,775	-	-	69,248	152,023
Balances at December 31, 2021	$ 2,144,466	$ 20,812,651	$ 30,264,062	$ 12,474	$ (1,441,058)	$ 51,792,595

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020	2021	2020
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	$ 7,772,962	$ 7,328,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	653,227	540,505
Proceeds from loans held-for-sale	330,592,183	297,574,164
Origination of loans held-for-sale	(324,327,608)	(302,903,466)
Fair value change in loans held-for-sale	257,900	(305,155)
Provision for loan losses	4,115,791	2,252,000
Net realized gain on securities	(1,647,173)	(86,348)
Realized loss (gains) on disposition and write down of other real estate, net	32,096	(10,685)
Amortization of premiums and discounts on securities available-for-sale, net	455,940	233,934
Amortization of debt issuance costs	32,397	-
Amortization of low income housing tax credits	444,735	529,221
Share based compensation	108,900	83,916
Deferred tax benefit	(1,494,781)	(764,709)
Increase in cash surrender value of life insurance	(63,456)	(66,421)
Change in accrued interest	9,482	(1,218,828)
Change in other assets	583,036	(1,486,157)
Change in accrued expenses and other liabilities	758,672	1,375,493
Net cash provided by operating activities	18,284,303	3,076,339
Cash flows from investing activities:		
Purchases of premises and equipment	(68,268)	(917,515)
Net change in loans	(159,373,333)	(109,809,251)
Paydowns, calls, and maturities of available-for-sale securities	4,076,598	5,573,635
Purchase of available-for-sale securities	(23,656,925)	(51,550,391)
Sales of available-for-sale securities	51,100,233	5,388,857
Net proceeds from disposition of foreclosed real estate	62,909	104,091
Investment in low income housing tax credits	(635,977)	(2,314,187)
Purchase of bank owned life insurance	(409,999)	-
Net cash used in investing activities	(128,904,762)	(153,524,761)
Cash flows from financing activities:		
Net change in deposits	140,875,106	65,273,150
(Decrease) Increase in other borrowings	(35,714,114)	89,298,486
Principal reduction on line-of-credit	(1,242,950)	(999,999)
Proceeds from subordinate debentures	30,000,000	-
Issuance costs on subordinate debentures	(595,057)	-
Net cash provided by financing activities	133,322,985	153,571,637

Consolidated Statements of Cash Flows, continued

Years ended December 31, 2021 and 2020	2021	2020
Net increase in cash and cash equivalents	22,702,526	3,123,215
Cash and cash equivalents at beginning of year	15,631,355	12,508,140
Cash and cash equivalents at end of year	$ 38,333,881	$ 15,631,355
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 3,675,120	$ 4,618,127
Income taxes	3,226,840	3,279,600
NONCASH TRANSACTIONS:		
Treasury stock issued to ESOP	152,023	114,936
Loans transferred to other real estate	339,000	-

See accompanying notes to consolidated financial statements.

Note 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, 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 five 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.

Note 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, 2021, was approximately $1,057,000. 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 in the accompanying consolidated statements of income.

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.

Note 2: Summary of Significant Accounting Policies (Continued)

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.

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 less estimated selling costs if the loan is collateral dependent. Generally, impaired loans include loans on nonaccrual status, loans that have been partially charged off, and loans designated as troubled debt restructurings.

Note 2: Summary of Significant Accounting Policies (Continued)

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.

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

Note 2: Summary of Significant Accounting Policies (Continued)

Mortgage Loans Held-for-Sale and Mortgage Banking Derivatives (Continued)

commitments on mortgage-backed securities ("MBS") and forward sales of MBS to be announced ("TBAs") 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 mortgage origination and servicing-release premium fees in the consolidated statements of income. The sales proceeds reflect the cash received. Mortgage origination and servicing-release premium fees 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.

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 2021 or 2020.

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.

Note 2: Summary of Significant Accounting Policies (Continued)

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 is stated at cost, which approximates fair value.

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 loans, based on collateral rates set by the FHLB and the FRB.

Treasury Stock

Treasury stock purchases and sales are accounted for using the cost method.

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 Subsidiary provides for income taxes on a separate basis and remits to the Company amounts determine 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 consolidated 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 and Stock Awards

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 16 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.

Note 2: Summary of Significant Accounting Policies (Continued)

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:

- 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.

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.

Note 2: Summary of Significant Accounting Policies (Continued)

Use of Estimates (Continued)

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.

In 2020, Coronavirus Disease 2019 (COVID-19) spread into a worldwide pandemic. The pandemic may impact various parts of the Company’s future operations and financial results, including additional allowance for loan loss provisions. Management believes the Company is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 on the allowance for loan losses as of December 31, 2021 cannot be reasonably estimated, as these events are still developing.

Revenue from Contracts with Customers

The Company has adopted Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“Accounting Standards Codification (“ASC”) Topic 606”) (“ASU 2014-09”). The Company concluded ASU 2014-09 did not change the timing or presentation of revenue recognition for its current revenue streams. The majority of the Company’s revenues are interest earned on loans, investment securities, and other financial instruments which are unaffected as they are outside the scope of ASU 2014-09. ASC Topic 606 focuses on revenues from contracts earned over time. Fee income, which is within the scope of Topic 606, is generally earned over a short period of time, such as monthly, or is earned concurrently with a specific transaction. The Company records a gain or loss from the sale of other real estate owned (“OREO”) when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. There are no ASC Topic 606 implications unless the Company finances the sale of the OREO property. ASC Topic 606 could change the timing of revenue recognition in the case of seller financing.

Comprehensive Income

Annual comprehensive income reflects the change in the Company’s equity during the year arising from transactions and events other than investment by and distributions to shareholders. The only components of other comprehensive income consist of realized and unrealized gains and losses related to investment securities.

Note 2: Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management has evaluated subsequent events and their potential effects on these consolidated financial statements through March 31, 2022, the date that the consolidated financial statements were available to be issued.

Recently Adopted and Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02 - *Leases (Topic 842)*. The guidance in this topic supersedes the requirements in ASC *Topic 840, Leases*. The update will require business entities to recognize lease assets and liabilities on the balance sheet and to disclose key information about leasing arrangements. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the leased asset for the lease term. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842).* This update reflects the FASB's acknowledgement that entities could be facing limited resources due to the COVID-19 pandemic and provides a one-year deferral of the effective date for certain entities applying the revenue recognition (ASC 606) and leases (ASC 842) standards. The impact of this update to the Company was the deferral of the effective date of the leases standard (ASC 842) to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. The Company adopted ASC 606, *Revenue from Contracts with Customers,* in 2019. The Company is currently evaluating the impact that the standard will have on its financial statements.

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 October 2021, the FASB issued ASU 2021-07 – *Compensation – Stock Compensation (Topic 718).* The guidance allows, as a practical expedient, a nonpublic entity to determine the current price input of equity-classified share-based awards issued to both employees and nonemployees using the reasonable application of a reasonable valuation method. The guidance describes the characteristics of the reasonable application of a reasonable valuation method. Nonpublic entities can elect the practical expedient in this guidance on a measurement-date-by-measurement-date basis. The ASU is effective prospectively for all qualifying awards granted or modified during fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

Note 3: Securities Available-for-Sale

Investment securities available-for-sale consisted of the following at December 31, 2021 and 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Mortgage-backed securities	$ 13,221,930	$ -	$ (268,421)	$ 12,953,509
State, county, and municipal securities	30,712,635	494,702	(196,287)	31,011,050
Trust preferred securities	2,500,000	-	(14,205)	2,485,795
Total securities available for sale	$ 46,434,565	$ 494,702	$ (478,913)	$ 46,450,354
December 31, 2020				
Mortgage-backed securities	$ 16,431,490	$ 174,625	$ (278)	$ 16,605,837
State, county, and municipal securities	59,331,748	2,688,470	(10,761)	62,009,457
Trust preferred security	1,000,000	-	-	1,000,000
Total securities available for sale	$ 76,763,238	$ 2,863,095	$ (11,039)	$ 79,615,294

During 2021, the Bank received proceeds from sales of securities available for sale totaling approximately $51,000,000, resulting in gross realized gains and losses of $1,874,394 and 227,221, respectively. During 2020, the Bank received proceeds from sales of securities available for sale totaling approximately $5,389,000, resulting in gross realized gains of $86,348.

At December 31, 2021, the Company had 17 investment securities in an unrealized loss position for less than 12 months with a fair value of $27,563,616 and unrealized losses totaling $478,913, and no securities in a loss positions greater than 12 months.

At December 31, 2020, the Company had four investment securities in an unrealized loss position for less than 12 months with a fair value of $7,119,750 and unrealized losses totaling $11,039, and no securities in a loss positions greater than 12 months.

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.

Note 3: Securities Available-for-Sale (Continued)

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2021, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Amounts maturing:		
After five years through 10 years	$ 1,500,000	$ 1,485,795
After 10 years	44,934,565	44,964,559
Total	$ 46,434,565	$ 46,450,354

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.

There were no invesments pledged as collateral as of December 31, 2021. Investment securities with an approximate fair value of $22,119,000 were pledged as collateral for deposits held under the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program as of December 31, 2020.

Note 4: Loans

The composition of loans by primary loan classification and by performing and impaired loan status as of December 31, 2021 and 2020, are as follows:

	Commercial, Financial and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Allowance for Loan Losses	Net Loans
2021						
Performing loans	$ 177,445,718	$ 90,872,218	$ 318,815,304	$ 11,918,761	$ (7,232,695)	$ 591,819,306
Impaired loans	1,577,942	-	4,141,858	-	(2,576,801)	3,142,999
	179,023,660	90,872,218	322,957,162	11,918,761	(9,809,496)	594,962,305
2020						
Performing loans	155,830,636	65,122,755	213,346,506	6,844,889	(4,253,743)	436,891,043
Impaired loans	16,934	847,341	3,767,999	-	(1,479,554)	3,152,720
	$ 155,847,570	$ 65,970,096	$ 217,114,505	$ 6,844,889	$ (5,733,297)	$ 440,043,763

Commercial, financial, and agricultural loans also include loans originated under the Paycheck Protection Program ("PPP"), as prescribed in the CARES Act. These loans have an interest rate of 1.0% and a two-year or five-year loan term to maturity. The Small Business Administration ("SBA") guarantees 100% of the PPP loans made to eligible borrowers, and loan proceeds may be partially or fully forgiven by the SBA if the funds are used for eligible expenses during the relevant forgiveness period and the borrower meets the employee retention criteria. PPP loans outstanding amounted to approximately $4,531,000 as of December 31, 2021 and $54,537,000 at December 31, 2020.

Note 4: Loans (Continued)

The Bank was paid a processing fee from the SBA on PPP loan originations ranging from 1% to 5%, based on the size of the loans. As of December 31, 2021 and 2020, the Bank has recorded approximately $1,244,000 and $2,461,000 in net PPP-related SBA fees and is accreting these fees into interest income over the estimated life of the applicable loans. If a PPP loan is forgiven or paid off before maturity, the remaining unearned fee is recognized into income at that time. In 2021 and 2020, the Bank has recognized approximately $2,429,000 and $1,038,000 in PPP-related SBA fees through accretion. The majority of the remaining unearned fees are expected to be recognized as the PPP loans are forgiven or paid off.

The Company had net deferred loan fees of approximately $830,000 and $2,001,000 as of December 31, 2021 and 2020, respectively.

The allocation and changes in the allowance for loan losses, by loan classification, as of and for the years ended December 31, 2021 and 2020, are as follows:

	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Unallocated	Total
Balance at December 31, 2020	$ 1,382,726	$ 656,502	$ 3,340,664	$ 28,702	$ 324,703	$ 5,733,297
Charge-offs	-	(303,125)	(143,997)	(15,044)	-	(462,166)
Recoveries	-	132,009	285,383	5,182	-	422,574
Net Charge-offs	-	(171,116)	141,386	(9,862)	-	(39,592)
Provision	2,651,673	261,565	16,938	43,385	1,142,230	4,115,791
Balance at December 31, 2021	4,034,399	746,951	3,498,988	62,225	1,466,933	9,809,496
Balance at December 31, 2019	814,604	435,927	2,024,518	10,962	299,713	3,585,724
Charge-offs	-	-	(144,225)	(24,584)	-	(168,809)
Recoveries	1,644	-	58,657	4,081	-	64,382
Net Charge-offs	1,644	-	(85,568)	(20,503)	-	(104,427)
Provision	566,478	220,575	1,401,714	38,243	24,990	2,252,000
Balance at December 31, 2020	$ 1,382,726	$ 656,502	$ 3,340,664	$ 28,702	$ 324,703	$ 5,733,297

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. Management analyzes the resulting ratings as well as other external statistics and factors such as delinquency to track the migration performance of the portfolio balances, on a quarterly basis. 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.

Note 4: Loans (Continued)

- 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, 2021 and 2020:

	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Total
2021					
Grade:					
Pass	$ 177,231,089	$ 90,746,557	$ 318,762,167	$ 11,918,761	$ 598,658,574
Special Mention	214,232	-	144,688	-	358,920
Substandard	48,619	125,661	610	-	174,890
Substandard - impaired	1,529,720	-	4,049,697	-	5,579,417
	$ 179,023,660	$ 90,872,218	$ 322,957,162	$ 11,918,761	$ 604,771,801
2020					
Grade:					
Pass	$ 155,420,007	$ 65,122,755	$ 213,216,687	$ 6,844,889	$ 440,604,338
Special Mention	410,629	-	165,882	-	576,511
Substandard	-	-	-	-	-
Substandard - impaired	16,934	847,341	3,665,308	-	4,529,583
Doubtful	-	-	66,628	-	66,628
	$ 155,847,570	$ 65,970,096	$ 217,114,505	$ 6,844,889	$ 445,777,060

Note 4: Loans (Continued)

Past due balances and loans on nonaccrual status at December 31, 2021 and 2020, by loan classification, are as follows:

	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
2021						
Commercial, financial, and agricultural	$ 2,838,892	$ -	$ 2,838,892	$ 16,934	$ 176,167,834	$ 179,023,660
Real estate - construction	253,161	-	253,161	-	90,619,057	90,872,218
Real estate - mortgage	1,118,886	3,641,458	4,760,344	610	318,196,208	322,957,162
Consumer and other	-	-	-	-	11,918,761	11,918,761
	$ 4,210,939	$ 3,641,458	$ 7,852,397	$ 17,544	$ 596,901,860	$ 604,771,801
2020						
Commercial, financial, and agricultural	$ 1,722,730	$ -	$ 1,722,730	$ 16,934	$ 154,107,906	$ 155,847,570
Real estate - construction	7,794	129,560	137,354	847,341	64,985,401	65,970,096
Real estate - mortgage	4,268,529	-	4,268,529	236,294	212,609,682	217,114,505
Consumer and other	-	-	-	-	6,844,889	6,844,889
	$ 5,999,053	$ 129,560	$ 6,128,613	$ 1,100,569	$ 438,547,878	$ 445,777,060

At December 31, 2021 and 2020, loans reported as past due 30-89 days still accruing includes approximately $1,179,000 and 1,078,000, respectively, of loans that were past due for maturity that were in process of renewal.

The following tables provide details on impaired loans as of December 31, 2021 and 2020, including the average recorded investment of impaired loans and interest income recognized for the years ended December 31, 2021 and 2020:

December 31, 2021	**Recorded Investment**	**Principal Balance**	**Related Allowance**	**Average Investment**	**Interest Recognized**
Impaired loans with no recorded allowance:					
Commercial, financial, and agricultural	$ 48,222	$ 48,222	N/A	$ 126,243	$ 5,388
Real estate - construction	-	-	N/A	366,949	-
Real estate - mortgage	92,163	92,163	N/A	136,556	6,604
Total	140,385	140,385	N/A	629,748	11,992
Impaired loans with a recorded allowance:					
Commercial, financial, and agricultural	1,529,720	1,529,720	1,047,081	382,430	-
Real estate - mortgage	4,049,695	4,049,695	1,529,720	3,669,086	158,663
Total	5,579,415	5,579,415	2,576,801	4,051,516	158,663
Grand total	$ 5,719,800	$ 5,719,800	$ 2,576,801	$ 4,681,264	$ 170,655

Note 4: Loans (Continued)

December 31, 2020	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Impaired loans with no recorded allowance:					
Commercial, financial, and agricultural	$ 16,934	$ 16,934	N/A	$ 17,466	$ 102
Real estate - construction	847,341	850,176	N/A	730,512	-
Real estate - mortgage	169,056	169,989	N/A	170,949	2,888
Total	1,033,331	1,037,099	N/A	918,927	2,990
Impaired loans with a recorded allowance:					
Real estate - mortgage	3,598,943	3,599,436	1,479,554	3,638,068	150,157
Total	3,598,943	3,599,436	1,479,554	3,638,068	150,157
Grand total	$ 4,632,274	$ 4,636,535	$ 1,479,554	$ 4,556,995	$ 153,147

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.

COVID-19 Related Loan Modifications

The Bank implemented a customer payment deferral program to assist borrowers that may be experiencing financial hardship due to COVID-19 related challenges, whereby short-term deferrals of payments (generally three to six months) have been provided. As of December 31, 2020, loans amounting to approximately $6,905,000 were under COVID-19 payment deferrals. Loans in deferment status continued to accrue interest during the deferment period unless otherwise classified as nonperforming. Consistent with industry regulatory guidance, borrowers that were otherwise current on loan payments that were granted COVID-19 related financial hardship payment deferrals continued to be reported as current loans throughout the agreed upon deferral period and were not classified as troubled-debt restructured loans. During 2021, all loans that were granted COVID-19 related payment deferrals had resumed making payments under the terms of their respective loan agreements.

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 $93,089,000 and $105,000,000 as of December 31, 2021 and 2020, respectively. The Company did not record an estimate of the potential recourse liability as of December 31, 2021 and 2020.

The Company has elected to hold certain mortgage loans originated by the mortgage division of the Bank, and

Note 4: Loans (Continued)

contracts with a third-party service provider for servicing. Mortgage loans held by the Company and serviced by a third-party were approximately $25,522,000 and $25,446,000 as of December 31, 2021 and 2020, respectively, and are reported in loans in the consolidated balance sheets.

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 into income over the remaining life of these loans. If a portion of these loans are paid off or charged off, the balance remaining to be accreted will be adjusted. This balance was fully accreted by December 31, 2021. The unaccreted balance was approximately $251,000 as of December 31, 2020, and is included in accrued expenses and other liabilities in the consolidated balance sheets.

Note 5: Premises and Equipment

An analysis of premises and equipment at December 31, 2021 and 2020 is as follows:

	2021	2020
Land	$ 2,761,209	$ 2,761,209
Buildings and improvements	7,435,570	7,435,570
Equipment	3,350,764	3,282,497
Furniture and fixtures	1,849,253	1,849,253
Software	99,516	99,516
Vehicles	116,696	116,696
Subtotal	15,613,008	15,544,741
Accumulated depreciation	(4,071,334)	(3,418,108)
Total	$ 11,541,674	$ 12,126,633

Depreciation and amortization expense charged to operations amounted to $653,227 in 2021 and $540,505 in 2020.

Note 6: Deposits

The Company has approximately $63,376,000 of time deposits greater than the FDIC insurance limit of $250,000 at December 31, 2021 ($93,755,000 at December 31, 2020). The maturity schedule for all outstanding time deposits as of December 31, 2021, is as follows:

	2021
2022	$ 103,294,450
2023	10,251,562
2024	10,330,508
2025	5,893,585
2026	13,485,913
Total	$ 143,256,018

Note 7: FHLB Stock and Borrowings

As of December 31, 2021, the Company owned stock in the FHLB with a total cost of $288,000 ($369,300 in 2020). 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, 2021 and 2020. The Bank also has a $42,000,000 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. 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 $49,563,000 and $43,770,000 as of December 31, 2021 and 2020 , 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 $23,600,000 and $27,600,000 as of December 31, 2021 and 2020, 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 $142,946,000 as of December 31, 2021 . As of December 31, 2021 , the Bank had Federal Reserve Bank discount window borrowings outstanding of $50 million. These borrowings were paid off in January 2022.

During 2020, the Bank was approved by the Federal Reserve to access its SBA Paycheck Protection Program Liquidity Facility ("PPPLF") through the discount window. This line of credit is secured by PPP loans and bears a fixed interest rate of 0.35% with a maturity date equal to the maturity date of the related PPP loans, with the PPP loans maturing either two or five years from the origination date. At December 31, 2021 and 2020, the Bank had $3.58 and $72.3million, respectively, in borrowings under the PPPLF which were collateralized by PPP loans.

Note 8: Line of Credit

Under the terms of a line-of-credit agreement, the Company granted Noble Bank & Trust a security interest in the common stock of the Bank. Under terms of the agreement, the Company could borrow up to $3,239,500 at prime rate (with a minimum of 4.0%). At December 31, 2020, the interest rate was 4.0% and the outstanding balance was $1,242,950. The Company closed out and paid off this line-of-credit in 2021.

During 2021, the Company executed a revolving line-of-credit agreement with South State Bank that is secured by a security interest in the common stock of the Bank. Under terms of the agreement, the Company may borrow up to $10,000,000 at the Wall Street Journal prime rate (3.25% as of December 31, 2021). The line-of-credit agreement requires quarterly interest only payments and principal is payable upon demand. There was no balance outstanding on this line-of-credit at December 31, 2021.

Note 9: Subordinated Debentures

On June 2, 2021, the Company completed the offering and sale of $30,000,000 in aggregate principal amount of fixed-to-floating rate subordinated notes. The proceeds of the offering, net of offering costs of approximately $595,000, were approximately $29,405,000.

Subordinated notes consisted of the following as of December 31, 2021:

	2021
Subordinated notes, net of issuance costs issued in June 2021, due 2031, fixed rate of 3.875% during the first five years and at a floating rate of 3.19% above the then three-month Secured Overnight Financing Rate (SOFR), reset quarterly thereafter	$ 23,551,724
Subordinated notes, net of issuance costs issued in June 2021, due 2036, fixed rate of 4.25% during the first ten years and at a floating rate of 2.91% above the then three-month SOFR, reset quarterly thereafter	5,885,616
	$ 29,437,340

Note 10: 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 31, 2021:

	2021
2022	$ 302,000
2023	273,000
2024	269,000
2025	223,000
2026	162,000
Thereafter	1,546,000
Total	$ 2,775,000

Total rent expense was approximately $378,800 and $316,900 for 2021 and 2020, respectively.

Note 11: Income Taxes

Provisions for federal and state income taxes are based on amounts reported in the consolidated 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.

The components of income tax expense (benefit) for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Current tax expense (benefit):		
Federal	$ 2,881,798	$ 2,306,345
State	807,503	548,149
Total current	3,689,301	2,854,494
Deferred tax expense (benefit):		
Federal	(1,172,828)	(652,663)
State	(321,953)	(112,046)
Total deferred	(1,494,781)	(764,709)
Total	$ 2,194,520	$ 2,089,785

The components of the net deferred tax assets (liabilities) as of December 31, 2021 and 2020, are as follows:

	2021	2020
Deferred tax assets:		
Federal	$ 2,728,066	$ 1,857,803
State	666,428	358,879
	3,394,494	2,216,682
Deferred tax liabilities:		
Federal	(865,021)	(1,763,202)
State	(210,502)	(224,907)
Total deferred tax liabilities	(1,075,523)	(1,988,109)
Net deferred tax assets	$ 2,318,971	$ 228,573
Deferred tax assets:		
Allowance for loan losses	$ 2,278,302	$ 1,132,999
Deferred loan fees	177,676	539,216
Accrued expenses and other liabilities	833,165	403,707
Other	105,351	140,760
Total deferred tax assets	3,394,494	2,216,682

Note 11: Income Taxes (Continued)

	2021	2020
Deferred tax liabilities:		
Net unrealized gains on securities available-for-sale	(3,316)	(598,932)
Depreciation	(817,772)	(759,150)
Deferred loan costs	(22,733)	(37,722)
Interest rate lock commitments and forward contracts	(173,354)	(508,412)
Prepaid expenses	(57,523)	(82,210)
Other	(825)	(1,683)
Total deferred tax liabilities	(1,075,523)	(1,988,109)
Net deferred tax assets	$ 2,318,971	$ 228,573

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, 2021 and 2020, for the reasons below:

	2021	2020
Tax based on statutory rate	$ 2,093,171	$ 1,977,919
State tax, net of federal benefit	383,584	344,176
Increase (decrease) in taxes resulting from:		
Tax exempt interest	(272,911)	(222,884)
Earnings on bank-owned life insurance	(13,228)	(13,948)
Investment tax credit, net	(111,832)	(88,122)
Merger expenses	108,034	-
Other	7,702	92,644
	$ 2,194,520	$ 2,089,785

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. 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, 2021 and 2020, the Company has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements under the current guidance.

Note 11: Income Taxes (Continued)

The Company invests in qualified low income housing projects. At December 31, 2021 and 2020, the balance of the investment in low income housing tax credits amounted to $3,788,291 and $3,597,049, respectively. The Company fulfilled the remaining commitments during the 2021. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $730,936 at December 31, 2020.

During the years ended December 31, 2021 and 2020, the Company recognized amortization expense on its investment in low income housing tax credits of $444,735 and $529,221, respectively, and also recognized tax credits and other benefits from its investment in low housing tax credits of $570,514 and $680,761, respectively. These amounts are reported net within income tax expense in the consolidateda statements of income.

Note 12: Concentrations

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.

At December 31, 2020, the Bank had one customer with total deposits at approximately $59.2 million, or 13.7% of total deposits.

Note 13: 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 consolidated 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, 2021 and 2020.

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.

Note 13: Financial Instruments with Off-balance-sheet Risk (Continued)

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:

Years Ended December 31, 2021 and 2020	2021	2020
Performance and financial letters of credit	$ 1,000,000	$ 118,000
Unused lines of credit	189,638,000	91,795,000
Total	$ 190,638,000	$ 91,913,000

Note 14: Benefit Plans

The Company has a deferred compensation plan described as an Employee Stock Ownership Plan with 401(k) provisions (KSOP). The Company makes a matching contribution to each eligible participant's account in an amount equal to 50% of a participant's elective contributions up to 6 percent of such participant's compensation. Participants may make elective contributions up to the maximum amount permitted by law. The Company may also make an additional non-elective contribution to the plan, at its discretion. Under the KSOP, the Company may, at its discretion, make an annual contribution to the KSOP in cash or in Company stock, if available, up to the maximum amount allowed by federal law. The contributions are allocated to all participants in the ratio that each participant's compensation for the year bears to all participants' compensation for that year. The Company's matching contribution to the Plan is made by issuing common stock to the Plan by releasing treasury stock held.

Any employee of the Company or the Bank is eligible for participation as of the first day of the Plan year quarter coinciding with or next following the date they satisfy the following requirements: (1) the earlier of (i) completion of a year of service, or (ii) completion of 1,000 hours of service during an eligible computation period, and (2) attainment of 21 years of age. An employee's contribution is always 100% vested in their contributions. An employee becomes vested in the employer matching and employer discretionary profit sharing contributions in 20% increments commencing after completion of two years of service until completing his or her sixth year of service, at which time he or she is deemed to be one hundred percent (100%) vested. Upon an employee's termination of employment, the employee's interest in the KSOP may be distributed to him or her in either one lump sum payment, or over a period not more than their assumed life expectancy.

The compensation cost relating to the KSOP was approximately $204,000 and $146,000 for 2021 and 2020, respectively, and is included in salaries and employee benefits expense on the consolidated statements of income.

Note 14: Benefit Plans (Continued)

During 2021, the Bank adopted an Executive Performance and Retention Plan (the “Plan”). The Plan is a nonqualified benefit plan, which provides highly compensated or management employees of the Company benefits in the future, usually at retirement, in return for continued satisfactory performance by the employee. The Plan’s expenses are offset by earnings on life insurance policies held within a Rabbi Trust. The cash surrender value and net earnings on the related policies amounted to approximately $411,300 and $1,300 as of and for the year ended December 31, 2021, respectively. Additionally, at December 31, 2021, the Bank has recorded a liability for the present value of the future benefits to be paid under the Plan amounting to approximately $45,000. Expense related to the Plan amounted to approximately $45,000 for the year ended December 31, 2021.

Note 15: 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 Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank must maintain certain minimum capital ratios as set forth in the table below for capital adequacy purposes. In accordance with the Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal regulatory agencies jointly adopted a final rule, effective January 1, 2020, to implement the community bank leverage ratio (“CBLR”) framework, which introduced an optional simplified measure of capital adequacy for qualifying community banking organizations. To qualify for the CBLR framework, a community banking organization must satisfy certain requirements, including having less than $10 billion in total consolidated assets, a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9%, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the CBLR framework will be considered to have met the well-capitalized ratio requirements under the “prompt corrective action” regulations and will not be required to report or calculate risk-based capital ratios. The final rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than one percentage point below the applicable CBLR requirement.

In April 2020, as directed by Section 4012 of the CARES Act, the regulatory agencies introduced temporary changes to the CBLR. These changes, which were subsequently adopted as a final rule, temporarily reduced the CBLR requirement to 8% through the end of calendar year 2020. Beginning in calendar year 2021, the CBLR requirement will increase to 8.5% for the calendar year before returning to 9% in calendar year 2022.

Note 15: Regulatory Capital (Continued)

Management has elected to use the CBLR framework. As a qualifying community banking organization, the Bank may opt out of the CBLR framework in any subsequent quarter by completing its regulatory agency reporting using the traditional capital rules. As of December 31, 2021, the Bank has met applicable regulatory guidelines to be considered well capitalized. There are no conditions or events that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios, and minimum amounts under current regulatory standards, as of December 31, 2021 and 2020 are presented in the following table:

	Actual		For Capital Adequacy Purposes (includes the conservation buffer for the Bank only)		To Be Well-Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2021:						
Tier I Capital	$ 62,426,000	9.05 %	$ 58,630,000	8.50 %	$ 58,630,000	8.50 %
As of December 31, 2020						
Tier I Capital						
(to Average Assets)	$ 44,816,000	9.01 %	$ 39,790,000	8.00 %	$ 39,790,000	8.00 %

Note 16: Stock Options and Restricted Stock

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. The 57,001 stock options issued in 2015 are still outstanding and vested over a three- or four-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 2021 and 2020.

Restricted Stock Awards

During 2021, the Company issued 3,600 restricted stock grants to directors, that were held in escrow and vested in April 2021. During 2020, the Company issued 3,850 restricted stock grants to directors, that were held in escrow and vested in May 2020. The value of restricted stock awards expensed amounted to $108,900 in 2021 ($80,850 for 2020).

Note 16: Stock Options and Restricted Stock (Continued)

The following table summarizes the activity related to options during 2021 and 2020:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2019	147,001	$ 11.49
2020 - Activity		
Granted	-	-
Exercised	-	-
Cancellations and forfeitures	(10,000)	-
Options expired	-	-
Options outstanding, December 31, 2020	137,001	10.81
2021 - Activity		
Granted	-	-
Exercised	-	-
Cancellations and forfeitures	-	-
Options expired	-	-
Options outstanding, December 31, 2021	137,001	$ 10.81

The maximum number of shares to be issued under the 2015 Stock Plan is 315,150 shares of common stock. At December 31, 2021, 138,450 shares were available to be issued.

Years Ended December 31, 2021 and 2020	2021	2020
Options exercisable, December 31	$ 137,001	$ 137,001
Weighted average remaining contractual life (in years):		
Options granted in 2015	3.60	4.60
Options granted in 2017	5.50	6.50

Note 17: Related-Party Transactions

The Company issued overdraft lines of credit for executive officers and directors of the Company. As of December 31, 2021, loans outstanding to executive officers, directors, principal shareholders, and their affiliates totaled approximately $18,468,500 ($11,234,300 in 2020). The activity related to insider loans is as follows:

	2021	2020
New loans during the year	$ 10,087,600	$ 3,929,300
Repayments during the year	(2,943,400)	(2,896,800)
Ending balance	$ 7,144,200	$ 1,032,500

The Company holds interest-bearing and noninterest-bearing deposits from executive officers, directors, principal shareholders, and their affiliates of approximately $8,906,000 and $8,095,000 as of December 31, 2021 and 2020, respectively.

Note 18: Fair Value Measurements

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:

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 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 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 based on quoted MBS prices.

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.

Note 18: Fair Value Measurements (Continued)

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.

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		
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Assets:				
Securities available for sale	$ 46,450,000	$ -	$ 45,450,000	$ 1,000,000
Loans held-for-sale	7,363,000	-	7,363,000	-
Derivative asset	314,000	-	314,000	-
December 31, 2020				
Assets:				
Securities available for sale	$ 79,615,000	$ -	$ 78,615,000	$ 1,000,000
Loans held-for-sale	13,885,000	-	13,885,000	-
Derivative asset	1,536,000	-	1,536,000	-

The Bank has one Level 3 investment in a trust preferred security that is reported at cost of $1,000,000 as of December 31, 2021 and 2020. Cost approximates fair value of this security at the reported dates and there was no change in its fair value.

Items Measured at Fair Value on a Nonrecurring Basis

Note 18: Fair Value Measurements (Continued)

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, 2021 and 2020:

		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Assets:				
Impaired loans, net	$ 3,143,000	$ -	$ -	$ 3,143,000
Other real estate	244,000	-	-	244,000
December 31, 2020				
Assets:				
Impaired loans, net	$ 3,153,000	$ -	$ -	$ 3,153,000

Note 19: 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 approximately $15,382,000 and $43,383,000 at December 31, 2021 and 2020, respectively. The related interest rate lock commitment derivative asset was approximately $314,000 and $1,536,000 at December 31, 2021 and 2020, respectively.

The Bank also uses forward sales of MBS TBA's to manage its interest rate risk on interest rate lock commitments. The derivative liability related to the outstanding TBAs was approximately $11,000 and $125,000 at December 31, 2021 and 2020, respectively.

The net gain (loss) on the derivatives related to the mortgage banking activities was approximately $116,000 and ($103,000) for the years ended December 31, 2021 and 2020, respectively, and is included in mortgage origination and servicing-release premium fees in the consolidated statements of income.

Note 20: Subsequent Event

Subsequent to year-end, on January 5, 2022, the Company, completed the acquisition of Merchants Financial Services, Inc. and its wholly-owned subsidiary, Merchants Bank of Alabama, collectively referred to as Merchants. Merchants has five branches and is headquartered in Cullman, Alabama. As of December 31, 2021, Merchants had total consolidated assets of $383 million, total loans of $188 million and total deposits of $346 million.

Merchants shareholders received $45.6 million in total consideration, of which $29.7 million was Company common stock (849,580 shares) and $15.9 million was cash. Due to the timing of the acquisition, the Company is currently in the process of completing the purchase accounting calculations.

Note 21: Parent Company Only Financial Statements

Statements of Financial Condition at December 31:

ASSETS	2021	2020
Cash and due from banks	$ 18,922,440	$ 43,407
Investment in bank subsidiary	62,438,031	47,069,668
Deferred tax asset	90,933	42,247
Other assets	206,125	86,988
TOTAL ASSETS	$ 81,657,529	$ 47,242,310
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debentures	$ 29,437,340	$ -
Line-of-credit	-	1,242,950
Accrued expense and other liabilities	427,594	-
TOTAL LIABILITIES	29,864,934	1,242,950
TOTAL SHAREHOLDERS' EQUITY	51,792,595	45,999,360
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 81,657,529	$ 47,242,310

Note 21: Parent Company Only Financial Statements (Continued)

Statements of Income for the Years Ended December 31:

	2021	2020
INCOME		
Dividends from bank subsidiary	$ -	$ 1,000,004
TOTAL INCOME	-	1,000,004
EXPENSES		
Interest on subordinated debentures	723,648	-
Interest on line-of-credit	24,972	52,347
Other expenses	951,825	84,499
TOTAL EXPENSES	1,700,445	136,846
(Loss) income before income taxes and equity in undistributed earnings of subidiary	(1,700,445)	863,158
Income tax benefit	254,811	19,115
(Loss) income before equity in undistributed earnings of subsidiary	(1,445,634)	882,273
Equity in undistributed earnings of subsidiary	9,218,596	6,446,602
NET INCOME	$ 7,772,962	$ 7,328,875

Note 21: Parent Company Only Financial Statements (Continued)

Statements of Cash Flows for the Years Ended December 31:

Years Ended December 31, 2021 and 2020	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 7,772,962	$ 7,328,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in earnings of subsidiary	(9,218,596)	(7,446,606)
Share-based compensation	108,900	83,916
Deferred tax (benefit) expense	(48,686)	41,479
Other, net	308,457	(87,726)
NET CASH USED IN OPERATING ACTIVITIES	(1,076,963)	(80,062)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contribution to subsidiary	(8,238,394)	-
NET CASH USED IN INVESTING ACTIVITIES	(8,238,394)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal reduction on line-of-credit	(1,242,950)	(999,999)
Proceeds from subordinate debentures	30,000,000	-
Issuance costs on subordinate debentures	(562,660)	-
Dividends received from bank subsidiary	-	1,000,004
NET CASH PROVIDED BY FINANCING ACTIVITIES	28,194,390	5
NET CHANGE IN CASH AND CASH EQUIVALENTS	18,879,033	(80,057)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,407	123,464
CASH AND CASH EQUIVALENTS AT END OF YEAR	18,922,440	43,407
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 321,026	$ 80,042