Southpoint Bancshares, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2022 and 2021

SOUTHPOINT BANK

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, 2022 and 2021, 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, 2022 and 2021, 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 28, 2023

SouthPoint Bancshares, Inc
Consolidated Balance Sheets

December 31, 2022 and 2021	**2022**	**2021**
ASSETS		
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 19,467,053	$ 2,367,740
Interest-bearing deposits in other banks	104,010,565	35,966,141
Total cash and cash equivalents	123,477,618	38,333,881
Securities available-for-sale	34,902,120	46,450,354
Restricted equity securities	5,114,985	288,200
Loans held-for-sale	2,332,286	7,362,718
Loans, net of allowance for loan losses	1,135,755,349	594,962,305
Accrued interest receivable	4,695,108	2,425,689
Premises and equipment, net	22,134,078	11,541,674
Intangible assets	2,408,400	-
Goodwill	12,639,390	-
Other real estate	290,700	243,995
Bank-owned life insurance	11,557,390	3,873,704
Deferred tax assets	3,950,021	2,318,971
Investment in low income housing tax credits	3,359,983	3,788,291
Other assets	4,073,692	2,149,065
TOTAL ASSETS	$ 1,366,691,120	$ 713,738,847
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Interest-bearing	$ 776,904,401	$ 498,575,664
Noninterest-bearing	135,102,373	75,694,341
Total deposits	912,006,774	574,270,005
Other borrowings	325,000,000	53,584,372
Subordinated debentures	33,288,005	29,437,340
Accrued expense and other liabilities	10,022,350	4,654,535
Total liabilities	1,280,317,129	661,946,252
SHAREHOLDERS' EQUITY:		
Preferred stock, $1 par value: 10,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $1 par value: 10,000,000 shares authorized; 2,997,046 and 2,144,466 shares issued at December 31, 2022 and 2021, respectively, and 2,878,306 and 2,020,396 shares outstanding at December 31, 2022 and 2021, respectively.	2,997,046	2,144,466
Additional paid-in capital	49,901,635	20,812,651
Retained earnings	42,892,804	30,264,062
Accumulated other comprehensive (loss) income	(8,038,344)	12,474
Treasury stock, 118,740 and 124,070 shares at cost at December 31, 2022 and 2021, respectively	(1,379,150)	(1,441,058)
Total shareholders' equity	86,373,991	51,792,595
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,366,691,120	$ 713,738,847

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Income

Years Ended December 31, 2022 and 2021	**2022**	**2021**
INTEREST INCOME		
Interest and fees on loans	$ 48,878,632	$ 26,289,564
Interest on investment securities	1,084,775	1,633,850
Interest on other	940,175	33,141
Total interest income	50,903,582	27,956,555
INTEREST EXPENSE		
Interest expense on deposits	5,480,266	3,221,957
Interest on borrowed funds	4,083,208	945,569
Total interest expense	9,563,474	4,167,526
NET INTEREST INCOME	41,340,108	23,789,029
Provision for loan losses	3,475,000	4,115,791
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	37,865,108	19,673,238
NONINTEREST INCOME		
Service charges, fees and commissions	2,893,858	596,599
Mortgage origination and servicing-release premium fees	6,889,335	12,193,661
Net gain on sale of available-for-sale securities	211	1,647,173
Other income	668,514	315,185
Total noninterest income	10,451,918	14,752,618
NONINTEREST EXPENSES		
Salaries and employee benefits	19,319,308	15,988,090
Data processing expenses	3,039,990	1,670,076
Net occupancy expenses	1,388,615	1,078,499
Professional fees	1,268,891	1,637,633
Other operating expenses	7,118,327	4,084,076
Total noninterest expenses	32,135,131	24,458,374
INCOME BEFORE INCOME TAXES	16,181,895	9,967,482
INCOME TAX EXPENSE	3,553,153	2,194,520
NET INCOME	$ 12,628,742	$ 7,772,962

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Comprehensive Income

Years Ended December 31, 2022 and 2021	**2022**	**2021**
NET INCOME	$ 12,628,742	$ 7,772,962
Other comprehensive (loss) income:		
Unrealized (loss) gain arising during the period on securities available-for-sale, net of tax of $2,140,135 in 2022 and $233,439 in 2021	(8,050,985)	(878,171)
Reclassification adjustment for net gains realized in net income , net of tax of $44 in 2022 and $362,178 in 2021	167	(1,362,479)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(8,050,818)	(2,240,650)
Total comprehensive income	$ 4,577,924	$ 5,532,312

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balances at January 1, 2021	$ 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
Net income	-	-	12,628,742	-	-	12,628,742
Other comprehensive loss	-	-	-	(8,050,818)	-	(8,050,818)
Common stock issued	849,580	28,885,720	-	-	-	29,735,300
Restricted stock awards	3,000	102,060	-	-	-	105,060
Treasury stock issued to ESOP	-	101,204	-	-	61,908	163,112
Balances at December 31, 2022	$ 2,997,046	$ 49,901,635	$ 42,892,804	$ (8,038,344)	$ (1,379,150)	$ 86,373,991

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021	**2022**	**2021**
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	$ 12,628,742	$ 7,772,962
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	845,986	653,227
Proceeds from loans held-for-sale	354,519,669	330,592,183
Origination of loans held-for-sale	(349,764,230)	(324,327,608)
Fair value change in loans held-for-sale	274,993	257,900
Provision for loan losses	3,475,000	4,115,791
Net realized gain on securities	(211)	(1,647,173)
Realized (gain) loss on disposition and write down of other real estate, net	(14,391)	32,096
Realized (gain) loss on disposition of premises and equipment	1,797	-
Amortization of premiums and discounts on securities available-for-sale, net	293,787	455,940
Amortization of low income housing tax credits, CDI and other	810,165	444,735
Share based compensation	105,060	108,900
Deferred tax benefit	95,797	(1,494,781)
Increase in cash surrender value of life insurance	(250,865)	(63,456)
Change in accrued interest	(1,277,719)	9,482
Change in other assets	(872,865)	583,036
Change in accrued expenses and other liabilities	2,175,087	758,672
Net cash provided by operating activities	23,045,802	18,251,906
Cash flows from investing activities:		
Purchases of premises and equipment	(4,822,377)	(68,268)
Proceeds from sale of premises and equipment	8,688	-
Net change in loans	(358,444,101)	(159,373,333)
Net cash received in acquisition	76,169,079	-
Paydowns, calls, and maturities of available-for-sale securities	2,179,859	4,076,598
Purchase of available-for-sale securities	-	(23,656,925)
Sales of available-for-sale securities	84,442,254	51,100,233
Purchase of restricted equity securities	(4,826,785)	-
Net proceeds from disposition of foreclosed real estate	1,066,249	62,909
Improvements of foreclosed real estate	(366,863)	-
Investment in low income housing tax credits	(16,432)	(635,977)
Purchase of bank owned life insurance	(410,254)	(409,999)
Net cash used in investing activities	(205,020,683)	(128,904,762)

SouthPoint Bancshares, Inc

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2022 and 2021	2022	2021
Cash flows from financing activities:		
Net change in deposits	(4,297,010)	140,875,106
(Decrease) increase in other borrowings	271,415,628	(35,714,114)
Principal reduction on line-of-credit	-	(1,242,950)
Proceeds from subordinate debentures	-	30,000,000
Issuance costs on subordinate debentures	-	(562,660)
Net cash provided by financing activities	267,118,618	133,355,382
Net increase in cash and cash equivalents	$ 85,143,737	$ 22,702,526
Cash and cash equivalents at beginning of year	38,333,881	15,631,355
Cash and cash equivalents at end of year	$ 123,477,618	$ 38,333,881
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 9,134,425	$ 3,675,120
Income taxes	3,713,000	3,226,840
NONCASH TRANSACTIONS:		
Treasury stock awards	105,060	108,900
Treasury stock issued to ESOP	163,112	152,023
Loans transferred to other real estate	70,200	339,000
Right-of-use assets obtained in exchange for new lease liabilities	3,559,875	-

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 ten branch locations in central 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, 2022, was approximately $414,000. 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.

While management believes that it has established the allowance for loan losses in accordance with GAAP and

Note 2: Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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 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

Note 2: Summary of Significant Accounting Policies (Continued)

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

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 (“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 2022 or 2021.

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

Note 2: Summary of Significant Accounting Policies (Continued)

Premises and Equipment (Continued)

from three to 40 years.

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangibles with finite lives are amortized over their estimated useful lives. Goodwill and other intangible assets are subject to impairment testing annually or more frequently if events or circumstances indicate possible impairment; if impaired, such assets are recorded at fair value. Other intangible assets, consisting of core deposit intangibles, are reviewed for events or circumstances which could impact the recoverability of the intangible asset, such as a loss of core deposits, increased competition or adverse changes in the economy. No impairment was identified for the Company’s goodwill or its other intangible assets in 2022.

Purchased Loans

The Company acquired loans individually and in groups or portfolios. These loans are initially measured at fair value with no allowance for loan losses. The Company's allowance for loan losses on all acquired loans reflect only those losses incurred subsequent to acquisition.

Certain acquired loans may have experienced deterioration of credit quality between origination and the Company's acquisition of the loans. At acquisition, the Company reviews each loan to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Company will be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the Company determines whether each such loan is to be accounted for individually or whether such loans will be assembled into pools of loans based on common risk characteristics (for example, credit score, loan type, and date of origination). The Company considers expected prepayments and estimates the amount and timing of undiscounted principal, interest, and other cash flows expected at acquisition for each loan and aggregated pool of loans. The excess of the loan's or pool's scheduled contractual principal and interest payments over all cash flows expected at acquisition is calculated as the nonaccretable difference. The excess of cash flows expected to be collected over the fair value of each loan or pool (accretable yield) is accreted into interest income over the remaining life of the loan or pool.

At each reporting date, the Company continues to estimate cash flows expected to be collected for each loan or pool. If expected cash flows have decreased from the acquisition date estimate, the Company recognizes an allowance for loan losses. If expected cash flows have increased from the acquisition date estimate, the Company increases the amount of accretable yield to be recognized as interest income over the remaining life of the loan or pool. The Company acquired loans totaling $185,894,143 with a loan discount of $2,748,453 at the acquisiton date. See Note 22 - Business Combination.

Note 2: Summary of Significant Accounting Policies (Continued)

ASC 842 Lease Accounting

The Company is a lessee in multiple noncancelable operating leases. If the contract provides the Company the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The Company has elected to use a risk-free rate for a term similar to the underlying lease as the discount rate if the implicit rate in the lease contract is not readily determinable.

The ROU asset for operating leases is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized.

The Company has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with lease costs included in short-term lease expense. The Company recognizes short-term lease cost on a straight-line basis over the lease term.

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.

Note 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 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 17 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:

- 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

Note 2: Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

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.

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

Note 2: Summary of Significant Accounting Policies (Continued)

Use of Estimates (Continued)

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, 2022 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.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these consolidated financial statements through March 28, 2023, the date that the consolidated financial statements were available to be issued.

Note 2: Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain prior year balances have been reclassified to conform to the current period presentation.

New Accounting Pronouncements

ASU No. 2016-02, Leases - When this standard is adopted, the primary accounting change will require lessees to recognize right of use assets and lease obligations for most operating leases as well as finance leases. The Company adopted this new accounting standard on January 1, 2022 using the modified retrospective method, and elected to apply several of the available practical expedients, including: 1) carry over of historical lease determination and lease classification conclusions; 2) carry over of historical initial direct cost balances for existing leases. Adoption of the leasing standard resulted in the recognition of an operating right-of-use asset and operating lease liability of approximately $3,560,000 as of January 1, 2022. The prior year was not restated and continues to be presented under the previous accounting standards. Disclosures about the Company's leasing activities are presented in Note 11: Leases.

The following ASU has been issued by FASB and may impact the Company's financial statements in future reporting periods.

ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments - This standard will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The standard will also change the accounting for credit losses related to securities held to maturity and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This new accounting standard is effective for financial statements issued for interim and annual periods beginning after December 15, 2022. The Company adopted this standard on January 1, 2022 and the adoption had no impact on the recorded allowance for loan losses.

Business Combinations

Business combinations are accounted for by applying the acquisition method in accordance with ASC 805, “Business Combinations.” Under the acquisition method, identifiable assets acquired and liabilities assumed and any non-controlling interest in the acquired company at the acquisition date are measured at their fair values as of that date and are recognized separately from goodwill. Results of operations of the acquired entities are included in the consolidated statements of income from the date of acquisition. Acquisition costs incurred by the Company are expensed as incurred.

Note 3: Securities Available-for-Sale

Investment securities available-for-sale consisted of the following at December 31, 2022 and 2021:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
Mortgage-backed securities	$ 11,805,068	$ -	$ (1,991,316)	$ 9,813,752
State, county, and municipal securities	30,772,171	-	(8,027,383)	22,744,788
Trust preferred securities	2,500,000	-	(156,420)	2,343,580
Total securities available for sale	$ 45,077,239	$ -	$ (10,175,119)	$ 34,902,120
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

During 2022, the Bank received proceeds from sales of securities available for sale totaling approximately $84,442,000, resulting in gross realized gains and losses of $697 and $486, respectively. Approximately $83,000,000 of the securities sold were related to securities acquired in the acquisition of Merchants Bank. 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.

At December 31, 2022, the Company had 9 investment securities in an unrealized loss position for less than 12 months with a fair value of $6,983,867 and unrealized losses totaling $1,787,094 and 24 investment securities in an unrealized loss positions greater than 12 months with a fair value of $25,868,252 and unrealized losses totaling $8,388,025.

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.

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, 2022, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Amounts maturing:		
After five years through 10 years	$ 2,550,000	$ 2,343,580
After 10 years	42,527,239	32,558,540
Total	$ 45,077,239	$ 34,902,120

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, 2022 and 2021.

Note 4: Loans

The composition of loans by primary loan classification and by performing and impaired loan status as of December 31, 2022 and 2021, are as follows:

	Commercial, Financial and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Allowance for Loan Losses	Net Loans
2022						
Performing loans	$ 332,862,885	$ 201,466,824	$ 574,011,860	$ 34,804,630	$ (11,549,043)	$1,131,597,156
Impaired loans	3,646,976	123,005	431,246	617	(43,651)	4,158,193
	336,509,861	201,589,829	574,443,106	34,805,247	(11,592,694)	1,135,755,349
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

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. There were no PPP loans outstanding as of December 31, 2022. PPP loans outstanding amounted to approximately $4,531,000 at December 31, 2021.

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.The SBA fees were accreted into interest income over the estimated life of the applicable loans. If a PPP loan was forgiven or paid off before maturity, the remaining unearned fee was recognized into income at

Note 4: Loans (Continued)

that time. In 2022 and 2021, the Bank has recognized approximately $237,000 and $2,429,000, respectively in PPP-related SBA fees through accretion.

The Company had net deferred loan fees of approximately $1,702,000 and $830,000 as of December 31, 2022 and 2021, respectively.

The allocation and changes in the allowance for loan losses, by loan classification, as of and for the years ended December 31, 2022 and 2021, are as follows:

	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Unallocated	Total
Balance at December, 2021	$ 4,034,399	$ 746,951	$ 3,498,988	$ 62,225	$ 1,466,933	$ 9,809,496
Charge-offs	(1,581,238)	(35,358)	(4,544)	(172,416)	-	(1,793,556)
Recoveries	13,750	-	59,575	28,429	-	101,754
Net Charge-offs	(1,567,488)	(35,358)	55,031	(143,987)	-	(1,691,802)
Provision	1,476,052	1,031,949	1,357,444	380,036	(770,481)	3,475,000
Balance at December 31, 2022	3,942,963	1,743,542	4,911,463	298,274	696,452	11,592,694
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

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.

- 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

Note 4: Loans (Continued)

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, 2022 and 2021:

	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Total
2022					
Grade:					
Pass	$ 332,845,951	$ 201,466,824	$ 572,494,760	$ 34,759,514	$1,141,567,049
Special Mention	16,934	-	1,524,188	616	1,541,738
Substandard	-	-	-	-	-
Substandard - impaired	3,646,976	123,005	240,174	-	4,010,155
Doubtful	-	-	183,984	45,117	229,101
	$ 336,509,861	$ 201,589,829	$ 574,443,106	$ 34,805,247	$1,147,348,043
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
Doubtful	-	-	-	-	-
	$ 179,023,660	$ 90,872,218	$ 322,957,162	$ 11,918,761	$ 604,771,801

Note 4: Loans (Continued)

Past due balances and loans on nonaccrual status at December 31, 2022 and 2021, 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
2022						
Commercial, financial, and agricultural	$ 10,954,736	$ 4,557,830	$ 15,512,566	$ 16,934	$ 320,980,361	$ 336,509,861
Real estate - construction	18,043	2,780,047	2,798,090	-	198,791,740	201,589,830
Real estate - mortgage	4,205,072	591,510	4,796,582	385,962	569,260,561	574,443,105
Consumer and other	143,250	432,517	575,766	617	34,228,864	34,805,247
	$ 15,321,101	$ 8,361,904	$ 23,683,004	$ 403,513	$ 1,123,261,526	$ 1,147,348,043
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

At December 31, 2022 and 2021, loans reported as past due 30-89 days still accruing includes approximately $4,533,000 and $1,179,000, 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, 2022 and 2021, including the average recorded investment of impaired loans and interest income recognized for the years ended December 31, 2022 and 2021:

December 31, 2022	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Impaired loans with no recorded allowance:					
Commercial, financial, and agricultural	$ 3,532,046	$ 3,532,046	N/A	$ 1,286,271	$ -
Real estate - construction	123,005	123,005	N/A	162,208	-
Real estate - mortgage	431,246	431,246	N/A	1,295,565	-
Total	4,086,297	4,086,297	N/A	2,744,044	-
Impaired loans with a recorded allowance:					
Commercial, financial, and agricultural	114,930	114,930	43,175	72,619	-
Consumer and other	617	617	476	154	-
Total	115,547	115,547	43,651	72,773	-
Grand total	$ 4,201,844	$ 4,201,844	$ 43,651	$ 2,816,817	$ -

Note 4: Loans (Continued)

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

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 $43,458,000 and $93,089,000 as of December 31, 2022 and 2021, respectively. The Company did not record an estimate of the potential recourse liability as of December 31, 2022 and 2021.

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 $49,751,000 and $25,522,000 as of December 31, 2022 and 2021, 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

Note 4: Loans (Continued)

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.

Note 5: Premises and Equipment

An analysis of premises and equipment at December 31, 2022 and 2021 is as follows:

	2022	2021
Land	$ 5,715,609	$ 2,761,209
Buildings and improvements	12,254,517	7,435,570
Equipment	3,712,369	3,350,764
Furniture and fixtures	1,885,015	1,849,253
Software	99,516	99,516
Vehicles	116,696	116,696
Subtotal	23,783,722	15,613,008
Accumulated depreciation	(4,870,380)	(4,071,334)
Subtotal	18,913,342	11,541,674
Right-of-use assets (See Note 11)	3,220,736	-
Total	$ 22,134,078	$ 11,541,674

Depreciation and amortization expense charged to operations amounted to $845,986 in 2022 and $653,227 in 2021.

Note 6: Deposits

The Company has approximately $64,599,000 of time deposits greater than the FDIC insurance limit of $250,000 at December 31, 2022 ($63,376,000 at December 31, 2021). The maturity schedule for all outstanding time deposits as of December 31, 2022, is as follows:

	2022
2023	$ 111,626,982
2024	34,115,445
2025	10,252,967
2026	11,694,619
2027	6,514,789
Thereafter	98,601
Total	$ 174,303,403

Note 7: FHLB Stock and Borrowings

As of December 31, 2022, the Company owned stock in the FHLB with a total cost of $4,865,100 ($288,000 in 2021). The Bank earns quarterly dividends on the stock. At December 31, 2022, the Company also owned stock in First National Bankers Bank with a total cost of $249,885. The stock are restricted investments reported at cost and included in restricted equity securities. 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.

As of December 31, 2022, the Company had FHLB advances of $100,000,000 ($0 in 2021) with an interest rate of 4.23%. The advance was paid off at maturity in January 2023. The Bank also has a $50,000,000 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 and FHLB letter of credits totaling $15,000,000 for bank customers.

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 $244,297,000 and $49,563,000 as of December 31, 2022 and 2021 , respectively. At December 31, 2022, the remaining credit availability with the FHLB was approximately $80 million based on the remaining lendable collateral value.

The Company has several unsecured correspondent bank federal funds lines of credit with total commitments of $63,500,000 and $23,600,000 as of December 31, 2022 and 2021, 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 $328,826,217 as of December 31, 2022 . As of December 31, 2022 , the Bank had Federal Reserve Bank discount window borrowings outstanding of $225 million ($50,000,000 in 2021). These borrowings are secured by loans pledged to the Federal Reserve with outstanding balances of approximately $429,000,000 as of December 31, 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, 2022, there were no borrowings under PPPLF.

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%). 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 SouthState 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 (7.27% as of December 31, 2022). 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, 2022 and 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, 2022 and 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: Junior Subordinated Debentures

During 2022, the Company acquired Junior Subordinated Debentures issued by Merchant Financial Services, Inc. ("Merchants". See Note 21 - Business Combination. On February 22, 2006, Merchants formed a wholly owned Delaware statutory trust, Merchant Financial Services Trust I (the “Trust”), which issued $5,000,000 in Junior Deferrable Interest Debentures (the “Trust Preferred Securities”)). The Company owns all of the common securities of the Trust. The proceeds from the issuance of the common securities and the Trust Preferred Securities were used by the Trust to purchase $5,155,000 of junior subordinated debentures of Merchants, which carry a floating rate of interest equal to the 3 month LIBOR plus 145 basis points. At December 31, 2022, the net carrying value was $3,850,665 and the rate was 5.52%. The proceeds received by the Company from the sale of the junior subordinated debentures were used for general purposes, primarily to provide capital to accommodate growth. The debentures and related accrued interest represent the sole assets of the Trust.

Note 10: Junior Subordinated Debentures (Continued)

The Trust Preferred Securities accrue and pay distributions quarterly, at an interest rate equal to the 3 month LIBOR plus 145 basis points. The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of accrued and unpaid distributions required to be paid on the Trust Preferred Securities, the redemption price with respect to any Trust Preferred Securities called for redemption by the Trust, and payments due upon a voluntary or involuntary dissolution, winding up, or liquidation of the Trust.

The Trust Preferred Securities are mandatorily redeemable upon maturity of the debentures on April 7, 2036, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by the Trust in whole or in part, on or after April 7, 2011. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the unpaid principal amount, plus any accrued unpaid interest.

Note 11: Leases

The Company leases buildings for five of its branch locations. The majority of leases entered into include one or more options to renew. The renewal terms can extend the lease term from one to twenty-five years. The exercise of lease renewal options is at the Company's sole discretion. Renewal option periods are included in the measurement of the ROU asset and lease liability when the exercise is reasonably certain to occur.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Payments due under the lease contracts include fixed payments plus variable payments. The Company pays for real estate taxes, insurance, and maintenance under this lease. These variable lease payments are not included in lease payments used to determine the lease liability and are recognized as variable costs when incurred.

The operating lease ROU asset and lease liability in the amount of approximately $3,220,736 and $3,256,075, respectively, at December 31, 2022, is included in the following asset and liability accounts on the balance sheet: net Premises and equipment and accrued expense and other liabilities.

Note 11: Leases (Continued)

Components of lease expense were as follows for the year ended December 31, 2022:

Lease cost		
Operating lease expense	$	395,893
Total lease cost	$	395,893

Supplemental cash flow information related to leases is as follows for the year ended December 31, 2022:

Other information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	360,554
Right-of-use assets obtained in exchange for new operating lease liabilities	$	3,559,875
Weighted-average remaining life - Operating leases		11.51
Weighted-average discount rate - Operating leases		1.69 %

Maturities of lease liabilities are as follows as of December 31, 2022:

Years Ended December 31, 2022		**2022**
2023	$	373,731
2024		346,440
2025		304,346
2026		303,444
2027		278,104
Thereafter		1,996,360
Total lease payments		3,602,425
Less imputed interest		(346,350)
Total	$	3,256,075

Total rent expense under ASC 840 was approximately $378,800 in 2021.

Note 12: 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, 2022 and 2021, were as follows:

	2022	2021
Current tax expense (benefit):		
Federal	$ 2,715,584	$ 2,881,798
State	741,772	807,503
Total current	3,457,356	3,689,301
Deferred tax expense (benefit):		
Federal	76,687	(1,172,828)
State	19,110	(321,953)
Total deferred	95,797	(1,494,781)
Total	$ 3,553,153	$ 2,194,520

Note 12: Income Taxes (Continued)

The components of the net deferred tax assets (liabilities) as of December 31, 2022 and 2021, are as follows:

	2022	2021
Deferred tax assets:		
Federal	$ 6,642,145	$ 2,728,066
State	1,100,597	666,428
Total deferred tax assets	7,742,742	3,394,494
Deferred tax liabilities:		
Federal	(3,048,112)	(865,021)
State	(744,609)	(210,502)
Total deferred tax liabilities	(3,792,721)	(1,075,523)
Net deferred tax assets	$ 3,950,021	$ 2,318,971
Deferred tax assets:		
Allowance for loan losses	$ 2,657,810	$ 2,278,302
Deferred loan fees	512,291	177,676
Accrued expenses and other liabilities	-	833,165
Deferred compensation	503,725	-
Loan discounts	590,243	-
Organizational costs	2,612	2,916
Investments fair value adjustments	373,336	-
Lease liability	850,812	-
Net unrealized losses on securities	2,136,775	-
Other	115,138	102,435
Total deferred tax assets	7,742,742	3,394,494

Note 12: Income Taxes (Continued)

	2022	2021
Deferred tax liabilities:		
Net unrealized gains on securities available-for-sale	$ -	$ (3,316)
Depreciation	(1,723,392)	(817,772)
Deferred loan costs	(67,489)	(22,733)
Interest rate lock commitments and forward contracts	(85,773)	(173,354)
Prepaid expenses	(102,687)	(57,523)
Right-of-use asset	(841,578)	-
Core deposit intangible	(629,315)	-
TRUPs	(340,823)	-
Other	(1,664)	(825)
Total deferred tax liabilities	(3,792,721)	(1,075,523)
Net deferred tax assets	$ 3,950,021	$ 2,318,971

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, 2022 and 2021, for the reasons below:

	2022	2021
Tax based on statutory rate	$ 3,398,192	$ 2,093,171
State tax, net of federal benefit	601,097	383,584
Increase (decrease) in taxes resulting from:		
Tax exempt interest	(233,741)	(272,911)
Earnings on bank-owned life insurance	(13,228)	(13,228)
Investment tax credit, net	(136,865)	(111,832)
Merger expenses	-	108,034
Other	(62,302)	7,702
	$ 3,553,153	$ 2,194,520

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, 2022 and 2021, the Company has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements under the current guidance.

Note 12: Income Taxes (Continued)

The Company invests in qualified low income housing projects. At December 31, 2022 and 2021, the balance of the investment in low income housing tax credits amounted to $3,359,983 and $3,788,291, respectively. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $78,527, at December 31, 2022.

During the years ended December 31, 2022 and 2021, the Company recognized amortization expense on its investment in low income housing tax credits of $444,740 and $444,735, respectively, and also recognized tax credits and other benefits from its investment in low housing tax credits of $570,502 and $570,514, respectively. These amounts are reported net within income tax expense in the consolidated statements of income.

Note 13: 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.

Note 14: 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, 2022 and 2021.

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 14: 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:

	2022	2021
Performance and financial letters of credit	$ 21,271,000	$ 1,000,000
Unused lines of credit	281,100,850	189,638,000
Total	$ 302,371,850	$ 190,638,000

Note 15: 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 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 $232,000 and $204,000 for 2022 and 2021, respectively, and is included in salaries and employee benefits expense on the consolidated statements of income.

Note 15: 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. The cash surrender value and net earnings on the related policies amounted to approximately $11,557,390 and $250,900 and $3,873,700 and $63,500, respectively, as of and for the years ended December 31, 2022 and 2021. Additionally, at December 31, 2022 and 2021, the Bank has recorded a liability for the present value of the future benefits to be paid under the Plan amounting to approximately $1,928,000 and $45,000, respectively. Expense related to the Plan amounted to approximately $543,000 and $45,000 for the years ended December 31, 2022 and 2021.

Note 16: 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 increased to 8.5% for the calendar year before returning to 9% in calendar year 2022.

Note 16: 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, 2022, 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, 2022 and 2021 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, 2022						
Total Capital						
(to Average Assets)	$ 111,016,000	8.99 %	$ 111,022,000	9.00 %	$ 111,022,000	9.00 %
As of December 31, 2021						
Total Capital						
(to Average Assets)	$ 62,426,000	9.05 %	$ 58,630,000	8.50 %	$ 58,630,000	8.50 %

At December 31, 2022, the Bank's CBLR was 8.9995% which is below the minimum 9.0% required. The Bank has a two-quarter grace period through June 30, 2023 to return to the minimum 9.0%. If the CBLR falls below 8% at any time, the Bank is not eligible and must calculate the risk-based capital ratios.

Note 17: 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 2022 and 2021.

Restricted Stock Awards

During 2022, the Company issued 3,000 restricted stock grants to directors, that were held in escrow and vested

Note 17: Stock Options and Restricted Stock (Continued)

in May 2022. During 2021, the Company issued 3,600 restricted stock grants to directors, that were held in escrow and vested in April 2021. The value of restricted stock awards expensed amounted to $105,060 in 2022 ($108,900 for 2021).

The following table summarizes the activity related to options during 2022 and 2021:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2020	137,001	$ 10.81
2021 - Activity		
Granted	-	-
Exercised	-	-
Options expired	-	-
Options outstanding, December 31, 2021	137,001	10.81
2022 - Activity		
Granted	-	-
Exercised	-	-
Cancellations and forfeitures	-	-
Options expired	-	-
Options outstanding, December 31, 2022	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, 2022, 135,450 shares were available to be issued.

Years Ended December 31, 2022 and 2021	2022	2021
Options exercisable, December 31	$ 137,001	$ 137,001
Weighted average remaining contractual life (in years):		
Options granted in 2015	2.60	3.60
Options granted in 2017	4.50	5.50

Note 18: Related-Party Transactions

As of December 31, 2022, loans outstanding to executive officers, directors, principal shareholders, and their affiliates totaled approximately $19,219,600 ($18,468,500 in 2021). The activity related to insider loans is as follows:

	2022	2021
Beginning balance	$ 18,468,500	$ 11,324,300
New loans during the year	19,549,900	10,087,600
Repayments during the year	(18,798,800)	(2,943,400)
Ending balance	$ 19,219,600	$ 18,468,500

The Company holds interest-bearing and noninterest-bearing deposits from executive officers, directors, principal shareholders, and their affiliates of approximately $14,972,000 and $8,906,000 as of December 31, 2022 and 2021, respectively.

Note 19: 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 19: 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 Company'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, 2022				
Assets:				
Securities available for sale	$ 34,902,000	$ -	$ 34,902,000	$ -
Loans held-for-sale	2,332,000	-	2,332,000	-
Derivative asset	243,000	-	243,000	-
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	-

The Company has one Level 3 investment in a trust preferred security that is reported at cost of $1,000,000 as of December 31, 2021. Cost approximates fair value of this security at the reported dates and there was no change in its fair value. As of December 31, 2022, the trust preferred security is reported in Level 2.

Note 19: Fair Value Measurements (Continued)

Items Measured at Fair Value on a Nonrecurring Basis

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021:

		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, 2022				
Assets:				
Impaired loans, net	$ 4,158,000	$ -	$ -	$ 4,158,000
Other real estate	291,000	-	-	291,000
December 31, 2021				
Assets:				
Impaired loans, net	$ 3,143,000	$ -	$ -	$ 3,143,000
Other real estate	244,000	-	-	244,000

Note 20: Mortgage Banking Activity

The Company, through the Bank, enters 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 $9,162,000 and $15,382,000 at December 31, 2022 and 2021, respectively. The related interest rate lock commitment derivative asset was approximately $243,000 and $314,000 at December 31, 2022 and 2021, respectively.

The Bank also uses forward sales of MBS TBA's to manage its interest rate risk on interest rate lock commitments. There was no derivative liability related to the outstanding TBA's at December 31, 2022. The derivative liability related to the outstanding TBAs was approximately $11,000 at December 31, 2021.

The net gain (loss) on the derivatives related to the mortgage banking activities was approximately $8,500 and $116,000 for the years ended December 31, 2022 and 2021, respectively, and is included in mortgage origination and servicing-release premium fees in the consolidated statements of income.

Note 21: Business Combination

On January 5th, 2022 (the "Acquisition Date"), the Company acquired Merchants Financial Services, Inc. and its wholly-owned subsidiary, Merchants Bank of Alabama, collectively referred to as Merchants, in a business combination. As a result of the acquisition, the Company expects to be able to expand the products and services it can offer to the combined entity's existing and prospective members while reducing administrative costs through economies of scale. The total merger consideration consisted of $15,885,223 of cash and 849,580 shares of Southpoint Bancshares, Inc's common stock with an estimated fair value of $35 per share.

The following summarizes assets acquired and liabilities assumed at the Acquisition Date:

Cash and due from banks	$ 27,229,302
Federal funds sold	64,825,000
Investment securities	85,558,363
Loans	185,894,143
Premises and equipment	6,626,498
Other real estate	661,500
Core deposit premium intangible asset	2,676,000
Cash value of life insurance	7,022,567
Other assets	2,051,763
Deposits	(342,033,779)
Accrued SERP	(1,380,365)
Trust preferred security	(3,752,840)
Other liabilities	(2,397,019)
Identifiable net assets acquired	32,981,133
Goodwill	12,639,390
Total consideration paid	$ 45,620,523

As noted above, the Company recorded goodwill of $12,639,390 associated with the acquistion of Merchants. In addition to the goodwill, the Company recorded a core deposit premium intangible asset of $2,676,000. The core deposit intangible asset will be amortized using a straight-line method over ten years. The core deposit premium intangible asset had a gross carrying amount of $2,676,000 and accumulated amortization of $267,600 at December 31, 2022. The related aggregate amount of amortization expense for intangible assets during 2022 was approximately $267,600.

Note 21: Business Combination (Continued)

The following table shows the estimated future amortization of the core deposit premium intangible asset. The projections of amortization expense are based on existing asset balances as of December 31, 2022.

2023	$	267,600
2024		267,600
2025		267,600
2026		267,600
2027		267,600
Thereafter		1,070,400
Total	$	2,408,400

Note 22: Parent Company Only Financial Statements

Statements of Financial Condition at December 31:

ASSETS	2022	2021
Cash and due from banks	$ 1,666,924	$ 18,922,440
Investment in bank subsidiary	117,569,057	62,438,031
Deferred tax asset	-	90,933
Goodwill	456,476	-
Other assets	403,821	206,125
TOTAL ASSETS	$ 120,096,278	$ 81,657,529
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debentures	$ 33,288,005	$ 29,437,340
Deferred tax liability	318,282	-
Accrued expense and other liabilities	116,000	427,594
TOTAL LIABILITIES	33,722,287	29,864,934
TOTAL SHAREHOLDERS' EQUITY	86,373,991	51,792,595
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 120,096,278	$ 81,657,529

Note 22: Parent Company Only Financial Statements (Continued)

Statements of Income for the Years Ended December 31:

	2022	2021
INCOME		
Dividend from Trust	$ 3,825	$ -
Miscellaneous Income	22,823	-
TOTAL INCOME	26,648	-
EXPENSES		
Interest on subordinated debentures	1,185,000	723,648
Interest on Trups	204,290	-
Interest on line-of-credit	5,960	24,972
Other expenses	160,597	951,825
TOTAL EXPENSES	1,555,847	1,700,445
(Loss) income before income taxes and equity in undistributed earnings of subidiary	(1,529,199)	(1,700,445)
Income tax benefit	355,685	254,811
(Loss) income before equity in undistributed earnings of subsidiary	(1,173,514)	(1,445,634)
Equity in undistributed earnings of subsidiary	13,802,256	9,218,596
NET INCOME	$ 12,628,742	$ 7,772,962

Note 22: Parent Company Only Financial Statements (Continued)

Statements of Cash Flows for the Years Ended December 31:

Years Ended December 31, 2022 and 2021	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 12,628,742	$ 7,772,962
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of subsidiary	(13,802,256)	(9,218,596)
Share-based compensation	105,060	108,900
Other, net	(301,839)	259,771
NET CASH USED IN OPERATING ACTIVITIES	(1,370,293)	(1,076,963)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contribution to subsidiary	-	(8,238,394)
Cash paid in acquisition	(15,885,223)	-
NET CASH USED IN INVESTING ACTIVITIES	(15,885,223)	(8,238,394)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal reduction on line-of-credit	-	(1,242,950)
Proceeds from subordinate debentures	-	30,000,000
Issuance costs on subordinate debentures	-	(562,660)
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	28,194,390
NET CHANGE IN CASH AND CASH EQUIVALENTS	(17,255,516)	18,879,033
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,922,440	43,407
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,666,924	18,922,440
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 1,706,844	$ 321,026

Note 23: Subsequent Events

In January 2023, the Company obtained brokered time deposits amounting to $150 million that mature in January 2025, with an effective interest rate of 4.55%.

On March 12, 2023, in response to liquidity concerns in the United States banking system, the Federal Reserve and U.S. Department of Treasury, along with banking regulators, collaboratively approved certain actions with a stated intention to reduce stress across the financial system, support financial stability and minimize any impact on business, households, taxpayers, and the broader economy. Among other actions, the Federal Reserve Board created a new Bank Term Funding Program (BTFP) to make additional funding available to eligible depository institutions, to help assure institutions can meet the needs of their depositors. Eligible institutions may obtain liquidity against a wide range of collateral. BTFP advances can be requested through at least March 11, 2024. Through the date the financial statements were available to be issued, the Company has not requested funding through the BTFP.

The overall consequences of current market and liquidity conditions and the impact of the recent actions taken on the banking system and overall economy are unknown. The impact of this situation on the Company and its future results and financial position is not presently determinable.