NOBLE BANCSHARES, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Noble Bancshares, Inc. and Subsidiary

We have audited the accompanying consolidated statements of financial condition of Noble Bancshares, Inc. and Subsidiary (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Noble Bancshares, Inc. and Subsidiary as of December 31, 2020 and 2019, 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.

Warren Averett, LLC

Anniston, Alabama
May 4, 2021

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2020 AND 2019

ASSETS

	2020	2019
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 4,647,919	$ 4,789,838
Interest bearing deposits in banks	34,285,728	7,729,476
Federal funds sold	4,900,000	4,900,000
Total cash and cash equivalents	43,833,647	17,419,314
SECURITIES		
Debt securities available-for-sale	67,958,342	58,800,311
Restrictive equity securities	1,354,113	1,344,450
TOTAL SECURITIES	69,312,455	60,144,761
LOANS, NET OF ALLOWANCE FOR LOAN LOSSES	207,506,548	173,679,252
LOANS HELD-FOR-SALE	2,272,925	160,700
PREMISES AND EQUIPMENT, NET	7,035,159	6,922,595
BANK-OWNED LIFE INSURANCE	4,312,705	4,223,226
LIMITED PARTNERSHIP INVESTMENT	2,982,958	668,772
INVESTMENT IN ANNUITIES	1,724,693	1,724,693
ACCRUED INTEREST RECEIVABLE	1,166,640	987,787
PREPAID EXPENSES	471,422	311,680
FORECLOSED REAL ESTATE	61,105	234,343
DEFERRED TAX	713,653	857,539
INCOME TAXES RECEIVABLE	-	4,771
OTHER ASSETS	-	170,286
TOTAL ASSETS	$ 341,393,910	$ 267,509,719

See notes to the consolidated financial statements.

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2020 AND 2019

LIABILITIES AND STOCKHOLDERS' EQUITY

	2020	2019
DEPOSITS		
Noninterest-bearing checking	$ 83,138,433	$ 42,864,250
Interest-bearing:		
Checking	164,501,290	124,052,352
Savings	14,434,780	11,080,217
Time deposits	49,119,845	61,894,787
Total deposits	311,194,348	239,891,606
BORROWINGS	2,944,444	3,500,000
ACCRUED INTEREST PAYABLE	160,496	266,171
DEFERRED COMPENSATION	699,927	561,233
INCOME TAXES PAYABLE	30,004	-
OTHER LIABILITIES	504,940	64,627
Total liabilities	315,534,159	244,283,637
STOCKHOLDERS' EQUITY		
Common stock, $1 par value; 5,000,000 shares authorized; 1,478,360 shares issued and 1,449,889 and 1,451,444 shares outstanding for the years ended December 31, 2020 and 2019, respectively	1,478,360	1,478,360
Additional paid-in capital	18,795,766	18,795,074
Accumulated other comprehensive income (loss)	563,459	(196,449)
Treasury stock, 28,471 and 26,916 shares at cost at December 31, 2020 and 2019, respectively	(404,560)	(379,680)
Retained earnings	5,426,726	3,528,777
Total stockholders' equity	25,859,751	23,226,082
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 341,393,910	$ 267,509,719

See notes to the consolidated financial statements.

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
INTEREST INCOME		
Interest and fees on loans	$ 11,623,915	$ 9,905,815
Interest on debt securities	1,375,395	1,556,976
Interest on restrictive equity securities	55,712	57,727
Interest on due from accounts	112,152	420,385
Total interest income	13,167,174	11,940,903
INTEREST EXPENSE		
Interest on checking and money market	544,551	633,627
Interest on savings	32,295	35,637
Interest on certificates of deposit	843,510	1,194,049
Interest on borrowed funds	116,841	187,882
Total interest expense	1,537,197	2,051,195
NET INTEREST INCOME	11,629,977	9,889,708
PROVISION FOR LOAN LOSSES	929,003	2,839,492
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,700,974	7,050,216

See notes to the consolidated financial statements.

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
NONINTEREST INCOME		
Service charges, fees, and commissions	$ 2,297,033	$ 2,303,030
Bank-owned life insurance income	89,478	92,634
Realized gain on sale of securities	256,425	730,276
Realized gain on sale of foreclosed real estate and repossessed assets, net of write-downs	276,869	-
Miscellaneous noninterest income	13,838	382,906
Total noninterest income	2,933,643	3,508,846
NONINTEREST EXPENSES		
Salaries and employee benefits	6,002,629	5,109,202
Data processing expense	1,884,890	1,742,449
Occupancy expense	862,898	753,176
Professional fees	486,894	358,259
Business development expense	248,480	282,241
Insurance expense	117,113	123,063
Equipment expense	205,332	184,963
Deferred compensation expense	155,738	115,355
Supplies expense	144,923	118,765
Communication expense	101,193	77,109
Write-downs and losses on foreclosed real estate and repossessed assets, net of write-downs	-	29,359
Other expenses	368,751	391,730
Total noninterest expenses	10,578,841	9,285,671
INCOME BEFORE INCOME TAXES	3,055,776	1,273,391
INCOME TAX PROVISION	432,106	146,503
NET INCOME	$ 2,623,670	$ 1,126,888

See notes to the consolidated financial statements.

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
NET INCOME	$ 2,623,670	$ 1,126,888
OTHER COMPREHENSIVE INCOME		
Unrealized gains on available-for-sale securities:		
Unrealized holding gains arising during the period	1,218,335	1,774,191
Reclassification adjustments for gains included in net income	(256,425)	(730,276)
Net unrealized gain	961,910	1,043,915
Income tax related to items of other comprehensive income	(202,002)	(219,222)
Other comprehensive gain	759,908	824,693
COMPREHENSIVE INCOME	$ 3,383,578	$ 1,951,581

See notes to the consolidated financial statements.

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2018	$ 1,478,360	$ 18,766,399	$ (1,021,142)	$ (173,175)	$ 3,061,077	$ 22,111,519
Purchase of treasury stock	-	-	-	(206,505)	-	(206,505)
Stock Options	-	28,675				28,675
Dividends declared and paid	-	-	-	-	(659,188)	(659,188)
Net income	-	-	-	-	1,126,888	1,126,888
Other comprehensive gain	-	-	824,693	-	-	824,693
BALANCE AT DECEMBER 31, 2019	1,478,360	18,795,074	(196,449)	(379,680)	3,528,777	23,226,082
Purchase of treasury stock	-	-	-	(24,880)	-	(24,880)
Stock options	-	692	-	-	-	692
Dividends declared and paid	-	-	-	-	(725,721)	(725,721)
Net income	-	-	-	-	2,623,670	2,623,670
Other comprehensive gain	-	-	759,908	-	-	759,908
BALANCE AT DECEMBER 31, 2020	$ 1,478,360	$ 18,795,766	$ 563,459	$ (404,560)	$ 5,426,726	$ 25,859,751

See notes to the consolidated financial statements.

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,623,670	$ 1,126,888
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	929,003	2,839,492
Net amortization of securities	174,235	327,348
Depreciation of premises and equipment	504,043	424,791
Write-down of foreclosed real estate	69,866	17,005
(Gain) loss on sale of foreclosed real estate	(337,677)	12,354
Loss on disposal of premises and equipment	-	7,553
Realized gain on sale of securities, net	(256,425)	(730,276)
Change in accrued interest receivable	(178,853)	81,774
Change in prepaid expenses	(159,742)	(39,828)
Change in deferred tax	(58,116)	(427,441)
Change in income tax receivable	4,771	181,709
Change in accrued interest payable	(105,675)	52,828
Change in deferred compensation	138,694	98,311
Change in income tax payable	30,004	-
Change in other, net	610,599	(311,325)
Net cash provided by operating activities	3,988,397	3,661,183
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in debt securities available-for-sale:		
Purchases	(37,516,193)	(38,362,297)
Sales	11,647,739	37,028,012
Maturities, paydowns, and calls	17,754,523	5,713,328
Purchases of securities restrictive investments	(9,663)	(77,600)
Increase in limited partnership investment	(2,314,186)	(668,772)
Net change in loans receivable	(35,502,330)	(16,882,868)
Net change in loans held-for-sale	(2,112,225)	1,054,550
Proceeds from the sale of foreclosed real estate	1,187,080	70,735
Purchases of premises and equipment	(616,607)	(394,273)
Change in bank owned life insurance	(89,479)	(92,633)
Net cash used in investing activities	(47,571,341)	(12,611,818)

See notes to the consolidated financial statements.

NOBLE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 71,302,742	$ 8,817,563
Allocation from granting of warrants/options	692	28,673
Treasury stock	(24,880)	(206,505)
Net change in borrowings	(555,556)	-
Cash dividends	(725,721)	(659,188)
Net cash provided by financing activities	69,997,277	7,980,543
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,414,333	(970,092)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,419,314	18,389,406
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 43,833,647	$ 17,419,314
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,642,872	$ 1,998,367
NONCASH DISCLOSURES		
Loans transferred to other real estate owned	$ 746,031	$ 162,637
Proceeds from sales of foreclosed real estate financed through loans	$ -	$ 15,200
Net change in unrealized gains on securities available-for-sale, net of taxes	$ 759,908	$ 824,693

See notes to the consolidated financial statements.

1. ORGANIZATION

Noble Bancshares, Inc. (the Company), an Alabama corporation, formed on June 1, 2017, operates in the domestic commercial banking industry. The Company's subsidiary, Noble Bank & Trust (the Bank) was formed on October 5, 2005, by national charter and on June 27, 2013, the Bank was permitted to change its charter from a national bank to a state bank. It is now regulated by the State of Alabama Banking Department and the Federal Reserve. The Bank operates six branches in Alabama, with the main branch being located in Anniston and the other branches being located in Oxford, Piedmont, Alexandria, Birmingham and Heflin.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and to general practice within the banking industry. The following summarizes the most significant of these policies.

Coronavirus Disease (COVID-19) Pandemic
Operating, Accounting and Reporting Considerations related to COVID-19 – The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and increased unemployment levels. The resulting temporary closure of many businesses and the implementation of social distancing and sheltering-in-place policies have impacted and may continue to impact many of the Company's customers. While the full effects of the pandemic remain unknown, the Company is committed to supporting its customers, employees and communities during this difficult time. The Company has provided hardship relief assistance to customers, including the consideration of various loan payment deferral and fee waiver options, and encouraged customers to reach out for assistance to support their individual circumstances.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed by the President of the United States. Certain provisions within the CARES Act encourage financial institutions to practice prudent efforts to work with borrowers impacted by COVID-19. Under these provisions, which the Company has applied, loan modifications deemed to be COVID-19-related are not considered a troubled debt restructuring ("TDR") if the loan was not more than 30 days past due as of December 31, 2019, and the deferral was executed between March 1, 2020, and the earlier of 60 days after the date of termination of the COVID-19 national emergency or December 31, 2020. In December 2020, this CARES Act provision was extended to loans modified between March 1, 2020, and the earlier of 60 days after the date of termination of the COVID-19 national emergency and January 1, 2022. The banking regulators issued similar guidance, which also clarified that a COVID-19-related modification would not meet the requirements under accounting principles generally accepted in the United States of America to be a TDR if the borrower was current on payments at the time the underlying loan modification program was implemented and if the modification is considered to be short-term. The Company generally offered impacted borrowers loan payment deferrals of 90 days in duration. The Company offered subsequent 90-day deferrals if requested by the borrower. Any deferred amounts were generally added by the Company to the payoff balance of the loan at maturity. Most of the deferral requests occurred during the second quarter of 2020; and in the second half of 2020, all but two of those borrowers have resumed payments as of December 31, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and the Bank. 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 on a consolidated basis.

Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. 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. Material estimates that are particularly susceptible to significant change in the near term are related to the determination of the allowance for loan losses, the valuation of deferred tax assets, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and the fair value of financial instruments.

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 environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. The Bank's loans are generally secured by specific items of collateral, including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management used available information to recognize losses on loans, further reduction in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank 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.

Significant Group Concentrations of Credit Risk
The majority of the Company's activities are with customers in north central Alabama. The types of securities in which the Company invests are discussed in Note 3. The types of lending performed by the Company are discussed in Note 4. The Company does not have any concentrations to any one industry or customer. The Company's geographic concentration and the risk therein is discussed in Note 12.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents
The Company considers cash and due from banks, federal funds sold, and all highly-liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

The Company maintains cash and cash equivalents in various correspondent or other bank accounts. The amounts by which cash and cash equivalents exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage at December 31, 2020 and 2019, were approximately $37,388,000 and $9,561,000, respectively. Management monitors these bank accounts and does not expect to incur any losses from such accounts. In addition, federal funds sold are not insured or guaranteed by other parties.

The Bank is required by regulatory authorities to maintain average reserve balances either in vault cash or on deposit with the Federal Reserve Bank. The average amount of those reserves required at December 31, 2019, was approximately $2,743,000. In response to the global pandemic, the Federal Reserve reduced the reserve requirement ratios to zero percent effective on March 26, 2020; therefore, there was no reserve requirement required as of December 31, 2020.

Debt Securities Available-for-Sale
Debt securities available-for-sale represent those securities intended to be held for an indefinite period of time, including securities that management intends to use as part of its asset/liability strategy or that may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital, or other similar factors. Debt securities available-for-sale are recorded at market value with unrealized gains and losses net of any tax effect and are reported as other comprehensive income (loss) in a separate component of stockholders' equity until realized. Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount on the securities sold, using the specific identification method. The estimated values are provided by security dealers who have obtained quoted prices.

Purchase premiums and discounts are recognized in interest income using a method which approximates the interest method over the terms of the securities. Declines in the fair value of debt securities available-for-sale below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restrictive Equity Securities
Restrictive equity securities represent those securities whose sale is restricted to approved other organizations or the issuing company. Those securities are carried at cost, and their value is determined by the ultimate recoverability of par value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investment in Annuities

The Company has purchased annuity contracts on certain key employees. These contracts are recorded at their cash surrender value or the amount that can be realized. Income from these contracts and changes in the cash surrender value are recorded in noninterest income.

Loans

Loans that management has the intent and ability to hold, for the foreseeable future, are reported at their outstanding principal balances net of any unearned income, charge-offs and unamortized fees and costs. Loan origination and commitment fees, as well as certain origination costs, when material, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method or the straight-line method.

Troubled Debt Restructurings (TDRs)

Modifications to a borrower's debt agreement are considered troubled debt restructurings (TDRs), if a concession is granted for economic or legal reasons related to a borrower's financial difficulties that otherwise would not be considered. TDRs are undertaken in order to improve the likelihood of recovery on the loan and may take the form of modifications made with the stated interest rate lower than the current market rate for new debt with similar risk, other modifications to the structure of the loan that fall outside of normal underwriting policies and procedures, or in certain limited circumstances, forgiveness of principal or interest. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual or continuing on accruing status, depending on the individual facts and circumstances of the borrower.

Income Recognition on Impaired and Nonaccrual Loans

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

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

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, except in the case of loans with scheduled amortizations where the payment is generally applied to the oldest payment due. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. 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. Interest income recognized on a cash basis was immaterial for the years ended December 31, 2020 and 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Allowance for Loan Losses
The allowance for loan losses represents management's estimate of probable and reasonable credit losses in loans as of the balance sheet date. The estimate of the allowance is based on a variety of factors, including an evaluation of the loan portfolio, past loss experience, adverse situations that have occurred, but are not yet known that may affect the borrower's ability to repay, the estimated value of underlying collateral and current economic conditions.

For purposes of determining the allowance for loan losses, the Bank has segmented loans into the following segments: commercial, financial and agricultural; real estate – construction, land development and other land; real estate – mortgage; and consumer. Significant judgment is used to determine the estimation method that fits the credit risk characteristics of each portfolio segment. The Bank uses internally developed models in this process. Management must use judgment in establishing input metrics for the modeling processes. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as information becomes available and as economic conditions change.

Loans considered to be uncollectible are charged-off against the allowance. The amount and timing of charge-offs on loans includes consideration of the loan type, length of delinquency, insufficiency of collateral value, lien priority and the overall financial condition of the borrower. Recoveries on loans previously charged-off are credited back to the allowance. Loans that have been charged-off against the allowance are periodically monitored to evaluate whether further adjustments to the allowance are necessary.

The allowance for loan losses consists of three components: general, specific and unallocated, as follows:

- The general component covers non-classified 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.

- The specific component is determined for impaired loans, including TDRs, individually based on management's evaluation of the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and the realizable value of any collateral. Reserves are established for these loans based upon an estimate of probable losses for the individual loans deemed to be impaired. This estimate considers all available evidence using one of the methods provided by applicable authoritative guidance. Loans determined to be collateral dependent are measured at the fair value of collateral less disposal costs. Loans for which impaired reserves are provided are excluded from the general component reserve calculations described above to prevent duplicate reserves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- The unallocated component is not allocated to any specific category of loans. This unallocated portion of the allowance reflects management's best estimate of the elements of imprecision and estimation of risk inherent in the calculation of the overall allowance. Due to the subjectivity involved in determining the overall allowance, including the unallocated portion, the portion considered unallocated may fluctuate from period to period based on management's evaluation of the factors affecting the assumptions used in calculating the allowance, including historical loss experience, current economic conditions, industry or borrower concentrations and the status of merged institutions.

A loan is considered impaired, when based on current information and events, it is probable that the Bank 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. If management determines that the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through a charge-off to the allowance. Interest income is recognized as earned unless the loan is placed on nonaccrual status.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Generally, impaired loans include loans on nonaccrual status, loans that have been assigned a specific allowance for credit losses, loans that have been partially charged off and loans designated as troubled debt restructurings.

Based on facts and circumstances available, management believes that the allowance for loan losses is adequate to cover any probable losses in the Bank's loan portfolio. However, future adjustments to the allowance may be necessary, and the Bank's results of operations could be adversely affected if circumstances differ substantially from the assumptions used by management in determining the allowance for loan and lease losses. Management believes that it has established the allowance in accordance with generally accepted accounting principles and has taken into account the views of its regulators and the current economic environment. There can be no assurance that in the future the Bank's regulators or its economic environment will not require further increases in the allowance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Asset Quality

Written underwriting standards established by management govern the lending activities of the Bank. An established loan policy requires appropriate documentation including borrower financial data and credit reports. For loans secured by real property, the Bank generally requires property appraisals, title insurance or a title opinion, hazard insurance and flood insurance, where appropriate. Loan payment performance is monitored, and late charges are assessed on past due accounts. Legal proceedings are instituted, as necessary, to minimize loss. Commercial and residential loans of the Bank are periodically reviewed through a loan review process. All other loans are also subject to loan review through a periodic sampling process.

The Bank uses an asset risk classification system consistent with guidelines established by the Uniform Financial Institution Ratings System (UFIRS) as part of its efforts to monitor asset quality. In connection with examinations of insured institutions, both federal and state examiners also have the authority to identify problem assets and, if appropriate, classify them. The Bank has eight credit quality indicators for loans, as follows:

Superior Quality (minimal risk) – Loans in this category are considered to be of the highest quality. The borrower is very liquid. Overall asset quality is very good. Leverage is very low and is stable or decreasing. For consumer loans, debt to income ratio should be very low and for business loans, cash flow is continually very high relative to all demands. Earnings are always very strong, being stable or even increasing through economic swings. Multiple sources of financing exist and can be easily obtained by this borrower.

High Quality (low risk) – Loans in this category are considered to be of above average quality. The borrower is very liquid. Overall, leverage is relatively low and is stable. Earnings are very strong and stable. For consumer loans, the debt to income ratio should be low and for business loans, cash flow is more than sufficient to meet total demands. Other sources of financing are available and are readily available to this borrower.

Good Quality (normal risk) – Loans in this category are considered to be of good quality. These consumer borrowers have a history of successful credit performance and the business borrowers have successful financial performance, but could be susceptible to economic changes. Asset quality is good. The balance sheet shows decent liquidity. Overall leverage is at a normal level. Income and cash flow may fluctuate but are still sufficient to meet demands. Other sources of financing should be easily obtainable.

Acceptable Quality (increased risk) – Loans in this grade are considered to be acceptable credit risk, but may require more than the normal servicing. Loans should be in this category not because they are problem credits, but because they may be higher than normal risk and the Bank needs to follow their performance more closely than others. Asset quality is marginally acceptable. Overall, leverage may fluctuate and is frequently at the upper end of the range of what is considered normal. Income and cash flow may be marginal, but continue to support demands. The outlook for continued improvement is good. Access to other financing sources is limited to a few banks.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Special Mention (high risk) – A “Special Mention” loan has potential weaknesses that deserves management’s close attention. Such weaknesses could be that the borrower’s ability to repay from primary (intended) sources (i.e., income or cash flow) is marginal and is threatened by a potential weakness, which, if not checked or corrected, could result in deterioration of the repayment prospects for the loan and/or the Bank being inadequately protected against the risk of principal or income loss at some future date. The borrower is highly susceptible to current economic or market conditions, which may adversely affect the borrower’s ability to repay the debt. A consumer borrower may have had a reduction of income or have an unusually high level of financial leverage. A business borrower may be experiencing adverse operating trends or operating with unusually high financial leverage, thereby increasing the risk of untimely payment. A loan classified as “Special Mention” should be transitional and temporary (six months).

Classified Substandard – Loans with a rating of “Substandard” show that the borrower’s ability to repay is threatened by a clearly defined weakness which jeopardizes liquidation of the loan. The distinct possibility exists that the Bank will sustain some principal or income loss if the deficiencies are not corrected.

Classified Doubtful – Loans with a rating of “Doubtful” show that the borrower’s ability to repay in full, on the basis of currently existing facts, is highly questionable and improbable. Some loss of principal or income is likely; however, the total amount of such loss cannot be determined at the present time. A “Doubtful” risk grade should be temporary; therefore, when and if loss exposure is determined, the amount of loss will be charged off or the loan should be upgraded. Loans in this category shall be immediately placed on non-accrual with all payments applied to principal until such time as the potential loss exposure is eliminated.

Classified Loss – Loans classified as “Loss” are considered partially or totally uncollectible and of such little value that their continuation as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this asset even though partial recovery may be affected in the future.

Loans Held-for-Sale
Loans held-for-sale consist of loans originated by the Bank’s loan department that are sold without recourse, normally within 10 working days. All of the loans are sold at face value plus any interest accrued from the date of origination. The loans are reflected at cost, which is also market value. The Bank had $2,272,925 and $160,700 in loans held-for-sale as of December 31, 2020 and 2019, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Premises and Equipment

Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Expenditures for additions and major improvements that significantly extend the useful life of assets are capitalized. Expenditures for repairs and maintenance are charged against income when incurred.

Depreciation is provided generally by straight-line method based on the estimated useful lives of the respective assets, which generally range from three to 39 years.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain key 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 other operating income.

Limited Partnership Investment

The Company has invested, as a limited partner with no management control, in 42EP CBT Fund II, LP (Partnership) and the purpose of the Partnership is to acquire, directly or indirectly, interests in the operating partnerships, each of which will own and operate a property that will qualify for tax credit, and to hold, sell, dispose of and otherwise deal with such interests. In addition, the Partnership is organized for the purpose of investing in “qualified opportunity zone property” as defined in Section 1400Z-2(d)(2) of the tax code (code), and intends to certify as a “qualified opportunity fund” as defined in Section 1400Z-2(d)(1) of the code (an “Opportunity Fund”). The Partnership expects to acquire partnership interests in the operating partnerships (“qualified opportunity zone partnership interests” as defined in Section 1400Z-2(d)(3) of the code) that operate affordable housing projects and qualify as a “qualified opportunity zone business” as defined in Section 1400Z-2(d)(3) of the code. The Partnership shall not engage in any other business or activity.

Foreclosed Real Estate

Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property. In-substance foreclosed properties are those properties for which the Bank has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed real estate is recorded at the fair value less estimated costs to sell, which becomes the property's new cost basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying value amount or fair value less cost to sell. Costs incurred in maintaining other real estate and subsequent adjustments to the carrying amount of the property are included in income (loss) on other real estate. Costs incurred to complete, repair/renovate or make the property whole are capitalized, if these costs increase the fair value of the property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deposits
Customer deposits include public funds held on deposit under the Security for Alabama Funds Enhancement Act (SAFE) Program. The SAFE Program was established by the Alabama legislature to provide protection for public funds enrolled in the SAFE Program. Under this program, financial institutions are required to collateralize public fund deposits (see Note 3).

The Bank participates in the Certificate of Deposit Account Registry Service (CDARS), which is a network of banks that offer certificates of deposit products to individual and corporate customers in such amounts that allow such deposits to qualify for Federal Deposit Insurance Corporation (FDIC) insurance coverage.

The Bank is party to an agreement with QwickRate, an internet-based certificate of deposit listing service, to utilize their program to raise institutional time deposits.

Borrowings
The Bank records Federal Home Loan Bank advances and federal funds purchased at their principal amounts. Interest expense is recognized based on the coupon rate of the obligations.

Common Stock
Common stock has voting rights that are equal to one vote per share.

Comprehensive Income
Comprehensive income or loss is generally defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) is comprised of items not recorded as components of net income. The accumulated balance of other comprehensive income (loss) is reported separately from retained earnings in the equity section of the statements of financial condition.

Stock Based Compensation
Pursuant to the provisions of the Amended and Restated 2005 Incentive Stock Compensation Plan (the Plan), the stockholders and the Board of Directors approved 180,000 shares of common stock as reserved for stock options, warrants or restricted stock for various employees and directors. Note 15 summarizes the various grants of options, warrants, and restricted stock.

Major Services and Principal Markets
The Company’s main line of business consists of providing banking services for its customers, most of whom are located in East and Central Alabama.

Advertising
The Bank's policy is to expense advertising costs as incurred. Advertising expense was $75,087 and $24,858 for the years ended December 31, 2020 and 2019, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition
The Company recognizes revenue from contracts with customers. Noninterest revenue streams such as service charges on deposit accounts and commissions and fees are recognized in accordance with Accounting Standards Codification ("ASC") Topic 606. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans, securities and mortgage banking. In addition, certain noninterest income streams such as financial guarantees, derivatives, and certain credit card fees are outside the scope of the guidance. Noninterest revenue streams within the scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts
Service charges on deposit accounts consist of monthly service fees, overdraft and nonsufficient funds fees, and MasterCard debit card interchange fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for service charges on deposit accounts is primarily received immediately or at the end of each month through a direct charge to customers' accounts. Overdraft and nonsufficient funds fees and other deposit account related fees are transactional based, and, therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time when the service is delivered. Debit card fees are primarily comprised of interchange fee income. Interchange fees are earned whenever the Company's debit cards are processed through the MasterCard network. The Company's performance obligation for interchange fee income is satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Interchange income for vendors using terminals the Company has sold and commissions from MasterCard related to the Company's principal status are also included in other operating income. The Company's performance obligation is satisfied, and the related revenue recognized, when the commissions or fees are earned and are generally based on a percentage of activity.

Other Operating Income
Included in other operating income are various transaction-based revenue streams such as wire transfer fees, foreign ATM fees, ACH origination fees, cashier check fees and miscellaneous services provided such as assistance with balancing a customer's checking account or making copies. Each of these fees are transactional based, and, therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time when the service is delivered.

Employee Benefit Plans
The Bank has a qualified 401(k) profit-sharing plan covering substantially all employees. Eligible participating employees may elect to contribute tax-deferred contributions. The Bank contributions include matching annual and discretionary amounts as determined by the Board of Directors. The 401(k) plan allows participants to invest in unrelated mutual funds.

The Bank has also provided a deferred compensation plan for certain key employees and directors. These plans are target benefit arrangements with defined contributions based on the key employee's earned salary. The amounts are unfunded and are included in other liabilities on the Bank's books. As such, the beneficiaries are general creditors of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Bank contributions to these benefit plans are included in salaries and employee benefits (see Notes 16 and 17).

Income Taxes
Income taxes are provided for the tax effects of the transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of available-for-sale securities, allowance for loan losses, estimated losses on foreclosed real estate, deferred compensation, and accumulated depreciation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company and its subsidiary file a consolidated federal income tax return. The subsidiary provides for income taxes on a separate return basis and remits to the Company amounts determined to be currently payable.

Transfers of Financial Assets
Transfers of financial assets are accounted for as sales when control over assets has been surrendered. Control over transferred assets is deemed surrendered when (1) the assets have been isolated from the Bank and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Off-Balance Sheet Financial Instruments
In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded. See Note 11 for a further discussion of these financial instruments.

The Bank has available as a source of short-term financing the purchase of federal funds from other commercial banks from available lines totaling $12,800,000, all of which is available and unused.

The Bank also has a line of credit with the Federal Home Loan Bank of Atlanta (FHLB) of up to approximately $80,825,000, of which all is available and unused as of December 31, 2020. The ability to utilize the remaining line is dependent on the amount of eligible collateral that is free to pledge to the FHLB. In addition, as part of the borrowing agreement, the Bank is required to purchase FHLB stock (see Note 3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurements
The Bank adopted authoritative guidance issued by the Financial Accounting Standards Board (FASB) on fair value measurements. This standard defines fair value for financial reporting purposes as the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could execute a transaction. New fair value measurements are not required, but fair value disclosures are required for financial assets or liabilities where other accounting pronouncements require or permit fair value reporting.

For each asset and liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated. The valuation premise is a concept that determines whether an asset is measured on a stand-alone basis or in combination with other assets. The Bank measures its assets and liabilities on a stand-alone basis then aggregates assets and liabilities with similar characteristics for disclosure purposes.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Bank. Unobservable inputs are inputs that reflect the Bank's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

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

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

The adoption of this authoritative guidance had no impact on the consolidated financial statements of the Bank other than the additional disclosures included in Note 18.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Information about the Effects of and Responses to COVID-19

The ongoing COVID-19 pandemic has and continues to impact the Company and its customers, employees, communities and service providers; however, the ultimate severity of the COVID-19 pandemic, its duration and the extent of its impact on the Bank's business, results of operations, financial condition, liquidity and prospects remains uncertain.

Pandemic Guidelines and Business Continuity – In response to the COVID-19 pandemic, the Company and Bank have placed an emphasis on delivering products and services through online and mobile banking, remote deposit capture and digital communications with customers.

The Company and Bank have implemented a set of pandemic guidelines to protect employees and promote business continuity while providing support to its customers and communities facing challenges due to the impacts of COVID-19. These guidelines include policies and procedures with respect to Phase 1, Phase 2 and Phase 3 responses to the COVID-19 pandemic, additional cleaning and sanitation requirements and branch-specific response plans for employees and customer service at the Bank's branch locations, including remote work and social distancing requirements. The Company has purchased additional laptops, invested in additional technology and software and purchased personal protective equipment for employee use. The Company's management meets regularly to review the pandemic guidelines, response priorities, guidance issued by health regulatory agencies and protective measures and other actions being taken by the Company and Bank.

Paycheck Protection Program ("PPP") – As a further part of the Company's response to the COVID-19 pandemic, the Bank has participated in the PPP established pursuant to the Coronavirus Aid, Relief, and Economic Security Act (also known as the "CARES Act") and implemented by the U.S. Small Business Administration with support from the U.S. Department of the Treasury. The Bank has provided over $46.9 million in PPP loans to small businesses in its markets through December 31, 2020.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these consolidated financial statements through the date of the independent auditors' report, which is the date the consolidated financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements included herein to conform to the 2020 presentation. These reclassifications had no effect on the financial position, results of operations, or cash flows of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU 2016-13, in November 2018, issued ASU 2018-19, in April 2019, issued ASU 2019-04, in May 2019, issued ASU 2019-05, in November 2019, issued ASU 2019-10 and 2019-11,and in March 2020 issued ASU 2020-03, *Financial Instruments — Credit Losses* (Topic 326). The amendments in this ASU cover two areas: assets measured at amortized cost and debt securities available-for-sale. For assets measured at amortized cost, the amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. For debt securities available-for-sale, credit losses relating to debt securities available-for-sale should be recorded through an allowance for credit losses. Available-for-sale accounting recognizes that value may be realized either through collection of contractual cash flows or through sale of the security. Therefore, the amendments limit the amount of the allowance for credit losses to the amount by which fair value is below amortized cost because the classification as available-for-sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value. The amendments in this ASU are effective for fiscal years beginning after December 15, 2022. All entities may adopt the amendments in this ASU as early as the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Bank is reviewing the impact that the adoption of this ASU may have on its financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments of this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This ASU is effective for fiscal years beginning after January 1, 2022. The Financial Institution is reviewing the impact that the adoption of this ASU may have on its financial statements.

3. SECURITIES

Debt Securities Available-for-Sale

The amortized cost and fair value of debt securities available-for-sale, with gross unrealized gains and losses, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2020				
Debt securities:				
U.S. government-sponsored enterprises (GSEs)*	$ 6,080,168	$ -	$ 43,672	$ 6,036,496
State and municipal	51,942,102	895,687	224,344	52,613,445
Mortgage-backed:				
GSE residential	9,222,833	105,728	20,160	9,308,401
	$ 67,245,103	$ 1,001,415	$ 288,176	$ 67,958,342

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2019				
Debt securities:				
U.S. government-sponsored enterprises (GSEs)*	$ 9,994,878	$ -	$ 204,955	$ 9,789,923
State and municipal	43,548,280	479,273	489,412	43,538,141
Mortgage-backed:				
GSE residential	5,505,824	-	33,577	5,472,247
	$ 59,048,982	$ 479,273	$ 727,944	$ 58,800,311

* Such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks.

The Bank did not classify any investments as held-to-maturity at December 31, 2020 and 2019.

Debt securities available-for-sale with a carrying amount of $12,013,477 and $13,693,863 were pledged to secure various public funds under the SAFE Program at December 31, 2020 and 2019, respectively.

3. SECURITIES – CONTINUED

The amortized cost and fair value of debt securities available-for-sale by contractual maturity at December 31, 2020, were as follows:

	Amortized Cost	Fair Value
Within one year	$ 389,643	$ 391,170
After one year through five years	10,549,843	10,650,783
After five years through ten years	11,276,336	11,415,605
Over ten years	45,029,281	45,500,784
	$ 67,245,103	$ 67,958,342

Mortgage-backed securities have been included in the maturity tables based upon the guaranteed pay-off date of each security.

The actual maturities may differ from the contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

For the years ended December 31, 2020 and 2019, proceeds from sales, maturities and calls of debt securities available-for-sale amounted to $27,127,739 and $41,198,012; gross realized gains were $256,425 and $761,264; and gross realized losses were $-0- and $30,988, respectively.

The following table shows the gross unrealized losses and fair value of the entity's debt securities available-for-sale with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019.

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of December 31, 2020						
Debt securities:						
U.S. GSEs	$ 6,036,496	$ 43,672	$ -	$ -	$ 6,036,496	$ 43,672
State and municipals	11,893,221	223,218	138,177	1,126	12,031,398	224,344
Mortgage-backed:						
GSE residential	3,032,584	20,160	-	-	3,032,584	20,160
	$20,962,301	$ 287,050	$ 138,177	$ 1,126	$21,100,478	$ 288,176

3. SECURITIES – CONTINUED

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of December 31, 2019						
Debt securities:						
U.S. GSEs	$ 9,789,923	$ 204,955	$ -	$ -	$ 9,789,923	$ 204,955
State and municipals	19,494,532	487,732	265,486	1,680	19,760,018	489,412
Mortgage-backed: GSE residential	5,472,247	33,577	-	-	5,472,247	33,577
	$34,756,702	$ 726,264	$ 265,486	$ 1,680	$35,022,188	$ 727,944

U.S. Government-Sponsored Enterprises (GSEs)
The Bank has six U.S. Government-sponsored enterprise securities with unrealized losses at December 31, 2020. The unrealized losses on these investments were caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 0.72%. The expected present value of future cash flows is expected to approximate the contractual cash flows. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment.

The Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2020, because the decline in market value is attributable to the current interest rate environment and not credit quality; moreover, the Bank does not intend to sell the investments, and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be maturity.

State and Municipal
The Bank has 18 state and municipal securities with unrealized losses at December 31, 2020. The unrealized losses on these investments were caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 1.86%. The expected present value of future cash flows is expected to approximate the contractual cash flows. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment.

The Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2020, because the decline in market value is attributable to the current interest rate environment and not credit quality; moreover, the Bank does not intend to sell the investments, and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be maturity.

3. SECURITIES – CONTINUED

Mortgage-Backed: GSE Residential
The Bank had three mortgage-backed securities with unrealized losses at December 31, 2020. The unrealized losses on these investments were caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 0.66%. The expected present value of future cash flows is expected to approximate the contractual cash flows. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Bank's investment.

The Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2020, because the decline in market value is attributable to the current interest rate environment and not credit quality; moreover, the Bank does not intend to sell the investments, and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be maturity.

Other-than-Temporary Impairment
The Bank recognizes other-than-temporary impairment (OTTI) in accordance with ASC Topic 320, *Investments – Debt and Equity Securities*, which requires that the Bank assess whether it intends to sell or it is more likely than not that the Bank will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to anticipated recovery of the amortized cost basis, the amount of the impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as a loss in the statements of income, but is recognized in other comprehensive income (loss).

The Bank believes that it will fully collect the carrying value of securities on which it has recorded a noncredit related impairment in other comprehensive income (loss). The Bank held no investments with an other-than-temporary impairment at December 31, 2020 and 2019.

Restrictive Equity Securities
The aggregate carrying value of the Bank's cost-method investments totaled $1,354,113 and $1,344,450 at December 31, 2020 and 2019, respectively. These investments were not evaluated for impairment because (1) the Bank did not estimate the fair value of these investments in accordance with ASC Topic 825, *Financial Instruments,* and (2) the Bank did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments. As of December 31, 2020, the Bank concluded that any impairments identified were temporary with no adjustments needed.

3. SECURITIES – CONTINUED

The carrying amount of securities restrictive investment at December 31 is as follows:

	2020	2019
Federal Reserve Bank	$ 579,113	$ 578,250
First National Bankers Bank	534,200	534,200
Federal Home Loan Bank	240,800	232,000
	$ 1,354,113	$ 1,344,450

4. LOANS

The composition of loans by primary loan classification and by performing and impaired loan status at December 31, 2020 and 2019, is as follows:

	December 31, 2020		
	Performing Loans	Impaired Loans	Total
Commercial, financial, and agricultural	$ 58,975,080	$ -	$ 58,975,080
Real estate – construction, land and other land	21,331,984	276,299	21,608,283
Real estate – mortgage	121,799,153	3,073,655	124,872,808
Consumer	5,174,432	43,384	5,217,816
Subtotal	207,280,649	3,393,338	210,673,987
Allowance for loan losses	(2,850,389)	(317,050)	(3,167,439)
Net loans	$ 204,430,260	$ 3,076,288	$ 207,506,548

4. LOANS – CONTINUED

	December 31, 2019		
	Performing Loans	Impaired Loans	Total
Commercial, financial, and agricultural	$ 37,444,455	$ 1,622,573	$ 39,067,028
other land	14,662,984	312,751	14,975,735
Real estate – mortgage	117,019,457	1,989,295	119,008,752
Consumer	4,619,529	40,018	4,659,547
Subtotal	173,746,425	3,964,637	177,711,062
Allowance for loan losses	(2,299,738)	(1,732,072)	(4,031,810)
Net loans	$ 171,446,687	$ 2,232,565	$ 173,679,252

The changes in the allowance for loan losses for the years ended December 31, 2020 and 2019, are as follows:

	2020	2019
Balance at beginning of year	$ 4,031,810	$ 1,961,835
Loans charged off	(1,924,786)	(802,720)
Recoveries on loans previously charged off	131,412	33,203
Net charge-offs	(1,793,374)	(769,517)
Provision charged to operating expenses	929,003	2,839,492
Balance at end of year	$ 3,167,439	$ 4,031,810

4. LOANS – CONTINUED

The allocation and changes in the allowance for loan losses, by loan classification, as of and for the years ended December 31, 2020 and 2019, are as follows:

	December 31, 2020					
	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, and Other Land	Real Estate – Mortgage	Consumer	Unallocated	Total
Balance at beginning of year	$ 2,170,095	$ 290,554	$ 1,571,068	$ 85,405	$ (85,312)	$ 4,031,810
Charge-offs	(1,861,604)	-	-	(63,182)	-	(1,924,786)
Recoveries	95,226	-	8,506	27,680	-	131,412
Net charge-offs	(1,766,378)	-	8,506	(35,502)	-	(1,793,374)
Provision	546,994	45,254	336,752	(2,111)	2,114	929,003
Ending balance	$ 950,711	$ 335,808	$ 1,916,326	$ 47,792	$ (83,198)	$ 3,167,439

	December 31, 2019					
	Commercial, Financial, and Agricultural	Real Estate – Construction, Land Development, and Other Land	Real Estate – Mortgage	Consumer	Unallocated	Total
Balance at beginning of year	$ 372,831	$ 157,895	$ 1,273,639	$ 88,926	$ 68,544	$ 1,961,835
Charge-offs	(312,357)	(277,152)	(130,401)	(82,810)	-	(802,720)
Recoveries	-	-	4,586	28,617	-	33,203
Net charge-offs	(312,357)	(277,152)	(125,815)	(54,193)	-	(769,517)
Provision	2,109,621	409,811	423,244	50,672	(153,856)	2,839,492
Ending balance	$ 2,170,095	$ 290,554	$ 1,571,068	$ 85,405	$ (85,312)	$ 4,031,810

4. LOANS – CONTINUED

The following table outlines the amount of each loan classification based on internally assigned risk ratings as of December 31, 2020 and 2019:

	December 31, 2020				
	Commercial, Financial and Agricultural	**Real Estate – Construction, Land Development and Other Land**	**Real Estate – Mortgage**	**Consumer**	**Total**
Grade:					
Pass*	$ 58,912,629	$ 21,331,984	$ 121,799,153	$ 5,174,432	$ 207,218,198
Pass – impaired	-	276,299	-	14,833	291,132
Substandard	62,451	-	-	-	62,451
Substandard – impaired	-	-	3,073,655	28,551	3,102,206
Total	$ 58,975,080	$ 21,608,283	$ 124,872,808	$ 5,217,816	$ 210,673,987

* Loans graded as superior quality, high quality, good quality, and acceptable quality are classified as "Pass" grade for disclosure purposes.

	December 31, 2019				
	Commercial, Financial and Agricultural	**Real Estate – Construction, Land Development and Other Land**	**Real Estate – Mortgage**	**Consumer**	**Total**
Grade:					
Pass*	$ 36,714,455	$ 14,662,984	$ 114,909,628	$ 4,619,529	$ 170,906,596
Pass – impaired	-	312,751	99,324	-	412,075
Special mention	430,000	-	-	-	430,000
Substandard	300,000	-	2,109,829	-	2,409,829
Substandard – impaired	1,622,573	-	1,889,971	40,018	3,552,562
Total	$ 39,067,028	$ 14,975,735	$ 119,008,752	$ 4,659,547	$ 177,711,062

* Loans graded as superior quality, high quality, good quality, and acceptable quality are classified as "Pass" grade for disclosure purposes.

4. LOANS – CONTINUED

The following table details the recorded investments, unpaid principal balance and the related allowance of impaired loans as of December 31, 2020 and 2019, and the average recorded investment of impaired loans for the years ended December 31, 2020 and 2019:

	At December 31, 2020			For the Year Ended December 31, 2020
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no recorded allowance:				
Real estate – mortgage	$ 2,500,735	$ 2,458,862	$ -	$ 2,529,807
Consumer	43,901	43,384	-	42,405
Total	2,544,636	2,502,246	-	2,572,212
Impaired loans with a recorded allowance:				
Real estate – construction, land	$ 284,744	$ 276,299	$ 9,123	$ 303,652
Real estate – mortgage	619,062	614,793	307,927	632,859
Total	903,806	891,092	317,050	936,511
Total impaired loans	$ 3,448,442	$ 3,393,338	$ 317,050	$ 3,508,723

	At December 31, 2019			For the Year Ended December 31, 2019
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no recorded allowance:				
Real estate – construction, land development and other land	$ 322,559	$ 312,751	$ -	$ 338,196
Real estate – mortgage	1,802,634	1,796,838	-	1,977,975
Total	2,125,193	2,109,589	-	2,316,171
Impaired loans with a recorded allowance:				
Commercial, financial and agricultural	1,693,695	1,622,573	1,622,573	1,556,631
Real estate – mortgage	196,077	192,457	69,481	203,354
Consumer	40,910	40,018	40,018	47,398
Total	1,930,682	1,855,048	1,732,072	1,807,383
Total impaired loans	$ 4,055,875	$ 3,964,637	$ 1,732,072	$ 4,123,554

4. LOANS – CONTINUED

For the years ended December 31, 2020 and 2019, the interest income recognized on impaired loans was immaterial.

Past due balances and loans on nonaccrual status at December 31, 2020 and 2019, by loan classification, are as follows:

	December 31, 2020					
	Past Due 30-89 Days and Still Accruing	Past Due 90 Days or More and Still Accruing	Total Past Due and Performing	Loans on Nonaccrual Status	Current	Total Loans
Commercial, financial, and agricultural	$ -	$ -	$ -	$ -	$ 58,975,080	$ 58,975,080
Real estate – construction, land development and other land	-	-	-	-	21,608,283	21,608,283
Real estate – mortgage	51,954	-	51,954	1,428,440	123,392,414	124,872,808
Consumer	-	-	-	43,384	5,174,432	5,217,816
Total	$ 51,954	$ -	$ 51,954	$ 1,471,824	$ 209,150,209	$ 210,673,987

	December 31, 2019					
	Past Due 30-89 Days and Still Accruing	90 Days or More and Still Accruing	Total Past Due and Performing	Loans on Nonaccrual Status	Current	Total Loans
Commercial, financial, and agricultural	$ 81,680	$ 97,239	$ 178,919	$ 1,622,573	$ 37,265,536	$ 39,067,028
Real estate – construction, land development and other land	-	-	-	-	14,975,735	14,975,735
Real estate – mortgage	202,820	-	202,820	1,003,955	117,801,977	119,008,752
Consumer	5,584	-	5,584	40,018	4,613,945	4,659,547
Total	$ 290,084	$ 97,239	$ 387,323	$ 2,666,546	$ 174,657,193	$ 177,711,062

4. LOANS – CONTINUED

At December 31, 2020 and 2019, there were no loans classified as nonaccrual that were not deemed to be impaired. At the date such loans were placed on nonaccrual status, the Bank reversed all previously accrued interest income against current year earnings. Had such nonaccrual loans been on accrual status, interest income would have been immaterial for the year ended December 31, 2020. Interest income is subsequently recognized to the extent cash payments are received, while the loan is classified as nonaccrual, but is reviewed on a loan-by-loan basis.

The Bank has no commitments to loan additional funds to the borrowers of impaired loans.

The Bank has pledged eligible one to four family real estate mortgage loans, commercial mortgage loans, multifamily mortgage loans and investments as collateral to the Federal Home Loan Bank of Atlanta to secure a line of credit in the amount of $80,824,500. At December 31, 2020 and 2019, there was not an outstanding balance on the line of credit. See Note 8.

The following table details the number of TDRs by loan classification as of December 31, 2020 and 2019:

	December 31, 2020		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate – construction, land development and other land	1	$ 745,188	$ 276,299
Real estate – mortgage	2	402,500	313,227
Consumer	1	83,535	28,550
Total	4	$ 1,231,223	$ 618,076

4. LOANS – CONTINUED

	December 31, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate – construction, land development and other land	1	$ 745,188	$ 312,751
Real estate – mortgage	2	356,770	291,782
Consumer	1	83,535	36,629
Total	4	$ 1,185,493	$ 641,162

Impaired loans also include loans that the Bank 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 Bank 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. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date.

There were no troubled debt restructurings that subsequently defaulted for the years ended December 31, 2020 and 2019.

At the onset of the COVID-19 pandemic, the Regulators issued guidance that stated that deferrals granted as the result of the pandemic, up to 180 days, would not have to be categorized as troubled debt restructures. The Company took a more conservative approach and initially worked with borrowers on a 90-day deferral basis. Internally, the Company agreed that it may consider an additional 90-day deferral based on the depth and duration of the pandemic and the overall apparent impact to the borrower. All of the deferred loans are still accruing and are rated according to their last full underwriting. Any deferral beyond the initial 90 days is subject to additional analysis. As of December 31, 2020, discussions with the Bank's borrowers do not indicate any issues that would warrant any further downgrades of the deferred credits. Deferred credits represent less than 1% of the Bank's total loan portfolio as of December 31, 2020. Within the Bank's allowance for loan losses, there has not been an allocation for the deferred loan portfolio.

4. LOANS – CONTINUED

Certain directors, executive officers and principal stockholders, including their immediate families and associates, were loan customers of the Bank during 2020 and 2019. A summary of activity and amounts outstanding as of December 31 is as follows:

	2020	2019
Balance at beginning of year	$ 1,821,579	$ 3,332,431
New loans or advances	7,336,621	18,739,139
Principal repayments	(8,068,930)	(20,249,991)
Balance at end of year	$ 1,089,270	$ 1,821,579

5. PREMISES AND EQUIPMENT

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

	2020	2019
Building and improvements	$ 6,829,427	$ 6,596,590
Equipment	1,596,292	1,436,770
Furniture and fixtures	681,677	708,337
Computer software	205,141	185,161
Leasehold improvements	598,925	346,108
	9,911,462	9,272,966
Less accumulated depreciation	4,360,300	3,856,257
	5,551,162	5,416,709
Land	1,483,997	1,483,997
Construction-in-progress	-	21,889
Premises and equipment, net	$ 7,035,159	$ 6,922,595

The provision for depreciation charged to occupancy and equipment expense was $504,043 and $424,791 for the years ended December 31, 2020 and 2019, respectively.

6. LIMITED PARTNERSHIP INVESTMENT

The Company's investment in the limited partnership is for the investment in qualified affordable housing projects. The partnership currently has three projects in process and at the completion of these projects they are converted to tax credits. The tax credits are then amortized over a maximum of a ten-year period, based on the usage rate. At December 31, 2020 and 2019, the balance of the Partnership investment was $2,982,958 and $668,772. These balances are reflected in the assets section on the consolidated balance sheets. Total unfunded commitments related to this Partnership totaled $939,143 and 3,323,329 at December 31, 2020 and 2019. The Company expects to fulfill these commitments during the year ended December 31, 2021. During the years ending December 31, 2020 and 2019, the Company did not incur impairment losses.

7. DEPOSITS

The aggregate amount of deposits from executive officers, directors and principal stockholders was $21,685,466 and $19,092,703 at December 31, 2020 and 2019, respectively.

The Bank had $20,506,888 and $34,289,721 of time deposits outstanding greater than the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 at December 31, 2020 and 2019.

Demand deposit overdrafts reclassified as loan balances amounted to $106,563 and $156,413 at December 31, 2020 and 2019, respectively.

The maturity schedule for all time deposits as of December 31, 2020, over the next five years and in the aggregate is as follows:

Years Ending December 31,	
2021	$ 26,371,031
2022	12,217,573
2023	2,355,855
2024	5,353,795
2025	2,821,591
	$ 49,119,845

8. BORROWINGS

Borrowings at December 31 consist of the following:

	2020	2019
Note payable to a financial institution with a variable interest rate of prime as published by the Wall Street Journal, which was 3.25% and 4.75% as of December 31, 2020 and 2019, respectively, due in quarterly interest installments and annual principal payments of $555,556 will begin in June 2020, maturing June 2028, collateralized by Bank stock.	$ 2,944,444	$ 3,500,000
	$ 2,944,444	$ 3,500,000

The maturity schedule for all borrowings as of December 31, 2020, is as follows:

Years Ending December 31,	
2021	$ 555,556
2022	555,556
2023	555,556
2024	555,556
2025	555,556
Thereafter	166,664
	$ 2,944,444

9. OPERATING LEASES

Land

The bank renewed the Alexandria, Alabama branch lease for an additional five-year period. The lease expires in 2021. The lease requires the Bank to pay maintenance, insurance, and property taxes.

The Bank entered into a long-term, noncancelable operating lease agreement in 2015 for the Birmingham, Alabama branch. The lease expires in 2022 and provides for renewal options of three consecutive five-year periods. The lease requires the Bank to pay maintenance, insurance and property taxes.

Lease expense totaled $144,190 and $141,321 for the years ended December 31, 2020 and 2019, respectively.

9. OPERATING LEASES – CONTINUED

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

Year Ending December 31,	
2021	$ 144,216
2022	118,953
2023	67,939
2024	12,000
Thereafter	19,000
	$ 362,108

10. INCOME TAX PROVISION

The components of income tax expense for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Current:		
Federal	$ 299,622	$ 450,436
State	160,454	116,000
	460,076	566,436
Deferred:		
Federal	(27,970)	(419,933)
	$ 432,106	$ 146,503

10. INCOME TAX PROVISION – CONTINUED

The provision for federal income taxes differs from that computed by applying the federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

	2020	2019
Federal statutory income tax at 21%	$ 641,713	$ 267,412
Tax-exempt interest	(165,905)	(176,141)
State income tax, net of federal benefit	126,759	91,639
Other temporary or permanent differences	(170,460)	(36,407)
	$ 432,106	$ 146,503

A cumulative net deferred tax asset is included in other assets. The components of the net deferred tax assets are as follows:

	2020	2019
Differences in accounting for loan losses, less valuation allowance	$ 871,046	$ 846,680
Differences in depreciation methods	(278,531)	(174,652)
Differences in unrealized gains and losses on investments	(149,780)	52,221
Differences in stock options and warrants	10,023	7,509
Difference in deferred compensation	153,456	117,859
	30,052	10,839
Other differences	77,387	(2,917)
	$ 713,653	$ 857,539
Deferred tax assets	$ 1,141,964	$ 1,035,108
Deferred tax liabilities	(428,311)	(177,569)
	$ 713,653	$ 857,539

Temporary differences giving rise to the deferred tax asset consist primarily of differences in the bad debt deduction for tax purposes and financial reporting purposes, differences in depreciation for tax purposes and financial reporting purposes, and the difference in unrealized gains and losses on investments.

The Company has invested in a limited partnership that will eventually hold tax credits, to reduce to amount of income tax paid by the Company. See note 6.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers 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 amounts recognized in the consolidated statements of financial condition.

The Bank'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 Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Unless noted otherwise, the Bank does not require collateral or other security to support financial instruments with credit risk. The approximate outstanding notional amount of off-balance sheet risks at December 31, 2020 and 2019, is as follows:

	2020	2019
Unused lines of credit	$ 53,294,000	$ 45,879,000
Standby letters of credit	339,000	1,085,000
	$ 53,633,000	$ 46,964,000

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Performance and financial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in loan facilities extended to customers.

12. CONCENTRATION OF CREDIT RISK

Most of the Bank's deposit and lending activities occur with customers located within Calhoun, Jefferson and Shelby Counties in Alabama. The Bank grants commercial, residential and consumer loans primarily to customers in central and east Alabama. The concentrations of loans by type are set forth in Note 4.

13. RESTRICTIONS ON DIVIDENDS

The Bank is subject to the dividend restrictions set forth by the State Banking Department. Under such restrictions, the Bank may not, without the prior approval of the State Banking Department, declare dividends in excess of the sum of the current year's earnings plus the net earnings from the prior two years. For the year ending December 31, 2021, the Bank can declare dividends, without regulatory approval, of approximately $3,572,000 plus an additional amount equal to its net profits for 2021. However, restrictions exist related to the maintenance of adequate capital and, as such, may further restrict the amounts of allowable dividends which can be paid.

14. REGULATORY CAPITAL

Through December 31, 2019, the Company and Bank were subject to various regulatory capital requirements administered by the state and federal banking agencies. Failure to meet the minimum regulatory capital requirements could initiate certain mandatory and possible additional discretionary actions by regulators which, if undertaken, could have a direct material effect on the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its subsidiary bank must meet specific capital guidelines involving quantitative measures of the Company and its subsidiary bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

The Bank's capital amounts and classification under the prompt corrective guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations) and Tier 1 capital to adjusted total assets (as defined).

In July 2013, the banking regulators (or FDIC) published final rules establishing a new comprehensive capital framework for U.S. banking organizations (the final rules). The final rules implement the Basel Committee of Banking Supervision’s December 2010 framework known as Basel III, as well as certain provisions of the Dodd-Frank Act. The final rules, which define the components of capital and also address risk weights, became effective on January 1, 2015. The final rules include a new capital ratio designated as common equity Tier 1 ratio, which is a tighter definition of Tier 1 capital (banks must hold 4.5% by January 2015 and then a further 2.5% capital conservation buffer, totaling 7% that is implemented annually through January 2019); an increase in Tier 1 capital ratio from 4% to 6%; a framework for countercyclical buffers; adjustments to prompt corrective action thresholds; and short- and medium-term quantitative liquidity ratios, and they establish criteria that instruments must meet in order to be considered regulatory capital.

14. REGULATORY CAPITAL – CONTINUED

Per section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act, which became law on May 24, 2018, allows qualifying community banking organizations to opt into the Community Banking Leverage Ratio framework (CBLR). The CBLR is an optional framework that is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the CBLR. To be a qualifying community banking organization the Company must meet the following criteria: have a leverage ratio greater than nine percent, less than $10 billion in average total consolidated assets, Off-balance sheet exposures of 25 percent or less to total consolidated assets, total trading assets plus trading liabilities of five percent or less of total consolidated assets, and they are not an advanced approaches banking organization. Qualifying community banking organizations that elect to use the CBLR and that maintain a leverage ratio of greater than nine percent are considered to have satisfied the risk-based and leverage capital requirements in the agencies' generally applicable capital rule. Additionally, such insured depository institutions are considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. The Company opted into the CBLR as of January 1, 2020.

If the Company fails to satisfy one or more of the qualifying criteria but maintains a leverage ratio of greater than nine percent, that banking organization would have a “grace period” of up to two quarters during which it could continue to use the CBLR framework and be deemed to meet the “well capitalized” capital ratio requirements. As long as the banking organization is able to return to compliance with all the qualifying criteria within two quarters, it continues to be deemed to meet the “well capitalized” ratio requirements and be in compliance with the generally applicable capital rule. A banking organization is required to comply with and report under the generally applicable capital rule and file the relevant regulatory reports if the banking organization (i) is unable to restore compliance with all qualifying criteria during the two-quarter grace period (including reporting a leverage ratio greater than nine percent), (ii) has a leverage ratio of eight percent or less or (iii) ceases to satisfy the qualifying criteria due to consummation of a merger transaction.

The CARES Act has temporarily lowered the nine percent threshold to eight percent through December 31, 2020. Also, when the requirements in the transition interim final rule become applicable, the community bank leverage ratio requirement will be greater than eight percent for the second through fourth quarters of calendar year 2020, greater than 8.5 percent for calendar year 2021, and greater than nine percent thereafter. The transition interim final rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 100 basis points below the applicable community bank leverage ratio requirement.

Management believes, as of December 31, 2020, that the Company meets all the capital adequacy requirements to which it is subject.

14. REGULATORY CAPITAL – CONTINUED

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

	Actual		Minimum CBLR Ratio	
	Amount	Ratio	Amount	Ratio
As of December 31, 2020				
Tier 1 leverage:				
Consolidated	$ 25,676	7.76%	N/A	N/A
Bank	27,908	8.45%	$ 26,429	8.00%

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total risk-based capital						
Consolidated	$ 19,563	9.496%	$ 21,631	10.500%	N/A	N/A
Bank	29,093	14.152%	21,586	10.500%	$ 20,558	10.000%
Common equity Tier 1						
Consolidated	23,595	11.453%	14,421	7.000%	N/A	N/A
Bank	26,506	12.893%	14,391	7.000%	13,363	6.500%
Tier 1 risk-based capital						
Consolidated	23,595	11.453%	17,511	8.500%	N/A	N/A
Bank	26,506	12.893%	17,474	8.500%	16,446	8.000%
Tier 1 leverage						
Consolidated	23,595	8.809%	10,714	4.000%	N/A	N/A
Bank	26,506	9.907%	10,701	4.000%	13,377	5.000%

15. STOCK-BASED COMPENSATION

On April 18, 2006, the Stockholders and Directors approved and adopted the Plan, a stock-based compensation plan for key employees and directors. The purpose of the Plan is to enhance stockholder investment by attracting, retaining and motivating key employees and directors of the Bank and to align the interests of management with those of stockholders.

The weighted-average estimated fair value of the warrants and options was determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments, and the risk-free interest rate over the expected life of the option.

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options, and since the Bank's options do not have the characteristics of traded options, the option valuation models do not necessarily provide a reliable measure of the fair value of its options.

Compensation expense recorded for the following plans totaled $692 and $28,673 for the years ended December 31, 2020 and 2019, respectively.

In 2014, the Board of Directors approved the issuance of stock options to one Bank officer/manager. The employee received an option for 10,000 shares of stock at a strike price of $12. The total expense over the five-year vesting period will be $36,447.

The weighted-average estimated fair value of stock options granted during 2014 was $3.6447 per share.

The assumptions used in the Black-Scholes model were as follows for stock options granted in 2008:

Risk-free interest rate	2.59%
Expected volatility of common stock	15%
Dividend yield	0%
Expected life of options	10 years

15. STOCK-BASED COMPENSATION – CONTINUED

A summary of option activity under the Company's Plans as of December 31, 2020, and changes during the year then ended, are presented below:

	Number of Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2019	10,000	$ 120,000
Granted	-	-
Exercised	-	-
Forfeited	-	-
Options outstanding at December 31, 2020	10,000	$ 120,000
Options excercisable at December 31, 2020	10,000	$ 120,000
Remaining contractual life		4.5 years

16. EMPLOYEE BENEFIT PLAN

On November 1, 2005, the Bank adopted the Noble Bank and Trust 401(k) Profit Sharing Plan (401(k)) to provide eligible participants with retirement benefits. This 401(k) is a safe harbor 401(k) plan and the Bank will contribute a matching portion of employee contributions up to a maximum of 5.0% of compensation.

Profit-sharing contributions to the 401(k) are made at the discretion of the employer. The 401(k) covers substantially all employees who meet certain age and length of service requirements. The employees are not required to contribute to participate in the profit-sharing contributions. Contributions charged to operations for the years ended December 31, 2020 and 2019, were $184,557 and $184,998, respectively.

17. POSTRETIREMENT BENEFITS

The Bank has also entered into nonqualified deferred compensation agreements (the Agreements) covering certain executive officers. The Agreements provide for payments of scheduled benefits to the participants or their beneficiaries for a period between seven to 13 years following specified retirement dates (Full Benefit Dates). The Full Benefit Dates range from year 2022 through 2036 and reflect the participant having reached age 65. The Agreements provide for defined retirement benefits (Full Retirement Benefits) upon the fulfillment of certain conditions related primarily to continued length of service. Reduced retirement benefits (Limited Retirements Benefits) are also scheduled in the Agreements should separation of service occur prior to the Full Benefit Date, under certain conditions. The scheduled Limited Retirement Benefits reflect annual increases until reaching the Full Retirement Benefits on the Full Benefit Date. The Agreements provide that each annual increase is subject to annual approval by, and at the discretion of, the Bank's Board of Directors, thereby potentially reducing the scheduled Full Retirement Benefits and the Limited Retirement Benefits. The Agreements also provide for acceleration of the length of service requirement to receive the Full Retirement Benefits upon change of control (as defined in the Agreements) and acceleration of both the Full Retirement Benefits and the Full Benefit Date as a result of death or disability (as defined). The present value of the estimated liability under the Agreements is being accrued over the expected remaining years of service.

The aggregate benefit cost expected to be accrued for the year ending December 31, 2021, is $94,125.

The measurement date for the agreement is December 31 of each year. A weighted average assumed discount rate of 5.50% was used in calculating the accumulated benefit obligation. The agreement is not considered a pay-related plan, and there are no plan assets on which to compute long-term rates of return. Since there are no plan assets, the agreement is underfunded by the total amount of the benefit obligation liability. Furthermore, the Bank plans on funding the required payments through the continuing operations of the Bank.

The present value of the agreement’s accumulated benefit obligation amounted to $699,927 and $561,233 at December 31, 2020 and 2019, respectively. The benefit obligation expense for the years ended December 31, 2020 and 2019, was $155,738 and $115,355, respectively.

17. POSTRETIREMENT BENEFITS – CONTINUED

Expected benefit payments for the deferred compensation plan for the 10-year period following December 31, 2020, are as follows:

Years Ending December 31,	
2021	$ -
2022	33,283
2023	67,166
2024	67,166
2025	67,166
2026-2030	370,830
	$ 605,611

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash and Cash Equivalents – For those instruments, the carrying amount is a reasonable estimate of fair 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 – For certain homogeneous categories of loans, such as some residential mortgage, credit card receivables 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 the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Loans held-for-sale – For these short-term investments, the carrying amount is a reasonable estimate of fair value.

Accrued Interest Receivable and Payable – The carrying amount of accrued interest receivable and payable approximates its fair value.

Deposits – The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

Borrowings – The fair value of borrowings, including federal funds purchased, is estimated to be approximately the same as the carrying value.

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

The estimated fair values of the Bank's financial instruments as of December 31, 2020 and 2019, are as follows:

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 43,833,647	$ 43,833,647	$ 17,419,314	$ 17,419,314
Securities available-for-sale	67,958,342	67,958,342	58,800,311	58,800,311
Restrictive equity investments	1,354,113	1,354,113	1,344,450	1,344,450
Loans, net	207,506,548	207,506,548	173,679,252	173,679,252
Loans held-for-sale	2,272,925	209,597,583	160,700	173,773,876
Premises and equipment, net	7,035,159	7,035,159	6,922,595	6,922,595
Investment in annuaties	1,724,693	1,724,693	1,724,693	1,724,693
Financial liabilities:				
Deposits	311,194,348	300,181,703	239,891,606	224,382,512
Borrowings	2,944,444	2,944,444	3,500,000	3,500,000
Accrued interest payable	160,496	160,496	266,171	266,171
Unrecognized financial instruments:				
Commitments to extend credit	53,294,000	53,294	45,879,000	45,879
Standby letters of credit	339,000	339	1,085,000	1,085

The Bank's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB ASC Topic 820. See Note 1.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

Items Measured at Fair Value on a Recurring Basis
The following fair value hierarchy table presents information about the Bank's assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019:

	December 31, 2020			
		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Debt securities:				
U.S. GSEs	$ 6,036,496	$ -	$ 6,036,496	$ -
Sate and municipals	52,613,445	-	52,613,445	-
Mortgage-backed:				
GSE residential	9,308,401	-	9,308,401	-
	$ 67,958,342	$ -	$ 67,958,342	$ -

	December 31, 2019			
		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Debt securities:				
U.S. GSEs	$ 9,789,923	$ -	$ 9,789,923	$ -
Sate and municipals	43,538,141	-	43,538,141	-
Mortgage-backed:				
GSE residential	5,472,247	-	5,472,247	-
	$ 58,800,311	$ -	$ 58,800,311	$ -

18. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The valuation techniques used to measure fair value for the items in the table above are as follows:

Debt securities available-for-sale – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, fair values are estimated using pricing models and discounted cash flows that consider standard input factors, such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations, corporate bonds and other securities. Mortgage-backed securities are included in Level 2, if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the securities are classified in Level 3.

Items Measured at Fair Value on a Nonrecurring Basis
The following fair value hierarchy table presents information about the Bank's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2020 and 2019:

	December 31, 2020			
		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans	$ 3,076,288	$ -	$ -	$ 3,076,288
Foreclosed real estate	61,105	-	-	61,105
	$ 3,137,393	$ -	$ -	$ 3,137,393

	December 31, 2019			
		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans	$ 2,232,565	$ -	$ -	$ 2,232,565
Foreclosed real estate	234,343	-	-	234,343
	$ 2,466,908	$ -	$ -	$ 2,466,908

18. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The valuation techniques used to measure fair value for the items in the table above are as follows:

Impaired Loans – Nonrecurring fair value adjustments to loans reflect full or partial write-downs that are based on the loan's observable market price or current appraised value of the collateral in accordance with FASB ASC Section 310-10-35, *Receivables, Subsequent Measurement, Loan Impairment*. Loans subjected to nonrecurring fair value adjustments based on the current appraised value of the collateral may be classified as Level 2 or Level 3 depending on the type of asset and the inputs to the valuation. When appraisals are used to determine impairment, and these appraisals require significant adjustments to market-based valuation inputs or apply an income approach based on unobservable cash flows to measure fair value, the related loans subjected to nonrecurring fair value adjustments are typically classified as Level 3 due to the fact that Level 3 inputs are significant to the fair value measurement.

Foreclosed Real Estate – Nonrecurring fair value adjustments to foreclosed 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 collateral.

19. CONDENSED PARENT COMPANY INFORMATION

Statements of Financial Condition at December 31:

ASSETS	2020	2019
CASH AND DUE FROM BANKS – eliminated upon consolidation	$ 336,264	$ 428,606
INVESTMENT IN SUBSIDIARY (equity method) – eliminated upon consolidation	28,471,245	26,308,673
TOTAL ASSETS	$ 28,807,509	$ 26,737,279
LIABILITIES AND SHAREHOLDERS' EQUITY		
BORROWINGS	$ 2,944,444	$ 3,500,000
ACCRUED INTEREST ON BORROWINGS	1,064	1,847
OTHER LIABILITIES	2,250	9,350
Total liabilities	2,947,758	3,511,197
Total shareholders' equity	25,859,751	23,226,082
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 28,807,509	$ 26,737,279

19. CONDENSED PARENT COMPANY INFORMATION – CONTINUED

Statements of Income for the Years Ended December 31:

	2020	2019
INCOME		
Dividends	$ 1,339,180	$ 1,265,262
Total income	1,339,180	1,265,262
EXPENSES		
Interest	116,814	187,663
Legal and professional	531	-
License, taxes, and fees	136	182
Miscellaneous	-	1
Total expenses	117,481	187,846
INCOME (LOSS) BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY	1,221,699	1,077,416
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY	1,401,971	49,472
NET INCOME	$ 2,623,670	$ 1,126,888

19. CONDENSED PARENT COMPANY INFORMATION – CONTINUED

Statements of Cash Flows for the Years Ended December 31:

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,623,670	$ 1,126,888
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(1,401,971)	(49,472)
Other, net	(7,884)	5,084
Net cash provided by operating activities	1,213,815	1,082,500
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in borrowings	(555,556)	-
Cash dividends	(725,721)	(659,188)
Treasury stock purchased	(24,880)	(206,505)
Net cash used in financing activities	(1,306,157)	(865,693)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,342)	216,807
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	428,606	211,799
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 336,264	$ 428,606