

**NOBLE BANCSHARES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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**DECEMBER 31, 2021 AND 2020**

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## INDEPENDENT AUDITORS' REPORT

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

### **Opinion**

We have audited the accompanying consolidated financial statements of Noble Bancshares, Inc. and Subsidiary (an Alabama corporation), which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

*Warren Averett, LLC*

Anniston, Alabama  
April 6, 2022

**NOBLE BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
DECEMBER 31, 2021 AND 2020**

<b>ASSETS</b>	<b>2021</b>	<b>2020</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and due from banks	\$ 3,735,366	\$ 4,647,919
Interest bearing deposits in banks	28,042,831	34,285,728
Federal funds sold	4,900,000	4,900,000
Total cash and cash equivalents	36,678,197	43,833,647
<b>SECURITIES</b>		
Debt securities available-for-sale	103,022,868	67,958,342
Restrictive equity securities	1,402,560	1,354,113
<b>TOTAL SECURITIES</b>	104,425,428	69,312,455
<b>LOANS, NET OF ALLOWANCE FOR LOAN LOSSES</b>	218,776,745	207,506,548
<b>LOANS HELD-FOR-SALE</b>	732,600	2,272,925
<b>PREMISES AND EQUIPMENT, NET</b>	6,900,910	7,035,159
<b>BANK-OWNED LIFE INSURANCE</b>	5,959,421	4,312,705
<b>LIMITED PARTNERSHIP INVESTMENT</b>	2,891,868	2,982,958
<b>INVESTMENT IN ANNUITIES</b>	1,724,693	1,724,693
<b>ACCRUED INTEREST RECEIVABLE</b>	1,205,830	1,166,640
<b>PREPAID EXPENSES</b>	470,354	471,422
<b>FORECLOSED REAL ESTATE</b>	87,932	61,105
<b>DEFERRED TAX</b>	934,762	713,653
<b>INCOME TAXES RECEIVABLE</b>	663,623	-
<b>TOTAL ASSETS</b>	<b>\$ 381,452,363</b>	<b>\$ 341,393,910</b>

See notes to the consolidated financial statements.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
DECEMBER 31, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>DEPOSITS</b>		
Noninterest-bearing checking	\$ 82,263,297	\$ 83,138,433
Interest-bearing:		
Checking	196,171,544	164,501,290
Savings	18,394,423	14,434,780
Time deposits	47,987,487	49,119,845
Total deposits	344,816,751	311,194,348
<b>BORROWINGS</b>	6,388,889	2,944,444
<b>ACCRUED INTEREST PAYABLE</b>	108,186	160,496
<b>DEFERRED COMPENSATION</b>	822,464	699,927
<b>INCOME TAXES PAYABLE</b>	-	30,004
<b>OTHER LIABILITIES</b>	1,141,252	504,940
Total liabilities	353,277,542	315,534,159
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value; 5,000,000 shares authorized; 1,449,889 shares issued for the years ended December 31, 2021 and 2020	1,449,889	1,449,889
Additional paid-in capital	18,419,677	18,419,677
Accumulated other comprehensive income (loss)	(408,379)	563,459
Retained earnings	8,713,634	5,426,726
Total stockholders' equity	28,174,821	25,859,751
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 381,452,363</b>	<b>\$ 341,393,910</b>

See notes to the consolidated financial statements.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 11,616,214	\$ 11,623,915
Interest on debt securities	1,717,853	1,375,395
Interest on restrictive equity securities	47,979	55,712
Interest on due from accounts	113,124	112,152
	<u>13,495,170</u>	<u>13,167,174</u>
Total interest income		
<b>INTEREST EXPENSE</b>		
Interest on checking and money market	566,595	544,551
Interest on savings	38,051	32,295
Interest on certificates of deposit	543,901	843,510
Interest on borrowed funds	186,768	116,841
	<u>1,335,315</u>	<u>1,537,197</u>
Total interest expense		
<b>NET INTEREST INCOME</b>	12,159,855	11,629,977
<b>PROVISION FOR LOAN LOSSES</b>	<u>103,429</u>	<u>929,003</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>12,056,426</u>	<u>10,700,974</u>

See notes to the consolidated financial statements.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>NONINTEREST INCOME</b>		
Service charges, fees, and commissions	\$ 2,727,011	\$ 2,297,033
Bank-owned life insurance income	119,965	89,478
Realized gain on sale of securities	103,956	256,425
Realized gain on sale of foreclosed real estate and repossessed assets, net of write-downs	187,282	276,869
Miscellaneous noninterest income	15,867	13,838
Total noninterest income	<u>3,154,081</u>	<u>2,933,643</u>
<b>NONINTEREST EXPENSES</b>		
Salaries and employee benefits	5,716,192	6,002,629
Data processing expense	1,552,100	1,884,890
Occupancy expense	872,414	862,898
Professional fees	361,078	486,894
Business development expense	255,110	248,480
Insurance expense	240,606	117,113
Equipment expense	200,317	205,332
Supplies expense	155,948	144,923
Deferred compensation expense	139,581	155,738
Communication expense	126,524	101,193
Other expenses	455,003	368,751
Total noninterest expenses	<u>10,074,873</u>	<u>10,578,841</u>
<b>INCOME BEFORE INCOME TAXES</b>	5,135,634	3,055,776
<b>INCOME TAX PROVISION</b>	<u>1,035,626</u>	<u>432,106</u>
<b>NET INCOME</b>	<u>\$ 4,100,008</u>	<u>\$ 2,623,670</u>

See notes to the consolidated financial statements.



**NOBLE BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>NET INCOME</b>	\$ 4,100,008	\$ 2,623,670
<b>OTHER COMPREHENSIVE INCOME</b>		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) arising during the period	(1,126,218)	1,218,335
Reclassification adjustments for gains included in net income	<u>(103,956)</u>	<u>(256,425)</u>
Net unrealized gain (loss)	(1,230,174)	961,910
Income tax related to items of other comprehensive income	<u>258,336</u>	<u>(202,002)</u>
Other comprehensive gain (loss)	<u>(971,838)</u>	<u>759,908</u>
<b>COMPREHENSIVE INCOME</b>	<u><u>\$ 3,128,170</u></u>	<u><u>\$ 3,383,578</u></u>

See notes to the consolidated financial statements.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>BALANCE AT DECEMBER 31, 2020</b>	\$ 1,449,889	\$ 18,419,677	\$ 563,459	\$ 5,426,726	\$ 25,859,751
Dividends declared and paid	-	-	-	(813,100)	(813,100)
Net income	-	-	-	4,100,008	4,100,008
Other comprehensive loss	-	-	(971,838)	-	(971,838)
<b>BALANCE AT DECEMBER 31, 2021</b>	<u>\$ 1,449,889</u>	<u>\$ 18,419,677</u>	<u>\$ (408,379)</u>	<u>\$ 8,713,634</u>	<u>\$ 28,174,821</u>

See notes to the consolidated financial statements.

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

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>BALANCE AT DECEMBER 31, 2019, AS PREVIOUSLY REPORTED</b>	\$ 1,478,360	\$ 18,795,074	\$ (196,449)	\$ (379,680)	\$ 3,528,777	\$ 23,226,082
Change in accounting principle (See note 20)	<u>(26,916)</u>	<u>(352,764)</u>	<u>-</u>	<u>379,680</u>	<u>-</u>	<u>-</u>
<b>BALANCE AT DECEMBER 31, 2019, AS RESTATED</b>	<u>1,451,444</u>	<u>18,442,310</u>	<u>(196,449)</u>	<u>-</u>	<u>3,528,777</u>	<u>23,226,082</u>
Repurchase of stock	(1,555)	(23,325)	-	-	-	(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	<u>-</u>	<u>-</u>	<u>759,908</u>	<u>-</u>	<u>-</u>	<u>759,908</u>
<b>BALANCE AT DECEMBER 31, 2020</b>	<u><u>\$ 1,449,889</u></u>	<u><u>\$ 18,419,677</u></u>	<u><u>\$ 563,459</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,426,726</u></u>	<u><u>\$ 25,859,751</u></u>

See notes to the consolidated financial statements.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,100,008	\$ 2,623,670
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	103,429	929,003
Net amortization of securities	356,793	174,235
Depreciation of premises and equipment	526,558	504,043
Write-down of foreclosed real estate	11,104	69,866
Gain on sale of foreclosed real estate	(194,685)	(337,677)
Realized gain on sale of securities, net	(97,756)	(256,425)
Change in accrued interest receivable	(39,190)	(178,853)
Change in prepaid expenses	1,068	(159,742)
Change in deferred tax	37,227	(58,116)
Change in income tax receivable	(663,623)	4,771
Change in accrued interest payable	(52,310)	(105,675)
Change in deferred compensation	122,537	138,694
Change in income tax payable	(30,004)	30,004.00
Change in other, net	636,312	610,599
Net cash provided by operating activities	<u>4,817,468</u>	<u>3,988,397</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Activity in debt securities available-for-sale:		
Purchases	(53,965,569)	(37,516,193)
Sales	9,756,235	11,647,739
Maturities, paydowns and calls	7,655,597	17,754,523
Purchases of securities restrictive investments	(118,347)	(9,663)
Increase in limited partnership investment	91,090	(2,314,186)
Proceeds from sales of other investment securities	69,900	-
Net change in loans receivable	(12,047,443)	(35,502,330)
Net change in loans held-for-sale	1,540,325	(2,112,225)
Proceeds from the sale of foreclosed real estate	830,571	1,187,080
Purchases of premises and equipment	(392,309)	(616,607)
Change in bank owned life insurance	(1,646,716)	(89,479)
Net cash used in investing activities	<u>(48,226,666)</u>	<u>(47,571,341)</u>

See notes to the consolidated financial statements.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	\$ 33,622,403	\$ 71,302,742
Allocation from granting of warrants/options	-	692
Repurchase of common stock	-	(24,880)
Net change in borrowings	3,444,445	(555,556)
Cash dividends	(813,100)	(725,721)
	<u>36,253,748</u>	<u>69,997,277</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(7,155,450)	26,414,333
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>43,833,647</u>	<u>17,419,314</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 36,678,197</u>	<u>\$ 43,833,647</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 1,387,625</u>	<u>\$ 1,642,872</u>
<b>NONCASH DISCLOSURES</b>		
Loans transferred to other real estate owned	<u>\$ 673,817</u>	<u>\$ 746,031</u>
Net change in unrealized gains/(losses) on securities available-for-sale, net of taxes	<u>\$ (971,838)</u>	<u>\$ 759,908</u>

See notes to the consolidated financial statements.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

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## **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 of those borrowers have resumed payments as of December 31, 2021.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

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**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 13.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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, 2021 and 2020, were approximately \$31,641,000 and \$37,388,000, 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. 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, 2021 and 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.



**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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**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, 2021 and 2020.

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**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.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Allowance for Loan Losses – 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.

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**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.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Asset Quality – 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 \$732,600 and \$2,272,925 in loans held-for-sale as of December 31, 2021 and 2020, respectively.

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**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.

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**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 16 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 \$80,083 and \$75,087 for the years ended December 31, 2021 and 2020, respectively.

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**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; 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.



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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Employee Benefit Plans – Continued**

The Bank contributions to these benefit plans are included in salaries and employee benefits (see Notes 17 and 18).

**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 12 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 \$94,405,000, of which all is available and unused as of December 31, 2021. 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).

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**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 19.

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**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 \$69.4 million in PPP loans to small businesses in its markets through December 31, 2021.

**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 2020 consolidated financial statements included herein to conform to the 2021 presentation. These reclassifications had no effect on the financial position, results of operations or cash flows of the Bank.

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**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, in March 2020 issued ASU 2020-03 and in March 2022 issued ASU 2022-02, *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.

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**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:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>As of December 31, 2021</b>				
Debt securities:				
U.S. government-sponsored enterprises (GSEs)*	\$ 9,064,085	\$ -	\$ 262,644	\$ 8,801,441
State and municipal	72,648,049	831,093	748,661	72,730,481
Corporate bonds	2,000,000	-	6,258	1,993,742
Mortgage-backed:				
GSE residential	19,827,669	53,545	384,010	19,497,204
	<u>\$ 103,539,803</u>	<u>\$ 884,638</u>	<u>\$ 1,401,573</u>	<u>\$ 103,022,868</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>As of December 31, 2020</b>				
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
	<u>\$ 67,245,103</u>	<u>\$ 1,001,415</u>	<u>\$ 288,176</u>	<u>\$ 67,958,342</u>

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

The Bank did not classify any investments as trading or held-to-maturity at December 31, 2021 and 2020.

Debt securities available-for-sale with a carrying amount of \$12,072,776 and \$12,013,477 were pledged to secure various public funds under the SAFE Program at December 31, 2021 and 2020, respectively.

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**3. SECURITIES – CONTINUED**

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

	<u>Amortized Cost</u>	<u>Fair Value</u>
Within one year	\$ 345,394	\$ 346,803
After one year through five years	5,956,527	5,993,347
After five years through ten years	30,861,326	30,574,417
Over ten years	66,376,556	66,108,301
	<u>\$ 103,539,803</u>	<u>\$ 103,022,868</u>

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, 2021 and 2020, proceeds from sales, maturities and calls of debt securities available-for-sale amounted to \$13,536,235 and \$27,127,739; gross realized gains were \$150,655 and \$256,425; and gross realized losses were \$52,899 and \$0-, 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, 2021 and 2020.

	<u>Less Than 12 Months</u>		<u>More Than 12 Months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
<b>As of December 31, 2021</b>						
Debt securities:						
U.S. GSEs	\$ 6,811,675	\$ 165,122	\$ 1,989,766	\$ 97,522	\$ 8,801,441	\$ 262,644
State and municipals	27,686,996	511,569	7,774,073	237,092	35,461,069	748,661
Corporate Bonds	1,993,742	6,258	-	-	1,993,742	6,258
Mortgage-backed: GSE residential	12,546,786	205,897	5,329,293	178,113	17,876,079	384,010
	<u>\$49,039,199</u>	<u>\$ 888,846</u>	<u>\$15,093,132</u>	<u>\$ 512,727</u>	<u>\$64,132,331</u>	<u>\$ 1,401,573</u>

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**3. SECURITIES – CONTINUED**

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>As of December 31, 2020</b>						
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
	<u>\$20,962,301</u>	<u>\$ 287,050</u>	<u>\$ 138,177</u>	<u>\$ 1,126</u>	<u>\$21,100,478</u>	<u>\$ 288,176</u>

*U.S. Government-Sponsored Enterprises (GSEs)*

The Bank has nine U.S. Government-sponsored enterprise securities with unrealized losses at December 31, 2021. The unrealized losses on these investments were caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 2.98%. 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, 2021, 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 49 state and municipal securities with unrealized losses at December 31, 2021. The unrealized losses on these investments were caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 2.11%. 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, 2021, 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.

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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### **3. SECURITIES – CONTINUED**

#### *Corporate Bonds*

At December 31, 2021, the Company had one corporate bond with an unrealized loss. The unrealized loss on this security was caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 0.31%. It is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment.

The Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2021, 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.

#### *Mortgage-Backed: GSE Residential*

The Bank had 18 mortgage-backed securities with unrealized losses at December 31, 2021. The unrealized losses on these investments were caused by the current interest rate environment and reflected aggregate depreciation from amortized cost of 2.15%. 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, 2021, 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, 2021 and 2020.



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**3. SECURITIES – CONTINUED**

**Restrictive Equity Securities**

The aggregate carrying value of the Bank's cost-method investments totaled \$1,402,560 and \$1,354,113 at December 31, 2021 and 2020, 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, 2021, the Bank concluded that any impairments identified were temporary with no adjustments needed.

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

	<u>2021</u>	<u>2020</u>
Federal Reserve Bank	\$ 697,460	\$ 579,113
First National Bankers Bank	534,200	534,200
Federal Home Loan Bank	170,900	240,800
	<u>\$ 1,402,560</u>	<u>\$ 1,354,113</u>

**4. LOANS**

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

	<u>December 31, 2021</u>		
	<u>Performing Loans</u>	<u>Impaired Loans</u>	<u>Total</u>
Commercial, financial and agricultural	\$ 52,727,061	\$ -	\$ 52,727,061
Real estate – construction, land and other land	20,445,187	195,089	20,640,276
Real estate – mortgage	141,827,875	917,108	142,744,983
Consumer	5,806,375	21,309	5,827,684
	<u>220,806,498</u>	<u>1,133,506</u>	<u>221,940,004</u>
Subtotal	220,806,498	1,133,506	221,940,004
Allowance for loan losses	(3,125,914)	(37,345)	(3,163,259)
	<u>\$ 217,680,584</u>	<u>\$ 1,096,161</u>	<u>\$ 218,776,745</u>
Net loans	<u>\$ 217,680,584</u>	<u>\$ 1,096,161</u>	<u>\$ 218,776,745</u>

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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**4. LOANS – CONTINUED**

	<b>December 31, 2020</b>		
	<b>Performing Loans</b>	<b>Impaired Loans</b>	<b>Total</b>
Commercial, financial and agricultural other land	\$ 58,975,080 21,331,984	\$ - 276,299	\$ 58,975,080 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	<u>\$ 204,430,260</u>	<u>\$ 3,076,288</u>	<u>\$ 207,506,548</u>

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

	<b>2021</b>	<b>2020</b>
Balance at beginning of year	\$ 3,167,439	\$ 4,031,810
Loans charged off	(200,580)	(1,924,786)
Recoveries on loans previously charged off	92,971	131,412
Net charge-offs	(107,609)	(1,793,374)
Provision charged to operating expenses	103,429	929,003
Balance at end of year	<u>\$ 3,163,259</u>	<u>\$ 3,167,439</u>

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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**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, 2021 and 2020, are as follows:

	December 31, 2021					
	Commercial, Financial and Agricultural	Real Estate – Construction, Land Development and Other Land	Real Estate – Mortgage	Consumer	Unallocated	Total
Balance at beginning of year	\$ 950,711	\$ 335,808	\$ 1,916,326	\$ 47,792	\$ (83,198)	\$ 3,167,439
Charge-offs	(51,529)	-	(11,828)	(137,223)	-	(200,580)
Recoveries	8,094	-	52,342	32,535	-	92,971
Net charge-offs	(43,435)	-	40,514	(104,688)	-	(107,609)
Provision	130,138	(44,992)	(109,130)	119,708	7,705	103,429
Ending balance	<u>\$ 1,037,414</u>	<u>\$ 290,816</u>	<u>\$ 1,847,710</u>	<u>\$ 62,812</u>	<u>\$ (75,493)</u>	<u>\$ 3,163,259</u>

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. LOANS – CONTINUED**

	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	<u>\$ 950,711</u>	<u>\$ 335,808</u>	<u>\$ 1,916,326</u>	<u>\$ 47,792</u>	<u>\$ (83,198)</u>	<u>\$ 3,167,439</u>

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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**4. LOANS – CONTINUED**

The following table outlines the amount of each loan classification based on internally assigned risk ratings as of December 31, 2021 and 2020:

	<b>December 31, 2021</b>				
	<b>Commercial, Financial and Agricultural</b>	<b>Real Estate – Construction, Land Development and Other Land</b>	<b>Real Estate – Mortgage</b>	<b>Consumer</b>	<b>Total</b>
Grade:					
Pass*	\$ 52,727,061	\$ 20,445,187	\$ 141,652,694	\$ 5,792,216	\$ 220,617,158
Pass – impaired	-	195,089	288,318	21,309	504,716
Substandard	-	-	175,181	14,159	189,340
Substandard – impaired	-	-	628,790	-	628,790
Total	<u>\$ 52,727,061</u>	<u>\$ 20,640,276</u>	<u>\$ 142,744,983</u>	<u>\$ 5,827,684</u>	<u>\$ 221,940,004</u>

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

	<b>December 31, 2020</b>				
	<b>Commercial, Financial and Agricultural</b>	<b>Real Estate – Construction, Land Development and Other Land</b>	<b>Real Estate – Mortgage</b>	<b>Consumer</b>	<b>Total</b>
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	<u>\$ 58,975,080</u>	<u>\$ 21,608,283</u>	<u>\$ 124,872,808</u>	<u>\$ 5,217,816</u>	<u>\$ 210,673,987</u>

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

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**4. LOANS – CONTINUED**

The following table details the recorded investments, unpaid principal balance and the related allowance of impaired loans as of December 31, 2021 and 2020, and the average recorded investment of impaired loans for the years ended December 31, 2021 and 2020:

	At December 31, 2021			For the Year Ended December 31, 2021
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no recorded allowance:				
development and other land	\$ 203,246	\$ 195,089	\$ -	\$ 243,995
Real estate – mortgage	758,739	744,845	-	783,093
Consumer	21,319	21,309	-	24,947
Total	983,304	961,243	-	1,052,035
Impaired loans with a recorded allowance:				
Real estate – mortgage	\$ 176,005	\$ 172,263	\$ 37,345	\$ 180,034
Total	176,005	172,263	37,345	180,034
Total impaired loans	<u>\$ 1,159,309</u>	<u>\$ 1,133,506</u>	<u>\$ 37,345</u>	<u>\$ 1,232,069</u>

	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:				
development and other 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	<u>\$ 3,448,442</u>	<u>\$ 3,393,338</u>	<u>\$ 317,050</u>	<u>\$ 3,508,723</u>

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**4. LOANS – CONTINUED**

For the years ended December 31, 2021 and 2020, the interest income recognized on impaired loans was immaterial.

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

	December 31, 2021					
	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	\$ -	\$ -	\$ -	\$ -	\$ 52,727,061	\$ 52,727,061
Real estate – construction, land development and other land	-	-	-	-	20,640,276	20,640,276
Real estate – mortgage	102,076	-	102,076	628,790	142,014,117	142,744,983
Consumer	507	-	507	-	5,827,177	5,827,684
<b>Total</b>	<b>\$ 102,583</b>	<b>\$ -</b>	<b>\$ 102,583</b>	<b>\$ 628,790</b>	<b>\$ 221,208,631</b>	<b>\$ 221,940,004</b>

	December 31, 2020					
	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	\$ -	\$ -	\$ -	\$ -	\$ 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
<b>Total</b>	<b>\$ 51,954</b>	<b>\$ -</b>	<b>\$ 51,954</b>	<b>\$ 1,471,824</b>	<b>\$ 209,150,209</b>	<b>\$ 210,673,987</b>

At December 31, 2021 and 2020, 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, 2021. 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.

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**4. LOANS – CONTINUED**

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 \$94,405,000. At December 31, 2021 and 2020, there was not an outstanding balance on the line of credit. See Note 9.

**Troubled Debt Restructuring**

The following table details the number of TDRs by loan classification as of December 31, 2021 and 2020:

	<b>December 31, 2021</b>	
	<b>Pre-Modification Outstanding Recorded Investment</b>	<b>Post-Modification Outstanding Recorded Investment</b>
<b>Number of Contracts</b>		
Real estate – construction, land development and other land	1	\$ 745,188
Real estate – mortgage	2	402,500
Consumer	1	83,535
<b>Total</b>	<b>4</b>	<b>\$ 1,231,223</b>

	<b>December 31, 2020</b>	
	<b>Pre-Modification Outstanding Recorded Investment</b>	<b>Post-Modification Outstanding Recorded Investment</b>
<b>Number of Contracts</b>		
Real estate – construction, land development and other land	1	\$ 745,188
Real estate – mortgage	2	402,500
Consumer	1	83,535
<b>Total</b>	<b>4</b>	<b>\$ 1,231,223</b>



**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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**4. LOANS – CONTINUED**

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, 2021 and 2020.

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. As of December 31, 2021, there were no COVID related loan deferrals.

Certain directors, executive officers and principal stockholders, including their immediate families and associates, were loan customers of the Bank during 2021 and 2020. A summary of activity and amounts outstanding as of December 31 is as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 1,089,270	\$ 1,821,579
New loans or advances	20,675,908	7,336,621
Principal repayments	<u>(19,544,523)</u>	<u>(8,068,930)</u>
Balance at end of year	<u>\$ 2,220,655</u>	<u>\$ 1,089,270</u>

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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**5. PREMISES AND EQUIPMENT**

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

	<u>2021</u>	<u>2020</u>
Building and improvements	\$ 7,155,882	\$ 6,829,427
Equipment	1,617,818	1,596,292
Furniture and fixtures	645,954	681,677
Computer software	204,048	205,141
Leasehold improvements	<u>598,925</u>	<u>598,925</u>
	10,222,627	9,911,462
Less accumulated depreciation	<u>4,805,714</u>	<u>4,360,300</u>
Net depreciable premises and equipment	5,416,913	5,551,162
Land	<u>1,483,997</u>	<u>1,483,997</u>
Premises and equipment, net	<u>\$ 6,900,910</u>	<u>\$ 7,035,159</u>

The provision for depreciation charged to occupancy and equipment expense was \$526,558 and \$504,043 for the years ended December 31, 2021 and 2020, respectively.

**6. FORECLOSED REAL ESTATE**

Changes in foreclosed real estate for the years ended December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 61,105	234,343
Loans transferred to foreclosed real estate	673,816	746,030
Direct write-downs	(11,104)	(69,865)
Sale of foreclosed real estate	<u>(635,885)</u>	<u>(849,403)</u>
Balance at end of year	<u>\$ 87,932</u>	<u>\$ 61,105</u>

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**6. FORECLOSED REAL ESTATE – CONTINUED**

The balance of foreclosed real estate includes \$87,932 and \$61,105 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property as of December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, there was no recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Expenses related to foreclosed real estate as of December 31, 2021 and 2020, are as follows:

	<b>2021</b>	<b>2020</b>
Net (gain) loss on sales of foreclosed real estate	\$ (198,386)	\$ (337,677)
Expenses for foreclosed real estate	77,674	46,395
	\$ (120,712)	\$ (291,282)

**7. 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 10-year period, based on the usage rate. At December 31, 2021 and 2020, the balance of the Partnership investment was \$2,891,868 and \$2,982,958. These balances are reflected in the assets section on the consolidated balance sheets. Total unfunded commitments related to this Partnership totaled \$303,166 and \$939,143 at December 31, 2021 and 2020, respectively. The Company expects to fulfill these commitments during the year ended December 31, 2022. During the years ending December 31, 2021 and 2020, the Company did not incur impairment losses.

**8. DEPOSITS**

The aggregate amount of deposits from executive officers, directors and principal stockholders was \$24,698,288 and \$21,685,466 at December 31, 2021 and 2020, respectively.

The Bank had \$18,108,551 and \$20,506,888 of time deposits outstanding greater than the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000 at December 31, 2021 and 2020.

Demand deposit overdrafts reclassified as loan balances amounted to \$231,951 and \$106,563 at December 31, 2021 and 2020, respectively.

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**8. DEPOSITS – CONTINUED**

The maturity schedule for all time deposits as of December 31, 2021, over the next five years and in the aggregate is as follows:

Years Ending December 31,	
2022	\$ 26,018,827
2023	9,777,790
2024	7,457,824
2025	2,951,643
2026	<u>1,781,403</u>
	<u>\$ 47,987,487</u>

**9. BORROWINGS**

Borrowings at December 31 consist of the following:

	<b>2021</b>	<b>2020</b>
Note payable to a financial institution with a variable interest rate of prime as published by the Wall Street Journal, which was 3.25% as of December 31, 2020 and 2019. Due in quarterly interest installments. Annual principal payments of \$555,556 began in June 2020, maturing June 2028, collateralized by Bank stock.	\$ 2,388,889	\$ 2,944,444
Noted payable to a financial institution with a variable interest rate of prime as published by the Wall Street Journal, which was 3.25% as of December 31, 2021. Due in quarterly interest installments. Annual principal payments of \$400,000 will begin in September 2022, maturing March 2031, collateralized by Bank stock.	<u>4,000,000</u>	<u>-</u>
	<u>\$ 6,388,889</u>	<u>\$ 2,944,444</u>

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**9. BORROWINGS – CONTINUED**

The maturity schedule for all borrowings as of December 31, 2021, is as follows:

Years Ending December 31,	
2022	\$ 955,556
2023	955,556
2024	955,556
2025	955,556
2026	566,665
Thereafter	<u>2,000,000</u>
	<u>\$ 6,388,889</u>

**10. OPERATING LEASES**

**Land**

The bank renewed the Alexandria, Alabama, branch lease for an additional five-year period. The lease expires in 2026. 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 \$146,139 and \$144,190 for the years ended December 31, 2021 and 2020, respectively.

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

Year Ending December 31,	
2022	\$ 128,719
2023	72,780
2024	72,780
2025	67,780
Thereafter	<u>25,325</u>
	<u>\$ 367,384</u>

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**11. INCOME TAX PROVISION**

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

	<u>2021</u>	<u>2020</u>
Current:		
Federal	\$ 793,471	\$ 299,622
State	<u>234,928</u>	<u>160,454</u>
	1,028,399	460,076
Deferred:		
Federal	<u>7,227</u>	<u>(27,970)</u>
	<u>\$ 1,035,626</u>	<u>\$ 432,106</u>

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:

	<u>2021</u>	<u>2020</u>
Federal statutory income tax at 21%	\$ 1,078,483	\$ 641,713
Tax-exempt interest	(147,985)	(165,905)
State income tax, net of federal benefit	185,593	126,759
Other temporary or permanent differences	<u>(80,465)</u>	<u>(170,460)</u>
	<u>\$ 1,035,626</u>	<u>\$ 432,106</u>

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**11. INCOME TAX PROVISION – CONTINUED**

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

	<b>2021</b>	<b>2020</b>
Differences in accounting for loan losses, less valuation allowance	\$ 869,896	\$ 871,046
Differences in depreciation methods	(309,357)	(278,531)
Differences in unrealized gains and losses on investments	108,556	(149,780)
Differences in stock options and warrants	10,023	10,023
Difference in deferred compensation	175,167	153,456
	17,731	30,052
Other differences	62,746	77,387
	\$ 934,762	\$ 713,653
Deferred tax assets	\$ 1,244,119	\$ 1,141,964
Deferred tax liabilities	(309,357)	(428,311)
	\$ 934,762	\$ 713,653

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 7.

**12. 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.

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**12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK – CONTINUED**

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, 2021 and 2020, is as follows:

	<b>2021</b>	<b>2020</b>
Unused lines of credit	\$ 55,629,000	\$ 53,294,000
Standby letters of credit	320,000	339,000
	<b>\$ 55,949,000</b>	<b>\$ 53,633,000</b>

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.

**13. 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.

**14. 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, 2022, the Bank can declare dividends, without regulatory approval, of approximately \$3,003,000 plus an additional amount equal to its net profits for 2022. 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.



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## **15. 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.

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.

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**15. REGULATORY CAPITAL – CONTINUED**

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, 2021, that the Company meets all the capital adequacy requirements to which it is subject.

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

	<b>Actual</b>		<b>Minimum CBLR</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<b>As of December 31, 2021</b>				
Tier 1 leverage:				
Consolidated	\$ 28,988	7.618%	N/A	N/A
Bank	34,537	9.085%	\$ 30,411	8.000%
<b>As of December 31, 2020</b>				
Tier 1 leverage:				
Consolidated	\$ 25,676	7.763%	N/A	N/A
Bank	27,908	8.448%	\$ 26,429	8.000%

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**16. 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 \$-0- and \$692 for the years ended December 31, 2021 and 2020, 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

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**16. STOCK-BASED COMPENSATION – CONTINUED**

A summary of option activity under the Company’s Plans as of December 31, 2021, and changes during the year then ended, are presented below:

	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price</b>
Options outstanding at December 31, 2020	10,000	\$ 120,000
Granted	-	-
Exercised	-	-
Forfeited	-	-
	<u>10,000</u>	<u>\$ 120,000</u>
Options outstanding at December 31, 2021	<u>10,000</u>	<u>\$ 120,000</u>
Options exercisable at December 31, 2021	<u>10,000</u>	<u>\$ 120,000</u>
Remaining contractual life		3.5 years

**17. EMPLOYEE BENEFIT PLAN**

**401(K) 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, 2021 and 2020, were \$189,968 and \$184,557, respectively.

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**18. 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 Retirement 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, 2022, is \$62,006.

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 \$822,464 and \$699,927 at December 31, 2021 and 2020, respectively. The benefit obligation expense for the years ended December 31, 2021 and 2020, was \$139,581 and \$155,738, respectively.

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**18. POSTRETIREMENT BENEFITS – CONTINUED**

Expected benefit payments for the deferred compensation plan for the 10-year period following December 31, 2021, are as follows:

Years Ending December 31,	
2022	\$ 48,367
2023	48,367
2024	48,367
2025	48,367
2026	48,367
2027-2031	<u>306,835</u>
	<u>\$ 548,670</u>

**19. 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.

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**19. 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, 2021 and 2020, are as follows:

	<b>2021</b>		<b>2020</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Financial assets:				
Cash and cash equivalents	\$ 36,678,197	\$ 36,678,197	\$ 43,833,647	\$ 43,833,647
Securities available-for-sale	103,022,868	103,022,868	67,958,342	67,958,342
Restrictive equity investments	1,402,560	1,402,560	1,354,113	1,354,113
Loans, net	218,776,745	220,401,527	207,506,548	209,597,583
Loans held-for-sale	732,600	732,600	2,272,925	2,272,925
Premises and equipment, net	6,900,910	6,900,910	7,035,159	7,035,159
Investment in annuities	1,724,693	1,724,693	1,724,693	1,724,693
Financial liabilities:				
Deposits	344,816,751	325,479,396	311,194,348	300,181,703
Borrowings	6,388,889	6,388,889	2,944,444	2,944,444
Accrued interest payable	108,186	108,186	160,496	160,496
Unrecognized financial instruments:				
Commitments to extend credit	55,629,000	55,629	53,294,000	53,294
Standby letters of credit	320,000	320	339,000	339

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.

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**19. 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, 2021 and 2020:

<b>December 31, 2021</b>					
<b>Fair Value Measurement at Report Date Using</b>					
<b>Fair Value</b>	<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>		
Debt securities:					
U.S. GSEs	\$ 8,801,441	\$ -	\$ 8,801,441	\$ -	
State and municipals	72,730,481	-	72,730,481	-	
Corporate Bonds	1,993,742	-	1,993,742	-	
Mortgage-backed:					
GSE residential	19,497,204	-	19,497,204	-	
	<u>\$ 103,022,868</u>	<u>\$ -</u>	<u>\$ 103,022,868</u>	<u>\$ -</u>	

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



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**19. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED**

**Items Measured at Fair Value on a Recurring Basis – 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, 2021 and 2020:

	<b>December 31, 2021</b>			
	<b>Fair Value</b>	<b>Fair Value Measurement at Report Date Using</b>		
		<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
Impaired loans	\$ 1,096,161	\$ -	\$ -	\$ 1,096,161
Foreclosed real estate	87,932	-	-	87,932
	<u>\$ 1,184,093</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,184,093</u>
	<b>December 31, 2020</b>			
	<b>Fair Value</b>	<b>Fair Value Measurement at Report Date Using</b>		
		<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
Impaired loans	\$ 3,076,288	\$ -	\$ -	\$ 3,076,288
Foreclosed real estate	61,105	-	-	61,105
	<u>\$ 3,137,393</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,137,393</u>

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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**19. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED**

**Items Measured at Fair Value on a Nonrecurring Basis – 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.

**20. CHANGE IN ACCOUNTING PRINCIPLE**

During 2021, the company changed its method of accounting for treasury stock to align with Alabama Code 1975§ 10A-2 A-6.31. The effect of the change was to reclassify treasury stock to additional paid-in capital. The financial statements for 2019 have been retroactively restated for such change, which resulted in a decrease in common stock of \$26,916 and additional paid-in capital of \$352,764 and the removal of treasury stock from the financial statements. This also resulted in the restatement of the number of shares issued.

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**21. CONDENSED PARENT COMPANY INFORMATION**

**Statements of Financial Condition at December 31:**

**ASSETS**

	<b>2021</b>	<b>2020</b>
<b>CASH AND DUE FROM BANKS</b> – eliminated upon consolidation	\$ 462,266	\$ 336,264
<b>INVESTMENT IN SUBSIDIARY</b> (equity method) – eliminated upon consolidation	34,128,661	28,471,245
<b>TOTAL ASSETS</b>	\$ 34,590,927	\$ 28,807,509

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>BORROWINGS</b>	\$ 6,388,889	\$ 2,944,444
<b>ACCRUED INTEREST ON BORROWINGS</b>	1,008	1,064
<b>OTHER LIABILITIES</b>	26,209	2,250
Total liabilities	6,416,106	2,947,758
Total shareholders' equity	28,174,821	25,859,751
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	\$ 34,590,927	\$ 28,807,509

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**21. CONDENSED PARENT COMPANY INFORMATION – CONTINUED**

**Statements of Income for the Years Ended December 31:**

	<u>2021</u>	<u>2020</u>
<b>INCOME</b>		
Dividends	\$ 1,713,098	\$ 1,339,180
Total income	1,713,098	1,339,180
<b>EXPENSES</b>		
Interest	186,633	116,814
Legal and professional	55,000	531
License, taxes and fees	709	136
Total expenses	<u>242,342</u>	<u>117,481</u>
<b>INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY</b>	1,470,756	1,221,699
<b>EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY</b>	<u>2,629,252</u>	<u>1,401,971</u>
<b>NET INCOME</b>	<u>\$ 4,100,008</u>	<u>\$ 2,623,670</u>

**NOBLE BANCSHARES, INC. AND SUBSIDIARY**  
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**21. CONDENSED PARENT COMPANY INFORMATION – CONTINUED**

**Statements of Cash Flows for the Years Ended December 31:**

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,100,008	\$ 2,623,670
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(2,629,252)	(1,401,971)
Other, net	23,901	(7,884)
	1,494,657	1,213,815
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in borrowings	3,444,445	(555,556)
Cash dividends	(813,100)	(725,721)
Capital injection to the bank	(4,000,000)	-
Repurchase of common stock	-	(24,880)
	(1,368,655)	(1,306,157)
Net cash used in financing activities		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	126,002	(92,342)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	336,264	428,606
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 462,266	\$ 336,264