Southpoint Bancshares, Inc. and Subsidiary

Consolidated Financial Statements and Supplemental Schedules

Years Ended December 31, 2023 and 2022

SouthPoint Bank

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of SouthPoint Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SouthPoint Bancshares, Inc. and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

Saltmarsh Cleaveland & Gund

Pensacola, Florida
March 28, 2024

SouthPoint Bancshares, Inc
Consolidated Balance Sheets

As of December 31, 2023 and 2022	**2023**	**2022**
ASSETS		
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 13,288,075	$ 19,467,053
Interest-bearing deposits in other banks	73,909,549	104,010,565
Total cash and cash equivalents	87,197,624	123,477,618
Securities available for sale (amortized cost of $43,935,855 and $45,077,239 at December 31, 2023 and 2022, respectively)	34,861,930	34,902,120
Restricted equity securities	1,279,585	5,114,985
Loans held-for-sale	1,866,368	2,332,286
Loans, net of allowance for credit losses of $17,221,702 and $11,592,694 at December 31, 2023 and 2022, respectively	1,463,712,748	1,135,755,349
Accrued interest receivable	8,133,797	4,695,108
Premises and equipment, net	23,425,812	22,134,078
Intangible assets	2,140,800	2,408,400
Goodwill	12,639,390	12,639,390
Other real estate	129,628	290,700
Bank-owned life insurance	12,250,238	11,557,390
Deferred tax assets	5,676,982	3,950,021
Investment in low income housing tax credits	2,915,255	3,359,983
Other assets	2,766,453	4,073,692
TOTAL ASSETS	$ 1,658,996,610	$ 1,366,691,120
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Interest-bearing	$ 1,251,398,364	$ 776,904,401
Noninterest-bearing	126,765,174	135,102,373
Total deposits	1,378,163,538	912,006,774
Other borrowings	125,000,000	325,000,000
Line of credit	3,000,000	-
Subordinated debentures	33,496,906	33,288,005
Accrued expense and other liabilities	16,134,386	10,022,350
Total liabilities	1,555,794,830	1,280,317,129
SHAREHOLDERS' EQUITY:		
Preferred stock, $1 par value: 10,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $1 par value: 10,000,000 shares authorized; 3,001,946 and 2,997,046 shares issued at December 31, 2023 and 2022, respectively, and 2,890,192 and 2,878,306 shares outstanding at December 31, 2023 and 2022, respectively	3,001,946	2,997,046
Additional paid-in capital	50,184,371	49,901,635
Retained earnings	58,481,873	42,892,804
Accumulated other comprehensive loss	(7,168,401)	(8,038,344)
Treasury stock, 111,754 and 118,740 shares at cost at December 31, 2023 and 2022, respectively	(1,298,009)	(1,379,150)
Total shareholders' equity	103,201,780	86,373,991
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,658,996,610	$ 1,366,691,120

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Income

Years Ended December 31, 2023 and 2022	**2023**	**2022**
INTEREST INCOME		
Interest and fees on loans	$ 87,141,319	$ 48,878,632
Interest on investment securities	1,118,327	1,084,775
Interest on deposits in banks and other	3,063,573	940,175
Total interest income	91,323,219	50,903,582
INTEREST EXPENSE		
Interest expense on deposits	28,965,922	5,480,266
Interest on borrowed funds	11,538,844	4,083,208
Total interest expense	40,504,766	9,563,474
NET INTEREST INCOME	50,818,453	41,340,108
Provision for credit losses	5,400,000	3,475,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	45,418,453	37,865,108
NONINTEREST INCOME		
Service charges, fees and commissions	2,889,519	2,893,858
Mortgage origination and servicing-release premium fees	5,026,051	6,889,335
Net (loss) gain on sale of available-for-sale securities	(1,261)	211
Other income	399,146	668,514
Total noninterest income	8,313,455	10,451,918
NONINTEREST EXPENSES		
Salaries and employee benefits	19,199,088	19,319,308
Data processing expenses	3,399,887	3,039,990
Net occupancy expenses	1,318,830	1,388,615
Professional fees	1,231,094	1,268,891
Other operating expenses	8,636,653	7,118,327
Total noninterest expenses	33,785,552	32,135,131
INCOME BEFORE INCOME TAXES	19,946,356	16,181,895
INCOME TAX EXPENSE	4,357,287	3,553,153
NET INCOME	$ 15,589,069	$ 12,628,742

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Comprehensive Income

Years Ended December 31, 2023 and 2022	**2023**	**2022**
NET INCOME	$ 15,589,069	$ 12,628,742
Other comprehensive income (loss):		
Unrealized gain (loss) arising during the period on securities available-for-sale, net of tax of ($231,516) in 2023 and $2,140,135 in 2022	868,947	(8,050,657)
Reclassification adjustment for net losses (gains) realized in net income , net of tax of ($265) in 2023 and $44 in 2022	996	(167)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	869,943	(8,050,824)
Total comprehensive income	$ 16,459,012	$ 4,577,918

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balances at January 1, 2022	$ 2,144,466	$ 20,812,651	$ 30,264,062	$ 12,474	$ (1,441,058)	$ 51,792,595
Net income	-	-	12,628,742	-	-	12,628,742
Other comprehensive loss	-	-	-	(8,050,818)	-	(8,050,818)
Common stock issued	849,580	28,885,720	-	-	-	29,735,300
Restricted stock awards	3,000	102,060	-	-	-	105,060
Treasury stock issued to ESOP	-	101,204	-	-	61,908	163,112
Balances at December 31, 2022	2,997,046	49,901,635	42,892,804	(8,038,344)	(1,379,150)	86,373,991
Net income	-	-	15,589,069	-	-	15,589,069
Other comprehensive income	-	-	-	869,943	-	869,943
Restricted stock awards	4,900	132,300	-	-	-	137,200
Treasury stock issued to ESOP	-	150,436	-	-	81,141	231,577
Balances at December 31, 2023	$ 3,001,946	$ 50,184,371	$ 58,481,873	$ (7,168,401)	$ (1,298,009)	$ 103,201,780

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022	**2023**	**2022**
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	$ 15,589,069	$ 12,628,742
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,174,067	845,986
Proceeds from loans held-for-sale	121,020,546	354,519,669
Origination of loans held-for-sale	(120,528,186)	(349,764,230)
Fair value change in loans held-for-sale	(26,442)	274,993
Provision for credit losses	5,400,000	3,475,000
Net realized loss (gain) on securities	1,261	(211)
Realized loss (gain) on disposition and write down of other real estate, net	170,552	(14,391)
Realized (gain) loss on disposition of premises and equipment	(34,693)	1,797
Amortization of premiums and discounts on securities available-for-sale, net	187,556	293,787
Amortization of debt issuance costs	208,901	-
Amortization of low income housing tax credits, CDI and other	40,404	810,165
Share based compensation	137,200	105,060
Deferred tax (benefit) expense	(1,958,212)	95,797
Increase in cash surrender value of life insurance	(282,595)	(250,865)
Change in accrued interest	(3,438,689)	(1,277,719)
Change in other assets	1,307,239	(872,865)
Change in accrued expenses and other liabilities	6,343,613	2,175,087
Net cash provided by operating activities	25,311,591	23,045,802
Cash flows from investing activities:		
Purchases of premises and equipment	(3,338,838)	(4,822,377)
Proceeds from sale of premises and equipment	907,730	8,688
Net change in loans	(332,936,499)	(358,444,101)
Net cash received in acquisition	-	76,169,079
Paydowns, calls, and maturities of available-for-sale securities	952,567	2,179,859
Sales of available-for-sale securities	-	84,442,254
Purchase of restricted equity securities	(414,600)	(4,826,785)
Proceeds from sale of restricted equity securities	4,250,000	-
Net proceeds from disposition of foreclosed real estate	39,648	1,066,249
Improvements of foreclosed real estate	-	(366,863)
Investment in low income housing tax credits	-	(16,432)
Purchase of bank owned life insurance	(410,253)	(410,254)
Net cash used in investing activities	(330,950,245)	(205,020,683)

SouthPoint Bancshares, Inc

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2023 and 2022	2023	2022
Cash flows from financing activities:		
Net change in deposits	466,358,660	(4,297,010)
(Decrease) increase in other borrowings	(200,000,000)	271,415,628
Proceeds from line-of-credit	3,000,000	-
Net cash provided by financing activities	269,358,660	267,118,618
Net (decrease) increase in cash and cash equivalents	$ (36,279,994)	$ 85,143,737
Cash and cash equivalents at beginning of year	123,477,618	38,333,881
Cash and cash equivalents at end of year	$ 87,197,624	$ 123,477,618
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 40,255,746	$ 9,134,425
Income taxes	-	3,713,000
NONCASH TRANSACTIONS:		
Treasury stock awards	137,200	105,060
Treasury stock issued to ESOP	231,577	163,112
Loans transferred to other real estate	49,128	70,200
Right-of-use assets obtained in exchange for new lease liabilities	-	3,559,875

See accompanying notes to consolidated financial statements.

Note 1: Organization

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

Note 2: Summary of Significant Accounting Policies

Basis of Consolidation

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

New Accounting Pronouncements

The Company recently adopted the following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB).

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* - This standard significantly changes how financial assets measured at amortized cost are presented. Such assets, which include most loans, are presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. The standard also changes the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination.

The Company adopted ASU No. 2016-13 on January 1, 2023. The net impact to retained earnings would have been immaterial, thus no adjustment was made to retained earnings. Results for the year ended December 31, 2023, are presented under Accounting Standards Codification (ASC) 326 while prior period amounts continue to be reported in accordance with previously applicable GAA). See Investment Securities Available-for-sale, Loans, and Allowance for Credit Losses on Loans and Unfunded Commitments below for changes to accounting policies, and see Notes 3 and 4 for additional disclosures related to this new accounting pronouncement.

Note 2: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

ASU No. 2022-02, *Troubled Debt Restructurings and Vintage Disclosures, Topic 326 (Financial Instruments-Credit Losses)* – This standard eliminates the recognition and measurement guidance for troubled debt restructurings by creditors under ASC Subtopic 310- 40, Receivables-Troubled Debt Restructurings by Creditors, and, instead, requires the Company to evaluate (consistent with other loan modification accounting standards) whether a loan modification represents a new loan or a continuation of an existing loan. The amendments to the standard also enhance existing disclosure requirements, and introduce new requirements related to certain modifications of loans made to borrowers experiencing financial difficulty. The Company adopted ASU No. 2022-02 on January 1, 2023, on a prospective basis. See Note 4 for new disclosures related to the new accounting standard.

Cash and Cash Equivalents

For the purpose of cash flows, the Company considers cash on hand and cash or cash equivalents on deposit with other banks, due from banks, and federal funds sold to be cash equivalents. The Company maintains various correspondent or other bank accounts, which may, at times, have balances that exceed the FDIC insurance coverage. The amount by which cash and cash equivalents exceeded FDIC insurance coverage at December 31, 2023, was approximately $547,000. The Company has not and does not expect to incur losses with these bank accounts.

Securities Available-for-Sale

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

Effective January 1, 2023, the Company evaluates individual securities available for sale in an unrealized loss position by first determining whether the decline in fair value below the amortized cost basis of the security has resulted from a credit loss or other factors. A credit loss exists when the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. In determining whether a credit loss exists, the Company considers the extent to which the fair value is less than the amortized cost basis, adverse conditions related to the security, the industry, or geographic areas, the payment structure of the debt security, failure of the issuer to make scheduled payments, and any changes to the rating of the security. Impairment related to credit losses is recognized through an allowance for credit losses up to the amount that fair value is less than the amortized cost basis. Changes to the allowance are recognized through earnings as a provision for (or recovery of) credit losses. Impairment related to other factors is recognized in other comprehensive income.

If the Company intends to sell, or it is more likely than not the Company will be required to sell, the security before recovery of its amortized cost basis, any allowance for credit losses is written off and the amortized cost basis is written down to the security's fair value at the reporting date with any incremental impairment recognized in earnings.

Note 2: Summary of Significant Accounting Policies (Continued)

Securities Available-for-Sale (Continued)

The accrual of interest on a security available for sale is discontinued when the security becomes 90 days delinquent or whenever management believes the issuer will be unable to make payments as they become due. When securities are placed on nonaccrual status, all unpaid accrued interest is reversed against interest income. No accrued interest was written off during 2023 and 2022.

The Company excludes accrued interest receivable from the amortized cost basis of securities available for sale when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on securities available for sale totaling approximately $291,000 and $294,000 at December 31, 2023 and 2022, respectively, was excluded from the amortized cost basis of securities available for sale and is included in accrued interest receivable on the consolidated balance sheet.

Prior to January 1, 2023, declines in fair value of debt securities that were deemed to be other than temporary, if applicable, were reflected in earnings as realized losses. In estimating other-than temporary impairment losses, management considered the length of time and the extent to which fair value had been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

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

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

Allowance for Credit Losses on Loans and Unfunded Loan Commitments

The Company adopted ASU No. 2016-13 and began accounting for credit losses under ASC 326, *Financial Instruments - Credit Losses*, on January 1, 2023. The new standard significantly changed the impairment model for most financial assets that are measured at amortized cost, including off-balance sheet credit exposures, from an incurred loss impairment model to an expected credit loss model. Refer to the "New Accounting Pronouncements " section of this note for more information on the impact to the consolidated financial statements.

Note 2: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

The allowance for credit losses on loans is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Company's loan portfolio. The allowance for credit losses on loans is established through provisions for credit losses charged against earnings. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the allowance for credit losses on loans, and subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Subsequent to the adoption of ASC 326:

Effective January 1, 2023, the Company uses a current expected credit loss ("CECL") model to estimate the allowance for credit losses on loans. The CECL model considers historical loss rates and other qualitative adjustments, as well as a new forward-looking component that considers reasonable and supportable forecasts over the expected life of each loan. To develop the allowance for credit losses on loans estimate under the CECL model, the Company segments the loan portfolio into loan pools based on loan type and similar credit risk elements; performs an individual evaluation of certain collateral dependent and other credit-deteriorated loans; calculates the historical loss rates for the segmented loan pools; applies the loss rates over the calculated life of the collectively evaluated loan pools; adjusts for forecasted macro-level economic conditions and other anticipated changes in credit quality; and determines qualitative adjustments based on factors and conditions unique to the Company's loan portfolio.

Under the CECL model, loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates. Management individually evaluates nonaccrual loans and other loans with evidence of credit deterioration. For loans individually evaluated, a specific reserve is estimated based on either the fair value of collateral or the discounted value of expected future cash flows.

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the fair value of the collateral as of the date of the consolidated balance sheet, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

Note 2: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

The following describes the types of collateral that secure collateral dependent loans:

- Commercial, financial, and agriculture considered collateral dependent are primarily secured by accounts receivable, inventory and equipment.

- Real estate construction are primarily secured by residential and commercial properties, which are under construction and/or redevelopment, and by raw land.

- Real estate mortgage loans are primarily secured by first liens on residential real estate.

Management evaluates all collectively evaluated loans using the discounted cash flow methodology. The discounted cash flow methodology uses loan level attributes (such as interest rates and maturity dates), as well as pool level inputs (such as prepayment rates and probability of default and loss given default rates), to estimate credit losses over the contractual term of each collectively evaluated loan. Expected credit losses are determined by comparing the loan's amortized cost with the expected future principal and interest cash flows. Individual loan level results are aggregated for collectively evaluated loans and are then adjusted for qualitative factors deemed appropriate by management.

Management has elected to utilize the Company's historical loss data with a five-year lookback period for the probability of default and loss given default historical rate calculations required for the discounted cash flow methodology. Probability of default rates are then forecasted over a 24-month period using a regression model based on national unemployment rate and 10-year treasury yield forecasts obtained from Fannie Mae. Management has elected to use a straight-line reversion method for a 12-month period subsequent to the 24-month forecast period for probability of default rates.

The quantitative analysis described above is supplemented with other qualitative factors based on the risks present for each collectively evaluated loan pool. These qualitative factors include: effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; industry conditions; and effects of changes in credit concentrations.

The Company excludes accrued interest receivable from the amortized cost basis of loans when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on loans totaling $7,842,000 and $4,401,000 at December 31, 2023 and 2022, respectively, was excluded from the amortized cost basis of loans and is included in accrued interest receivable on the consolidated balance sheet.

In addition to the allowance for credit losses on loans, the Company estimates a reserve for unfunded loan commitments at a level that management believes is adequate to absorb estimated probable credit losses over the contractual terms of the Company's noncancellable loan commitments. The reserve for unfunded commitments on the accompanying balance sheet is established through provisions for credit losses charged against earnings. At December 31, 2023, there was no recorded reserve for unfunded loan commitments.

Note 2: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

Unfunded loan commitments are segmented into the same pools used for estimating the allowance for credit losses on loans. Estimated credit losses on unfunded loan commitments are based on the same methodology, inputs, and assumptions used to estimate credit losses on collectively evaluated loans, adjusted for estimated funding probabilities. The estimated funding probabilities represent management's estimate of the amount of the current unfunded loan commitment that will be funded over the remaining contractual life of the commitment and is based on historical data.

The Company may modify loans to borrowers experiencing financial difficulty and grant certain concessions that include principal forgiveness, a term extension, an other-than-insignificant payment delay, an interest rate reduction, or a combination of these concessions. An assessment of whether the borrower is experiencing financial difficulty is made at the time of the loan modification.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Prior to the adoption of ASC 326:

Prior to January 1, 2023, the Company used an incurred loss impairment model to estimate the allowance for credit losses on loans. This methodology assessed the overall appropriateness of the allowance for credit losses on loans and included allocations for specifically identified impaired loans and loss factors for all remaining loans, with a component primarily based on historical loss rates and another component primarily based on other qualitative factors.

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

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

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

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

Income Recognition on Individually Evaluated and Nonaccrual Loans

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

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

Mortgage Loans Held-for-Sale and Mortgage Banking Derivatives

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

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

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

Gains and losses from the sale of mortgages are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale, and are recorded in mortgage origination and servicing-release premium fees in the consolidated statements of income. The sales proceeds reflect the cash received. Mortgage origination and servicing-release premium fees also includes the unrealized gains and losses associated with the mortgage loans held for sale and the realized and unrealized gains and losses from derivatives.

Other Real Estate

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset’s fair value at the date of acquisition are charged to the allowance for credit losses. No write-downs occurred in 2023 or 2022.

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

Note 2: Summary of Significant Accounting Policies (Continued)

Other Real Estate (Continued)

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

Bank-Owned Life Insurance

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

Premises and Equipment

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

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangibles with finite lives are amortized over their estimated useful lives. Goodwill and other intangible assets are subject to impairment testing annually or more frequently if events or circumstances indicate possible impairment; if impaired, such assets are recorded at fair value. Other intangible assets, consisting of core deposit intangibles, are reviewed for events or circumstances which could impact the recoverability of the intangible asset, such as a loss of core deposits, increased competition or adverse changes in the economy. No impairment was identified for the Company’s goodwill or its other intangible assets in 2023.

Purchased Loans

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

Note 2: Summary of Significant Accounting Policies (Continued)

Purchased Loans (Continued)

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

At each reporting date, the Company continues to estimate cash flows expected to be collected for each loan or pool. If expected cash flows have decreased from the acquisition date estimate, the Company recognizes an allowance for credit losses. If expected cash flows have increased from the acquisition date estimate, the Company increases the amount of accretable yield to be recognized as interest income over the remaining life of the loan or pool. The Company acquired loans totaling $185,894,143 with a loan discount of $2,748,453 on January 5, 2022, (the "Acquisition Dat). See Note 21 - Business Combination.

ASC 842 Lease Accounting

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

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

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

ASC 842 Lease Accounting (Continued)

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

FHLB Stock and Borrowings (Advances)

The Company is a member and has purchased stock in the Federal Home Loan Bank of Atlanta (FHLB). The stock is stated at cost, which approximates fair value.

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

Treasury Stock

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

Advertising

Advertising costs are expensed as incurred.

Income Taxes

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

Note 2: Summary of Significant Accounting Policies (Continued)

Stock Options and Stock Awards

The Board of Directors approved the 2015 Stock Incentive Plan (Stock Plan), which amended, restated, and replaced the 2005 Stock Incentive Plan, which expired in October 2015. The 2015 Stock Plan permitted the granting of nonstatutory (nonqualified), incentive, and restricted stock option awards, to enhance shareholder investment by attracting, retaining, and motivating key employees and directors of the Company and to align the interests of management with those of shareholders. The maximum number of shares to be issued under the Stock Plan are 315,150. See Note 17 for activity of the 2015 Stock Plan.

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

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

Financial Instruments

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

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

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

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

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

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the allowance for credit losses, fair value of investment securities available-for-sale, valuation of foreclosed real estate, and current and deferred income taxes.

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

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

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

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

Note 2: Summary of Significant Accounting Policies (Continued)

Revenue from Contracts with Customers

The Company has adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("Accounting Standards Codification ("ASC") Topic 606") ("ASU 2014-09"). The Company concluded ASU 2014-09 did not change the timing or presentation of revenue recognition for its current revenue streams.

The majority of the Company's revenues are interest earned on loans, investment securities, and other financial instruments which are unaffected as they are outside the scope of ASU 2014-09. ASC Topic 606 focuses on revenues from contracts earned over time. Fee income, which is within the scope of Topic 606, is generally earned over a short period of time, such as monthly, or is earned concurrently with a specific transaction. The Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. There are no ASC Topic 606 implications unless the Company finances the sale of the OREO property. ASC Topic 606 could change the timing of revenue recognition in the case of seller financing.

Comprehensive Income

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

Subsequent Events

Management has evaluated subsequent events and their potential effects on these consolidated financial statements through March 28, 2024, the date that the consolidated financial statements were available to be issued.

Reclassifications

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

Business Combinations

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

Note 3: Securities Available-for-Sale

Investment securities available-for-sale consisted of the following at December 31, 2023 and 2022:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Mortgage-backed securities	$ 10,961,990	$ -	$ (1,892,202)	$ 9,069,788
State, county, and municipal securities	30,473,865	-	(6,965,274)	23,508,591
Trust preferred securities	2,500,000	-	(216,449)	2,283,551
Total securities available for sale	$ 43,935,855	$ -	$ (9,073,925)	$ 34,861,930
December 31, 2022				
Mortgage-backed securities	$ 11,805,068	$ -	$ (1,991,316)	$ 9,813,752
State, county, and municipal securities	30,772,171	-	(8,027,383)	22,744,788
Trust preferred securities	2,500,000	-	(156,420)	2,343,580
Total securities available for sale	$ 45,077,239	$ -	$ (10,175,119)	$ 34,902,120

During 2023, the Bank had a gain amounting to $1,261 on the call of a security. There were no sales of securities during 2023. During 2022, the Bank received proceeds from sales of securities available for sale totaling approximately $84,442,000, resulting in gross realized gains and losses of $697 and $486, respectively. Approximately $83,000,000 of the securities sold were related to securities acquired in the acquisition of Merchants Bank.

At December 31, 2023, the Company had no investment securities in an unrealized loss position for less than 12 months and 34 investment securities in an unrealized loss positions greater than 12 months with a fair value of $32,961,930 and unrealized losses totaling $9,073,925. Two securities had a book value and fair value of $1,900,000.

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

These unrealized losses relate principally to the changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In reaching the conclusion that an allowance for credit losses is unnecessary, management observed that the securities were issued by a government body or agency, the securities continue to be highly rated (AA or better) where applicable, the issuer continues to make contractual payments, and the quality of any underlying assets or credit enhancements has not changed. Since management has the ability to hold debt securities for the foreseeable future, the Company expects to recover the amortized cost basis of these securities before they are sold or mature.

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

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2023, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Amounts maturing:		
After five years through 10 years	$ 2,400,000	$ 2,183,551
After 10 years	41,535,855	32,678,379
Total	$ 43,935,855	$ 34,861,930

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

Securities with a fair value of approximately $20,620,000 and $0 were pledged to the State Treasurer of Alabama as of December 31, 2023 and 2022, respectively.

Note 4: Loans

The composition of loans by primary loan classification and by performing and individually analyzed loans as of December 31, 2023 and 2022, are as follows:

	Commercial, Financial and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Allowance for Credit Losses	Net Loans
2023						
Performing loans	$ 491,275,359	$ 216,247,550	$ 734,482,739	$ 27,966,833	$ (13,233,793)	$1,456,738,688
Individually analyzed loans	9,571,474	417,883	926,487	46,125	(3,987,909)	6,974,060
	500,846,833	216,665,433	735,409,226	28,012,958	(17,221,702)	1,463,712,748
2022						
Performing loans	332,862,885	201,466,824	574,011,860	34,804,630	(11,549,043)	1,131,597,156
Impaired loans	3,646,976	123,005	431,246	617	(43,651)	4,158,193
	$ 336,509,861	$ 201,589,829	$ 574,443,106	$ 34,805,247	$ (11,592,694)	$1,135,755,349

The Company had net deferred loan fees of approximately $2,076,000 and $1,702,000 as of December 31, 2023 and 2022, respectively.

Note 4: Loans (Continued)

The Company's allowance for credit losses on loans information for the year ended December 31, 2023, is presented under ASC 326. The Company's allowance for credit losses on loans information for the year ended December 31, 2022, is presented under the incurred loss impairment model. Refer to the "New Accounting Pronouncements" section of Note 1 for more information. The allocation and changes in the allowance for credit losses, by loan classification, as of and for the years ended December 31, 2023 and 2022, are as follows:

	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Unallocated	Total
Balance at December 31, 2022	$ 3,942,963	$ 1,743,542	$ 4,911,463	$ 298,274	$ 696,452	$ 11,592,694
Charge-offs	(60,161)	-	(100,174)	(127,596)	-	(287,931)
Recoveries	464,988	-	24,528	27,423	-	516,939
Net Charge-offs	404,827	-	(75,646)	(100,173)	-	229,008
Provision	(116,393)	313,831	3,579,533	(72,827)	1,695,856	5,400,000
Balance at December 31, 2023	4,231,397	2,057,373	8,415,350	125,274	2,392,308	17,221,702
Balance at December 31, 2021	4,034,399	746,951	3,498,988	62,225	1,466,933	9,809,496
Charge-offs	(1,581,238)	(35,358)	(4,544)	(172,416)	-	(1,793,556)
Recoveries	13,750	-	59,575	28,429	-	101,754
Net Charge-offs	(1,567,488)	(35,358)	55,031	(143,987)	-	(1,691,802)
Provision	1,476,052	1,031,949	1,357,444	380,036	(770,481)	3,475,000
Balance at December 31, 2022	$ 3,942,963	$ 1,743,542	$ 4,911,463	$ 298,274	$ 696,452	$ 11,592,694

Note 4: Loans (Continued)

Risk ratings are categorized as pass, special mention, substandard, substandard-impaired, or doubtful. Management believes that the categories follow those outlined by the Bank's primary regulator. Management analyzes the resulting ratings as well as other external statistics and factors such as delinquency to track the migration performance of the portfolio balances, on a quarterly basis. Pass rated loans include all risk rated credits other than those included in special mention, substandard, and doubtful, which are defined as follows:

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

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

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

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

Note 4: Loans (Continued)

The following table outlines the amount of each loan classification by year of origination, based on internally assigned credit quality indicators as of December 31, 2023:

	2023	2022	2021	2020	2019	Prior	Total
2023							
Pass							
Commercial, Financial, and Agricultural	$ 189,737,758	$ 173,637,960	$ 64,040,089	$ 21,412,728	$ 16,544,393	$ 29,197,582	$ 494,570,510
Real Estate Construction	94,483,204	71,838,335	41,168,839	1,771,425	6,264,386	1,013,269	216,539,458
Real Estate Mortgage	192,870,737	186,296,838	148,331,985	61,773,923	42,355,324	102,932,245	734,561,052
Consumer and Other	3,273,920	2,959,900	13,221,495	2,974,494	728,479	4,854,670	28,012,958
	480,365,619	434,733,033	266,762,408	87,932,570	65,892,582	137,997,766	1,473,683,978
Special Mention							
Commercial, Financial, and Agricultural	-	-	-	-	619,961	-	619,961
Real Estate Construction	-	-	-	-	-	8,017	8,017
Real Estate Mortgage	-	-	-	-	-	-	-
Consumer and Other	-	-	-	-	-	-	-
	-	-	-	-	619,961	8,017	627,978
Substandard							
Commercial, Financial, and Agricultural	255,788	3,413,013	33,108	1,550,529	141,254	262,670	5,656,362
Real Estate Construction	-	-	-	-	-	117,958	117,958
Real Estate Mortgage	-	552,200	-	-	149,908	-	702,108
Consumer and Other	-	-	-	-	-	-	-
	255,788	3,965,213	33,108	1,550,529	291,162	380,628	6,476,428
Loss							
Commercial, Financial, and Agricultural	-	-	-	-	-	-	-
Real Estate Construction	-	-	-	-	-	-	-
Real Estate Mortgage	-	-	-	146,066	-	-	146,066
Consumer and Other	-	-	-	-	-	-	-
	-	-	-	146,066	-	-	146,066
	480,621,407	438,698,246	266,795,516	89,629,165	66,803,705	138,386,411	1,480,934,450
Current year to date period write-offs							
Commercial, Financial, and Agricultural	-	(31,769)	-	-	(11,458)	(16,934)	(60,161)
Real Estate Construction	-	-	-	-	-	-	-
Real Estate Mortgage	-	-	-	-	-	(100,174)	(100,174)
Consumer and Other	(71,970)	(2,533)	(17,669)	(16,768)	(16,686)	(1,970)	(127,596)
	$ (71,970)	$ (34,302)	$ (17,669)	$ (16,768)	$ (28,144)	$ (119,078)	$ (287,931)

Note 4: Loans (Continued)

The following table outlines the amount of each loan classification based on internally assigned credit quality indicators as of December 31, 2022.

2022	Commercial, financial, and agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Total
Grade:					
Pass	$ 332,845,951	$ 201,466,824	$ 572,494,760	$ 34,759,514	$ 1,141,567,049
Special Mention	16,934	-	1,524,188	616	1,541,738
Substandard	-	-	-	-	-
Substandard - impaired	3,646,976	123,005	240,174	-	4,010,155
Doubtful	-	-	183,984	45,117	229,101
	$ 336,509,861	$ 201,589,829	$ 574,443,106	$ 34,805,247	$ 1,147,348,043

Past due balances and loans on nonaccrual status at December 31, 2023 and 2022, by loan classification, are as follows:

	Past Due 30-89 Days and Still Accruing	Past Due 90 days or more and Still Accruing	Total Past Due and Performing	Loans on Nonaccrual with Allowance	Loans on Nonaccrual without Allowance	Current	Total Loans
2023							
Commercial, financial, and agricultural	$ 22,396,549	$ 9,017,756	$ 31,414,305	$ 3,632,510	$ 2,019,788	$ 463,780,230	$ 500,846,833
Real estate - construction	247,651	1,539,514	1,787,165	-	117,958	214,760,310	216,665,433
Real estate - mortgage	14,122,221	-	14,122,221	702,108	146,066	720,438,831	735,409,226
Consumer and other	78,793	33,153	111,946	-	-	27,901,012	28,012,958
	$ 36,845,214	$ 10,590,423	$ 47,435,637	$ 4,334,618	$ 2,283,812	$ 1,426,880,383	$ 1,480,934,450

	Past Due 30-89 Days and Still Accruing	Past Due 90 days or more and Still Accruing	Total Past Due and Performing	Loans on Nonaccrual Status	Current	Total Loans
2022						
Commercial, financial, and agricultural	$ 10,954,736	$ 4,557,830	$ 15,512,566	$ 16,934	$ 320,980,361	$ 336,509,861
Real estate - construction	18,043	2,780,047	2,798,090	-	198,791,739	201,589,829
Real estate - mortgage	4,205,072	591,510	4,796,582	385,962	569,260,562	574,443,106
Consumer and other	143,250	432,517	575,767	617	34,228,863	34,805,247
	$ 15,321,101	$ 8,361,904	$ 23,683,005	$ 403,513	$ 1,123,261,525	$ 1,147,348,043

Note 4: Loans (Continued)

At December 31, 2023 and 2022, loans reported as past due 30-89 days still accruing includes approximately $5,738,000 and $4,533,000, respectively, of loans that were past due for maturity that were in process of renewal.

Information regarding collateral dependent loans as of December 31, 2023 follows:

	Recorded Investment	Related Allowance
2023		
Commercial, financial, and agricultural	$ 9,071,180	$ 3,053,757
Real estate construction	417,883	-
Real estate mortgage	926,487	411,910
Consumer and other	8,133	-
Total	$ 10,423,683	$ 3,465,667

The following tables provide details on impaired loans as of December 31, 2022, including the average recorded investment of impaired loans and interest income recognized for the years ended December 31, 2022:

December 31, 2022	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Impaired loans with no recorded allowance:					
Commercial, financial, and agricultural	$ 3,532,046	$ 3,532,046	N/A	$ 1,286,271	$ -
Real estate - construction	123,005	123,005	N/A	162,208	-
Real estate - mortgage	431,246	431,246	N/A	1,295,565	-
Total	4,086,297	4,086,297	N/A	2,744,044	-
Impaired loans with a recorded allowance:					
Commercial, financial, and agricultural	114,930	114,930	43,175	72,619	-
Consumer and other	616	616	476	154	-
Total	115,546	115,546	43,651	72,773	-
Grand total	$ 4,201,843	$ 4,201,843	$ 43,651	$ 2,816,817	$ -

Note 4: Loans (Continued)

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

The Company did not have any loan modifications to borrowers experiencing financial difficulty during the years ended December 31, 2023 and 2022.

The Company entered into the mortgage loan resale market during 2007 and executed investor agreements for the sale of certain mortgage loans originated and any related servicing. The agreements vary by investor but may include recourse provisions based on conditions specified in the agreements, such as early payment default or early payoff. All agreements are subject to breach of contract clauses. Total mortgage loans sold to investors subject to recourse provisions were approximately $35,647,000 and $43,458,000 as of December 31, 2023 and 2022, respectively. The Company did not record an estimate of the potential recourse liability as of December 31, 2023 and 2022.

The Company has elected to hold certain mortgage loans originated by the mortgage division of the Bank, and contracts with a third-party service provider for servicing. Mortgage loans held by the Company and serviced by a third-party were approximately $87,571,000 and $49,751,000 as of December 31, 2023 and 2022, respectively, and are reported in loans in the consolidated balance sheets.

Note 5: Premises and Equipment

An analysis of premises and equipment at December 31, 2023 and 2022 is as follows:

	2023	2022
Land	$ 5,505,609	$ 5,715,609
Buildings and improvements	11,669,634	12,254,517
Equipment	4,309,720	3,712,369
Furniture and fixtures	1,895,758	1,885,015
Software	99,516	99,516
Vehicles	121,294	116,696
Subtotal	23,601,531	23,783,722
Accumulated depreciation	(5,656,787)	(4,870,380)
Subtotal	17,944,744	18,913,342
Construction in process	2,604,084	-
Right-of-use assets (See Note 11)	2,876,984	3,220,736
Total	$ 23,425,812	$ 22,134,078

Note 5: Premises and Equipment (Continued)

Depreciation and amortization expense charged to operations amounted to approximately $846,000 and $846,000 for the years ended December 31, 2023 and 2022, respectively.

Note 6: Deposits

The Company has approximately $128,721,000 of time deposits with a minimum denomination of $250,000 at December 31, 2023 ($64,599,000 at December 31, 2022). In addition, at December 31, 2023, the Company has approximately $416,909,000 in brokered deposits fully insured by the FDIC with maturities out to 3.5 years. The maturity schedule for all outstanding time deposits as of December 31, 2023, is as follows:

	2023
2024	$ 249,439,305
2025	390,411,139
2026	37,605,326
2027	13,817,731
2028	1,080,570
Total	$ 692,354,071

Note 7: FHLB Stock and Borrowings

As of December 31, 2023, the Company owned stock in the FHLB with a total cost of $1,029,700 ($4,865,100 in 2022). The Bank earns quarterly dividends on the stock. At December 31, 2023 and 2022, the Company also owned stock in First National Bankers Bank with a total cost of $249,885. The stocks are restricted investments reported at cost and included in restricted equity securities. These investments were not evaluated for impairment as the Company did not identify any events or changes in circumstances that may have a significant adverse effect on the fair value of these investments. The Company estimated that the fair value was equal to cost and not impaired.

As of December 31, 2023, the Company had no FHLB advances. As of December 31, 2022, the Company had FHLB advances of $100,000,000 with an interest rate of 4.23%. The advance was paid off at maturity in January 2023.

As of December 31, 2023, the Company has a $50,000,000 FHLB letter of credit in favor of the State of Alabama to provide additional collateral for public deposits held for customers under the SAFE Program and FHLB letter of credits totaling $25,000,000 for bank customers.

Certain investment securities, on occasion, are held as collateral for the FHLB advances. Additional qualifying collateral for the FHLB advances and letter of credit is determined using loan advance rates specified in the agreement and consisted of certain commercial and residential real estate loans totaling approximately $131,919,000 and $244,297,000 as of December 31, 2023 and 2022 , respectively. At December 31, 2023, the remaining credit availability with the FHLB was approximately $59 million based on the remaining lendable collateral value.

Note 7: FHLB Stock and Borrowings (Continued)

The Company has several unsecured correspondent bank federal funds lines of credit with total commitments of $58,500,000 and $63,500,000 as of December 31, 2023 and 2022, respectively, which are subject to renewal on various dates.

The Company also has access to borrow funds from the Federal Reserve Bank discount window of approximately $389,021,000 as of December 31, 2023. As of December 31, 2023, the Bank had Federal Reserve Bank discount window borrowings outstanding of $125,000,000 ($225,000,000 in 2022). These borrowings are secured by loans pledged to the Federal Reserve with outstanding balances of approximately $548,390,000 as of December 31, 2023.

Note 8: Line of Credit

During 2021, the Company executed a revolving line-of-credit agreement with SouthState Bank that is secured by a security interest in the common stock of the Bank. Under terms of the agreement, the Company may borrow up to $10,000,000 at the Wall Street Journal prime rate (8.50% as of December 31, 2023). The line-of-credit agreement requires quarterly interest only payments and principal is payable upon demand. As of December 31, 2023 there was a balance of $3,000,000 outstanding on this line-of-credit. There was no balance outstanding on this line-of-credit at December 31, 2022.

Note 9: Subordinated Debentures

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

Subordinated notes consisted of the following as of December 31, 2023 and 2022:

	2023	2022
Subordinated notes, net of issuance costs issued in June 2021, due 2031, fixed rate of 3.875% during the first five years and at a floating rate of 3.19% above the then three-month Secured Overnight Financing Rate (SOFR), reset quarterly thereafter	$ 23,646,933	$ 23,551,724
Subordinated notes, net of issuance costs issued in June 2021, due 2036, fixed rate of 4.25% during the first ten years and at a floating rate of 2.91% above the then three-month SOFR, reset quarterly thereafter	5,901,485	5,885,616
	$ 29,548,418	$ -

Note 10: Junior Subordinated Debentures

During 2022, the Company acquired Junior Subordinated Debentures issued by Merchant Financial Services, Inc. ("Merchants"). On February 22, 2006, Merchants formed a wholly owned Delaware statutory trust, Merchant Financial Services Trust I (the “Trust”), which issued $5,000,000 in Junior Deferrable Interest Debentures (the “Trust Preferred Securities”). The Company owns all of the common securities of the Trust. The proceeds from the issuance of the common securities and the Trust Preferred Securities were used by the Trust to purchase $5,155,000 of junior subordinated debentures of Merchants, which carry a floating rate of interest equal to the 3 month SOFR plus 145 basis points. At December 31, 2023 and 2022, the net carrying value was $3,948,488 and $3,850,664, respectively, and the rate was 5.52%. The proceeds received by the Company from the sale of the junior subordinated debentures were used for general purposes, primarily to provide capital to accommodate growth. The debentures and related accrued interest represent the sole assets of the Trust.

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

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

Note 11: Leases

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

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

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

The operating lease ROU asset and lease liability in amounts of $2,876,984 and $2,934,484, respectively, at December 31, 2023 and the operating lease ROU asset and lease liability in amounts of $3,220,736 and $3,256,075, respectively, at December 31, 2022 are included in the following asset and liability accounts on the balance sheet: net premises and equipment and accrued expense and other liabilities.

Note 11: Leases (Continued)

Components of lease expense were as follows for the years ended December 31, 2023 and 2022:

Lease cost		**2023**		**2022**
Operating lease expense	$	395,893	$	395,893
Total lease cost	$	395,893	$	395,893

Supplemental cash flow information related to leases is as follows for the years ended December 31, 2023 and 2022:

Other information		**2023**		**2022**
Operating cash flows from operating leases	$	373,731	$	360,554
Right-of-use assets obtained in exchange for new operating lease liabilities	$	-	$	3,559,875

	2023	**2022**
Weighted-average remaining life in years - Operating leases	10.87	11.51
Weighted-average discount rate - Operating leases	1.71 %	1.69 %

Maturities of lease liabilities are as follows as of December 31, 2023:

Years Ended December 31, 2023		**2023**
2024	$	346,440
2025		304,346
2026		303,444
2027		278,104
2028		242,692
Thereafter		1,753,668
Total lease payments		3,228,694
Less imputed interest		(294,210)
Total	$	2,934,484

Note 12: Income Taxes

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

The components of income tax expense (benefit) for the years ended December 31, 2023 and 2022, were as follows:

	2023	2022
Current tax expense:		
Federal	$ 4,988,766	$ 2,715,584
State	1,326,733	741,772
Total current	6,315,499	3,457,356
Deferred tax (benefit) expense:		
Federal	(1,573,764)	76,687
State	(384,448)	19,110
Total deferred	(1,958,212)	95,797
Total	$ 4,357,287	$ 3,553,153

Note 12: Income Taxes (Continued)

The components of the net deferred tax assets (liabilities) as of December 31, 2023 and 2022, are as follows:

	2023	2022
Deferred tax assets:		
Federal	$ 7,847,206	$ 6,642,145
State	1,473,706	1,100,597
Total deferred tax assets	9,320,912	7,742,742
Deferred tax liabilities:		
Federal	(2,928,530)	(3,048,112)
State	(715,400)	(744,609)
Total deferred tax liabilities	(3,643,930)	(3,792,721)
Net deferred tax assets	$ 5,676,982	$ 3,950,021
Deferred tax assets:		
Allowance for credit losses	$ 4,263,547	$ 2,657,810
Deferred loan fees	617,018	512,291
Accrued expenses and other liabilities	343,709	-
Deferred compensation	488,026	503,725
Loan discounts	467,425	590,243
Other real estate	56,306	-
Organizational costs	2,308	2,612
Investments fair value adjustments	373,336	373,336
Lease liability	766,781	850,812
Net unrealized losses on securities	1,905,524	2,136,775
Other	36,932	115,138
Total deferred tax assets	9,320,912	7,742,742

Note 12: Income Taxes (Continued)

	2023	2022
Deferred tax liabilities:		
Depreciation	(1,769,358)	(1,723,392)
Deferred loan costs	(74,446)	(67,489)
Interest rate lock commitments and forward contracts	(73,065)	(85,773)
Prepaid expenses	(98,213)	(102,687)
Right-of-use asset	(751,756)	(841,578)
Core deposit intangible	(559,391)	(629,315)
TRUPs	(315,262)	(340,823)
Other	(2,439)	(1,664)
Total deferred tax liabilities	(3,643,930)	(3,792,721)
Net deferred tax assets	$ 5,676,982	$ 3,950,021

Income taxes for financial reporting purposes differ from the amount computed by applying the statutory federal income tax rate of 21% for the years ended December 31, 2023 and 2022, for the reasons below:

	2023	2022
Tax based on statutory rate	$ 4,188,735	$ 3,398,192
State tax, net of federal benefit	744,405	601,097
Increase (decrease) in taxes resulting from:		
Tax exempt interest	(111,241)	(233,741)
Earnings on bank-owned life insurance	(59,345)	(13,228)
Investment tax credit, net	(231,646)	(136,865)
Other	(173,621)	(62,302)
	$ 4,357,287	$ 3,553,153

Pursuant to ASC 740-10-30-2, deferred tax assets and liabilities are measured using enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. Additionally, deferred tax assets and liabilities are subject to a more likely than not test. Management believes that it is more likely than not that the net deferred tax assets or liabilities will be realized based on future operations of the Company and Bank.

The Company measures and recognizes tax positions taken or expected to be taken in a tax return that directly or indirectly affects amounts reported in the Company's consolidated financial statements and reviews its income tax positions to determine if each position meets a "more likely than not" threshold of expectation of prevailing. As of December 31, 2023 and 2022, the Company has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements under the current guidance.

Note 12: Income Taxes (Continued)

The Company invests in qualified low income housing projects. At December 31, 2023 and 2022, the balance of the investment in low income housing tax credits amounted to $2,915,255 and $3,359,983, respectively. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $0, at December 31, 2023.

During the years ended December 31, 2023 and 2022, the Company recognized amortization expense on its investment in low income housing tax credits of $444,740 and $444,740, respectively, and also recognized tax credits and other benefits from its investment in low housing tax credits of $532,534 and $570,502, respectively. These amounts are reported net within income tax expense in the consolidated statements of income.

Note 13: Concentrations

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

Note 14: Financial Instruments with Off-balance-sheet Risk

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

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

The Company may require collateral or other security to support financial instruments with credit risk. The total collateral values, which consisted primarily of real estate, accounts receivable, inventory, and equipment and may be cross-collateralized for loans, was greater than the secured letters of credit. There was no liability recorded for these guarantees at December 31, 2023 and 2022.

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

Note 14: Financial Instruments with Off-balance-sheet Risk (Continued)

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

	2023	2022
Performance and financial letters of credit	$ 28,205,992	$ 21,271,000
Unused lines of credit	319,601,527	281,100,850
Total	$ 347,807,519	$ 302,371,850

Note 15: Benefit Plans

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

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

The compensation cost relating to the KSOP was approximately $283,000 and $232,000 for the years ended December 31, 2023 and 2022, respectively, and is included in salaries and employee benefits expense on the consolidated statements of income.

Note 15: Benefit Plans (Continued)

During 2021, the Bank adopted an Executive Performance and Retention Plan (the "Plan"). The Plan is a nonqualified benefit plan, which provides highly compensated or management employees of the Company benefits in the future, usually at retirement, in return for continued satisfactory performance by the employee. The Plan's expenses are offset by earnings on life insurance policies. The cash surrender value and net earnings on the related policies amounted to approximately $12,250,000 and $283,000 and $11,557,000 and $251,000, respectively, as of and for the years ended December 31, 2023 and 2022. Additionally, at December 31, 2023 and 2022, the Bank has recorded a liability for the present value of the future benefits to be paid under the Plan amounting to approximately $1,868,000 and $1,928,000, respectively. Expense related to the Plan amounted to approximately $0 and $543,000 for the years ended December 31, 2023 and 2022.

Note 16: Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the FDIC. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the Company's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

Note 16: Regulatory Capital (Continued)

Management has elected to use the CBLR framework. As a qualifying community banking organization, the Bank may opt out of the CBLR framework in any subsequent quarter by completing its regulatory agency reporting using the traditional capital rules. As of December 31, 2023, the Bank has met applicable regulatory guidelines to be considered well capitalized. There are no conditions or events that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios, and minimum amounts under current regulatory standards, as of December 31, 2023 and 2022 are presented in the following table:

	Actual		For Capital Adequacy Purposes (includes the conservation buffer for the Bank only)		To Be Well-Capitalized Under the Prompt Corrective Action Provisions	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
As of December 31, 2023						
Total Capital (to Average Assets)	$ 131,626,000	8.37 %	$ 141,610,000	9.00 %	$ 141,610,000	9.00 %
As of December 31, 2022						
Total Capital (to Average Assets)	$ 111,016,000	8.99 %	$ 111,022,000	9.00 %	$ 111,022,000	9.00 %

At December 31, 2023, the Bank's CBLR was 8.3652% which is below the minimum 9.0% required. The Bank has a two-quarter grace period through June 30, 2024 to return to the minimum 9.0%. If the CBLR falls below 8% at any time, the Bank is not eligible and must calculate the risk-based capital ratios.

Note 17: Stock Options and Restricted Stock

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

Incentive Stock Options

The Board of Directors granted stock options under the employee stock incentive plan to certain employees and directors of the Bank in previous years. The 57,001 stock options issued in 2015 are still outstanding and vested over a three- or four-year period. During 2017, stock options for 80,000 shares were issued to certain employees and directors. The 2017 stock option awards vested immediately or annually over a three-year period. There were no stock options issued in 2023 and 2022.

Note 17: Stock Options and Restricted Stock (Continued)

Restricted Stock Awards

During 2023, the Company issued 4,900 restricted stock grants to directors, that were held in escrow and vested in May 2023. During 2022, the Company issued 3,000 restricted stock grants to directors, that were held in escrow and vested in May 2022. The value of restricted stock awards expensed amounted to $137,200 in 2023 and $105,060 for 2022.

The following table summarizes the activity related to options during 2023 and 2022:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2021	137,001	$ 10.81
2022 - Activity		
Granted	-	-
Exercised	-	-
Options expired	-	-
Options outstanding, December 31, 2022	137,001	10.81
2023 - Activity		
Granted	-	-
Exercised	-	-
Cancellations and forfeitures	-	-
Options expired	-	-
Options outstanding, December 31, 2023	137,001	$ 10.81

The maximum number of shares to be issued under the 2015 Stock Plan is 315,150 shares of common stock. At December 31, 2023, 134,850 shares were available to be issued.

Years Ended December 31, 2023 and 2022	2023	2022
Options exercisable, December 31	$ 137,001	$ 137,001
Weighted average remaining contractual life (in years):		
Options granted in 2015	1.60	2.60
Options granted in 2017	3.50	4.50

Note 18: Related-Party Transactions

As of December 31, 2023, loans outstanding to executive officers, directors, principal shareholders, and their affiliates totaled $16,362,260 ($19,219,600 in 2022). The activity related to insider loans is as follows:

	2023	2022
Beginning balance	$ 19,219,600	$ 18,468,500
New loans during the year	2,177,860	19,549,900
Repayments during the year	(5,035,200)	(18,798,800)
Ending balance	$ 16,362,260	$ 19,219,600

The Company holds interest-bearing and noninterest-bearing deposits from executive officers, directors, principal shareholders, and their affiliates of approximately $11,680,000 and $14,972,000 as of December 31, 2023 and 2022, respectively.

Note 19: Fair Value Measurements

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

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

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

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

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

Individually Evaluated Loans – Nonrecurring fair value adjustments to individually evaluated loans reflect full or partial write- downs that are based on the loan’s observable market price or current appraised value of the underlying collateral.

Note 19: Fair Value Measurements (Continued)

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

Items Measured at Fair Value on a Recurring Basis

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

		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Assets:				
Securities available for sale	$ 34,862,000	$ -	$ 34,862,000	$ -
Loans held-for-sale	1,866,000	-	1,866,000	-
Derivative asset	168,000	-	168,000	-
December 31, 2022				
Assets:				
Securities available for sale	$ 34,902,000	$ -	$ 34,902,000	$ -
Loans held-for-sale	2,332,000	-	2,332,000	-
Derivative asset	243,000	-	243,000	-

Note 19: Fair Value Measurements (Continued)

Items Measured at Fair Value on a Nonrecurring Basis

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2023 and 2022:

		Fair Value Measurement at Report Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Assets:				
Individually evaluated loans	$ 6,974,000	$ -	$ -	$ 6,974,000
Other real estate	130,000	-	-	130,000
December 31, 2022				
Assets:				
Impaired loans, net	$ 4,158,000	$ -	$ -	$ 4,158,000
Other real estate	291,000	-	-	291,000

Note 19: Fair Value Measurements (Continued)

The following presents quantitative information about nonrecurring Level 3 fair value measurements at December 31, 2023 and 2022:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range/Weighted Average
2023				
Collateral dependent loans	$ 6,974,000	Market and/or income approach	Management discount on appraised values	10%
Other real estate	$ 130,000	Market and/or income approach	Management discount on appraised values	10%
2022				
Impaired loans, net	$ 4,158,000	Market and/or income approach	Management discount on appraised values	10%
Other real estate	$ 291,000	Market and/or income approach	Management discount on appraised values	10%

Note 20: Mortgage Banking Activity

The Company, through the Bank, enters into interest rate lock commitments (IRLCs) with customers who have applied for residential mortgage loans and meet certain credit and underwriting criteria. These commitments expose the Company to market risk if interest rates change, and the loan is not economically hedged or committed to an investor. Commitments to originate loans do not necessarily reflect future cash requirements as some commitments are expected to expire without being drawn upon. Total commitments to originate loans carried a notional amount of approximately $7,496,000 and $9,162,000 at December 31, 2023 and 2022, respectively. The related interest rate lock commitment derivative asset was approximately $168,000 and $243,000 at December 31, 2023 and 2022, respectively.

The Bank also uses forward sales of MBS TBA’s to manage its interest rate risk on interest rate lock commitments. There was no derivative liability related to the outstanding TBA's at December 31, 2023 and 2022.

The net gain (loss) on the derivatives related to the mortgage banking activities was approximately $0 and $9,000 for the years ended December 31, 2023 and 2022, respectively, and is included in mortgage origination and servicing-release premium fees in the consolidated statements of income.

Note 21: Business Combination

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

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

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

As noted above, the Company recorded goodwill of $12,639,390 associated with the acquisition of Merchants. In addition to the goodwill, the Company recorded a core deposit premium intangible asset of $2,676,000. The core deposit intangible asset will be amortized using a straight-line method over ten years. The core deposit premium intangible asset has a gross carrying amount of $2,676,000 with accumulated amortization of $535,200 and $267,600 at December 31, 2023 and 2022, respectively. The related aggregate amount of amortization expense for intangible assets during 2023 and 2022 was approximately $267,600.

Note 21: Business Combination (Continued)

The following table shows the estimated future amortization of the core deposit premium intangible asset. The projections of amortization expense are based on existing asset balances as of December 31, 2023.

2024	$ 267,600
2025	267,600
2026	267,600
2027	267,600
2028	267,600
Thereafter	802,800
Total	$ 2,140,800

Note 22: Parent Company Only Financial Statements

Statements of Financial Condition at December 31:

ASSETS	2023	2022
Cash and due from banks	$ 655	$ 1,666,924
Investment in bank subsidiary	138,781,356	117,569,057
Goodwill	456,476	456,476
Other assets	869,224	403,821
TOTAL ASSETS	$ 140,107,711	$ 120,096,278
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debentures	$ 33,496,906	$ 33,288,005
Other borrowings	3,000,000	-
Deferred tax liability	293,025	318,282
Accrued expense and other liabilities	116,000	116,000
TOTAL LIABILITIES	36,905,931	33,722,287
TOTAL SHAREHOLDERS' EQUITY	103,201,780	86,373,991
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 140,107,711	$ 120,096,278

Note 22: Parent Company Only Financial Statements (Continued)

Statements of Income for the Years Ended December 31:

	2023	2022
INCOME		
Dividends from Subsidiary and Trust	$ 10,160,118	$ 3,825
Miscellaneous Income	30	22,823
TOTAL INCOME	10,160,148	26,648
EXPENSES		
Interest on subordinated debentures	1,296,077	1,185,000
Interest on Trups	434,309	204,290
Interest on line-of-credit	304,931	5,960
Other expenses	137,200	160,597
TOTAL EXPENSES	2,172,517	1,555,847
Income (loss) before income taxes and equity in undistributed earnings of subsidiary	7,987,631	(1,529,199)
Income tax benefit	490,655	355,685
Income (loss) before equity in undistributed earnings of subsidiary	8,478,286	(1,173,514)
Equity in undistributed earnings of subsidiary	7,110,783	13,802,256
NET INCOME	$ 15,589,069	$ 12,628,742

Note 22: Parent Company Only Financial Statements (Continued)

Statements of Cash Flows for the Years Ended December 31:

Years Ended December 31, 2023 and 2022	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 15,589,069	$ 12,628,742
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(7,110,783)	(13,802,256)
Share-based compensation	137,200	105,060
Other, net	(50,178)	(301,839)
NET CASH USED IN OPERATING ACTIVITIES	8,565,308	(1,370,293)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contribution to subsidiary	(13,231,577)	-
Cash paid in acquisition	-	(15,885,223)
NET CASH USED IN INVESTING ACTIVITIES	(13,231,577)	(15,885,223)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	3,000,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,000,000	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,666,269)	(17,255,516)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,666,924	18,922,440
CASH AND CASH EQUIVALENTS AT END OF YEAR	655	1,666,924
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 2,035,317	$ 1,706,844