

FIRST SOUTHERN BANK

FINANCIAL REPORT

DECEMBER 31, 2021

FIRST SOUTHERN BANK

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TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 and 2
FINANCIAL STATEMENTS	
Balance sheets	3
Statements of income	4
Statements of comprehensive income	5
Statements of stockholders' equity	6
Statements of cash flows	7
Notes to financial statements	8-34



INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
First Southern Bank
Waycross, Georgia**

Opinion

We have audited the accompanying financial statements of First Southern Bank, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 First Southern Bank'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First Southern Bank'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.

Mauldin & Jenkins, LLC

Albany, Georgia
April 1, 2022

FIRST SOUTHERN BANK
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

<u>Assets</u>	<u>2021</u>	<u>2020</u>
Cash and due from banks	\$ 1,892,075	\$ 1,686,969
Interest-bearing deposits in banks	79,603,014	36,593,883
Securities available for sale, at fair value	71,933,866	35,580,733
Restricted equity securities, at cost	252,820	264,220
Loans	121,218,543	122,451,407
Less allowance for loan losses	1,755,518	1,713,244
Loans, net	<u>119,463,025</u>	<u>120,738,163</u>
Premises and equipment, net	8,050,102	6,035,293
Foreclosed assets	475,130	1,194,877
Bank owned life insurance	4,575,680	1,478,911
Accrued interest receivable	687,082	778,259
Deferred tax assets, net	2,245,210	-
Other assets	569,735	555,318
	<u>\$ 289,747,739</u>	<u>204,906,626</u>
 <u>Liabilities and Stockholders' Equity</u> 		
Deposits		
Noninterest-bearing	\$ 89,883,314	\$ 58,903,052
Interest-bearing	179,776,752	127,451,651
Total deposits	<u>269,660,066</u>	<u>186,354,703</u>
Accrued interest payable	52,137	89,824
Other liabilities	239,950	376,474
Total liabilities	<u>269,952,153</u>	<u>186,821,001</u>
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock, par value \$5; 10,000,000 shares authorized; none issued	-	-
Common stock, par value \$5; 30,000,000 shares authorized; 2,478,253 shares issued and outstanding	12,391,265	12,391,265
Capital surplus	18,514,281	18,514,281
Retained deficit	(9,931,653)	(12,855,153)
Accumulated other comprehensive income (loss)	(1,178,307)	35,232
Total stockholders' equity	<u>19,795,586</u>	<u>18,085,625</u>
	<u>\$ 289,747,739</u>	<u>\$ 204,906,626</u>

See Notes to Financial Statements.

FIRST SOUTHERN BANK
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Interest income		
Interest and fees on loans	\$ 8,233,546	\$ 6,957,490
Interest on taxable securities	697,907	360,730
Interest on nontaxable securities	2,638	2,741
Interest on federal funds sold and deposits in banks	88,519	96,045
Total interest income	9,022,610	7,417,006
Interest expense		
Interest on deposits	662,448	637,265
Net interest income	8,360,162	6,779,741
Recovery of loan losses	-	(98,106)
Net interest income after recovery of loan losses	8,360,162	6,877,847
Noninterest income		
Service charges on deposit accounts	790,152	686,846
Bank owned life insurance	96,769	36,527
Gain on sales of securities available for sale	-	45,946
Other operating income	42,150	30,933
Total noninterest income	929,071	800,252
Noninterest expenses		
Salaries and employee benefits	4,756,857	4,397,378
Equipment and occupancy	1,093,607	991,795
Legal and professional	228,868	229,685
Data processing	661,408	578,216
Foreclosed assets	54,080	95,906
Other operating expenses	1,423,354	1,220,760
Total noninterest expenses	8,218,174	7,513,740
Income before income tax benefits	1,071,059	164,359
Income tax benefits	(1,852,441)	-
Net income	\$ 2,923,500	\$ 164,359

See Notes to Financial Statements.

FIRST SOUTHERN BANK

STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Net income	\$ 2,923,500	\$ 164,359
Other comprehensive (loss) income:		
Net unrealized holding (losses) gains on securities available for sale arising during the year, net of tax benefits of \$404,513 and \$-, respectively	 (1,213,539)	 105,238
Reclassification adjustment for gains realized in net income	-	(45,946)
Other comprehensive (loss) income	<u>(1,213,539)</u>	<u>59,292</u>
Comprehensive income	<u>\$ 1,709,961</u>	<u>\$ 223,651</u>

See Notes to Consolidated Financial Statements.

FIRST SOUTHERN BANK

STATEMENTS OF STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>Common Stock</u>		<u>Capital Surplus</u>	<u>Retained Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Par Value</u>			<u>Income (Loss)</u>	<u>Equity</u>
Balance, December 31, 2019	2,478,253	\$ 12,391,265	\$ 18,514,281	\$ (13,019,512)	\$ (24,060)	\$ 17,861,974
Net income	-	-	-	164,359	-	164,359
Other comprehensive income	-	-	-	-	59,292	59,292
Balance, December 31, 2020	2,478,253	12,391,265	18,514,281	(12,855,153)	35,232	18,085,625
Net income	-	-	-	2,923,500	-	2,923,500
Other comprehensive loss	-	-	-	-	(1,213,539)	(1,213,539)
Balance, December 31, 2021	<u>2,478,253</u>	<u>\$ 12,391,265</u>	<u>\$ 18,514,281</u>	<u>\$ (9,931,653)</u>	<u>\$ (1,178,307)</u>	<u>\$ 19,795,586</u>

See Notes to Financial Statements.

FIRST SOUTHERN BANK

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING ACTIVITIES		
Net income	\$ 2,923,500	\$ 164,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	395,571	352,335
Recovery of loan losses	-	(98,106)
Provision for deferred taxes, net	(1,852,441)	-
Net gain on sales of securities available for sale	-	(45,946)
Net loss on sales of premises and equipment	-	4,560
Net loss (gain) on sales of foreclosed assets	27,780	(17,200)
Write-downs on foreclosed assets	26,300	113,856
Decrease (increase) in interest receivable	91,177	(162,690)
(Decrease) increase in interest payable	(37,687)	8,862
Increase in bank owned life insurance	(96,769)	(36,527)
Other prepaids, deferrals and accruals, net	(150,941)	(112,891)
Total adjustments	(1,597,010)	6,253
Net cash provided by operating activities	1,326,490	170,612
INVESTING ACTIVITIES		
Increase in interest-bearing deposits in banks	(43,009,131)	(23,119,880)
Purchases of securities available for sale	(48,329,199)	(25,906,413)
Proceeds from calls and principal paydowns on securities available for sale	10,369,758	8,151,003
Proceeds from sales of securities available for sale	-	1,822,949
Net decrease (increase) in restricted equity securities	11,400	(172,320)
Decrease (increase) in loans, net	1,555,598	(38,224,949)
Proceeds from sales of foreclosed assets	385,207	300,665
Proceeds from sales of premises and equipment	-	331,389
Purchase of bank owned life insurance	(3,000,000)	-
Purchase of premises and equipment	(2,410,380)	(1,471,843)
Net cash used in by investing activities	(84,426,747)	(78,289,399)
FINANCING ACTIVITIES		
Increase in deposits, net	83,305,363	78,602,706
Net cash provided by financing activities	83,305,363	78,602,706
Net increase in cash and due from banks	205,106	483,919
Cash and due from banks at beginning of year	1,686,969	1,203,050
Cash and due from banks at end of year	\$ 1,892,075	\$ 1,686,969
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 700,135	\$ 628,403
NONCASH TRANSACTIONS		
Principal balances of loans transferred to foreclosed assets	\$ 19,540	\$ 235,878
Internally financed sales of foreclosed assets	\$ 300,000	\$ 421,800

See Notes to Financial Statements.

FIRST SOUTHERN BANK

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

First Southern Bank (the “Bank”) is a state-chartered, commercial bank with operations in Waycross; Patterson; and Jesup, Georgia, and Bradenton and Sebring, Florida. The Bank provides a full range of banking services to individual and corporate customers in these markets and in the surrounding counties. The Bank is subject to the regulations of certain federal and state agencies and is periodically examined by those regulatory authorities.

Basis of Presentation and Accounting Estimates

In preparing the financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed assets, other-than-temporary impairments of securities, deferred taxes, and the fair value of financial instruments.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank’s loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its borrowers’ ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term.

The Bank has evaluated all transactions, events, and circumstances for consideration or disclosure through April 1, 2022, the date these financial statements were available to be issued, and has reflected or disclosed those items within the financial statements and related footnotes as deemed appropriate.

Cash, Due from Banks, and Cash Flows

For purposes of reporting cash flows, cash, and due from banks includes cash on hand, cash items in process of collection, and amounts due from banks. Cash flows from loans, restricted equity securities, interest-bearing deposits in banks, and deposits are reported net.

During 2020, the Board of Governors of the Federal Reserve System reduced the Bank’s reserve requirement ratios to zero percent for the year ended December 31, 2021 and 2020. The Federal Reserve Bank does not have plans to reimplement a reserve requirement in the near future, but did reserve the right to require a reserve requirement at a future date.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from operations and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sales of securities are recorded on the trade date and are determined using the specific identification method.

The Bank evaluates investment securities for other-than-temporary impairment using relevant accounting guidance specifying that (a) if the Bank does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless a credit loss has occurred in the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will recognize the credit component of an other-than-temporary impairment of a debt security in operations and the remaining portion in other comprehensive income (loss).

Restricted Equity Securities

The Bank is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, the stock has no quoted market value and is carried at cost. At their discretion, these entities may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs of loans are recognized at the time the loan is placed on the books. Because net loan origination fees and costs are not significant and the majority of loans have maturities of one year or less, the results of operations are not materially different than the results which would be obtained by accounting for all loan fees and costs in accordance with generally accepted accounting principles.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued, but not collected for loans that are placed on nonaccrual or charged-off, is reversed against interest income, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is subsequently recognized only to the extent cash payments are received until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms for a period of not less than six months.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical loss experience adjusted for other qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance 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 it is probable, based on current information and events, the Bank will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower's request, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Troubled Debt Restructurings

The Bank designates loan modifications as troubled debt restructurings (“TDRs”) when for economic and legal reasons related to the borrower’s financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower’s financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower’s current capacity to pay, which among other things may include a review of the borrower’s current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt-to-income analysis, and an evaluation of secondary sources of payment from the borrower and any guarantors. This evaluation also includes an evaluation of the borrower’s current willingness to pay, which may include a review of past payment history, an evaluation of the borrower’s willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower’s future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables.

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower’s financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower’s sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation computed principally by the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

	<u>Years</u>
Buildings	39
Furniture and equipment	3-7

Transfers of Financial Assets

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed as incurred.

Foreclosed Assets

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed assets and subsequent write-downs to the value are expensed.

Income Taxes

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50% the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SECURITIES

The amortized cost and fair value of securities available for sale are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2021:				
U.S. Treasury securities	\$ 5,108,686	\$ -	\$ (79,155)	\$ 5,029,531
U.S. Government and federal agencies	36,086,769	26,141	(1,129,653)	34,983,257
Corporate debt securities	250,000	11,182	-	261,182
Mortgage-backed securities - GSE residential	<u>32,059,487</u>	<u>60,658</u>	<u>(460,249)</u>	<u>31,659,896</u>
	<u>\$ 73,504,942</u>	<u>\$ 97,981</u>	<u>\$ (1,669,057)</u>	<u>\$ 71,933,866</u>
December 31, 2020:				
U.S. Government and federal agencies	\$ 15,000,000	\$ -	\$ (153,770)	\$ 14,846,230
Corporate debt securities	250,000	-	(1,038)	248,962
Mortgage-backed securities - GSE residential	<u>20,295,501</u>	<u>279,321</u>	<u>(89,281)</u>	<u>20,485,541</u>
	<u>\$ 35,545,501</u>	<u>\$ 279,321</u>	<u>\$ (244,089)</u>	<u>\$ 35,580,733</u>

The amortized cost and fair value of securities as of December 31, 2021 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 2,303,552	\$ 2,292,181
Due from one to five years	250,000	261,182
Due from five to fifteen years	32,765,582	31,913,332
Due after fifteen years	6,126,321	5,807,275
Mortgage-backed securities GSE residential	<u>32,059,487</u>	<u>31,659,896</u>
	<u>\$ 73,504,942</u>	<u>\$ 71,933,866</u>

Securities with a carrying value of approximately \$22,814,000 and \$8,927,000 at December 31, 2021 and 2020, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Gains on sales of securities available for sale consisted of the following:

	<u>Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Gross gains	\$ -	\$ 45,946
Gross losses	-	-
Net realized gains	<u>\$ -</u>	<u>\$ 45,946</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SECURITIES (CONTINUED)

Restricted Equity Securities

Restricted equity securities consist of the following:

	Years Ended December 31,	
	2021	2020
Federal Home Loan Bank stock	\$ 102,600	\$ 114,100
First National Bankers Bankshares stock	150,220	150,120
	\$ 252,820	\$ 264,220

The Bank has an investment in the common stock of the Federal Home Loan Bank of Atlanta and First National Bankers Bankshares at December 31, 2021 and 2020. These investments are accounted for by the cost method, which represents par value, and are made for long-term business affiliation reasons. In addition, these investments are subject to restrictions relating to the sale, transfer, or other disposition. Dividends are recognized in income when declared. The estimated fair value of the investments were approximately \$252,820 and \$264,220, respectively, as of December 31, 2021 and 2020 and, therefore, are not considered impaired.

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of securities, with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position.

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021:						
U.S. Treasury securities	\$ 5,029,531	\$ (79,155)	\$ -	\$ -	\$ 5,029,531	\$ (79,155)
U.S. Government and federal agencies	17,839,422	(186,930)	15,473,108	(942,723)	33,312,530	(1,129,653)
Mortgage-backed securities - GSE residential	24,010,214	(395,648)	4,207,455	(64,601)	28,217,669	(460,249)
Total temporarily impaired securities	\$ 46,879,167	\$ (661,733)	\$ 19,680,563	\$ (1,007,324)	\$ 66,559,730	\$ 1,669,057
December 31, 2020:						
U.S. Government and federal agencies	\$ 14,846,230	\$ (153,770)	\$ -	\$ -	\$ 14,846,230	\$ (153,770)
Corporate debt securities	248,962	(1,038)	-	-	248,962	(1,038)
Mortgage-backed securities - GSE residential	9,242,520	(62,207)	1,847,020	(27,074)	11,089,540	(89,281)
Total temporarily impaired securities	\$ 24,337,712	\$ (217,015)	\$ 1,847,020	\$ (27,074)	\$ 26,184,732	\$ (244,089)

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SECURITIES (CONTINUED)

Temporarily Impaired Securities (Continued)

U.S. Treasury obligations. The unrealized losses on the two investments at December 31, 2021 in U.S. Treasury obligations were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2021.

U.S. Government and federal agency obligations. The unrealized losses on the eighteen investments at December 31, 2021 in U.S. Government obligations and direct obligations of the U.S. government agencies were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2021.

GSE residential mortgage-backed securities. The unrealized losses on the Bank's investments in twelve GSE mortgage-backed securities at December 31, 2021 were caused by interest rate increases. The Bank purchased the investments at discounts relative to their face amount, and the contractual cash flows of the investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider the investments to be other-than-temporarily impaired at December 31, 2021.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

Portfolio Segmentation

The composition of loans is summarized as follows:

	December 31,	
	2021	2020
Real estate:		
Construction and development	\$ 11,184,636	\$ 7,319,062
Residential	32,162,859	26,157,964
Commercial	45,962,024	38,042,519
Farmland	11,521,634	15,624,785
Commercial	17,256,924	31,858,141
Consumer	3,130,466	3,448,936
	121,218,543	122,451,407
Allowance for loan losses	(1,755,518)	(1,713,244)
Loans, net	\$ 119,463,025	\$ 120,738,163

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Portfolio Segmentation (Continued)

The loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are three loan portfolio segments that include real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Commercial and consumer are separate loan classes. Classes within the real estate portfolio segment include construction and development, residential, commercial, and farmland.

The following describe risk characteristics relevant to each of the portfolio segments and classes:

Real Estate - As discussed below, the Bank offers various types of real estate loan products. All loans within this portfolio segment and class are particularly sensitive to the valuation of real estate:

- Loans for real estate construction and development are repaid through cash flow related to the operations, sale, or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.
- Residential mortgage loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. This class includes loans that are secured by 1-4 family first mortgages, second liens, or open end real estate loans, such as home equity lines.
- Commercial real estate mortgage loans include owner-occupied commercial real estate loans, owner-occupied construction loans for commercial businesses, and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. Owner-occupied construction loans for a commercial business are for the development of land or construction of a building. Both of these loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.
- Farmland mortgage loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

Commercial - The commercial loan portfolio segment includes commercial, financial, and agricultural loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations.

Consumer - The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans, and educational loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Management

The Bank employs a credit risk management process with defined policies, accountability, and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Credit Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios. To insure problem credits are identified on a timely basis, several specific portfolio reviews occur each quarter to assess the larger adversely rated credits for proper risk rating and accrual status.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by management and the Board of Directors.

The allowance for loan losses is a valuation reserve established through provisions for loan losses charged against income. The allowance for loan losses, which is evaluated quarterly, is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The allowance for loan losses is comprised of specific valuation allowances for loans evaluated individually for impairment, general allocations for pools of homogeneous loans with similar risk characteristics and trends, and an unallocated component that reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows, (2) the fair value of collateral if the loan is determined to be collateral dependent, or (3) the loan's observable market price. The Bank's homogeneous loan pools include commercial real estate loans, real estate construction and land development loans, residential real estate loans, farmland, commercial loans, and consumer loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk; and (7) effectiveness of the Bank's loan policies, procedures, and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio adjusted for qualitative factors and the total dollar amount of the loans in the pool.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Management (Continued)

The following table details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2021 and 2020. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	<u>Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:					
December 31, 2021					
Beginning balance	\$ 203,869	\$ 873,307	\$ 12,852	\$ 623,216	\$ 1,713,244
Charge-offs	-	-	(15,498)	-	(15,498)
Recoveries	-	51,816	5,956	-	57,772
Provision (recovery)	46,116	(923,252)	10,224	866,912	-
Ending balance	<u>\$ 249,985</u>	<u>\$ 1,871</u>	<u>\$ 13,534</u>	<u>\$ 1,490,128</u>	<u>\$ 1,755,518</u>
Ending balance - individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance - collectively evaluated for impairment	<u>\$ 249,985</u>	<u>\$ 1,871</u>	<u>\$ 13,534</u>	<u>\$ 1,490,128</u>	<u>\$ 1,755,518</u>
Loans:					
Ending balance	<u>\$ 100,831,153</u>	<u>\$ 17,256,924</u>	<u>\$ 3,130,466</u>	<u>\$ -</u>	<u>\$ 121,218,543</u>
Ending balance - individually evaluated for impairment	<u>\$ 119,045</u>	<u>\$ 45,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,991</u>
Ending balance - collectively evaluated for impairment	<u>\$ 100,712,108</u>	<u>\$ 17,210,978</u>	<u>\$ 3,130,466</u>	<u>\$ -</u>	<u>\$ 121,053,552</u>
Allowance for loan losses:					
December 31, 2020					
Beginning balance	\$ 212,398	\$ 1,266,039	\$ 2,959	\$ 205,356	\$ 1,686,752
Charge-offs	-	-	(34,836)	-	(34,836)
Recoveries	-	149,133	10,301	-	159,434
Provision (recovery)	(8,529)	(541,865)	34,428	417,860	(98,106)
Ending balance	<u>\$ 203,869</u>	<u>\$ 873,307</u>	<u>\$ 12,852</u>	<u>\$ 623,216</u>	<u>\$ 1,713,244</u>
Ending balance - individually evaluated for impairment	<u>\$ -</u>	<u>\$ 755,591</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 755,591</u>
Ending balance - collectively evaluated for impairment	<u>\$ 203,869</u>	<u>\$ 117,716</u>	<u>\$ 12,852</u>	<u>\$ 623,216</u>	<u>\$ 957,653</u>
Loans:					
Ending balance	<u>\$ 87,144,330</u>	<u>\$ 31,858,141</u>	<u>\$ 3,448,936</u>	<u>\$ -</u>	<u>\$ 122,451,407</u>
Ending balance - individually evaluated for impairment	<u>\$ 267,023</u>	<u>\$ 956,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,223,371</u>
Ending balance - collectively evaluated for impairment	<u>\$ 86,877,307</u>	<u>\$ 30,901,793</u>	<u>\$ 3,448,936</u>	<u>\$ -</u>	<u>\$ 121,228,036</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Management (Continued)

A description of the general characteristics of the risk grades used by the Bank is as follows:

“Pass”: Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

“Watch”: Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or in the Bank’s credit position.

“Substandard”: Loans in this risk grade are inadequately protected by the borrower’s current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

“Doubtful”: Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts; conditions; and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined. The Bank had no loans classified as doubtful at December 31, 2021 or 2020.

“Loss”: Loans in this risk grade are considered to be noncollectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, the Bank typically does not maintain a recorded investment in loans within this category. The Bank had no loans classified as loss at December 31, 2021 or 2020.

The following tables summarize the risk category of the Bank’s loan portfolio based upon on the most recent analysis performed:

	<u>Pass</u>	<u>Watch</u>	<u>Substandard</u>	<u>Total</u>
December 31, 2021:				
Real estate mortgages:				
Construction and development	\$ 11,157,723	\$ -	\$ 26,913	\$ 11,184,636
Residential	31,827,430	107,965	227,464	32,162,859
Commercial	43,601,585	2,360,439	-	45,962,024
Farmland	11,417,281	104,353	-	11,521,634
Commercial	16,343,041	867,937	45,946	17,256,924
Consumer	3,090,610	33,960	5,896	3,130,466
Total	<u>\$ 117,437,670</u>	<u>\$ 3,474,654</u>	<u>\$ 306,219</u>	<u>\$ 121,218,543</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Management (Continued)

	<u>Pass</u>	<u>Watch</u>	<u>Substandard</u>	<u>Total</u>
December 31, 2020:				
Real estate mortgages:				
Construction and development	\$ 7,283,438	\$ -	\$ 35,624	\$ 7,319,062
Residential	25,959,555	73,848	124,561	26,157,964
Commercial	37,388,890	653,629	-	38,042,519
Farmland	15,319,804	37,958	267,023	15,624,785
Commercial	30,813,893	73,182	971,066	31,858,141
Consumer	3,416,990	30,197	1,749	3,448,936
Total	\$ 120,182,570	\$ 868,814	\$ 1,400,023	\$ 122,451,407

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on nonaccrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following table presents the aging of the recorded investment in loans as of December 31, 2021 and 2020:

	<u>Past Due Status (Accruing Loans)</u>					<u>Nonaccrual</u>	<u>Total</u>
	<u>Current</u>	<u>30-59 Days</u>	<u>60-89 Days</u>	<u>90+ Days</u>	<u>Total Past Due</u>		
December 31, 2021:							
Real estate mortgages:							
Construction and development	\$ 11,184,636	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,184,636
Residential	32,003,905	-	-	-	-	158,954	32,162,859
Commercial	45,962,024	-	-	-	-	-	45,962,024
Farmland	11,521,634	-	-	-	-	-	11,521,634
Commercial	17,210,978	-	-	-	-	45,946	17,256,924
Consumer	3,128,802	-	-	-	-	1,664	3,130,466
Total	\$ 121,011,979	\$ -	\$ -	\$ -	\$ -	\$ 206,564	\$ 121,218,543
December 31, 2020:							
Real estate mortgages:							
Construction and development	\$ 7,319,062	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,319,062
Residential	26,108,599	-	-	-	-	49,365	26,157,964
Commercial	38,042,519	-	-	-	-	-	38,042,519
Farmland	15,357,762	-	-	-	-	267,023	15,624,785
Commercial	31,642,667	-	-	-	-	215,474	31,858,141
Consumer	3,413,053	23,602	10,532	-	34,134	1,749	3,448,936
Total	\$ 121,883,662	\$ 23,602	\$ 10,532	\$ -	\$ 34,134	\$ 533,611	\$ 122,451,407

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Impaired Loans

A loan held for investment is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (both principal and interest) from the borrower in accordance with the contractual term of the loan. The following tables detail the impaired loans, by portfolio class as of December 31, 2021 and 2020:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
December 31, 2021:				
With no related allowance recorded:				
Real estate mortgages:				
Construction and development	\$ -	\$ -	\$ -	\$ -
Residential	119,045	119,045	-	123,151
Commercial	-	-	-	-
Farmland	-	-	-	-
Commercial	45,946	45,946	-	123,352
Consumer	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total with no related allowance recorded	<u>\$ 164,991</u>	<u>\$ 164,991</u>	<u>\$ -</u>	<u>\$ 246,503</u>
With an allowance recorded:				
Real estate mortgages:				
Construction and development	\$ -	\$ -	\$ -	\$ -
Residential	-	-	-	-
Commercial	-	-	-	-
Farmland	-	-	-	-
Commercial	-	-	-	-
Consumer	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total with an allowance recorded	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total impaired loans	<u>\$ 164,994</u>	<u>\$ 164,991</u>	<u>\$ -</u>	<u>\$ 246,503</u>

Interest income recognized on impaired loans for the year ended December 31, 2021 was approximately \$19,500.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Impaired Loans (Continued)

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
December 31, 2020:				
With no related allowance recorded:				
Real estate mortgages:				
Construction and development	\$ -	\$ -	\$ -	\$ -
Residential	-	-	-	-
Commercial	-	-	-	-
Farmland	267,023	267,023	-	282,173
Commercial	200,757	200,757	-	211,707
Consumer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total with no related allowance recorded	<u>\$ 467,780</u>	<u>\$ 467,780</u>	<u>\$ -</u>	<u>\$ 493,880</u>
With an allowance recorded:				
Real estate mortgages:				
Construction and development	\$ -	\$ -	\$ -	\$ -
Residential	-	-	-	-
Commercial	-	-	-	-
Farmland	-	-	-	-
Commercial	755,591	1,265,634	755,591	778,322
Consumer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total with an allowance recorded	<u>\$ 755,591</u>	<u>\$ 1,265,634</u>	<u>\$ 755,591</u>	<u>\$ 778,322</u>
Total impaired loans	<u>\$ 1,223,371</u>	<u>\$ 1,733,414</u>	<u>\$ 755,591</u>	<u>\$ 1,272,202</u>

Interest income recognized on impaired loans for the year ended December 31, 2020 was approximately \$79,000.

Troubled Debt Restructurings

At December 31, 2021 and 2020, impaired loans included loans that were classified as TDRs. The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Bank considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the borrower is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the borrower has declared or is in the process of declaring bankruptcy; and (iv) the borrower's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructurings (Continued)

The Bank considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Bank include the borrower's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Bank generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt; (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk; (iii) a temporary period of interest-only payments; and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. As of December 31, 2021 and 2020, there was \$629,694 and \$898,552, respectively, in loans considered restructured that were not already on nonaccrual. Of the nonaccrual loans at December 31, 2021 and 2020, \$- and \$267,023, respectively, met the criteria for restructured. A loan is placed back on accrual status when both principal and interest are current and it is probable that management will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

There were no loans modified during the year ended December 31, 2021.

The following table summarizes the loans that were modified as a TDR during the years ended December 31, 2020:

	Troubled-Debt Restructurings		
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification
December 31, 2020:			
Real estate mortgages:			
1-4 family first mortgages	1	\$ 244,923	\$ 244,923

The Bank did not have any loans modified in a TDR over the last twelve months that subsequently defaulted at December 31, 2021 or 2020.

Related Party Loans

In the ordinary course of business, the Bank has granted loans to certain related parties, including executive officers, directors, and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans are as follows:

	2021	2020
Balance, beginning of year	\$ 2,412,234	\$ 1,958,373
Advances	543,019	843,828
Change in status	-	66,025
Repayments	(184,638)	(455,992)
Balance, end of year	\$ 2,770,615	\$ 2,412,234

NOTES TO FINANCIAL STATEMENTS

NOTE 4. FORECLOSED ASSETS

A summary of foreclosed assets is presented as follows:

	Years Ended December 31,	
	2021	2020
Balance, beginning of year	\$ 1,194,877	\$ 1,778,120
Additions	19,540	235,878
Disposals	(712,987)	(705,265)
Write-downs	(26,300)	(113,856)
Balance, end of year	\$ 475,130	\$ 1,194,877

Income and expenses applicable to foreclosed assets include the following:

	Years Ended December 31,	
	2021	2020
Net loss (gain) on sales of foreclosed assets	\$ 27,780	\$ (17,200)
Write-downs on foreclosed assets	26,300	113,856
Rental income, net of operating expenses	-	(750)
	\$ 54,080	\$ 95,906

Residential real estate included in foreclosed assets totaled \$- and \$110,260 at December 31, 2021 and 2020, respectively. There were no residential real estate properties in the process of foreclosure at December 31, 2021 or 2020.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2021	2020
Land	\$ 1,826,999	\$ 1,368,471
Buildings	7,208,164	4,267,465
Furniture, fixtures, and equipment	3,495,379	2,969,503
Construction in progress	<u>-</u>	<u>1,526,278</u>
	12,530,542	10,131,717
Accumulated depreciation	<u>(4,480,440)</u>	<u>(4,096,424)</u>
	<u>\$ 8,050,102</u>	<u>\$ 6,035,293</u>

Leases

During 2019, the Bank entered into a lease for subsidiary branch office and equipment under a non-cancelable operating lease. The lease agreement is set to expire in 2029.

Rent expense under all operating leases amounted to \$47,708 and \$55,057, respectively, for the years ended December 31, 2021 and 2020.

Future minimum lease payments on non-cancelable operating leases are summarized as follows:

2022	\$ 36,000
2023	36,000
2024	37,050
2025	37,800
2026	37,800
Thereafter	<u>91,350</u>
Total	<u><u>\$ 276,000</u></u>

NOTE 6. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Bank has a 401(k) Employee Profit Sharing Plan available to all eligible employees, subject to certain minimum age and service requirements. The contributions charged to expense for the years ended December 31, 2021 and 2020 were \$129,734 and \$123,090, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. DEPOSITS

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2021 and 2020 was approximately \$6,590,000 and \$6,137,000, respectively. The scheduled maturities of time deposits at December 31, 2021 are as follows:

2022		\$ 23,654,831
2023		3,129,716
2024		171,536
2025		110,784
		\$ 27,066,867

At December 31, 2021 and 2020, overdraft demand deposits reclassified to loans totaled \$23,286 and \$19,826, respectively.

NOTE 8. OTHER BORROWINGS

The Bank has available unused lines of credit with various financial institutions totaling approximately \$24,521,000 at December 31, 2021.

NOTE 9. INCOME TAXES

The components of income tax benefit are as follows:

	Years Ended December 31,	
	2021	2020
Current	\$ -	\$ -
Deferred	250,321	(32,035)
Change in valuation allowance for deferred taxes	(2,102,762)	32,035
Total income tax benefit	\$ (1,852,441)	\$ -

The Bank's income tax benefit differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

	Years Ended December 31,	
	2021	2020
Tax expense at statutory federal rate	\$ 224,922	\$ 34,515
Other	25,399	(2,480)
Change in valuation allowance for deferred taxes	(2,102,762)	(32,035)
Income tax benefit	\$ (1,852,441)	\$ -

NOTES TO FINANCIAL STATEMENTS

NOTE 9. INCOME TAXES (CONTINUED)

The components of deferred income taxes are as follows:

	Years Ended December 31,	
	2021	2020
Deferred tax assets:		
Loan loss reserves	\$ 438,880	\$ 428,311
Nonaccrual interest	34,879	60,000
Foreclosed assets	53,325	73,695
Net operating loss carryforward	1,287,781	1,580,557
Accrued liabilities	117,272	38,233
Unrealized loss on securities available for sale	392,769	-
Deferred tax valuation allowance	-	(2,102,762)
	2,324,906	78,034
Deferred tax liabilities:		
Depreciation	79,696	78,034
Net deferred tax assets	\$ 2,245,210	\$ -

During 2020, the Bank returned to profitability and during 2021 management determined it expected the Bank to remain profitable for the foreseeable future; and therefore, reversed its deferred tax valuation allowance of \$2,102,762.

The federal income tax returns of the Bank for 2020, 2019, and 2018 are subject to examination by the IRS, generally for three years after they were filed. At December 31, 2021, the Bank had available net operating loss carryforwards of approximately \$5,037,000 and \$5,749,000 for federal and state income tax purposes, respectively. If unused, the carryforwards will expire beginning in 2033.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and financial standby letters of credit. They involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments. A summary of the Bank's commitments is as follows:

	December 31,	
	2021	2020
Commitments to extend credit	\$ 18,353,446	\$ 16,591,709
Letters of credit	\$ 224,500	\$ 185,000

NOTES TO FINANCIAL STATEMENTS

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Loan Commitments (Continued)

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 of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party.

Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

At December 31, 2021 and 2020, the carrying amount of liabilities related to the Bank's obligation to perform under financial standby letters of credit was insignificant. The Bank has not been required to perform on any financial standby letters of credit, and the Bank has not incurred any losses on financial standby letters of credit for the years ended December 31, 2021 and 2020.

Contingencies

In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Bank's financial statements.

NOTE 11. CONCENTRATIONS OF CREDIT RISK

Concentration by Geographic Location

The Bank originates primarily commercial, residential, and consumer loans to customers in Ware, Pierce, Wayne, and surrounding counties in Georgia, as well as in Highlands, Manatee, and surrounding counties in Florida. The ability of the majority of the Bank's customers to honor their contractual obligations is dependent on the local economies in these areas.

Concentration by Collateral

Eighty-three percent (83%) of the Bank's loan portfolio is concentrated in loans secured by real estate. A substantial portion of these loans are secured by real estate located in the Bank's primary market areas. In addition, a substantial portion of the other real estate owned is located in those same markets. Accordingly, the ultimate collectability of the Bank's loan portfolio and recovery of the carrying amount of other real estate owned are susceptible to changes in market conditions in the Bank's market areas. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Bank, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of the lesser of 25% of the Bank's statutory capital base, or approximately \$5,354,000.

At various times throughout the year, the Bank maintains cash balances with other financial institutions. The Bank monitors the capital adequacy of these financial institutions on a quarterly basis.

NOTES TO FINANCIAL STATEMENTS

NOTE 12. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2021, no dividends could be declared or paid without regulatory approval.

The Bank is also subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their 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. Management believes as of December 31, 2021 that the Bank meets all capital adequacy requirements to which it is subject.

Quantitative measures established by regulation to ensure capital adequacy required the Bank to maintain minimum amounts and ratios of total common equity Tier 1, Tier 1, and total capital to risk-weighted assets, and of Tier 1 capital to average assets.

As of December 31, 2021, the most recent notifications from the Bank's primary regulator categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021:						
Total Capital to Risk Weighted Assets	\$ 21,417,000	14.98%	\$ 11,436,000	8.00%	\$ 14,295,000	10.00%
Tier 1 Capital to Risk Weighted Assets	\$ 19,661,000	13.75%	\$ 8,577,000	6.00%	\$ 11,436,000	8.00%
CET1 Capital to Risk Weighted Assets	\$ 19,661,000	13.75%	\$ 6,433,000	4.50%	\$ 9,292,000	6.50%
Tier 1 Capital to Average Assets	\$ 19,661,000	6.94%	\$ 11,329,000	4.00%	\$ 14,161,000	5.00%
December 31, 2020:						
Total Capital to Risk Weighted Assets	\$ 19,446,000	17.48%	\$ 8,899,000	8.00%	\$ 11,125,000	10.00%
Tier 1 Capital to Risk Weighted Assets	\$ 18,051,000	16.23%	\$ 6,675,000	6.00%	\$ 8,899,000	8.00%
CET1 Capital to Risk Weighted Assets	\$ 18,051,000	16.23%	\$ 5,006,000	4.50%	\$ 7,231,000	6.50%
Tier 1 Capital to Average Assets	\$ 18,051,000	9.22%	\$ 7,835,000	4.00%	\$ 9,794,000	5.00%

NOTES TO FINANCIAL STATEMENTS

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic (FASB ASC 820), 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 based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique, or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Assets Measured at Fair Value on a Recurring Basis: Assets measured at fair value on a recurring basis are summarized below:

	Total Carrying Value	Fair Value Measurements		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021:				
U.S. Treasury securities	\$ 5,029,531	\$ -	\$ 5,029,531	\$ -
U.S. Government and federal agencies	34,983,257	-	34,983,257	-
Corporate debt securities	261,182	-	261,182	-
Mortgage-backed securities - GSE residential	31,659,896	-	31,659,896	-
Available for sale securities	<u>\$ 71,933,866</u>	<u>\$ -</u>	<u>\$ 71,933,866</u>	<u>\$ -</u>
December 31, 2020:				
U.S. Government and federal agencies	\$ 14,846,230	\$ -	\$ 14,846,230	\$ -
Corporate debt securities	248,962	-	248,962	-
Mortgage-backed securities - GSE residential	20,485,541	-	20,485,541	-
Available for sale securities	<u>\$ 35,580,733</u>	<u>\$ -</u>	<u>\$ 35,580,733</u>	<u>\$ -</u>

Assets Measured at Fair Value on a Nonrecurring Basis: Under certain circumstances, management makes adjustments to fair value for assets although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the balance sheet by caption and by level in the fair value hierarchy, for which a nonrecurring change in fair value has been recorded.

	Fair Value Measurements Using			Total Gains (Losses)
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2021				
Impaired loans	\$ -	\$ -	\$ -	\$ -
Foreclosed assets	-	-	51,300	(21,550)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,300</u>	<u>\$ (21,550)</u>
December 31, 2020				
Impaired loans	\$ -	\$ -	\$ - ⁽¹⁾	\$ 36,091
Foreclosed assets	-	-	9,450	(9,450)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,450</u>	<u>\$ 26,641</u>

⁽¹⁾ Impaired loans fully reserved at December 31, 2020, therefore, fair value is zero. The Bank was able to reduce the specific reserve of \$36,091 during 2020.

NOTES TO FINANCIAL STATEMENTS

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Impaired Loans

Loans considered impaired under ASC 310-10-35, *Receivables*, are loans for which, based on current information and events, it is probable that the Bank will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less estimated selling costs if the loan is collateral dependent.

The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate or business assets including equipment, inventory, and accounts receivable. The Bank determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for estimated costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Foreclosed Assets

Foreclosed assets, consisting of properties obtained through foreclosure or in satisfaction of loans, are initially recorded at the lower of the loan's carrying amount or the fair value less estimated costs to sell upon transfer of the loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value less estimated costs to sell. Fair values are generally based on third-party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

Quantitative Disclosures for Level 3 Fair Value Measurements

The Bank had no Level 3 assets measured at fair value on a recurring basis at December 31, 2021 or 2020.

NOTES TO FINANCIAL STATEMENTS

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020, the significant unobservable inputs used in the fair value measurements are presented below:

	<u>Carrying Amount</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input</u>
December 31, 2021			
Nonrecurring:			
Impaired loans	\$ -	Discounted appraisal	Appraisal discounts – generally 10%
Foreclosed assets	\$ 51,300	Discounted appraisal	Appraisal discounts – generally 10%
December 31, 2020			
Nonrecurring:			
Impaired loans	\$ -	Discounted appraisal	Appraisal discounts – generally 10%
Foreclosed assets	\$ 9,450	Discounted appraisal	Appraisal discounts – generally 10%

NOTE 14. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The following table presents the Bank's sources of noninterest income for the years ended December 31, 2021 and 2020. Items outside the scope of ASC 606 are noted as such.

	<u>2021</u>	<u>2020</u>
Noninterest income:		
Service charges on deposit accounts	\$ 790,152	\$ 686,846
Bank owned life insurance (a)	96,769	36,527
Gain on sales of securities available for sale (a)	-	45,946
Other operating income	42,150	30,933
Total noninterest income	<u>\$ 929,071</u>	<u>\$ 800,252</u>

(a) Not within scope of ASC 606.

Following is a discussion of key revenues within the scope of Topic 606:

Service charges on deposit accounts: Revenue from service charges on deposit accounts is earned through cash management, ATM fees, overdraft fees, and other deposit-related services. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. Overdraft fees are recognized daily as the transactions occur. ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. This category also includes interchange fees from consumer credit and debit cards processed by card association networks, as well as merchant discounts, and other card-related services. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month.

Other operating income: Other operating income consists primarily of safe deposit box rental income, wire transfer fees, and other miscellaneous income. Safe deposit box rental income is recognized on a monthly basis as the Bank's performance obligation for these services are satisfied. Wire transfer fees and other miscellaneous income are typically recognized when received.

NOTES TO FINANCIAL STATEMENTS

NOTE 15. SUBSEQUENT EVENT

Subsequent to December 31, 2021, the Bank received final approval to reorganize into a bank holding company, FSBH CORP. FSBH CORP was organized in Bradenton, Manatee County, Florida and will acquire 100% of the stock of First Southern Bank, Waycross, Ware County, Georgia in a tax-free stock exchange. FSBH CORP will be regulated by the Federal Reserve and First Southern Bank will continue to be supervised by the Georgia Department of Banking and Finance. FSBH CORP expects to complete the tax-free share exchange during the second quarter of 2022.