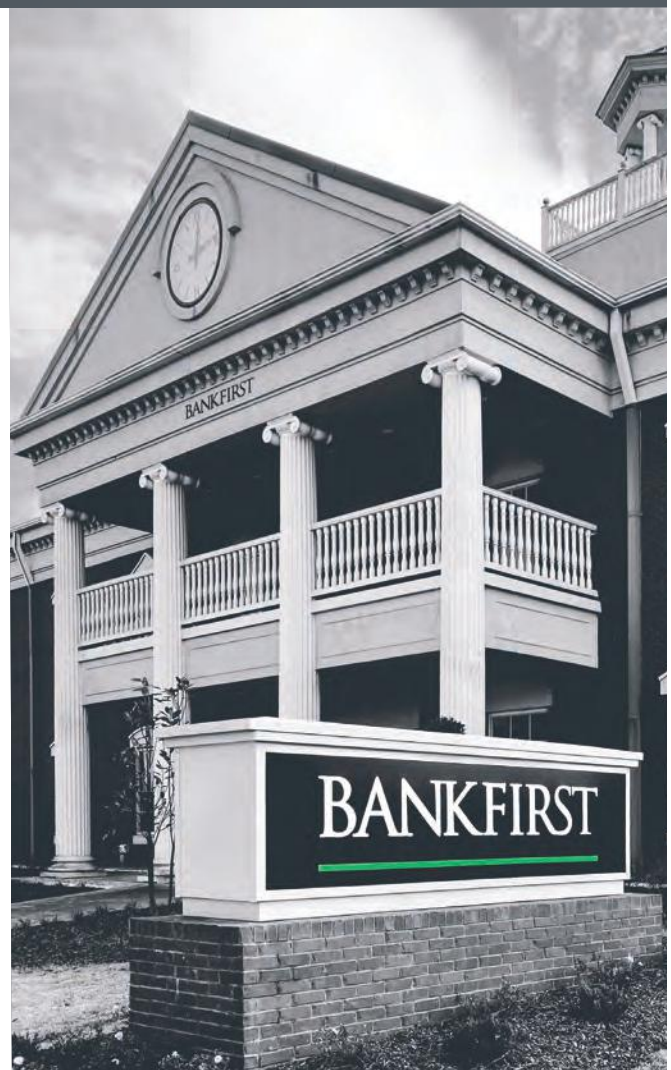
2021 ANNUAL REPORT

BANKFIRST CAPITAL


BANKFIRST
BANKFIRST

BFCC
TRADED ON
OTCQX

BANKFIRST CAPITAL

BFCC Stock Information

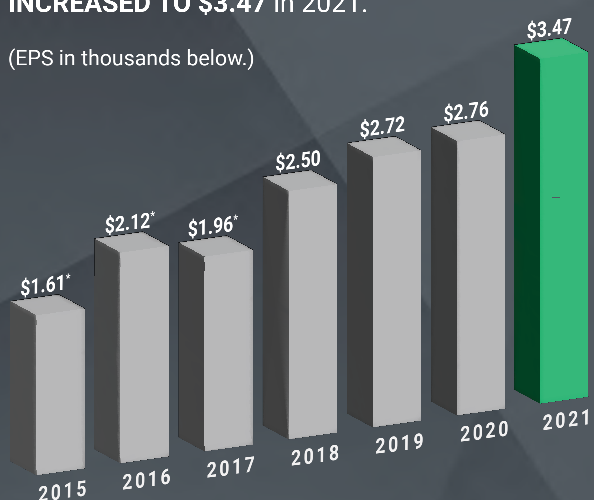
as of 12/31/2021

Stock Price	$30
Market Cap	$158.54 million
P/E (FY21)	8.65
Price/Tangible Book	1.34 x
52 Week Range	$19.70–$32.20
2021 Dividend	$0.68
Dividend Yield	2.27%
Shares Outstanding	5,284,629

Earnings Per Share

Earnings per share (EPS)
INCREASED TO $3.47 in 2021.

(EPS in thousands below.)



* After adjustment for stock split in 2017

FINANCIAL HIGHLIGHTS

$1.819 BILLION

in assets

8TH

BankFirst is ranked the 8th largest Mississippi based bank.

↑6%

Revenue increased by 6% compared to 2020.

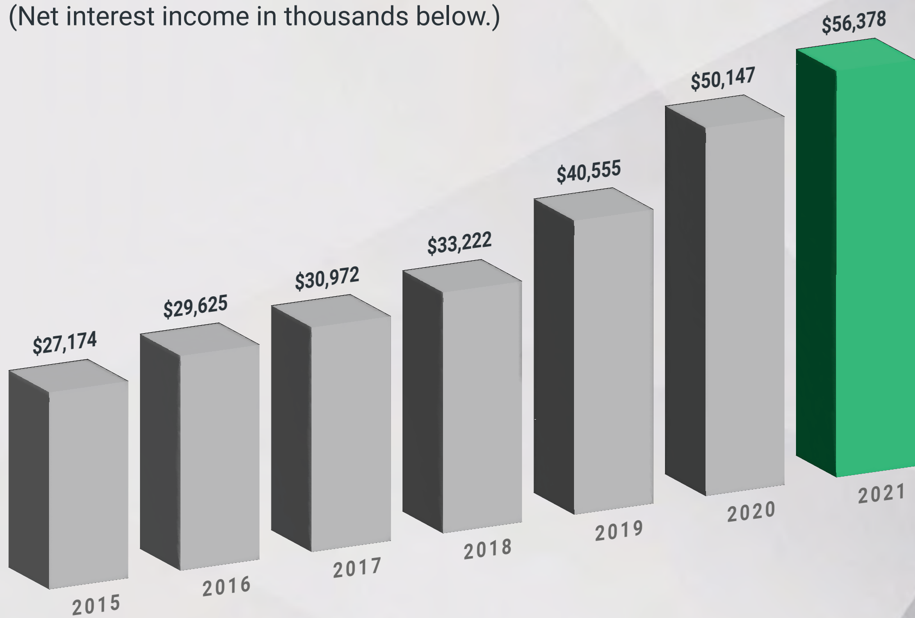
* Net of Paycheck Protection Program fees

FINANCIAL HIGHLIGHTS

RECORD REVENUE IN 2021

Experienced **RECORD NET INTEREST INCOME** with a **12% INCREASE** in net interest income to $56.4 million in 2021 compared to $50.1 million in 2020.

(Net interest income in thousands below.)



Deposits

Compared to 2020

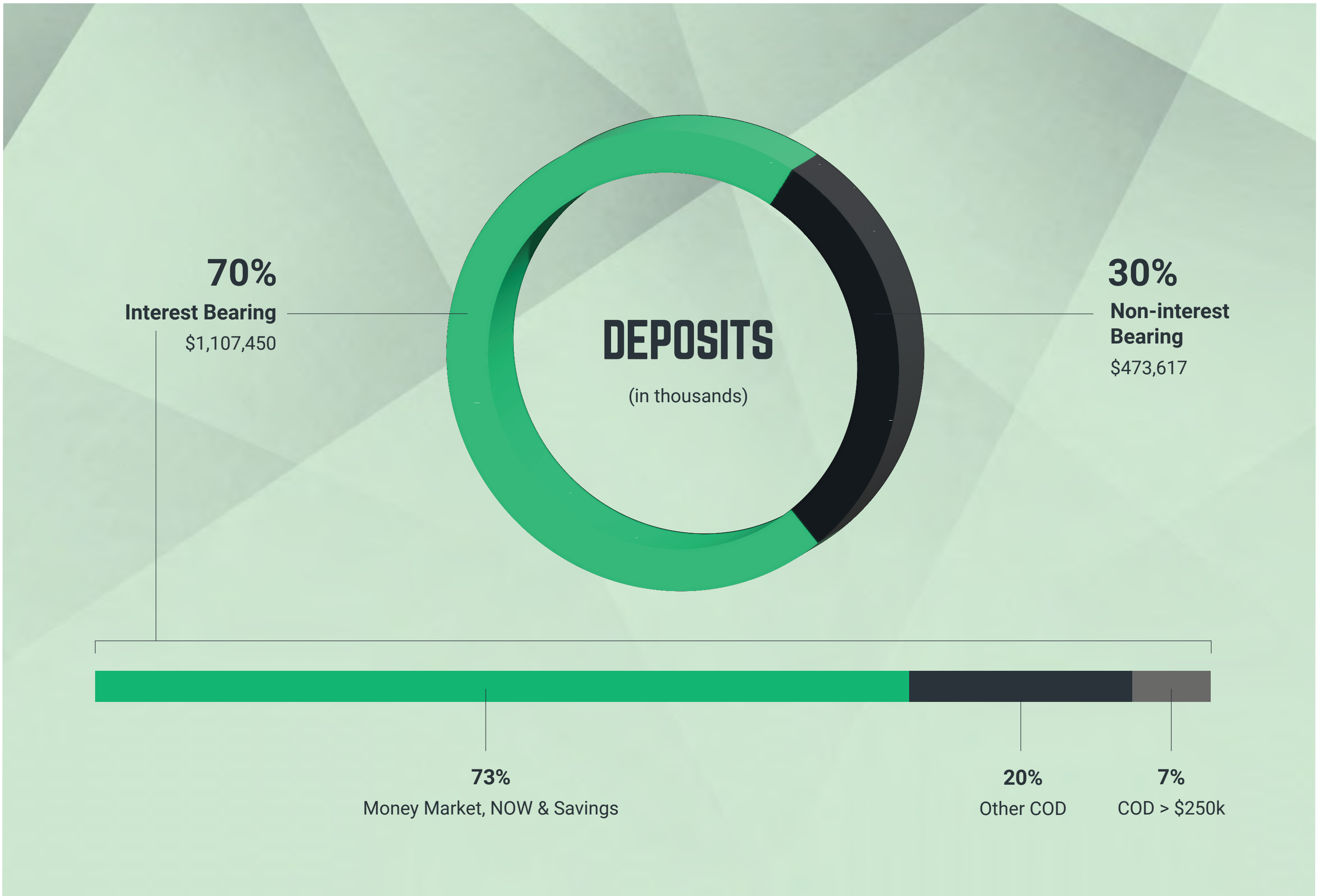
↑ 4%

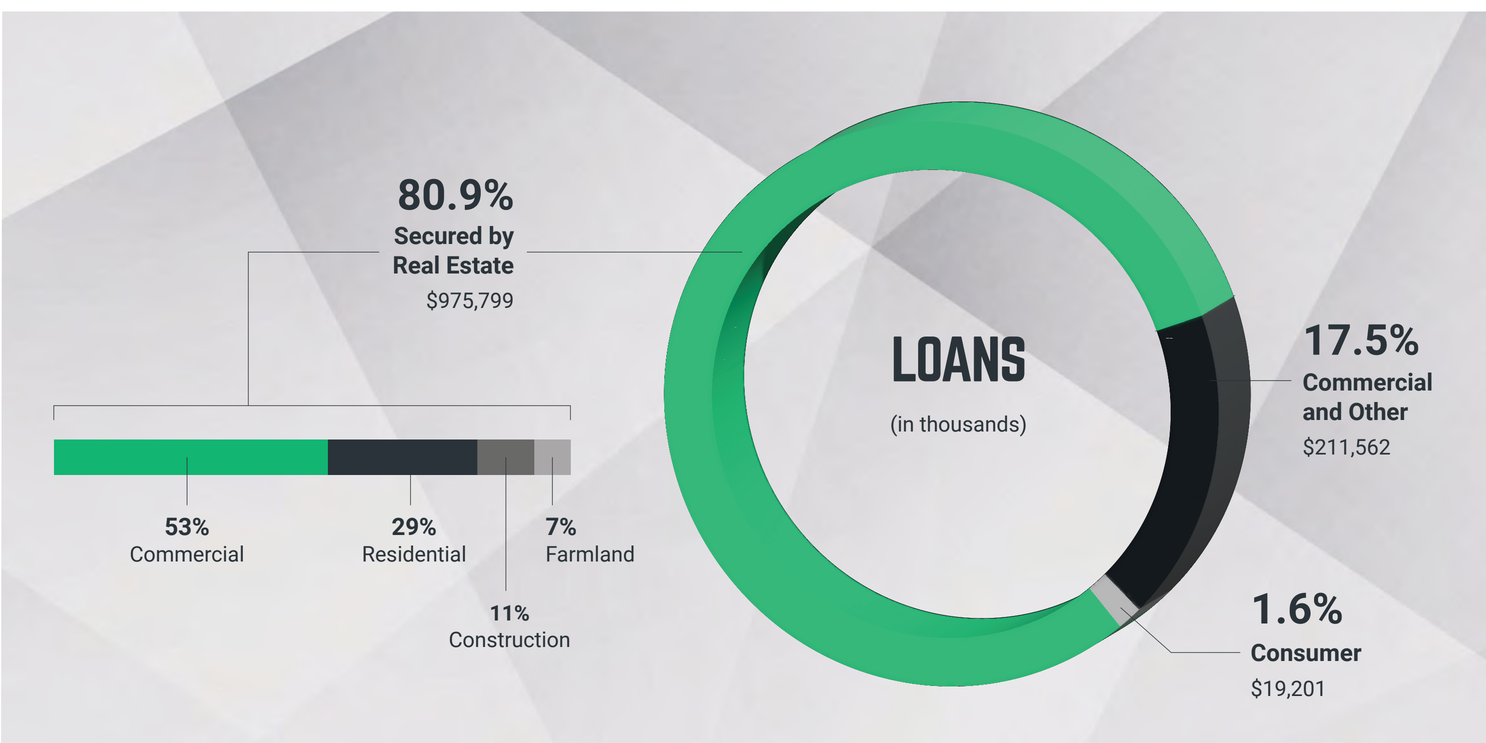
Loans

Compared to 2020

↑ 11%

* Net of Paycheck Protection Program loans

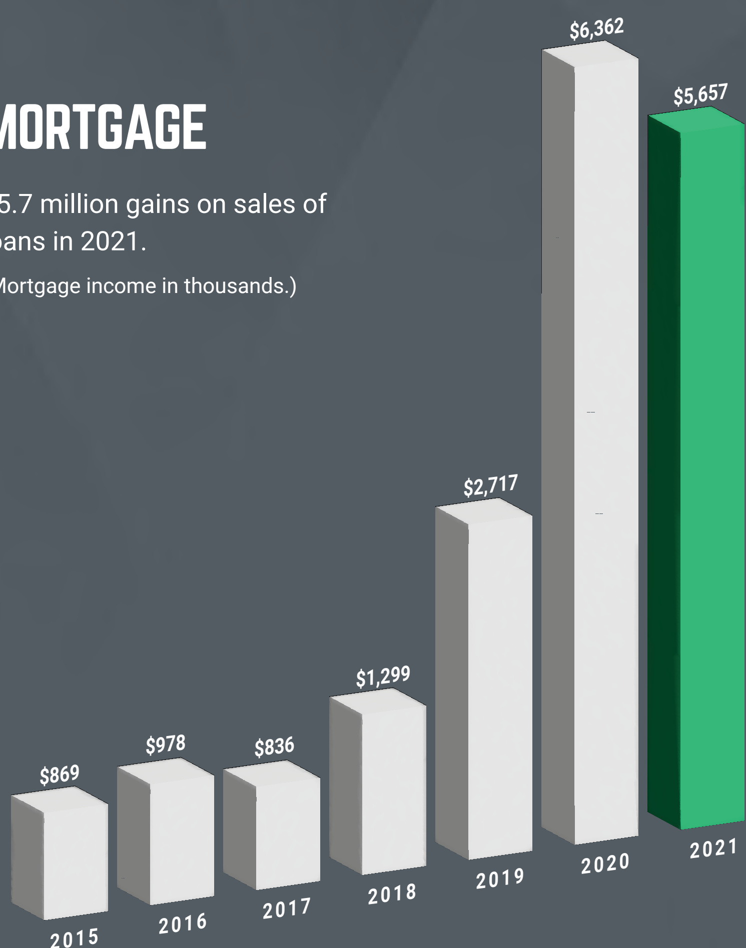

DEPOSITS
(in thousands)
70%
Interest Bearing
$1,107,450
30%
Non-interest Bearing
$473,617
73%
Money Market, NOW & Savings
20%
Other COD
7%
COD > $250k


LOANS
(in thousands)
80.9%
Secured by Real Estate
$975,799
53%
Commercial
29%
Residential
7%
Farmland
11%
Construction
17.5%
Commercial and Other
$211,562
1.6%
Consumer
$19,201

MORTGAGE

$5.7 million gains on sales of loans in 2021.

(Mortgage income in thousands.)



LEADERSHIP

The leadership team has significant years of experience in the financial services industry and the Board of Directors and Advisory Boards compliment management through their diverse expertise and extensive knowledge of the communities we serve.

Management Team

Moak Griffin
President & CEO

Luke Yeatman
Chief Financial Officer

Jim McAlexander
Chief Retail & Operations Officer

Lee Seago
Chief Risk Officer

Marcus Mallory
Chief Banking Officer

Greg Moore
Mississippi Regional President

Heyward Gould
Alabama Regional President

Ron Allen
Chief Credit Officer

Board of Directors

David Barge[1]
Macon, MS

Haley Fisackerly
Jackson, MS

Bill Freeman
Newton, MS

Moak Griffin
Columbus, MS

Joe Hollis
Columbus, MS

Frank Hopper
West Point, MS

Eddie Mauck
Columbus, MS

Rickey McCreless
Haleyville, AL

Phillip McGuire
Macon, MS

Melinda Pilkinton
Columbus, MS

Gregory Rader
Columbus, MS

James R. Shearer
Starkville, MS

George Sherman
Starkville, MS

William Walker
Haleyville, AL

Bret Whiteside
Haleyville, AL

Camille Young
Jackson, MS

1 Chairman of the Board

To Our Shareholders

2021 was a year that proved worthy to follow its once-in-a-lifetime predecessor—2020. Extraordinary in its own unique ways, 2021 was another year that tested the fortitude of businesses and institutions across the world. Through it all, BankFirst has withstood and even thrived.

It's been said that the difference between good organizations and great organizations is the people who work for those organizations. Backed by proof from outstanding performances by each of our business units to strong results from our recent examinations, it is our belief that the key to BankFirst's endurability and perpetual success has been its great people.

With great people, great growth is inevitable. We welcomed the year by integrating the Traders & Farmers Bank staff and customers into BankFirst. Just 10 months later, we announced our fifth acquisition since 2015, and, after the close of business on December 31, 2021, officially acquired The Citizens Bank of Fayette.

With our growth came a greater capacity and a greater responsibility to serve our communities. When the pandemic's residual effects triggered a need for a second round of federal Paycheck Protection Program funding, our SBA "preferred lender" status allowed BankFirst to provide $62 million in job-saving funding for small businesses and the communities they serve.

Continuing our growth, BankFirst opened loan production offices in Biloxi and Oxford, Mississippi, expanding our reach and diversifying our offerings in those markets.

We described 2021 above as "extraordinary" for many reasons, but most notably because of BankFirst's remarkably favorable position after such uncertain times. We're still here because we're strong, and we've proven it throughout our history as a 134 year-old financial institution. Against the odds, BankFirst—a bank that began in a law office because it was the only building in town with a safe—continues to stand the test of time.

From many achieved strategic initiatives to record breaking financial performance, on all accounts 2021 was a great year for BankFirst. As you review the information in this report, you may be surprised to learn that we, again, had record highs in many of the same categories as last year. We are proud that our hard work is reflected in the numbers.

As we begin to feel the unsettledness of the pandemic subside, we remain resolute to consistently meet and frequently exceed the expectations of our stakeholders. With much enthusiasm, we are well on our way to continue this trend through 2022 and into the future.

Sincerely,

Moak Griffin
President & CEO

David Barge
Board Chairman

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
BankFirst Capital Corporation
Columbus, Mississippi

Opinion

We have audited the accompanying consolidated financial statements of BankFirst Capital Corporation and its Subsidiary, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BankFirst Capital Corporation and its Subsidiary 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.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, BankFirst Capital Corporation and its Subsidiary's internal control over financial reporting as of December 31, 2021, based on criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2022, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of BankFirst Capital Corporation and its 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.

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TUSCALOOSA
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Fax: 205.759.1018

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statement

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 auditors' 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 judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement 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.
- Evaluate the appropriateness of accounting 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about BankFirst Capital Corporation and its Subsidiary's ability to continue as a going concern for a reasonable period of time.

Board of Directors and Stockholders
BankFirst Capital Corporation

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.

Other Information Included in the Company's Annual Report

Management is responsible for the other information included in the Company's annual report. The other information comprises the Financial Highlights, Leadership, and Letter to Shareholders but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

T.E. Lott & Company

Columbus, Mississippi
February 28, 2022

BankFirst Capital Corporation

Consolidated Balance Sheets

December 31, 2021 and 2020

(In Thousands, Except Per Share Data)

	2021	2020
Assets		
Cash and due from banks	$ 36,623	$ 37,208
Interest bearing bank balances	22,475	83,324
Federal funds sold	-	8,408
Available-for-sale securities	423,540	329,409
Loans	1,206,562	1,142,624
Allowance for loan losses	(15,719)	(16,496)
Loans, net of allowance for loan losses	1,190,843	1,126,128
Premises and equipment	43,043	42,414
Interest receivable	7,932	8,978
Goodwill	34,564	34,564
Other intangible assets, net	3,895	4,535
Other	55,608	51,668
Total assets	$ 1,818,523	$ 1,726,636
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 1,581,067	$ 1,515,172
Notes payable	41,455	28,605
Subordinated debentures	26,151	26,095
Interest payable	796	1,123
Other	12,256	8,645
Total liabilities	1,661,725	1,579,640
Stockholders' Equity		
Common stock, $0.30 par value, 15,000,000 shares authorized, 5,284,629 and 5,270,323 shares issued and outstanding	1,585	1,581
Additional paid-in capital	60,545	60,113
Retained earnings	95,228	80,523
Accumulated other comprehensive income (loss)	(560)	4,779
Total stockholders' equity	156,798	146,996
Total liabilities and stockholders' equity	$ 1,818,523	$ 1,726,636

BankFirst Capital Corporation

Consolidated Statements of Income

Years Ended December 31, 2021 and 2020

(In Thousands, Except Per Share Data)

	2021	2020
Interest Income		
Interest and fees on loans	$ 55,821	$ 53,226
Taxable securities	5,146	4,578
Tax-exempt securities	1,758	1,429
Federal funds sold	72	290
Interest bearing bank balances	40	64
Total interest income	62,837	59,587
Interest Expense		
Deposits	4,060	7,255
Short-term borrowings	1	1
Federal Home Loan Bank advances	555	327
Other borrowings	1,843	1,857
Total interest expense	6,459	9,440
Net Interest Income	56,378	50,147
Provision for Loan Losses	1,112	8,117
Net Interest Income After Provision for Loan Losses	55,266	42,030
Noninterest Income		
Service charges on deposit accounts	6,523	5,823
Mortgage income	5,657	6,362
Interchange income	4,137	3,300
Net realized gains on available-for-sale securities	13	3,615
Other	5,193	2,883
Total noninterest income	21,523	21,983
Noninterest Expense		
Salaries and employee benefits	30,153	27,366
Net occupancy expenses	3,097	2,727
Equipment and data processing expenses	4,957	4,229
Other	15,439	13,535
Total noninterest expense	53,646	47,857
Income Before Income Taxes	23,143	16,156
Provision for Income Taxes	4,843	2,674
Net Income	$ 18,300	$ 13,482
Basic Earnings Per Common Share	$ 3.47	$ 2.76

BankFirst Capital Corporation

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020

(In Thousands, Except Per Share Data)

	2021	2020
Net Income	$ 18,300	$ 13,482
Other Comprehensive Income		
Available-for-sale securities		
Net unrealized (loss) gains, net of taxes of $1,772 and $2,071	(5,329)	6,229
Less reclassification adjustment for net realized (gains) included in net income, net of taxes of $3 and $902	(10)	(2,713)
Total other comprehensive income (loss)	(5,339)	3,516
Comprehensive Income	$ 12,961	$ 16,998

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity
Year Ended December 31, 2020
(In Thousands, Except Per Share Data)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balance, January 1, 2020	4,489,414	$ 1,347	$ 42,729	$ 69,676	$ 1,263	$ 115,015
Net income	-	-	-	13,482	-	13,482
Other comprehensive income	-	-	-	-	3,516	3,516
Restricted stock plan	36,300	10	(10)	-	-	-
Stock based compensation	-	-	489	-	-	489
Common stock issued	749,955	225	17,025	-	-	17,250
Common stock redeemed	(5,346)	(1)	(120)	-	-	(121)
Dividends on common stock ($.50 per share)	-	-	-	(2,635)	-	(2,635)
Balance, December 31, 2020	5,270,323	$ 1,581	$ 60,113	$ 80,523	$ 4,779	$ 146,996

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2021

(In Thousands, Except Per Share Data)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balance, January 1, 2021	5,270,323	$ 1,581	$ 60,113	$ 80,523	$ 4,779	$ 146,996
Net income	-	-	-	18,300	-	18,300
Other comprehensive loss	-	-	-	-	(5,339)	(5,339)
Restricted stock plan	21,500	6	(6)	-	-	-
Stock based compensation	-	-	582	-	-	582
Common stock redeemed	(7,194)	(2)	(144)	-	-	(146)
Dividends on common stock ($.68 per share)	-	-	-	(3,595)	-	(3,595)
Balance, December 31, 2021	5,284,629	$ 1,585	$ 60,545	$ 95,228	$ (560)	$ 156,798

BankFirst Capital Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

(In Thousands, Except Per Share Data)

	2021	2020
Operating Activities		
Net income	$ 18,300	$ 13,482
Items not requiring (providing) cash		
Provision for loan losses	1,112	8,117
Depreciation	1,885	1,586
Net amortization on securities	4,464	2,496
Net amortization on intangible assets	640	607
Net accretion of purchase accounting adjustments	(1,153)	(853)
Net realized gains on sales of available-for-sale securities	(13)	(3,615)
Stock-based compensation expense	582	489
Deferred income taxes	278	(603)
Changes in		
Interest receivable	1,046	(2,795)
Interest payable	(327)	(695)
Other	1,365	(2,311)
Net cash provided by operating activities	28,179	15,905
Investing Activities		
Purchases of available-for-sale securities	(172,012)	(179,397)
Proceeds from maturities of available-for-sale securities	64,558	186,924
Proceeds from the sales of available-for-sale securities	1,758	74,882
Net changes to premises and equipment	(2,937)	1,062
Net (increase) decrease in		
Interest bearing bank balances	60,849	(55,308)
Federal funds sold	8,408	240
Loans	(65,419)	(81,344)
Investment in life insurance	(254)	(277)
Federal Reserve Bank and Federal Home Loan Bank stock transactions	75	313
Proceeds from the sale of foreclosed assets held for sale	491	324
Payment for acquisition, net of cash acquired	-	(24,287)
Net cash used in investing activities	(104,483)	(76,868)

BankFirst Capital Corporation

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2021 and 2020

(In Thousands, Except Per Share Data)

	2021	2020
Financing Activities		
Net increase (decrease) in		
Noninterest bearing deposits	$ 41,365	$ 65,836
Money market, NOW and savings accounts	52,890	50,528
Certificates of deposit	(27,645)	(60,549)
Repayment of Federal Home Loan Bank advances	(10,000)	-
Proceeds from notes payable	26,000	14,500
Repayment of notes payable	(3,150)	(1,645)
Subordinated debenture redeemed	-	(2,500)
Common stock redeemed	(146)	(121)
Dividends paid on common stock	(3,595)	(2,635)
Net cash provided by financing activities	75,719	63,414
Change in Cash and Due From Banks	(585)	2,451
Cash and Due From Banks, Beginning of Year	37,208	34,757
Cash and Due From Banks, End of Year	$ 36,623	$ 37,208
Supplemental Cash Flows Information		
Interest paid	$ 6,907	$ 10,520
Income taxes paid	2,900	4,639
Foreclosed assets acquired in settlement of loans	30	758
Common stock issued in acquisition	-	17,250
Fixed assets transferred to other real estate	419	-

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

BankFirst Capital Corporation (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, BankFirst Financial Services (the Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in east central and central Mississippi and northwest and west Alabama. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. As discussed in Note 9, the Company owns 100% of the common trust securities of various statutory trusts. The trusts are VIEs for which the Company is not the primary beneficiary and, accordingly, the trusts have not been consolidated into the Company's consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements 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 relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, other-than-temporary impairment and fair values of financial instruments.

Cash Equivalents

The Company has defined cash equivalents as those amounts included in the consolidated balance sheets caption "cash and due from banks."

The Company had deposits with correspondent banks that exceeded federally insured limits by $1,107 at December 31, 2021.

Interest Bearing Bank Balances

Interest bearing bank balances mature within one year and are carried at cost.

Securities

Available-for-sale debt securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated 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 sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, the Company recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in accumulated other comprehensive income (loss).

The Company's consolidated statements of income reflect the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The Company has not recognized any impairment losses in earnings during the years ended December 31, 2021 and 2020.

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, less any impairment, and are reported in other assets on the consolidated balance sheets.

Loans Held for Sale

The Company originates fixed rate single family, residential first mortgage loans on a presold basis. Rate lock commitments are issued to customers and concurrently "lock in" with a secondary market investor under a best efforts delivery mechanism. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are sold without the servicing rights retained by the Company. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold. The Company recognizes certain origination fees and service release fees upon the sale.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit 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. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance 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 charge-off experience and expected loss given default derived from the Company's internal risk rating process. 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.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral less estimated cost to sell, if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	15 - 50 years
Furniture, fixtures and equipment	3 - 10 years

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a purchase business combination is not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. A qualitative assessment is performed on an annual basis to determine whether it is considered more likely than not the fair value is less than the carrying amount, including goodwill. If it is determined that it is more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment.

Intangible Assets

Intangible assets with finite lives are amortized over their estimated useful lives. The Company's core deposit intangibles acquired in business combinations are being amortized on the straight-line basis over a period of 10 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Federal Reserve Bank and Federal Home Loan Bank Stock

Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) stock are required investments for institutions that are members of the FRB and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost, classified as a restricted security, and periodically evaluated for impairment. Both cash and stock dividends are reported as income.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in income or expense from foreclosed assets.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when, or as, the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are fixed. The Company has made no significant judgments in applying the revenue guidance prescribed in Topic 606 that affect the determination of the amount and timing of revenue from contracts with customers.

Stock-based Compensation Plans

The Company has a share-based employee compensation plan which is described more fully in Note 17. Compensation cost is recognized for restricted stock awards to employees based on the fair value of these awards at the grant date and is recognized over the required service period, generally defined as the vesting period.

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 Company—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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The two components of income tax expense are current and deferred income tax expense. 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 Company 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 reduced by 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.

Tax positions 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.

The Company and the Bank file consolidated U.S. federal, Alabama, Mississippi, and Arkansas income tax returns. With a few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2018.

Earnings Per Common Share

Earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Earnings and dividends per share are restated for all stock splits through the date of issuance of the financial statements.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains (losses) on available-for-sale debt securities.

Accounting Policies Recently Adopted

ASU 2019-12 "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*". Issued in December 2019, this update simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this Update are effective for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2020, with early adopting permitted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

ASU 2020-04, "*Reference Rate Reform (Topic 848: Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" Issued in March 2020, the update provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the LIBOR or other interbank offered rate on financial reporting. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The main provisions include: a change in a contract's reference interest rate would be accounted for as a continuation of that contract rather than as the creation of a new one for contracts, including loans, debt, leases, and other arrangements, that meet specific criteria and when updating its hedging strategies in response to reference rate reform, an entity would be allowed to preserve its hedge accounting. The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued. Additionally, in January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope, which provided additional clarification that certain optional expedients and exceptions noted above apply to derivative instruments that use an interest rate for margining, discounting or contract price alignment that is modified as a result of reference rate reform. This guidance was effective upon issuance and can be applied prospectively, with certain exceptions, through December 31, 2022. The adoption of this ASU did not significantly impact the Company's consolidated financial statements.

Pending Accounting Pronouncements

ASU 2016-13 "*Financial Instruments - Credit Losses (Topic 326)*" Update No. 2016-13. Issued in June 2016, this update is intended to provide financial statement users with more decision - useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this update are effective for fiscal years beginning after December 15, 2022. The Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

ASU 2017-04 "*Intangibles- Goodwill and Other" (Topic 350): Simplifying the Test for Goodwill Impairment".* Issued in January 2017, this update is intended to amend existing guidance to simplify subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. Additionally, in November 2019, the FASB issued ASU No. 2019-10, Financial Instruments, which extended the effective date of ASU 2017-04 for private companies to fiscal years beginning after December 15, 2022, including interim periods within the fiscal year. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2020 consolidated financial statements to conform to the 2021 consolidated financial statement presentation. These reclassifications had no effect on net income.

Subsequent Events

Subsequent events have been evaluated through February 28, 2022, the date of the Independent Auditors' Report, which is the date the consolidated financial statements were available to be issued.

(In Thousands, Except Per Share Data)

Note 2: Available-for-sale Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows. Mortgage-backed securities consist of residential and commercial mortgage-backed securities issued by U.S. government-sponsored enterprises (GSEs).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
U.S. GSEs	$ 68,121	$ 393	$ 1,346	$ 67,168
Commercial mortgage-backed securities	12,822	146	166	12,802
Residential mortgage-backed securities	212,406	1,284	2,581	211,109
Tax-exempt state and political subdivisions	51,362	1,497	61	52,798
Taxable state and political subdivisions	72,888	971	996	72,863
Corporate debt securities	3,263	75	-	3,338
Collateralized debt obligations	3,424	39	1	3,462
	$ 424,286	$ 4,405	$ 5,151	$ 423,540
December 31, 2020				
U.S. GSEs	$ 35,678	$ 301	$ 196	$ 35,783
Commercial mortgage-backed securities	8,335	361	-	8,696
Residential mortgage-backed securities	167,853	2,969	344	170,478
Tax-exempt state and political subdivisions	51,607	1,593	23	53,177
Taxable state and political subdivisions	52,236	1,655	27	53,864
Corporate debt securities	3,391	74	4	3,461
Collateralized debt obligations	3,941	9	-	3,950
	$ 323,041	$ 6,962	$ 594	$ 329,409

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $177,572 at December 31, 2021, and $151,825 at December 31, 2020.

Gross gains of $16 and $3,648 and gross losses of $3 and $33 resulting from sales of available-for-sale securities were realized for 2021 and 2020.

(In Thousands, Except Per Share Data)

The amortized cost and fair value of available-for-sale securities at December 31, 2021, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 430	$ 436
One to five years	11,061	11,198
Five to ten years	58,971	59,098
After ten years	128,596	128,897
	199,058	199,629
Mortgage-backed securities	225,228	223,911
	$ 424,286	$ 423,540

The following table shows the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020. These unrealized losses on the Company's investments were caused by interest rate increases. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2021:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021						
U.S. GSEs	$ 19,563	$ 906	$ 15,272	$ 440	$ 34,835	$ 1,346
Mortgage-backed securities						
Commercial	4,995	121	952	45	5,947	166
Residential	118,643	1,745	34,377	836	153,020	2,581
State and political						
Tax-exempt	10,975	52	681	9	11,656	61
Taxable	36,118	837	3,909	159	40,027	996
Collateralized debt	811	1	-	-	811	1
	$ 191,105	$ 3,662	$ 55,191	$ 1,489	$ 246,296	$ 5,151
December 31, 2020						
U.S. GSEs	$ 4,614	$ 35	$ 13,670	$ 161	$ 18,284	$ 196
Mortgage-backed securities						
Residential	61,810	319	1,881	25	63,691	344
State and political						
Tax-exempt	6,210	23	-	-	6,210	23
Taxable	4,282	27	-	-	4,282	27
Corporate debt securities	496	4	-	-	496	4
	$ 77,412	$ 408	$ 15,551	$ 186	$ 92,963	$ 594

(In Thousands, Except Per Share Data)

Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31 include:

	2021	2020
Secured by real estate		
Construction	$ 110,417	$ 105,038
Farmland	70,947	49,036
Residential real estate	283,964	311,630
Commercial real estate	510,471	423,132
Consumer	19,201	23,727
Commercial and other	211,562	230,061
	1,206,562	1,142,624
Allowance for loan losses	(15,719)	(16,496)
Loans, net	$ 1,190,843	$ 1,126,128

Activity in the allowance for loan losses based on loan class was as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance
Year Ended December 31, 2021					
Secured by real estate					
Construction	$ 1,281	$ (635)	$ -	$ 899	$ 1,545
Farmland	440	(22)	2	232	652
Residential real estate	3,290	(461)	17	467	3,313
Commercial real estate	4,329	-	24	2,243	6,596
Consumer	894	(945)	359	392	700
Commercial and other	2,565	(255)	27	30	2,367
Unallocated	3,697	-	-	(3,151)	546
	$ 16,496	$ (2,318)	$ 429	$ 1,112	$ 15,719
Year Ended December 31, 2020					
Secured by real estate					
Construction	$ 1,028	$ (147)	$ 4	$ 396	$ 1,281
Farmland	257	(19)	1	201	440
Residential real estate	1,339	(430)	147	2,234	3,290
Commercial real estate	2,103	(2)	6	2,222	4,329
Consumer	391	(625)	228	900	894
Commercial and other	1,549	(209)	7	1,218	2,565
Unallocated	2,751	-	-	946	3,697
	$ 9,418	$ (1,432)	$ 393	$ 8,117	$ 16,496

(In Thousands, Except Per Share Data)

The following tables present the balance in the allowance for loan losses based on loan class and impairment method at December 31:

	December 31, 2021 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment			December 31, 2020 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment		
	Individually	Collectively	Total	Individually	Collectively	Total
Secured by real estate						
Construction	$ -	$ 1,545	$ 1,545	$ -	$ 1,281	$ 1,281
Farmland	-	652	652	-	440	440
Residential real estate	83	3,230	3,313	293	2,997	3,290
Commercial real estate	1,827	4,769	6,596	419	3,910	4,329
Consumer	1	699	700	2	892	894
Commercial and other	303	2,064	2,367	345	2,220	2,565
Unallocated	-	546	546	-	3,697	3,697
	$ 2,214	$ 13,505	$ 15,719	$ 1,059	$ 15,437	$ 16,496

The following table presents the recorded investment in loans individually and collectively evaluated for impairment by loan class:

	December 31, 2021 Loans Evaluated for Impairment			December 31, 2020 Loans Evaluated for Impairment		
	Individually	Collectively	Total	Individually	Collectively	Total
Secured by real estate						
Construction	$ 4,702	$ 105,715	$ 110,417	$ 5,168	$ 99,870	$ 105,038
Farmland	-	70,947	70,947	-	49,036	49,036
Residential real estate	762	283,202	283,964	1,559	310,071	311,630
Commercial real estate	7,365	503,106	510,471	5,461	417,671	423,132
Consumer	1	19,200	19,201	2	23,725	23,727
Commercial and other	1,584	209,978	211,562	2,456	227,605	230,061
	$ 14,414	$ 1,192,148	$ 1,206,562	$ 14,646	$ 1,127,978	$ 1,142,624

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Construction Real Estate: Construction loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Farmland: Loans secured by farmland are generally made for the purpose of acquiring land devoted to crop production, cattle or poultry, the growth and management of timber or the operation of a similar type of business on the secured property. Sources of repayment for these loans generally include income generated from operations of a business on the property, rental income or sales of the property. Credit risk in these loans may be impacted by crop and commodity prices, the creditworthiness of a borrower, changes in economic conditions which might affect underlying property values and the local economies in the Company's market areas.

Residential Real Estate: The residential real estate loan portfolio consists of residential loans for single and multifamily properties. Residential loans are generally secured by owner occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Commercial and other: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line-of-credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

The Company utilizes a risk grading system to assign a grade to each of its loans when originated. This grade is updated as factors related to quality of a loan change. A description of the current risk grades follows.

Virtually No Risk (1): Credits in this category are virtually risk-free and generally include the following attributes: repayment program is well-defined and achievable; repayment sources are numerous, and no material documentation deficiencies or exceptions exist. These loans will generally be secured by deposits in the bank or by government securities.

Minimal Credit Risk (2): Credits in this category are within guidelines and where the borrowers have documented significant overall financial strength. These loans have excellent sources of repayment, with no significant identifiable risk of collection, and conform in all respects to policy, guidelines, underwriting standards, and regulatory requirements.

Satisfactory Credit Risk (3): These loans exhibit satisfactory credit risk and have excellent sources of repayment, with no significant identifiable risk of collection. Current financial information on all borrowers and guarantors has been obtained and analyzed, and overall business operating trends are either stable or improving. These loans conform to bank policy and regulatory requirements with minimal credit or collateral exceptions that do not represent repayment risk.

(In Thousands, Except Per Share Data)

Marginal Credit Risk (4): These loans have adequate sources of repayment with little identifiable repayment risk. These loans conform to bank policy and regulatory requirements with minimal credit or collateral exceptions that do not represent repayment risk. For existing loans, current financial information on all borrowers and guarantors has been obtained and analyzed, and overall business operating trends are stable with any declines considered minor and temporary.

Weak Pass (5): These loans show signs of weakness in either adequate sources of repayment or collateral but have demonstrated mitigating factors that minimize the risk of delinquency or loss and have adequate sources of repayment with little identifiable repayment risk. Although the combination and/or severity of identified exceptions is greater for this risk grade, the exceptions may be properly mitigated by other documented factors that offset any additional risks.

Watch (6): These loans are currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Company's position at some future date. The weakness or issue could include a policy, credit or collateral exception. These loans may be impacted by economic conditions, that develop subsequent to the loan origination, that don't jeopardize liquidation of the debt but do substantially increase the level of risk.

Substandard (7): These loans are inadequately protected by the current sound net worth or paying capacity of the obligor or pledged collateral. Substandard loans will generally be dependent upon collateral for repayment. These loans have well-defined weaknesses jeopardizing orderly liquidation. Substandard loans may or may not be impaired.

Doubtful (8): These are loans with weaknesses inherent in the substandard classification and where collection in full is highly questionable based on currently existing facts. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful loans will have some recognizable impairment.

The Company evaluates the risk grading system and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either in 2021.

The following table details the amount of loans by loan grade and loan class:

	Grades (1 - 5)	Watch (6)	Substandard (7)	Doubtful (8)	Total Loans
December 31, 2021					
Secured by real estate					
Construction	$ 105,868	$ 51	$ 4,498	$ -	$ 110,417
Farmland	69,988	830	129	-	70,947
Residential real estate	275,311	4,426	4,227	-	283,964
Commercial real estate	499,885	2,090	8,496	-	510,471
Consumer	18,761	218	222	-	19,201
Commercial and other	207,608	1,572	2,382	-	211,562
	$ 1,177,421	$ 9,187	$ 19,954	$ -	$ 1,206,562

(In Thousands, Except Per Share Data)

	Grades (1 - 5)	Watch (6)	Substandard (7)	Doubtful (8)	Total Loans
December 31, 2020					
Secured by real estate					
Construction	$ 100,530	$ 67	$ 4,441	$ -	$ 105,038
Farmland	47,432	1,287	317	-	49,036
Residential real estate	299,310	5,926	6,394	-	311,630
Commercial real estate	414,616	1,727	6,789	-	423,132
Consumer	23,283	297	147	-	23,727
Commercial and other	225,416	2,035	2,610	-	230,061
	$ 1,110,587	$ 11,339	$ 20,698	$ -	$ 1,142,624

The following tables present the loan portfolio aging analysis of the recorded investment in loans by loan class:

	Accruing Loans Past Due			Total		
	30 - 89 Days	90 Days or More	Non-accrual	Past Due and Nonaccrual	Current Loans	Total Loans
December 31, 2021						
Secured by real estate						
Construction	$ 323	$ -	$ 4,417	$ 4,740	$ 105,677	$ 110,417
Farmland	7	-	64	71	70,876	70,947
Residential real estate	1,620	140	1,220	2,980	280,984	283,964
Commercial real estate	-	-	5,855	5,855	504,616	510,471
Consumer	110	-	89	199	19,002	19,201
Commercial and other	257	-	1,820	2,077	209,485	211,562
	$ 2,317	$ 140	$ 13,465	$ 15,922	$ 1,190,640	$ 1,206,562
December 31, 2020						
Secured by real estate						
Construction	$ 11	$ -	$ 4,414	$ 4,425	$ 100,613	$ 105,038
Farmland	27	-	114	141	48,895	49,036
Residential real estate	1,786	20	2,072	3,878	307,752	311,630
Commercial real estate	8	-	1,536	1,544	421,588	423,132
Consumer	228	10	80	318	23,409	23,727
Commercial and other	324	-	1,806	2,130	227,931	230,061
	$ 2,384	$ 30	$ 10,022	$ 12,436	$ 1,130,188	$ 1,142,624

(In Thousands, Except Per Share Data)

Impaired loans include nonperforming loans and loans modified in troubled debt restructurings, if applicable. The following table presents loans evaluated for impairment by loan class.

	Unpaid Principal Balance	Recorded Loan Balance: With No Specific Allowance	Recorded Loan Balance: With a Specific Allowance	Recorded Loan Balance: Total	Specific Allowance	Average Recorded Loan Balance
December 31, 2021						
Secured by real estate						
Construction	$ 5,757	$ 4,702	$ -	$ 4,702	$ -	$ 4,935
Residential real estate	762	222	540	762	83	1,185
Commercial real estate	7,365	5,372	1,993	7,365	1,827	7,437
Consumer	1	-	1	1	1	6
Commercial and other	2,109	-	1,584	1,584	303	1,576
	$ 15,994	$ 10,296	$ 4,118	$ 14,414	$ 2,214	$ 15,139
December 31, 2020						
Secured by real estate						
Construction	$ 5,168	$ 5,168	$ -	$ 5,168	$ -	$ 5,211
Residential real estate	1,559	631	928	1,559	293	1,486
Commercial real estate	5,461	4,069	1,392	5,461	419	5,475
Consumer	2	-	2	2	2	7
Commercial and other	2,456	809	1,647	2,456	345	2,638
	$ 14,646	$ 10,677	$ 3,969	$ 14,646	$ 1,059	$ 14,817

The Company recognized interest income of $103 in 2021 and $350 in 2020 on loans evaluated for impairment that had specific allowances.

The restructuring of a loan is considered a “troubled debt restructuring” (TDR) if both (1) the borrower is experiencing financial difficulties and (2) the creditor has granted a concession. Concessions may include interest rate reductions below market interest rates compared to debt with similar characteristics, principal forgiveness, restructuring amortization of the debt and other actions to minimize potential losses.

At December 31, 2021 and 2020, the Company held a total $5,171 and $6,980 of loans modified in troubled debt restructurings, principally commercial real estate loans. The Company modified the terms of 1 loan in 2021 with a recorded investment of $396 as of December 31, 2021. The Company modified the terms of 11 loans in 2020 with a recorded investment of $1,446 as of December 31, 2020. These modifications did not increase the allowance for loan losses. There were no additional loans modified in troubled debt restructurings during 2021 and 2020.

The Company allocated $287 and $428 of specific allowance for these loans as of December 31, 2021 and 2020. The Company had not committed to lend additional funds to any of these borrowers as of December 31, 2021 and 2020.

(In Thousands, Except Per Share Data)

Additionally, the Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act. As of December 31, 2021, the Company modified two commercial real-estate loans with outstanding balances totaling $5,045.

The Company has purchased loans, for which there was at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows:

	2021	2020
Commercial	$ 186	$ 2,960
Consumer	786	1,039
Carrying amount, net of allowance $-0- and $1,642	$ 972	$ 3,999

For those purchased credit impaired loans disclosed above, the Company increased the allowance for loan losses by $1,425 during 2020. No allowances for loan losses were reversed during 2021 and 2020.

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, follow.

	2021	2020
Land	$ 8,139	$ 8,156
Buildings and improvements	41,633	39,459
Furniture, fixtures and equipment	10,240	9,895
	60,012	57,510
Less accumulated depreciation	(16,969)	(15,096)
Net premises and equipment	$ 43,043	$ 42,414

(In Thousands, Except Per Share Data)

Note 5: Other Intangible Assets

The carrying basis and accumulated amortization of recognized core deposit intangible assets follow:

	2021			2020		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Beginning balance	$ 6,404	$ (1,869)	$ 4,535	$ 5,738	$ (1,262)	$ 4,476
Additions	-	-	-	666	-	666
Amortization expense	-	(640)	(640)	-	(607)	(607)
Ending balance	$ 6,404	$ (2,509)	$ 3,895	$ 6,404	$ (1,869)	$ 4,535

Estimated amortization expense for each of the following five years, based on current intangible assets, is as follows:

2022	$ 640
2023	640
2024	640
2025	563
2026	408
	$ 2,891

Note 6: Other Assets

A summary of other assets at December 31 follows:

	2021	2020
Cash surrender value of life insurance	$ 41,921	$ 41,151
Foreclosed assets held for sale, net	953	1,343
Federal Reserve Bank stock	1,589	1,568
Federal Home Loan Bank stock	2,148	2,142
Deferred income taxes	2,044	547
Other	6,953	4,917
	$ 55,608	$ 51,668

(In Thousands, Except Per Share Data)

Note 7: Deposits

Categories of deposits at December 31 follow:

	2021	2020
Noninterest bearing deposits	$ 473,617	$ 432,252
Interest bearing deposits		
Money market, NOW and savings accounts	811,990	759,099
Certificates of deposit of $250 thousand or more	73,306	79,633
Other certificates of deposit	222,154	244,188
Total interest bearing deposits	1,107,450	1,082,920
Total deposits	$ 1,581,067	$ 1,515,172

At December 31, 2021, the scheduled maturities of certificates of deposit follow:

2022	$ 196,657
2023	50,529
2024	24,352
2025	12,118
2026	11,804
	$ 295,460

(In Thousands, Except Per Share Data)

Note 8: Notes Payable

Categories of notes payable at December 31 follow:

	2021	2020
Bank's FHLB advances	$ -	$ 10,000
Note payable to a bank, bearing interest at a fixed rate of 3.56%, until maturity at August 27, 2022. This note requires monthly principal payments of $83, plus accrued interest.	3,750	4,750
Note payable to a bank, bearing interest at a fixed rate of 3.03%, until maturity at September 4, 2025. This note requires monthly principal payments of $117 plus accrued interest.	5,268	6,668
Note payable to a bank, bearing interest at a fixed rate of 3.02%, until maturity at June 29, 2027. This note requires monthly principal payments of $63 plus accrued interest.	6,437	7,187
Note payable to a bank, bearing interest at a fixed rate of 2.60%, until maturity at December 12, 2022. This note requires monthly interest payments.	16,000	-
Payable on line of credit	10,000	-
	$ 41,455	$ 28,605

The Company has advances from FHLB, which are collateralized by a blanket lien on first mortgage and other qualifying loans. The Company may not prepay certain of these single payment advances without paying a prepayment penalty. Certain of these single payment advances are subject to quarterly calls until maturity by FHLB. The Company prepaid all outstanding FHLB advances in 2021. The following is a summary of these advances at December 31:

	2021	2020
Single payment advances maturing after 12 months		
Balance	$ -	$ 10,000
Range of fixed interest rates	0.00%	3.12% - 3.26%
Range of maturities	n/a	2021-2023

The Company has entered into a credit agreement (the Agreement) with a commercial bank consisting of a $10,000 revolving line of credit. This line of credit and term loans are secured by 53,264 shares of the Bank's common stock. The Company's line of credit requires monthly interest payments and bears interest at 30-day LIBOR plus 2.50%, which was 2.72% and 2.64% at December 31, 2021 and 2020. As of December 31, 2021, the Company had borrowed $10,000 under the line of credit. There were no amounts borrowed under the line of credit at December 31, 2020.

(In Thousands, Except Per Share Data)

As of December 31, 2021, the scheduled maturities of notes payable follow:

	Company's Line of Credit	Company's Term Loans
2022	$ -	$ 21,900
2023	10,000	2,150
2024	-	2,150
2025	-	1,818
2026	-	750
Thereafter	-	2,687
	$ 10,000	$ 31,455

Note 9: Subordinated Debentures

The following is a summary of subordinated debentures at December 31:

	2021	2020
Subordinated debentures	14,810	14,754
Subordinated debentures payable to statutory trusts	11,341	11,341
	$ 26,151	$ 26,095

Subordinated Debentures

The Company issued $15,000 subordinated debentures to two institutional lenders on April 1, 2019. Net proceeds received by the Company from these debentures amounted to $14,700. These debentures bear interest, payable semi-annually at a rate of 6.375%. These debentures mature on April 1, 2029, and the principal may be repaid by the Company in whole or in part, beginning on April 1, 2024.

The following is a summary of subordinated debentures payable to institutional lenders at December 31:

	2021	2020
Principal balance	$ 15,000	$ 15,000
Unamortized debt issuance costs	(190)	(246)
	$ 14,810	$ 14,754

(In Thousands, Except Per Share Data)

Subordinated Debentures Payable to Statutory Trusts

The Company owns the outstanding common stock of business trusts that have issued preferred capital securities to third parties. These preferred capital securities qualify as Tier I capital for the Company, subject to regulatory rules and limits. These trusts used the proceeds from the issuance of the common stock and the preferred capital securities to purchase debentures issued by the Company. These debentures are these trusts' only assets, and quarterly interest payments on these debentures are the sole source of cash for these trusts to pay quarterly distributions on the common stock and preferred capital securities. The Company has fully and unconditionally guaranteed the trusts' obligation with respect to the preferred capital securities.

Although the Company has not elected to do so, the Company has the right to defer the payment of interest on the subordinated debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on the subordinated debentures are deferred, the distributions on the preferred capital securities are also deferred. Interest on the subordinated debentures and distributions on the preferred capital securities are cumulative.

The Company has the right to redeem the debentures prior to maturity. Upon redemption of the subordinated debentures payable to a statutory trust, the trust will also liquidate its common stock and preferred capital securities. The subordinated debentures payable to Trust II have been eligible for redemption by the Company since September 15, 2008. The subordinated debentures payable to Trust III have been eligible for redemption by the Company since December 15, 2010.

The following is a summary of debentures payable to statutory trusts as of December 31, 2021 and 2020. Interest rates adjust quarterly for the debentures whose rates are indexed with LIBOR.

	Year of Maturity	Interest Rate	2021	2020
BankFirst Capital Statutory Trust II	2033	3-month LIBOR, plus 2.95% 3.16% (2021) and 3.20% (2020)	$ 3,093	$ 3,093
BankFirst Capital Statutory Trust III	2035	3-month LIBOR, plus 1.45% 1.65% (2021) and 1.70% (2020)	3,093	3,093
First National Bancshares of Central Alabama Statutory Trust I	2036	3-month LIBOR, plus 1.60% 1.81% (2021) and 1.85% (2020)	5,155	5,155
			$ 11,341	$ 11,341

(In Thousands, Except Per Share Data)

Note 10: Other Expenses

A summary of other expenses at December 31 follows:

	2021	2020
Advertising and promotions	$ 1,442	$ 1,431
Amortization of intangible assets	640	607
Directors' fees and expenses	536	576
Legal and professional expenses	2,188	2,263
Interchange expense	3,769	3,075
Supplies	578	622
Expenses on foreclosed assets held for sale	321	138
Other	5,965	4,823
	$ 15,439	$ 13,535

Note 11: Income Taxes

The provision (credit) for income taxes includes these components:

	2021	2020
Taxes currently payable	$ 4,565	$ 3,277
Deferred income taxes	278	(603)
	$ 4,843	$ 2,674

A reconciliation of income tax expense at the statutory rate of 21% to the Company's actual income tax expense is shown below:

	2021	2020
Computed at the statutory rate	$ 4,860	$ 3,393
Increase (decrease) resulting from		
Tax-exempt interest	(336)	(267)
Life insurance income	(169)	(225)
State income taxes	643	235
Other	(155)	(462)
	$ 4,843	$ 2,674

(In Thousands, Except Per Share Data)

The tax effects of temporary differences related to deferred taxes shown at December 31 follow:

	2021	2020
Deferred tax assets		
Allowance for loan losses	$ 3,185	$ 2,963
Foreclosed assets held for sale	1,028	1,072
Stock based compensation	281	234
Deferred compensation	1,575	1,495
Accrued expenses	227	200
Income tax credits	496	1,047
Unrealized losses on available-for-sale securities	186	-
Other	191	192
	7,169	7,203
Deferred tax liabilities		
Depreciation and amortization	(3,681)	(3,817)
Prepaid expenses	(187)	(131)
Purchase accounting adjustments	(222)	(46)
Goodwill and other intangible assets	(899)	(979)
Unrealized gains on available-for-sale securities	-	(1,589)
Other	(136)	(94)
	(5,125)	(6,656)
Net deferred tax asset	$ 2,044	$ 547

Management believes it is more likely than not that all the deferred tax assets will be realized. The Company's net deferred tax assets are included in other assets in the consolidated balance sheets.

(In Thousands, Except Per Share Data)

Note 12: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity follow:

	Unrealized Gains (Losses) on Available-for-sale Securities		
	Amount	Tax Effect	Net of Tax
Balance, January 1, 2020	$ 1,683	$ (420)	$ 1,263
Included in comprehensive income			
Net unrealized gains on available-for-sale securities	4,685	(1,169)	3,516
Other comprehensive income	4,685	(1,169)	3,516
Balance, December 31, 2020	6,368	(1,589)	4,779
Included in comprehensive income			
Net unrealized gains on available-for-sale securities	(7,114)	1,775	(5,339)
Other comprehensive income	(7,114)	1,775	(5,339)
Balance, December 31, 2021	$ (746)	$ 186	$ (560)

Note 13: Stockholders' Equity

Preferred Stock

The Company is authorized to issue 300,000 shares of preferred stock at no par value per share. The Board of Directors is authorized to set dividend rates, redemption terms and conversion terms.

Emergency Capital Investment Program

The Company received a letter, dated December 14, 2021, from the U. S. Department of the Treasury ("Treasury") indicating that it is eligible to participate in the Emergency Capital Investment Program ("ECIP"). Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low- and moderate-income community financial institutions, such as the Company, and minority depository institutions to augment their efforts to support small and minority-owned businesses and consumers in their communities.

Upon the complete execution of ECIP investment and program documentation by the Company and Treasury, which has yet to be received from Treasury, the Company may receive an ECIP investment in an amount up to $175 million in exchange for the issuance by the Company of senior perpetual noncumulative preferred stock to Treasury on terms to be established by Treasury. In its letter to the Company, Treasury indicated that it would provide further information concerning the ECIP process, including, but not limited to, the fulfillment of certain unspecified closing conditions and additional documentation. Any ECIP investment from Treasury would be intended to qualify as Tier 1 capital of the Bank.

The Company has not yet determined whether it will accept the offer to receive the ECIP investment from Treasury. The Company cannot provide any assurance or guarantee concerning whether it will ultimately participate in the ECIP, what the actual amount of ECIP investment, if any, from Treasury it will ultimately accept, what the actual terms, conditions and preferences of the senior perpetual noncumulative preferred stock to be issued to Treasury will be or whether such terms will be acceptable to the Company.

Note 14: Regulatory Matters

The Bank may be required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. At December 31, 2021, no such reserve was required.

The Bank is 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 Company's consolidated 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 assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2021 and 2020, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I risk based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(In Thousands, Except Per Share Data)

The following table presents actual and required capital ratios as of December 31, 2021 and 2020, for the Bank under the capital regulatory rules then in effect:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Common equity tier I	158,556	12.7%	56,073	4.5%	80,994	6.5%
Tier I capital (to risk-weighted assets)	158,556	12.7%	74,764	6.0%	99,685	8.0%
Total capital (to risk-weighted assets)	174,135	14.0%	99,685	8.0%	124,606	10.0%
Tier I capital (to average assets)	158,556	9.0%	71,979	4.0%	89,974	5.0%
December 31, 2020						
Common equity tier I	147,411	13.1%	50,720	4.5%	73,263	6.5%
Tier I capital (to risk-weighted assets)	147,411	13.1%	67,627	6.0%	90,170	8.0%
Total capital (to risk-weighted assets)	161,530	14.3%	90,170	8.0%	112,712	10.0%
Tier I capital (to average assets)	147,411	8.9%	66,055	4.0%	82,569	5.0%

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to its stockholders and for other cash needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the Bank. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items, and, as a result, capital adequacy considerations could further limit the availability of dividends from the Bank. These restrictions are not anticipated to have a material effect on the ability of the Bank to pay dividends to the Company.

(In Thousands, Except Per Share Data)

Note 15: Related Party Transactions

The Company had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) at December 31, 2021 and 2020. In addition to these loans, the Company has commitments to extend credit to these related parties which amounted to $2,700 and $1,775 at 2021 and 2020. The following is a summary of activity in related party loans:

	2021	2020
Balance, beginning of year	$ 746	$ 2,574
Advances	436	725
Repayments	(638)	(2,553)
Balance, end of year	$ 544	$ 746

Deposits from related parties held by the Company totaled $38,516 and $43,592 at December 31, 2021 and 2020.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Note 16: Employee Benefits

401(k) Plan

The Company has a 401(k) plan covering substantially all full time employees of the Company and the Bank. Participants may make contributions to the plan in accordance with applicable regulations and the plan's provisions. The Company makes discretionary matching contributions and additional employer contributions at the discretion of the Board of Directors. The Company contributed $748 and $638 to the plan in 2021 and 2020.

Split-dollar Life Insurance Arrangements

For endorsement split-dollar life insurance arrangements, an employer must recognize the liability for future benefits based on the substantive agreement with the employee. The total accrued liability amounted to $681 and $665 at December 31, 2021 and 2020 and is included in other liabilities in the consolidated balance sheets.

Deferred Compensation Plan

The Company has deferred retirement arrangements for the benefit of certain directors, which generally provide for the payment of monthly benefits to participants at age 70 for a specified period of years. The Company is accruing the present value of the projected benefits to the date of retirement of the respective participants using a discount rate range of 3.75% - 5.50%. The deferred compensation liability is included in other liabilities in the consolidated balance sheets.

(In Thousands, Except Per Share Data)

The following is a summary of the deferred compensation liability:

	2021	2020
Beginning balance	$ 6,363	$ 4,865
Acquisition	-	1,073
Expense accrued	731	779
Payments	(590)	(354)
Ending balance	$ 6,504	$ 6,363

Note 17: Stock-based Compensation

The Company has a restricted stock plan providing for the issuance common shares to certain officers. Restricted shares that have not vested are included in the Company's outstanding shares. Compensation expense is recognized over the respective vesting periods of the stock grants based on the fair value of the stock at the grant date. In addition, restricted shares become fully vested in the event of death of a participant or upon a change in control. Participants are entitled to receive dividends as compensation and to vote the restricted shares that have not vested. Restricted shares that have not vested may not be transferred by the participants.

Of the outstanding non-vested shares at December 31, 2021, 70,700 shares vest at 10% per year from their respective grant dates and 32,200 shares vest at the end of a three years from their respective grant dates. The following is a summary of changes in the Company's non-vested shares for 2021:

	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of year	101,000	$ 23.23
Granted	21,500	26.06
Vested	(17,200)	21.99
Forfeited	(2,400)	22.33
Nonvested, end of year	102,900	$ 24.48

The Company recognized compensation expense of $582 and $489 related to these restricted shares during 2021 and 2020. The total fair value of shares vested in 2021 was $378. At December 31, 2021, there was $1,466 of total unrecognized compensation cost related to non-vested shares.

(In Thousands, Except Per Share Data)

Note 18: Earnings Per Common Share

Earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation.

Earnings per common share were computed as follows:

	2021	2020
Net income available to common stockholders	$ 18,300	$ 13,482
Weighted-average common shares outstanding	5,279,125	4,880,813
Earnings per common share	$ 3.47	$ 2.76

Note 19: Disclosures About Fair Value of Assets and Liabilities

Fair value 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 measurements maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as 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 assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

(In Thousands, Except Per Share Data)

Recurring Measurements

The following table presents the fair value measurement of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at 2021 and 2020:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2021				
Available-for-sale securities				
U.S. GSEs	$ 67,168	$ -	$ 67,168	$ -
Mortgage-backed securities	223,911	-	223,911	-
State and political subdivisions	125,661	-	125,661	-
Corporate debt securities	3,338	-	3,338	-
Collateralized debt obligations	3,462	-	3,462	-
	$ 423,540	$ -	$ 423,540	$ -
December 31, 2020				
Available-for-sale securities				
U.S. GSEs	$ 35,783	$ -	$ 35,783	$ -
Mortgage-backed securities	179,174	-	179,174	-
State and political subdivisions	107,041	-	107,041	-
Corporate debt securities	3,461	-	3,461	-
Collateralized debt obligations	3,950	-	3,950	-
	$ 329,409	$ -	$ 329,409	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2021 or 2020.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include the remainder of the Company's available-for-sale securities. For these securities the Company obtains fair value measurements from an independent pricing service that considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, valuation matrices, credit information and the bond's terms and conditions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities.

(In Thousands, Except Per Share Data)

Nonrecurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2021				
Impaired loans (collateral dependent), net of allowance for loan losses	$ 1,904	$ -	$ -	$ 1,904
Foreclosed assets held for sale	953	-	-	953
December 31, 2020				
Impaired loans (collateral dependent), net of allowance for loan losses	$ 2,910	$ -	$ -	$ 2,910
Foreclosed assets held for sale	1,343	-	-	1,343

Following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2021 and 2020.

Impaired Loans (Collateral Dependent)

The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral dependent impaired loans are classified within Level 3 of the fair value hierarchy.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value is determined on the basis of appraisals and evaluations. The Company's foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals are obtained when the real estate is acquired and subsequently as deemed necessary by management. Appraisers are selected from the list of approved appraisers maintained by management.

Another unobservable input used in the fair value measurement of collateral for collateral dependent impaired loans and foreclosed assets held for sale relates to the discounting criteria used to consider lack of marketability and estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results. During 2021 and 2020, collateral discounts ranged from 0% to 100%, with an average discount of approximately 20% per property.

(In Thousands, Except Per Share Data)

Fair Value of Financial Instruments

The following table presents carrying amounts and estimated fair values of financial instruments not carried at fair value at December 31, 2021 and 2020.

	December 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 2 Inputs:				
Cash and due from banks	$ 36,623	$ 36,623	$ 37,208	$ 37,208
Interest bearing bank balances	22,475	22,475	83,324	83,324
Interest receivable	7,932	7,932	8,978	8,978
FRB stock	1,589	1,589	1,568	1,568
FHLB stock	2,148	2,148	2,142	2,142
Level 3 Inputs:				
Loans, net	1,190,843	1,191,558	1,126,128	1,144,217
Financial liabilities				
Level 2 Inputs:				
Deposits	1,581,067	1,582,673	1,515,172	1,516,192
Notes payable	41,455	40,863	28,605	27,892
Subordinated debentures	26,151	28,761	26,095	27,075
Interest payable	796	796	1,123	1,123

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on either a recurring basis or non-recurring basis. In cases where quoted market prices are not available, fair values are generally based on estimates using present value techniques. The Company's premise in present value techniques is to represent the fair values on a basis of replacement value of the existing instrument given observed market rates on the measurement date. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates for those assets or liabilities cannot be necessarily substantiated by comparison to independent markets and, in many cases, may not be realizable in immediate settlement of the instruments. The estimated fair value of financial instruments with immediate and shorter-term maturities (generally 90 days or less) is assumed to be the same as the recorded book value. All nonfinancial instruments, by definition, have been excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The methodology and significant assumptions used in estimating the fair values presented above are as follows:

Cash and Due from Banks, Interest Bearing Bank Balances, Federal Funds Sold, FRB Stock, FHLB Stock, Interest Receivable and Interest Payable

The carrying amount approximates fair value.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Company would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity and the structure and term of the loans along with local economic and market conditions. Loans with similar characteristics were aggregated for purposes of the calculations. This process for estimating the fair value of net loans does not represent an exit price under FASB ASC Topic 820 and such an exit price could potentially produce a different fair value estimate at December 31, 2021 and 2020.

Deposits

Deposits include demand deposits, money market, NOW and savings accounts. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Notes Payable and Subordinated Debentures

The fair values of the Company's FHLB advances and subordinated debentures are based on the discounted value of contractual cash flows using current rates for debt with similar terms and remaining maturities for discounting purposes. The carrying amount of subordinated debentures approximates fair value, since the majority of these instruments have variable interest rates.

Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and loan concentrations are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. In management's opinion, the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Note 21: Commitments and Credit Risk

The Company's loan portfolio includes commercial, agricultural and real estate loans to borrowers primarily in its market areas in Mississippi and Alabama. Although the Company has a diversified loan portfolio, the Company has concentrations of credit risks related to the real estate market, the agricultural economy and general economic conditions in the Company's market area. Categories of loans are disclosed in Note 3.

As disclosed in Note 3, at December 31, 2021, the Company held $510,471 in loans collateralized by commercial real estate and $110,417 in loans collateralized by construction real estate primarily in the Company's geographic area.

Commitments to Originate Loans

Commitments to originate loans 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 a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Credit card arrangements represent the amount that preapproved credit limits exceed actual balances. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

The Company had total outstanding standby letters of credit of approximately $1,272 and $1,115, had, unused lines of credit to residential borrowers of approximately $28,818 and $28,187, had credit card arrangements of approximately $12,283 and $11,674, and other unused lines of credit and commitments to originate loans of approximately $237,562 and $191,040, at December 31, 2021 and 2020.

(In Thousands, Except Per Share Data)

Note 22: Business Combination

On July 1, 2020, the Company acquired 100% of the outstanding common shares of Traders & Farmers Bancshares, Inc. (T&F) for $28,638 cash and 749,955 shares of Company common stock. Pursuant to this transaction T&F's 100% owned banking subsidiary, Traders & Farmers Bank was merged into the Bank. The primary reasons for the acquisition were to realize cost synergies and to expand the Company's footprint by acquiring a financial institution with operations in North Alabama. T&F's results of operations were included in the Company's results beginning July 1, 2020. Acquisition related costs of $1,358 are included in other noninterest expense in the Company's 2020 Consolidated Statement of Income.

In connection with the acquisition, the Company recorded $15,156 in goodwill, none which will be deductible for tax purposes. The Company also recorded $666 of core deposit intangibles which will be amortized over 10 years for financial statement purposes, but is not deductible for income tax purposes. The following table summarizes the amounts of assets acquired and liabilities assumed at the acquisition date.

Fair Value of Consideration Transferred:	
Cash	$ 28,638
Stock	17,250
Total fair value of consideration transferred	45,888
Identifiable assets:	
Cash and due from banks	4,351
Interest bearing bank balances	735
Federal funds sold	8,648
Available-for-sale securities	188,367
Loans	158,199
Premises and equipment	11,720
Foreclosed assets held for sale	801
Core deposit intangible	666
Other assets	10,993
Total assets	384,480
Identifiable liabilities:	
Deposits	349,980
Other liabilities	3,768
Total liabilities	353,748
Identifiable net assets acquired	30,732
Goodwill resulting from acquisition	$ 15,156

The Company acquired a loan portfolio with gross amounts receivable of $158,680 and an estimated fair value of $158,199. This fair value premium of $1,568 represents adjustments to market interest rates and liquidity adjustments net of the expected credit losses which includes a credit mark discount of $2,050.

(In Thousands, Except Per Share Data)

Note 23: Subsequent Events

After the close of business on December 31, 2021, the Company completed its acquisition of The Citizens Bank of Fayette, Fayette, Alabama ("Citizens"), through the merger of Citizens with and into the Company's wholly-owned banking subsidiary, BankFirst Financial Services (the "Bank"). After merging with Citizens, the Bank had total assets of approximately $2.0 billion, gross loans of approximately $1.2 billion and total deposits of approximately $1.7 billion.

In connection with the acquisition, the Company recorded $9,120 in goodwill, which will be amortized over 15 years for income tax purposes. The Company also recorded $271 of core deposit intangibles which will be amortized over 10 years for financial statement purposes, but will be amortized over 15 years for income tax purposes. The following table summarizes the amounts of assets acquired and liabilities assumed at the acquisition date.

Fair Value of Consideration Transferred:	
Cash	$ 26,000
Identifiable assets:	
Cash and due from banks	27,721
Available-for-sale securities	149,091
Loans	26,956
Premises and equipment	1,349
Core deposit intangible	271
Other assets	1,122
Total assets	206,510
Identifiable liabilities:	
Deposits	188,300
Other liabilities	1,330
Total liabilities	189,630
Identifiable net assets acquired	16,880
Goodwill resulting from acquisition	$ 9,120

(In Thousands, Except Per Share Data)

Note 24: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company.

Condensed Balance Sheets

	December 31, 2021	December 31, 2020
Assets		
Cash	$ 28,328	$ 589
Investment in subsidiary	195,425	190,198
Investment in statutory trusts	341	341
Other assets	628	870
Total assets	$ 224,722	$ 191,998
Liabilities		
Notes payable	$ 41,455	$ 18,606
Subordinated debentures	26,151	26,095
Other liabilities	318	301
Total liabilities	67,924	45,002
Stockholders' Equity	156,798	146,996
Total liabilities and stockholders' equity	$ 224,722	$ 191,998

(In Thousands, Except Per Share Data)

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31, 2021	2020
Income		
Other income	$ 7	$ 9
Total income	7	9
Expenses		
Interest expense	1,842	1,762
Other	475	1,130
Total expenses	2,317	2,892
Loss Before Income Tax and Equity in Net Income of Subsidiary	(2,310)	(2,883)
Income Tax Benefit	603	840
Loss Before Equity in Net Income of Subsidiary	(1,707)	(2,043)
Equity in Net Income of Subsidiary	20,007	15,525
Net Income	18,300	13,482
Other Comprehensive Income (Loss)	(5,339)	3,516
Comprehensive Income	$ 12,961	$ 16,998

(In Thousands, Except Per Share Data)

Condensed Statements of Cash Flows

	Years Ended December 31, 2021	Years Ended December 31, 2020
Operating Activities		
Net income	$ 18,300	$ 13,482
Items not requiring (providing) cash		
Equity in net income of subsidiary	(20,007)	(15,525)
Other, net	337	(142)
Net cash provided by (used in) operating activities	(1,370)	(2,185)
Investing Activities		
Dividends received from subsidiary	10,000	23,500
Cash used in acquisition, net of cash acquired	-	(28,638)
Net cash provided by (used in) investing activities	10,000	(5,138)
Financing Activities		
Proceeds from notes- payable	26,000	14,500
Repayment of notes payable	(3,150)	(1,645)
Subordinated debentures redeemed	-	(2,500)
Common stock redeemed	(146)	(121)
Dividends paid on common stock	(3,595)	(2,635)
Net cash provided by (used in) financing activities	19,109	7,599
Change in Cash	27,739	276
Cash, Beginning of Year	589	313
Cash, End of Year	$ 28,328	$ 589

BANKFIRST CAPITAL

BFCC TRADED ON OTCQX

Corporate Offices

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Stock Listing

BankFirst Capital Corporation is listed on the OTCQX® Best Market under the symbol "BFCC."

Transfer Agent & Registrar

Shareholders who wish to change the name, address, or ownership of stock, report lost stock certificates, inquire about the Dividend Reinvestment Plan or consolidate stock accounts should contact:

Issuer Direct
One Glenwood Ave, Suite 101
Raleigh, NC 27603
transfer@issuerdirect.com

2022 Annual Meeting of Shareholders

Thursday, April 28, 2022, 6:30 p.m.
Lion Hills Golf Club, Columbus, MS