



# TRUXTON TRUST

A PRIVATE BANK

Dear Shareholder:

We're glad 2020 is over. By the time you read this, dear shareholder, we hope you've been vaccinated against COVID-19.

The Truxton team responded to the crises of 2020 with dedication, professionalism, teamwork and a commitment to serve our clients even at the cost of some personal hardship. While we limited access to our lobby, we found ways to deliver personal service to everyone who depends on our bank. We processed 264 Paycheck Protection Program (PPP) loans totaling \$46.7 million even though we had never previously made an SBA loan in company history. We navigated treacherous securities markets to create superb economic returns for our wealth management clients. We increased the assets of the bank by 38% during the year as our clients sought the safety of a strongly capitalized bank in times that demanded extra prudence.

At all times we were mindful of the shareholders who own the business and whose capital stands at the center of our ability to serve customers. To them, we delivered a return of more than 16% on total book equity capital, our highest ever. Because we began the year with a comfortable capital cushion, we paid \$2.12 per share in cash dividends during the year, more than double the next highest annual payout, grew the balance sheet to \$741 million in assets, and still ended the year with very conservative capital ratios.

We increased diluted earnings per share from \$3.46 to \$3.90, a rise of 13% despite adding \$1.1 million to our Allowance for Loan and Lease Losses. This was our 12<sup>th</sup> consecutive year of earnings per share growth to match our 8<sup>th</sup> consecutive year of increases in our regular dividend. Loans grew 13% in 2020 and grew by 8% even excluding government-backed PPP loans. Wealth Management Services, which constitutes over 90% of our non-interest income, increased 7% compared to 2019. We added new customers throughout the pandemic and were delighted to see the stock and bond markets rise to new highs during the year. The size and growth of wealth management reinforce the stability of Truxton earnings during periods of interest rate volatility and credit concerns.

Looking ahead, we are mindful that the pandemic may have created long term changes in our economy and our core Nashville community that are unpredictable. Truxton will continue to keep comfortable amounts of permanent capital and lend conservatively in the face of uncertainty. Above all, we will continue to depend on a team of extraordinary professionals who bring a dedication and a sophistication that is very unusual in a small bank. As we bid good riddance to 2020, we feel especially grateful for the support we've consistently received since our inception from our shareholders. Thank you.

Thomas S. Stumb

Andrew L. May



**TRUXTON CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2020 and 2019



TRUXTON CORPORATION  
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Truxton Corporation  
Nashville, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Truxton Corporation, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of net income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

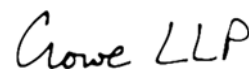
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable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

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Truxton Corporation as of December 31, 2020 and 2019, 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.

  
Crowe LLP

Franklin, Tennessee  
January 26, 2021

**TRUXTON CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2020 and 2019**

(Dollars in thousands except share and per share amounts)

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 9,742	\$ 8,868
Restricted cash	3,170	-
Interest bearing deposits in other financial institutions	81,259	19,519
Federal funds sold	169	8,808
Cash and cash equivalents	94,340	37,195
Time deposits in other financial institutions	2,687	5,157
Securities available for sale	206,318	116,032
Loans held for sale	-	350
Gross loans	419,628	363,784
Allowance for loan losses	(4,490)	(3,409)
Net loans	415,138	360,725
Bank owned life insurance	10,185	9,973
Restricted equity securities	3,214	2,599
Premises and equipment, net	507	273
Accrued interest receivable	2,653	1,842
Deferred tax asset, net	-	520
Other assets	6,576	4,448
Total assets	\$ 741,618	\$ 538,764
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Non-interest bearing	\$ 170,251	\$ 119,999
Interest bearing	453,774	328,077
Total deposits	624,025	448,076
Federal Home Loan Bank advances	17,673	18,411
Subordinated debentures		
\$15,000 face amount (less unamortized discount and debt issuance costs of \$471 at December 31, 2020)	14,529	-
Deferred tax liability, net	479	-
Other liabilities	8,254	8,914
Total liabilities	664,960	475,401
Shareholders' equity		
Preferred stock, \$0.10 par value; 5,000,000 shares authorized; no shares issued	-	-
Common stock, \$0.10 par value; 40,000,000 shares authorized; 2,863,671 shares issued and outstanding in 2020 and 2,774,655 shares issued and outstanding in 2019	285	277
Additional paid-in capital	31,366	29,493
Retained earnings	41,433	33,511
Accumulated other comprehensive income	3,574	82
Total shareholders' equity	76,658	63,363
Total liabilities and shareholders' equity	\$ 741,618	\$ 538,764

See accompanying notes to consolidated financial statements.



**TRUXTON CORPORATION**  
**CONSOLIDATED STATEMENTS OF NET INCOME**  
**Years ended December 31, 2020 and 2019**  
(Dollars in thousands except share and per share amounts)

	<u>2020</u>	<u>2019</u>
Non-interest income		
Wealth management services	\$ 11,469	\$ 10,746
Service charges on deposit accounts	256	303
Gain on sale of securities, net	-	131
Bank owned life insurance income	212	218
Other	<u>262</u>	<u>271</u>
Total non-interest income	<u>12,199</u>	<u>11,669</u>
Interest income		
Loans, including fees	17,201	16,083
Taxable securities	2,137	2,060
Tax-exempt securities	1,088	887
Interest bearing deposits	332	744
Federal funds sold	19	34
Other interest income	<u>94</u>	<u>153</u>
Total interest income	<u>20,871</u>	<u>19,961</u>
Interest expense		
Deposits	1,941	4,120
Short-term borrowings	-	17
Subordinated debentures and other	194	-
Long-term borrowings	<u>468</u>	<u>412</u>
Total interest expense	<u>2,603</u>	<u>4,549</u>
Net interest income	18,268	15,412
Provision for loan losses	<u>1,093</u>	<u>55</u>
Net interest income after provision for loan losses	<u>17,175</u>	<u>15,357</u>
<b>Total revenue, net</b>	<b>29,374</b>	<b>27,026</b>
Non-interest expense		
Compensation and employee benefits	11,380	10,700
Occupancy	868	808
Furniture and equipment	153	108
Data processing	1,169	1,209
Wealth management processing fees	520	461
Advertising and public relations	163	198
Professional services	626	596
FDIC insurance assessments	150	32
Other	<u>887</u>	<u>879</u>
Total non-interest expense	<u>15,916</u>	<u>14,991</u>
<b>Income before income taxes</b>	<b>13,458</b>	<b>12,035</b>
Income tax expense	<u>2,309</u>	<u>2,293</u>
<b>Net income</b>	<b><u>\$ 11,149</u></b>	<b><u>\$ 9,742</u></b>
Earnings per share:		
Basic	\$ 3.94	\$ 3.53
Diluted	\$ 3.90	\$ 3.46

See accompanying notes to consolidated financial statements.

**TRUXTON CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years ended December 31, 2020 and 2019**  
(Dollars in thousands except share and per share amounts)

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	<u>2020</u>	<u>2019</u>
<b>Net income</b>	\$ 11,149	\$ 9,742
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gain arising during the period	5,166	2,788
Reclassification adjustment for losses included in net income as (gain) loss on sale of securities	-	(131)
Tax effect, income tax (expense) benefit included in net income related to reclassification adjustments (\$0) and (\$34), respectively	(1,350)	(694)
Unrealized gains/losses on cash flow hedging activities:		
Unrealized holding loss arising during the period	(439)	(630)
Tax effect	115	164
Total other comprehensive income, net of tax	<u>3,492</u>	<u>1,497</u>
Comprehensive income	<u>\$ 14,641</u>	<u>\$ 11,239</u>

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See accompanying notes to consolidated financial statements.

**TRUXTON CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**Years Ended December 31, 2020 and 2019**  
(Dollars in thousands except share and per share amounts)

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at January 1, 2019	2,728,975	\$ 273	\$ 28,254	\$ 29,283	\$ (1,415)	\$ 56,395
Exercise of stock options, net of forfeitures	26,870	2	489	-	-	491
Issuance of restricted shares of common stock, net	18,810	2	(2)	-	-	-
Stock based compensation expense	-	-	752	-	-	752
Cash dividends (\$2.00 per share)	-	-	-	(5,514)	-	(5,514)
Net income	-	-	-	9,742	-	9,742
Other comprehensive income	-	-	-	-	1,497	1,497
<b>Balance at December 31, 2019</b>	<b>2,774,655</b>	<b>\$ 277</b>	<b>\$ 29,493</b>	<b>\$ 33,511</b>	<b>\$ 82</b>	<b>\$ 63,363</b>
Exercise of stock options, net of forfeitures	57,594	5	965	-	-	970
Proceeds from buy back shares of common stock, net	-	-	(17)	-	-	(17)
Issuance of restricted shares of common stock, net	31,422	3	(3)	-	-	-
Stock based compensation expense	-	-	928	-	-	928
Cash dividends (\$1.12 per share)	-	-	-	(3,227)	-	(3,227)
Net income	-	-	-	11,149	-	11,149
Other comprehensive income	-	-	-	-	3,492	3,492
<b>Balance at December 31, 2020</b>	<b><u>2,863,671</u></b>	<b><u>\$ 285</u></b>	<b><u>\$ 31,366</u></b>	<b><u>\$ 41,433</u></b>	<b><u>\$ 3,574</u></b>	<b><u>\$ 76,658</u></b>

See accompanying notes to consolidated financial statements.

**TRUXTON CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2020 and 2019**  
(Dollars in thousands except share and per share amounts)

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 11,149	\$ 9,742
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	232	231
Net amortization of securities	956	897
Deferred income tax benefit	(237)	(28)
Provision for loan losses	1,093	55
Net (gain) loss on securities	-	(131)
Gain on sale of loans held for sale	(51)	(46)
Loans originated and held for sale	(3,596)	(4,355)
Proceeds from sale of loans held for sale	3,996	4,051
Stock based compensation expense	928	752
Bank owned life insurance income	(212)	(218)
Net change in:		
Accrued interest receivable	(811)	(38)
Other assets	(1,783)	(651)
Other liabilities	1,309	533
Net cash from operating activities	<u>12,973</u>	<u>10,794</u>
<b>Cash flows from investing activities</b>		
Net decrease in time deposits in other financial institutions	2,470	13,111
Available for sale securities:		
Purchases	(105,937)	(43,514)
Maturities, calls and paydowns	19,861	17,887
Sales	-	21,182
Net increase in loans	(55,856)	(31,977)
Purchase of restricted equity securities	(615)	(21)
Additions of premises and equipment, net	(441)	(75)
Net cash from investing activities	<u>(140,518)</u>	<u>(23,407)</u>
<b>Cash flows from financing activities</b>		
Repayments of Federal Home Loan Bank advances	(738)	(838)
Net increase in deposits	175,949	43,394
Net change in federal funds purchased	-	(1,282)
Proceeds from issuance of subordinate debt	14,505	-
Proceeds from exercise of stock options	970	491
Purchase of common stock	(17)	-
Cash dividends paid	(5,979)	(2,762)
Net cash from financing activities	<u>184,690</u>	<u>39,003</u>
Net change in cash and cash equivalents	57,145	26,390
Cash and cash equivalents at beginning of year	37,195	10,805
Cash and cash equivalents at end of year	<u>\$ 94,340</u>	<u>\$ 37,195</u>
Supplemental cash flow information:		
Cash paid during year for interest	\$ 2,702	\$ 4,478
Cash paid during year for income taxes	2,695	2,417
Supplemental noncash disclosure:		
Lease liabilities arising from right of use asset	1,129	1,855
Cash dividends declared not yet paid	-	2,752

See accompanying notes to consolidated financial statements.

**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

(Dollars in thousands except share and per share amounts)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Truxton Corporation and its wholly owned subsidiaries, Truxton Trust Company and Truxton Risk Management, together referred to as “the Corporation.” Intercompany transactions and balances are eliminated in consolidation.

Truxton Trust Company, referred to as “the Bank”, represents substantially all the operations in the consolidated financial statements and it provides a variety of banking, investment management and trust administration services to individuals, businesses and charitable institutions. Its primary deposit products are demand, money market and certificates of deposit and its primary lending products are residential and commercial real estate mortgages, commercial loans and loans to individuals.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through January 26, 2021, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. It is reasonably possible that the Corporation’s estimate of allowance for loan losses could change as a result of the continued impact of the COVID-19 pandemic on the economy. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, premises and equipment, and time deposits in other financial institutions.

Time Deposits in Other Financial Institutions: Time deposits in other financial institutions are carried at cost. These accounts are maintained at several financial institutions and are all within the insurance limits provided by the Federal Deposit Insurance Corporation “FDIC” and have maturities ranging from 2021 to 2025.

Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value with unrealized holding gains and losses reported in accumulated other comprehensive income (loss), net of tax.

Interest income includes net amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment “OTTI” on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

(Dollars in thousands except share and per share amounts)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Loans Held for Sale: Mortgage loans originated and intended for sales 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.

The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. 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.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Past due status is based on the 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. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued, but not received, for loans placed on nonaccrual are reversed against interest income. Interest received on such 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.

Concentration of Credit Risk: Most of the Corporation's business activity is with customers located within Nashville, Tennessee. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economy in the Nashville, Tennessee metropolitan area.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using historical loan loss experience of both the bank and the banking industry, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. 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 consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans that are collectively evaluated for impairment and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings, and classified as impaired.

**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

(Dollars in thousands except share and per share amounts)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of the allowance on the loan in accordance with the accounting policy for the allowance for loan losses individually evaluated as impaired.

The historical loss experience used in management's analysis of the general component for the allowance for loan losses is determined by portfolio segment and is based on the average loss history experienced by the bank and banking industry over the most recent 12 years. Management determined that periods shorter than 12 years were inadequate given the paucity of material, differentiating loss data. The Corporation used the loss history of its peers, as it has experienced very few losses on its own during the entire history of the Corporation. Management evaluates 12 years of peer losses in order to align with what management expects normalized probable incurred losses to be for the Corporation. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The following portfolio segments have been identified:

- Commercial loans include loans for commercial, industrial, or agricultural purposes to business enterprises that are not secured by real estate. These loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business and are generally secured by accounts receivable, inventory and equipment. The collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.
- Commercial Real Estate loans include loans secured by non-residential real estate and improvements thereon. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions may affect the repayment ability of these loans.

**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

(Dollars in thousands except share and per share amounts)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

- Residential Real Estate loans include loans secured by residential real estate, including single-family and multi-family dwellings. Adverse economic conditions in the Corporation's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.
- Construction and Land Development loans include loans to finance the process of improving properties preparatory to erecting new structures or the on-site construction of industrial, commercial, residential or farm buildings. Construction and land development loans also include loans secured by vacant land, except land known to be used or usable for agricultural purposes. Construction loans generally are made for relatively short terms. They generally are more vulnerable to changes in economic conditions. Furthermore, the nature of these loans is such that they are more difficult to evaluate and monitor. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost (including interest) of the project. Periodic site inspections are made on construction loans.
- Consumer loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, 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 the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Leasehold improvements are amortized using the straight-line method over the shorter of the lease terms or the useful lives. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to five years.

Restricted Equity Securities: The Bank is a member of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems. Members are required to own a certain amount of stock based on the level of borrowings and on their level of equity and may invest in additional amounts. FHLB and FRB stock are carried at cost, classified as restricted equity securities and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Prepaid Long-term Compensation: The Corporation paid retention bonuses in cash to certain key employees. These cash bonuses are considered long-term compensation to be earned over a 24 to 60-month requisite service period. The amount of the contracts is earned pro rata by the employees and expensed pro rata by the Corporation over the contractual term of the agreements. In the event that the employee leaves during the life of the contract, the employee is obligated to repay the unearned amount. Prepaid long-term compensation amounts of \$590 and \$183 were included in other assets as of December 31, 2020 and 2019.



**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

(Dollars in thousands except share and per share amounts)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Assets Under Management: Assets held in fiduciary or agency capacities are not included in the consolidated balance sheets since such items are not assets of the Corporation.

Wealth Management Services Income Recognition: Income from Wealth Management Services is calculated by multiplying each investment management account's market value, determined on a specific date each month, by a static or tiered percentage, according to the investment management agreement. The income resulting from Wealth Management Services accounts is recognized monthly.

Derivatives: The Corporation has entered into derivative contracts designated as a) a hedge of fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), and b) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair values of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking hedge's to specific assets and liabilities on the balance sheet. The Corporation also formally assesses, both at the hedges inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or expected cash flows of hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in fair value of the hedged item, the derivative is settled or terminates, or the treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized, on a straight-line basis over the requisite service period for the entire award generally defined as the vesting period.

Retirement Plans: Employee 401(k) benefit plan expense is the amount of matching contributions for the period.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges, which are also recognized as separate components of shareholders' equity.

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**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Income Taxes: Income tax expense or benefit is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Share: Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share include the dilutive effect of additional potential common shares issuable under stock options.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank is required to meet regulatory reserve and clearing requirements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Off Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded as loans when funded.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Newly Issued, Not Yet Effective Accounting Standards:

*ASU 2016-13, Financial Instruments – Credit Losses (Topic 326)*

In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

Transition:

- For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively.
- Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

The standard will be effective for fiscal years beginning after December 15, 2022.

The Corporation is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

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**NOTE 2 - SECURITIES**

The following table summarizes the amortized cost and fair value of the available for sale securities portfolio at December 31, 2020 and 2019 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

<u>2020</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available for sale				
Asset backed securities	23,492	70	(247)	23,315
Corporate bonds	11,044	379	-	11,423
State and political subdivisions	76,708	4,633	(55)	81,286
Collateralized mortgage obligations	50,587	1,134	(166)	51,555
Mortgage-backed securities: residential	21,323	477	(44)	21,756
Mortgage-backed securities: commercial	<u>16,883</u>	<u>191</u>	<u>(91)</u>	<u>16,983</u>
Total available for sale	<u>\$ 200,037</u>	<u>\$ 6,884</u>	<u>\$ (603)</u>	<u>\$ 206,318</u>
<u>2019</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available for sale				
Asset backed securities	14,993	-	(293)	14,700
Corporate bonds	8,327	106	(5)	8,428
State and political subdivisions	40,769	1,490	(385)	41,874
Collateralized mortgage obligations	21,665	280	(161)	21,784
Mortgage-backed securities: residential	7,868	160	(1)	8,027
Mortgage-backed securities: commercial	<u>21,295</u>	<u>44</u>	<u>(120)</u>	<u>21,219</u>
Total available for sale	<u>\$ 114,917</u>	<u>\$ 2,080</u>	<u>\$ (965)</u>	<u>\$ 116,032</u>

**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

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**NOTE 2 – SECURITIES** (Continued)

Sales of available for sale securities were as follows for the years ending December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Proceeds	\$ -	\$ 21,182
Gross gains	-	285
Gross losses	-	(154)

Securities pledged at year-end 2020 and 2019 had a carrying value of \$41,670 and \$5,732 and were pledged to secure public deposits, interest rate swaps, and one of the bank's federal fund line of credit. The Corporation had no holdings of securities of any one issuer, other than the U.S. government sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

The amortized cost and fair value of the investment securities portfolio are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	<u>December 31, 2020</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Within one year	\$ 3,988	\$ 4,022
One to five years	7,056	7,401
Five to ten years	15,688	16,347
Beyond ten years	84,512	88,254
Collateralized mortgage obligations	50,587	51,555
Mortgage-backed securities: residential	21,323	21,756
Mortgage-backed securities: commercial	<u>16,883</u>	<u>16,983</u>
Total	<u>\$ 200,037</u>	<u>\$ 206,318</u>

The following table summarizes the investment securities with unrealized losses at December 31, 2020 and 2019 aggregated by major security type and length of time in a continuous unrealized loss position:

<u>December 31, 2020</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Available for sale						
Asset backed securities	\$ -	\$ -	\$ 11,859	\$ (247)	\$ 11,859	\$ (247)
Corporate bonds	-	-	-	-	-	-
State and political subdivisions	485	(4)	2,093	(51)	2,578	(55)
Collateralized mortgage obligation	17,290	(130)	1,587	(36)	18,877	(166)
Mortgage-backed securities: residential	5,153	(44)	-	-	5,153	(44)
Mortgage-backed securities: commercial	<u>3,218</u>	<u>(8)</u>	<u>6,440</u>	<u>(83)</u>	<u>9,658</u>	<u>(91)</u>
Total available for sale	<u>\$ 26,146</u>	<u>\$ (186)</u>	<u>\$ 21,979</u>	<u>\$ (417)</u>	<u>\$ 48,125</u>	<u>\$ (603)</u>

**TRUXTON CORPORATION**  
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**NOTE 2 – SECURITIES** (Continued)

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
<u>December 31, 2019</u>						
Available for sale						
Asset backed securities	9,028	\$ (115)	\$ 5,672	\$ (179)	\$ 14,700	\$ (293)
Corporate bonds	-	-	2,009	(5)	2,009	(5)
State and political subdivisions	13,557	(385)	-	-	13,557	(385)
Collateralized mortgage obligation	8,074	(112)	2,100	(48)	10,174	(161)
Mortgage-backed securities: residential	260	-	214	(1)	474	(1)
Mortgage-backed securities: commercial	<u>9,133</u>	<u>(23)</u>	<u>5,392</u>	<u>(97)</u>	<u>14,525</u>	<u>(120)</u>
Total available for sale	<u>\$ 40,052</u>	<u>\$ (635)</u>	<u>\$ 15,387</u>	<u>\$ (330)</u>	<u>\$ 55,439</u>	<u>\$ (965)</u>

Unrealized losses on securities have not been recognized into income because the issuers are of high credit quality, management does not intend to sell and it is more likely than not that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates instead of credit quality. The fair value is expected to recover as the securities approach their maturity dates and/or market rates change. As a result, the Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2020.

Restricted equity securities consist of securities which are restricted as to transferability. These securities are recorded at cost. Restricted equity securities consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Federal Home Loan Bank stock	\$ 2,440	\$ 1,852
Federal Reserve Bank stock	<u>774</u>	<u>747</u>
	<u>\$ 3,214</u>	<u>\$ 2,599</u>

**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 - LOANS**

Loans at year end were as follows:

	<u>2020</u>	<u>2019</u>
Commercial	\$ 62,792	\$ 39,654
Commercial real estate	158,383	154,714
Residential real estate:		
Closed-end	107,261	79,998
Open-end	30,256	41,503
Construction and land development	36,162	22,743
Consumer	<u>25,583</u>	<u>25,513</u>
Subtotal	420,437	364,125
Net deferred loan fees	<u>(809)</u>	<u>(341)</u>
Gross loans	<u>\$ 419,628</u>	<u>\$ 363,784</u>

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted. The CARES Act, among other things, temporarily adds a new product, titled the "Paycheck Protection Program, ("PPP")" to the U.S. Small Business Administration's (SBA's) 7(a) Loan Program. The CARES Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under the PPP. Included in commercial loans above are \$24,522 of PPP loans.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 - LOANS (Continued)**

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2020 and 2019:

<u>December 31, 2020</u>	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Construction and Land Development</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:							
Beginning balance	\$ 634	\$ 1,470	\$ 553	\$ 359	\$ 310	\$ 83	\$ 3,409
Provision (credit) for loan losses	(95)	588	414	309	(40)	(83)	1,093
Loans charged-off	-	-	(17)	-	-	-	(17)
Recoveries	-	-	5	-	-	-	5
Total ending allowance balance	<u>\$ 539</u>	<u>\$ 2,058</u>	<u>\$ 955</u>	<u>\$ 668</u>	<u>\$ 270</u>	<u>\$ -</u>	<u>\$ 4,490</u>
<u>December 31, 2019</u>							
Allowance for loan losses:							
Beginning balance	\$ 500	\$ 1,821	\$ 553	\$ 153	\$ 167	\$ 39	\$ 3,056
Provision (credit) for loan losses	134	(351)	(121)	206	143	44	55
Loans charged-off	-	-	(3)	-	-	-	(3)
Recoveries	-	-	1	-	-	-	1
Total ending allowance balance	<u>\$ 634</u>	<u>\$ 1,470</u>	<u>\$ 553</u>	<u>\$ 359</u>	<u>\$ 310</u>	<u>\$ 83</u>	<u>\$ 3,409</u>



**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 - LOANS (Continued)**

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2020 and 2019. The recorded investment amounts do not include accrued and unpaid interest or any net deferred loan fees or costs due to immateriality.

<u>December 31, 2020</u>	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Construction and Land Development</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Ending allowance balance attributable to loans: Individually evaluated for impairment	\$ -	\$ -	\$ 260	\$ -	\$ -	\$ -	\$ 260
Collectively evaluated for impairment	<u>539</u>	<u>2,058</u>	<u>695</u>	<u>668</u>	<u>270</u>	<u>-</u>	<u>4,230</u>
Total ending allowance balance	<u>\$ 539</u>	<u>\$ 2,058</u>	<u>\$ 955</u>	<u>\$ 668</u>	<u>\$ 270</u>	<u>\$ -</u>	<u>\$ 4,490</u>
Loans: Individually evaluated for impairment	\$ -	\$ -	\$ 2,130	\$ -	\$ -	\$ -	\$ 2,130
Collectively evaluated for impairment	<u>62,792</u>	<u>158,383</u>	<u>135,387</u>	<u>36,162</u>	<u>25,583</u>	<u>-</u>	<u>418,307</u>
Total ending loans balance	<u>\$ 62,792</u>	<u>\$ 158,383</u>	<u>\$ 137,517</u>	<u>\$ 36,162</u>	<u>\$ 25,583</u>	<u>\$ -</u>	<u>\$ 420,437</u>
<u>December 31, 2019</u>							
Ending allowance balance attributable to loans: Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	<u>634</u>	<u>1,470</u>	<u>553</u>	<u>359</u>	<u>310</u>	<u>83</u>	<u>3,409</u>
Total ending allowance balance	<u>\$ 634</u>	<u>\$ 1,470</u>	<u>\$ 553</u>	<u>\$ 359</u>	<u>\$ 310</u>	<u>\$ 83</u>	<u>\$ 3,409</u>
Loans: Individually evaluated for impairment	\$ -	\$ -	\$ 2,877	\$ -	\$ -	\$ -	\$ 2,877
Collectively evaluated for impairment	<u>39,654</u>	<u>154,714</u>	<u>118,624</u>	<u>22,743</u>	<u>25,513</u>	<u>-</u>	<u>361,248</u>
Total ending loans balance	<u>\$ 39,654</u>	<u>\$ 154,714</u>	<u>\$ 121,501</u>	<u>\$ 22,743</u>	<u>\$ 25,513</u>	<u>\$ -</u>	<u>\$ 364,125</u>

**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 - LOANS** (Continued)

As of December 31, 2020, and 2019, the Corporation has a recorded investment in troubled debt restructurings of \$113 and \$814. The Corporation has allocated no specific reserves for those loans at December 31, 2020 and 2019.

The modifications in terms associated with troubled debt restructurings that occurred in 2020 included the reduction of near-term interest and/or principal payments as a concession to borrowers experiencing financial stress. These loans are well secured by residential real estate.

The troubled debt restructurings described above had no impact on the allowance for loan losses or charge offs during the year ending December 31, 2020.

	<u>Number Of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
<u>December 31, 2020</u>			
Troubled debt restructurings:			
Residential real estate:			
Closed-end	1	\$ 113	\$ 113

	<u>Number Of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
<u>December 31, 2019</u>			
Troubled debt restructurings:			
Residential real estate:			
Closed-end	2	814	814

There were no loans that were modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2020 and 2019.

**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 - LOANS (Continued)**

The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2020 and 2019:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Cash Basis Interest Recognized</u>
<u>December 31, 2020</u>						
With no related allowance recorded: Residential real estate: Closed-end	\$ 113	\$ 113	\$ -	\$ 114	\$ 3	\$ 3
With an allowance recorded: Residential real estate: Closed-end	<u>2,017</u>	<u>2,017</u>	<u>260</u>	<u>2,050</u>	<u>29</u>	<u>29</u>
Total	<u>\$ 2,130</u>	<u>\$ 2,130</u>	<u>\$ 260</u>	<u>\$ 2,164</u>	<u>\$ 32</u>	<u>\$ 32</u>
<u>December 31, 2019</u>						
With no related allowance recorded: Residential real estate Closed-end	\$ 2,877	\$ 2,877	\$ -	\$ 2,390	\$ 123	\$ 123
With an allowance recorded: Residential real estate: Closed-end	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,877</u>	<u>\$ 2,877</u>	<u>\$ -</u>	<u>\$ 2,390</u>	<u>\$ 123</u>	<u>\$ 123</u>

For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

**TRUXTON CORPORATION**  
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**NOTE 3 - LOANS** (Continued)

There were \$11 and \$4 loans past due over 90 days and still accruing as of December 31, 2020 and 2019, respectively.

There were \$2,017 and \$4 loans on non-accrual as of December 31, 2020 and 2019.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2020 and 2019 by class of loans:

<u>December 31, 2020</u>	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>Greater than 89 Days Past Due</u>	<u>Total Past Due</u>	<u>Loans Not Past Due</u>	<u>Total</u>
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 62,792	\$ 62,792
Commercial real estate	-	-	-	-	158,383	158,383
Residential real estate:						
Closed-end	154	104	2,029	2,287	104,974	107,261
Open-end	-	-	-	-	30,256	30,256
Construction and land Development	-	-	-	-	36,162	36,162
Consumer	-	-	-	-	25,583	25,583
<b>Total</b>	<b><u>\$ 154</u></b>	<b><u>\$ 104</u></b>	<b><u>\$ 2,029</u></b>	<b><u>\$ 2,287</u></b>	<b><u>\$ 420,168</u></b>	<b><u>\$ 420,437</u></b>
 <u>December 31, 2019</u>						
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 39,654	\$ 39,654
Commercial real estate	-	-	-	-	154,714	154,714
Residential real estate:						
Closed-end	163	7	4	174	79,824	79,998
Open-end	-	-	-	-	41,503	41,503
Construction and land Development	-	-	-	-	22,743	22,743
Consumer	-	-	-	-	25,513	25,513
<b>Total</b>	<b><u>\$ 163</u></b>	<b><u>\$ 7</u></b>	<b><u>\$ 4</u></b>	<b><u>\$ 174</u></b>	<b><u>\$ 363,951</u></b>	<b><u>\$ 364,125</u></b>

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 restricting classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2020, the Company modified 3 commercial loans with outstanding balances of \$5,005.

**Credit Quality Indicators:**

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation periodically analyzes loans individually by classifying the loans as to credit risk. The Corporation uses the following definitions for risk ratings:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

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**NOTE 3 - LOANS** (Continued)

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2020, and 2019, based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
<u>December 31, 2020</u>				
Commercial	\$ 62,337	\$ -	\$ 455	\$ -
Commercial real estate	158,383	-	-	-
Residential real estate:				
Closed-end	104,934	310	2,017	-
Open-end	30,256	-	-	-
Construction and land development:	36,162	-	-	-
Consumer	<u>25,583</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 417,655</u>	<u>\$ 310</u>	<u>\$ 2,472</u>	<u>\$ -</u>
 <u>December 31, 2019</u>				
Commercial	\$ 39,654	\$ -	\$ -	\$ -
Commercial real estate	154,714	-	-	-
Residential real estate:				
Closed-end	77,881	55	2,062	-
Open-end	41,503	-	-	-
Construction and land development:	22,743	-	-	-
Consumer	<u>25,513</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 362,008</u>	<u>\$ 55</u>	<u>\$ 2,062</u>	<u>\$ -</u>

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**NOTE 4 - PREMISES AND EQUIPMENT**

Year-end premises and equipment were as follows:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 1,366	\$ 1,124
Furniture, fixtures and equipment	887	1,067
Computer software	<u>961</u>	<u>1,078</u>
	3,214	3,269
Less: Accumulated depreciation and amortization	<u>(2,707)</u>	<u>(2,996)</u>
Net premises and equipment	<u>\$ 507</u>	<u>\$ 273</u>

Depreciation and amortization expense totaled \$207 and \$231 for 2020 and 2019, respectively.

**NOTE 5 – LEASES**

The Corporation enters into leases in the normal course of business primarily for the Corporation's office space. The Corporation's main office facility is subject to a five-year lease, terminating June 1, 2023. The Corporation's leases have remaining terms ranging from 17 months to 3 years, some of which include renewal options to extend the lease for up to 2 years. The Corporation's leases do not include residual value guarantees or covenants.

The Corporation has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Corporation has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Corporation's balance sheet.

The Corporation's leases are classified as operating leases at the lease commencement date. Lease expense for operating leases is recognized on a straight-time basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Corporation uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Corporation's incremental borrowing rate is based on FHLB amortizing advance rate, adjusted for the lease term and other factors.

Right-of-use assets and lease liabilities by lease type, and associated balance sheet classification, are as follows:

<u>Balance Sheet Classification</u>		<u>2020</u>	<u>2019</u>
Right-of-use assets:			
Operating leases	Other assets	\$ 1,130	\$ 1,474
Lease liabilities:			
Operating leases	Other liabilities	\$ 1,130	\$ 1,474

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**NOTE 5 – LEASES** (Continued)

*Lease Obligations*

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2020 are as follows:

	<u>Operating Leases</u>
2021	\$ 475
2022	494
2023	<u>202</u>
Total undiscounted lease payments	1,171
Less: imputed interest	<u>41</u>
Net lease liabilities	\$ 1,130

*Supplemental lease Information*

Operating lease weighted average remaining lease term (years)	2.4
Operating lease weighted average discount rate	2.77%

**NOTE 6 - DEPOSITS**

Scheduled maturities of time deposits, included in interest bearing deposits, for the next five years were as follows:

2021	\$ 20,914
2022	1,206
2023	1,222
2024	139
2025	7,407

Time deposits that meet or exceed the FDIC Insurance limit of \$250 at December 31, 2020 and 2019 were \$25,922 and \$8,726.

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**NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES**

At December 31, 2020 and 2019, advances from the FHLB were as follows:

For 2020, interest rates ranged from 1.00% to 2.90%, averaging 1.95% with maturities between January 19, 2021 and June 1, 2028.	<u>\$ 17,673</u>
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For 2019, interest rates ranged from 1.00% to 2.90%, averaging 1.93% with maturities between January 14, 2020 and June 1, 2028.	<u>\$ 18,411</u>
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The advances are subject to penalties if repaid before scheduled payments are due. The Bank's outstanding borrowings from the FHLB are secured by a blanket pledge agreement of 150% of 1-4 family loans, first lien mortgage loans. The Bank has approximately \$55,589 of 1-4 family, first mortgage loans and \$16,972 of home equity mortgage loans available to pledge under the blanket pledge arrangement dated March 16, 2006. Based on the collateral and the Corporation's holdings of FHLB Stock, the Bank is eligible to borrow additional advances of approximately \$45,962 as of December 31, 2020.

Payments over the next five years are as follows:

2021	\$ 6,194
2022	4,039
2023	2,475
2024	2,377
2025	2,365
Thereafter	223

**NOTE 8 - INCOME TAXES**

Income tax expense was as follows:

	<u>2020</u>	<u>2019</u>
Current expense		
Federal	\$ 2,526	\$ 2,185
State	<u>20</u>	<u>136</u>
Total current	2,546	2,321
Deferred benefit		
Federal	(163)	(25)
State	<u>(74)</u>	<u>(3)</u>
Total deferred	<u>(237)</u>	<u>(28)</u>
Total	<u>\$ 2,309</u>	<u>\$ 2,293</u>



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**NOTE 8 - INCOME TAXES** (Continued)

Effective tax rates differ from federal statutory rate of 21% applied to income before income taxes due to the following:

	<u>2020</u>	<u>2019</u>
Federal statutory rate times financial statement income	\$ 2,826	\$ 2,527
Effect of:		
State taxes, net of federal benefit	(43)	105
Tax exempt interest income	(196)	(142)
Bank owned life insurance income	(45)	(46)
Captive insurance premiums and disallowances	(178)	(163)
Other, net	(55)	12
 Total income tax expense	 \$ 2,309	 \$ 2,293

Year-end deferred tax assets and liabilities were due to the following:

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,162	\$ 871
Organizational and start-up expenditures	2	3
Loan origination income	163	146
Non-accrual loan interest	19	-
Net unrealized loss on available for sale securities	-	-
Net unrealized loss on cash flow hedges	373	258
Depreciation	9	-
Other	306	398
Total deferred tax assets	2,034	1,676
Deferred tax liabilities:		
Prepaid expenses	(282)	(187)
Stock based compensation expense	(224)	(198)
Restricted equity stock dividends	(7)	(7)
Loan origination expenses	(64)	(57)
Net unrealized gains on available for sale securities	(1,642)	(291)
Depreciation	-	(31)
Other	(294)	(385)
 Total deferred tax liabilities	 (2,513)	 (1,156)
 Deferred tax asset (liability), net	 \$ (479)	 \$ 520

The Corporation does not have any uncertain tax positions and has minimal interest and penalties recorded or accrued in the consolidated financial statements for the years ended December 31, 2020 and 2019. The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Georgia and Tennessee. The Corporation is no longer subject to examination by taxing authorities for years before 2016.

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**NOTE 9 - RELATED PARTY TRANSACTIONS**

Loans to principal officers, directors and their affiliates at December 31, 2020 and 2019 totaled \$11,925 and \$13,866, respectively.

Deposits from principal officers, directors and their affiliates at December 31, 2020 and 2019 totaled \$4,284 and \$998, respectively.

Wealth management fees earned from assets under management for principal officers, directors and their affiliates at December 31, 2020 and 2019 totaled \$821 and \$602, respectively.

**NOTE 10 - REGULATORY CAPITAL MATTERS**

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is included in computing regulatory capital. Management believes as of December 31, 2020, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

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**NOTE 10 - REGULATORY CAPITAL MATTERS** (Continued)

Actual and required capital amounts and ratios for the Bank are presented below as of December 31, 2020 and 2019. The capital conservation buffer is not included in the required ratios of the table presented below.

<u>2020</u>	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Total Capital to risk weighted assets	\$ 70,805	15.05%	\$ 37,633	8.00%	\$ 47,041	10.00%
Tier 1 (Core) Capital to risk weighted assets	66,315	14.10%	28,224	6.00%	37,633	8.00%
Common Tier 1 (CET1)	66,315	14.10%	21,168	4.50%	30,576	6.50%
Tier 1 (Core) Capital to average assets	66,315	9.38%	28,271	4.00%	35,339	5.00%
<u>2019</u>						
Total Capital to risk weighted assets	\$ 61,486	14.51%	\$ 33,909	8.00%	\$ 42,386	10.00%
Tier 1 (Core) Capital to risk weighted assets	58,077	13.70%	25,432	6.00%	33,909	8.00%
Common Tier 1 (CET1)	58,077	13.70%	19,074	4.50%	27,551	6.50%
Tier 1 (Core) Capital to average assets	58,077	11.30%	20,055	4.00%	25,694	5.00%

**Dividend Restrictions** - The Corporation's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2020, the Bank could, without prior approval, declare dividends of approximately \$10,579 plus any 2020 net profits retained to date of declaration.

**NOTE 11 - OFF-BALANCE SHEET ACTIVITIES**

Some financial instruments, such as loan commitments, credit lines, and letters of credit, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others as long as conditions established in the contract are met. In addition, these agreements usually have expiration dates, and the commitments may expire without being used.

Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at the exercise of the commitment. The majority of the Corporation's commitments to extend credit have maturities of less than one year and reflect the prevailing market interest rates at the time of the commitment.

The contractual amount of financial instruments with off-balance sheet risk was as follows at December 31:

	<u>2020</u>	<u>2019</u>
Letters of Credit	\$ 3,619	\$ 6,229
Unused Lines of Credit	120,103	97,276

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**NOTE 12 - STOCK BASED COMPENSATION PLAN**

Total stock-based compensation expense in 2020 and 2019 was \$928 and \$752, respectively. Related to the 2020 and 2019 restricted stock grants, some employees made an election, in accordance with Section 83(b) of the Internal Revenue Code, to have the fair value of the awards taxable immediately. In connection with the election, the Corporation allowed the employees to forfeit shares to cover the related personal tax obligation. During 2020 employees forfeited 1,080 shares with a total fair value of \$51. During 2019 employees forfeited 1,042 shares with a total fair value of \$39. These amounts were recorded in salaries and employee benefits on the Corporation's consolidated statements of income in 2020 and 2019.

The Corporation's 2008 Equity Incentive Plan as modified in 2015 provides for the grant of stock options, restricted stock and other equity-based incentives up to 900,000 shares. As of December 31, 2020, the Corporation had issued grants totaling 841,691 shares under the 2008 Equity Incentive Plan and its predecessor, the 2004 Employee Share Option Plan.

Stock Option Grants

Option awards are granted with an exercise price equal to the market price of the Corporation's common stock at the date of grant. Option awards have vesting periods of one to six years and have 10-year contractual terms. The Corporation uses newly-issued shares to satisfy share option exercises.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical trading of the shares of Truxton Corporation common stock for 2020 and 2019. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding taking into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

During 2020 and 2019, the Corporation issued incentive stock options to outside directors and certain employees for the purchase of no shares and 15,000 shares of common stock, respectively. The fair value of options granted in 2020 and 2019 was determined using the following assumptions as of grant date:

	<u>2020</u>	<u>2019</u>
Risk-free interest rate	-	2.70%
Expected term	-	8.0 years
Expected stock price volatility	-	48.0%
Dividend yield	-	2.46%

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**NOTE 12 - STOCK BASED COMPENSATION PLAN (Continued)**

A summary of the stock option activity for 2020 follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	108,140	\$ 23.56	5.9	
Granted	-	-		
Forfeited	(8,270)	26.65		
Exercised	<u>(57,594)</u>	19.85		
Outstanding at end of year	<u>42,276</u>	28.01	5.7	\$ 716
Vested or expected to vest	42,276	28.01	5.7	716
Exercisable at end of year	<u>30,207</u>	24.45	4.7	619

Information related to stock options during each year follows:

	<u>2020</u>	<u>2019</u>
Intrinsic value of options exercised	\$ 1,445	\$ 793
Cash received from option exercises	970	491
Weighted average fair value of options granted	-	15.80

There was a total of \$132 in unrecognized compensation cost related to non-vested stock options granted under the Plan as of December 31, 2020. The cost is expected to be recognized over a weighted-average period of 2.2 years.

**Restricted Stock Grants**

In 2020 and 2019, the Corporation issued 32,528 and 20,200 restricted shares of common stock. Compensation expense is recognized over the vesting period of the awards based on the value of the stock at issue date. The fair value of the stock was determined by current stock trade activity. These shares vest in 20% increments through 2025.

A summary of the changes in the Corporation's non-vested shares for the year follows:

<u>Non-vested shares</u>	<u>Shares</u>	<u>Weighted- Average Fair Value</u>
Non-vested at January 1, 2020	57,790	\$ 34.04
Granted	32,528	42.76
Vested	(23,209)	31.72
Forfeited or expired	<u>(1,106)</u>	<u>42.21</u>
Non-vested at December 31, 2020	<u>66,003</u>	<u>\$ 39.03</u>

As of December 31, 2020, there was \$2,001 of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.1 years.

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**NOTE 13 - DERIVATIVES**

The Corporation utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

**Fair Value Hedge**

The following table reflects the fair value hedges included in the Consolidated Statements of Net Income as of December 31:

<u>Interest rate contracts</u>	<u>Location</u>	<u>2020</u>	<u>2019</u>
Change in fair value on interest rate swaps hedging loans	Loan interest income	\$ 1,722	\$ 51
Change in fair value on loans – hedged item	Loan interest income	\$ (1,740)	\$ (20)

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

	<u>2020</u>		<u>2019</u>	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<u>Included in other assets:</u>				
Derivatives designated as hedges:				
Interest rate swaps	\$ 29,826	\$ 2,741	\$ 16,421	\$ 1,019
<u>Included in other liabilities:</u>				
Derivatives designated as hedges:				
Interest rate swaps	\$ 29,826	\$ 2,474	\$ 16,421	\$ 774

**Cash Flow Hedge**

Interest Rate Swaps Designated as Cash Flow Hedges: Interest rate swaps with notional amounts totaling \$30,000 and \$15,000 as of December 31, 2020 and 2019, were designated as cash flow hedges of certain deposit accounts and were determined to be fully effective during the periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of swaps is recorded in other liabilities with changes in fair value recorded in other comprehensive income (loss). The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

The following table presents the net losses recorded in accumulated other comprehensive income and the Consolidated Statements of Net Income relating to the cash flow derivative instruments for the year ended December 31:

	<u>2020:</u>		
	<u>Amount of Gain (Loss) Recognized In OCI (Effective Portion)</u>	<u>Amount of Gain (Loss) Recognized from OCI to Interest Income</u>	<u>Amount of Gain (Loss) Recognized in Non-Interest Income (Ineffective Portion)</u>
Interest rate swaps related to deposits	\$ (439)	\$ -	\$ -

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**NOTE 13 – DERIVATIVES (Continued)**

	2019:		
	Amount of Gain (Loss) Recognized In OCI (Effective Portion)	Amount of Gain (Loss) Recognized from OCI to Interest Income	Amount of Gain (Loss) Recognized in Non-Interest Income (Ineffective Portion)
Interest rate swaps related to deposits	\$ (630)	\$ -	\$ -

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

<u>Included in other liabilities:</u>	2020		2019	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps related to deposits	\$ 30,000	\$ 1,426	\$ 15,000	\$ 987

**NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other 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.

Level 3 – Significant unobservable inputs that reflect a Corporation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available "Level 1". For securities where quoted prices are not available, fair values are calculated using a matrix pricing model, which is based on market prices of similar securities "Level 2". Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, which values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark securities.

Derivatives: The fair value of the derivatives is based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, prepayment rates, and volatility factors to value the position. The majority of the market inputs is actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

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**NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS** (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at Using:</u>		
	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
<u>December 31, 2020</u>			
Financial assets:			
Investment securities available for sale			
Asset backed securities	\$ 23,315	\$ -	\$ 23,315
Corporate bonds	11,423	-	11,423
State and political subdivisions	81,286	-	81,286
Collateralized mortgage obligations	51,555	-	51,555
Mortgage-backed securities: residential	21,756	-	21,756
Mortgage-backed securities: commercial	16,983	-	16,983
Total investment securities available for sale	<u>\$ 206,318</u>	<u>\$ -</u>	<u>\$ 206,318</u>
Derivatives	<u>\$ 2,741</u>	<u>\$ -</u>	<u>\$ 2,741</u>
Financial liabilities:			
Derivatives	<u>\$ 2,474</u>	<u>\$ -</u>	<u>\$ 2,474</u>

	<u>Fair Value Measurements at Using:</u>		
	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
<u>December 31, 2019</u>			
Financial assets:			
Investment securities available for sale			
Asset backed securities	\$ 14,700	\$ -	\$ 14,700
Corporate bonds	8,428	-	8,428
State and political subdivisions	41,874	-	41,874
Collateralized mortgage obligations	21,784	-	21,784
Mortgage-backed securities: residential	8,027	-	8,027
Mortgage-backed securities: commercial	21,219	-	21,219
Total investment securities available for sale	<u>\$ 116,032</u>	<u>\$ -</u>	<u>\$ 116,032</u>
Derivatives	<u>\$ 1,019</u>	<u>\$ -</u>	<u>\$ 1,019</u>
Financial liabilities:			
Derivatives	<u>\$ 1,761</u>	<u>\$ -</u>	<u>\$ 1,761</u>

There were no transfers between Level 1 and Level 2 during 2020 or 2019.



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**NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)**

The carrying amounts and estimated fair values of financial instruments, at December 31, 2020 and December 31, 2019 are as follows:

	Fair Value Measurements Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total
<u>December 31, 2020</u>					
Financial assets					
Cash and cash equivalents	\$ 94,340	\$ 94,340	\$ -	\$ -	\$ 94,340
Time deposits in other financial institutions	2,687	-	2,687	-	2,687
Securities available-for-sale	206,318	-	206,318	-	206,318
Restricted equity securities	3,214	NA	NA	NA	NA
Loans, net	415,138	-	-	413,590	413,590
Accrued interest receivable	2,653	-	930	1,723	2,653
Financial liabilities					
Deposits	\$ 624,025	\$ -	\$ 623,942	\$ -	\$ 623,942
Federal Home Loan Bank advances	17,673	-	18,058	-	18,058
Accrued interest payable	16	16	-	-	16
<u>December 31, 2019</u>					
Financial assets					
Cash and cash equivalents	\$ 37,195	\$ 37,195	\$ -	\$ -	\$ 37,195
Time deposits in other financial institutions	5,157	-	5,157	-	5,157
Securities available-for-sale	116,032	-	116,032	-	116,032
Restricted equity securities	2,599	NA	NA	NA	NA
Loans held for sale	350	-	-	350	350
Loans, net	360,375	-	-	360,722	360,722
Accrued interest receivable	1,842	-	724	1,118	1,842
Financial liabilities					
Deposits	\$ 448,076	\$ -	\$ 448,245	\$ -	\$ 448,245
Federal Home Loan Bank advances	18,411	-	18,378	-	18,378
Accrued interest payable	114	114	-	-	114

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

The carrying amount of cash and cash equivalents approximates fair values and are classified as Level 1. Time deposits in other financial institutions have infrequent repricing or repricing limits and their fair value is based on discounted cash flows using current market rates applied to the estimated life and are classified as Level 2. It is not practical to determine the fair value of restricted equity securities due to the restrictions placed on its transferability.

The fair value of loans is determined based on a discounted cash flow analysis (income approach.) The discounted cash flow was based on contractual maturity of the loan and current market assumptions resulting in a level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously.

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**NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS** (Continued)

The fair values disclosed for demand deposits are by definition, equal to the amount payable on demand at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification. The fair values of the Bank's Federal Home Loan Bank advances are estimated using discounted cash flows based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification. The carrying amounts of accrued interest approximate fair value resulting in Level 2 or 3 classifications.

**NOTE 15 - OTHER BENEFIT PLANS**

The Corporation has a 401(k) benefit plan that covers all employees who meet certain eligibility requirements and choose to participate in the plan. The plan allows employee contributions up to the federal limits, which are matched 100% for the first 3% of compensation contributed and then 50% of the next 2% of compensation contributed beginning on the first day of the calendar quarter following the employee's one-year anniversary. The 401(k) benefit plan expense for 2020 and 2019 was \$265 and \$237, respectively.

**NOTE 16 – OTHER COMPREHENSIVE INCOME (LOSS)**

The following is a summary of the accumulated other comprehensive income balances, net of tax:

	Balance at <u>12/31/2019</u>	Current Period <u>Change</u>	Balance at <u>12/31/2020</u>
Unrealized gains on securities available for sale	\$ 811	\$ 3,816	\$ 4,627
Unrealized losses on cash flow hedge	<u>(729)</u>	<u>(324)</u>	<u>(1,053)</u>
Total	<u>\$ 82</u>	<u>\$ 3,492</u>	<u>\$ 3,574</u>

**TRUXTON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

(Dollars in thousands except share and per share amounts)

**NOTE 17 – EARNINGS PER SHARE**

Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share available to common shareholders reflects the potential dilution that could occur if stock options to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The factors used in the earnings per share computation follows:

	<u>2020</u>	<u>2019</u>
Basic		
Net income	\$ 11,149	\$ 9,742
Less: Undistributed income allocated to participating securities	<u>260</u>	<u>226</u>
Net earnings allocated to common stock	<u>\$ 10,889</u>	<u>\$ 9,516</u>
Weighted common shares outstanding including participating securities	2,826,240	2,757,021
Less: Participating securities	<u>65,867</u>	<u>63,750</u>
Weighted average shares	<u>2,760,373</u>	<u>2,693,271</u>
Basic earnings per share	<u>\$ 3.94</u>	<u>\$ 3.53</u>
Diluted earnings allocated to common stock	<u>\$ 10,889</u>	<u>\$ 9,516</u>
Weighted average shares	2,760,373	2,693,271
Add: Diluted effects of assumed exercises of stock options and warrants	<u>29,432</u>	<u>53,971</u>
Average shares and dilutive potential common shares	<u>2,789,805</u>	<u>2,747,242</u>
Dilutive earnings per share	<u>\$ 3.90</u>	<u>\$ 3.46</u>

At year-end 2020, there were 12,500 stock options that were not considered in computing diluted earnings per common share for 2020, because they were antidilutive. At year-end 2019, there were 15,000 stock options that were not considered in computing diluted earnings per common share for 2019, because they were antidilutive.

