TRUXTON TRUST
A PRIVATE BANK

Dear Shareholder:

Truxton Trust thrived in the tumult and crosscurrents of 2021. Values rose in many asset classes as a friendly Federal Reserve kept rates low to bolster the pandemic-stressed economy. Real estate prices in our home market of Nashville stood at the confluence of several trends: easy money globally, a low-tax, business friendly environment in the state, and appealing economic opportunity and cultural vibrancy locally. The result was extraordinary appreciation of assets across many categories, buoying both loan quality and loan growth at Truxton. Gross loans at the end of 2021 stood at $494.8 million, an increase of 17.9% from the beginning of the year. Excluding loans made under the Paycheck Protection Program (PPP), loans grew by 25% compared to the end of 2020. We ended the year with no loans past due by more than 30 days.

Truxton Wealth Management won many new client relationships in 2021 and the assets we manage experienced strong appreciation. As a result, wealth management revenue grew by 32% compared to 2020. Truxton believes in proactive, comprehensive wealth management. We look for opportunities to improve long-term outcomes for wealthy families who let us guide their planning and asset management.

Expenses remain under tight control at Truxton. We operate from a single banking location in Nashville, the same space we have occupied for 17 years. We employed 61 full-time equivalent staff at the end of the year, only a handful more than five years ago when our revenue was scarcely more than half of what it was in the year just concluded. The result is that net income almost tripled over the last five years, rising from $5.5 million to $14.5 million.

At the bottom line, Truxton dilutive earnings per share rose to $5.02 in 2021 from $3.90 in 2020, an increase of 29%. The eclipse of $5 EPS represents the achievement of a goal set by Truxton management a decade ago. While satisfying, this success causes us to lift our eyes to still loftier goals, none of which can be achieved unless we provide exceptional service to clients.

The year ahead offers many challenges. We benefitted from almost $1 million in fees from loans made under the Paycheck Protection Program (PPP) in 2021, which will decline to zero in 2022. Interest rates have begun to rise in early 2022 and stock prices have generally fallen. Most banks hold excess deposits today which they seek to deploy in the form of loans making for a difficult pricing environment for Truxton.

Despite these headwinds, we believe that Truxton Trust provides value to clients that will allow us to continue to grow and prosper. We believe shareholders will be the ultimate beneficiaries.

Thomas S. Stumb

Andrew L. May

TRUXTON CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

TRUXTON CORPORATION
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Truxton Corporation
Nashville, Tennessee

Opinion

We have audited the consolidated financial statements of Truxton Corporation, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Crowe LLP

Crowe LLP

Franklin, Tennessee
January 26, 2022

TRUXTON CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020
(Dollars in thousands except share and per share amounts)

	2021	2020
ASSETS		
Cash and due from financial institutions	$ 9,321	$ 9,492
Restricted cash	-	3,170
Interest bearing deposits in other financial institutions	88,743	81,265
Federal funds sold	1,425	169
Cash and cash equivalents	99,489	94,096
Time deposits in other financial institutions	2,780	2,931
Securities available for sale	302,502	206,318
Gross loans	494,799	419,628
Allowance for loan losses	(4,775)	(4,490)
Net loans	490,024	415,138
Bank owned life insurance	10,389	10,185
Restricted equity securities	3,242	3,214
Premises and equipment, net	316	507
Accrued interest receivable	2,346	2,653
Deferred tax asset, net	62	-
Other assets	6,109	6,576
Total assets	$ 917,259	$ 741,618
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 215,696	$ 170,251
Interest bearing	591,779	453,774
Total deposits	807,475	624,025
Federal Home Loan Bank advances	4,500	17,673
Subordinated debentures		
$15,000 face amount (less unamortized discount and debt issuance costs of $372 at December 31, 2021 and $471 at December 31, 2020)	14,628	14,529
Deferred tax liability, net	-	479
Other liabilities	6,605	8,254
Total liabilities	833,208	664,960
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; 2,879,284 shares issued and outstanding in 2021 and 2,863,671 shares issued and outstanding in 2020	288	285
Additional paid-in capital	31,790	31,366
Retained earnings	49,628	41,433
Accumulated other comprehensive income	2,345	3,574
Total shareholders' equity	84,051	76,658
Total liabilities and shareholders' equity	$ 917,259	$ 741,618

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF NET INCOME
Years ended December 31, 2021 and 2020
(Dollars in thousands except share and per share amounts)

	2021	2020
Non-interest income		
Wealth management services	$ 15,102	$ 11,469
Service charges on deposit accounts	334	256
Bank owned life insurance income	204	212
Other	269	262
Total non-interest income	15,909	12,199
Interest income		
Loans, including fees	18,325	17,201
Taxable securities	3,031	2,137
Tax-exempt securities	1,565	1,088
Interest bearing deposits	236	332
Federal funds sold	2	19
Other interest income	124	94
Total interest income	23,283	20,871
Interest expense		
Deposits	2,247	1,941
Subordinated debentures and other	780	194
Long-term borrowings	310	468
Total interest expense	3,337	2,603
Net interest income	19,946	18,268
Provision for loan losses	291	1,093
Net interest income after provision for loan losses	19,655	17,175
Total revenue, net	35,564	29,374
Non-interest expense		
Compensation and employee benefits	13,247	11,380
Occupancy	967	868
Furniture and equipment	154	153
Data processing	1,291	1,169
Wealth management processing fees	644	520
Advertising and public relations	215	163
Professional services	645	626
FDIC insurance assessments	214	150
Other	777	887
Total non-interest expense	18,154	15,916
Income before income taxes	17,410	13,458
Income tax expense	2,869	2,309
Net income	$ 14,541	$ 11,149
Earnings per share:		
Basic	$ 5.05	$ 3.94
Diluted	$ 5.02	$ 3.90

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2021 and 2020
(Dollars in thousands except share and per share amounts)

	2021	2020
Net income	$ 14,541	$ 11,149
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gain (loss) arising during the period	(3,150)	5,166
Tax effect	822	(1,350)
Unrealized gains/losses on cash flow hedging activities:		
Unrealized holding gain (loss) arising during the period	1,015	(826)
Reclassification adjustment for losses included in net income as loss (gain) in interest income	473	387
Tax effect, income tax (expense) benefit included in net income related to reclassification adjustments ($124) and ($101), respectively	(389)	115
Total other comprehensive (loss) income, net of tax	(1,229)	3,492
Comprehensive income	$ 13,312	$ 14,641

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2021 and 2020

(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, 2020	2,774,655	$ 277	$ 29,493	$ 33,511	$ 82	$ 63,363
Exercise of stock options	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
Balance at December 31, 2020	2,863,671	$ 285	$ 31,366	$ 41,433	$ 3,574	$ 76,658
Exercise of stock options	13,144	2	271	-	-	273
Proceeds from buy back shares of common stock, net	(15,642)	(1)	(811)	-	-	(812)
Issuance of restricted shares of common stock, net	18,111	2	(2)	-	-	-
Stock based compensation expense	-	-	966	-	-	966
Cash dividends ($2.20 per share)	-	-	-	(6,346)	-	(6,346)
Net income	-	-	-	14,541	-	14,541
Other comprehensive income	-	-	-	-	(1,229)	(1,229)
Balance at December 31, 2021	2,879,284	$ 288	$ 31,790	$ 49,628	$ 2,345	$ 84,051

See accompanying notes to consolidated financial statements.

(Dollars in thousands except share and per share amounts)

	2021	2020
Cash flows from operating activities		
Net income	$ 14,541	$ 11,149
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	338	232
Net amortization of securities	1,959	956
Deferred income tax benefit	(106)	(237)
Provision for loan losses	291	1,093
Gain on sale of loans held for sale	(38)	(51)
Loans originated and held for sale	(2,767)	(3,596)
Proceeds from sale of loans held for sale	2,803	3,996
Stock based compensation expense	966	928
Bank owned life insurance income	(204)	(212)
Net change in:		
Accrued interest receivable	307	(811)
Other assets	467	(1,783)
Other liabilities	(161)	1,309
Net cash from operating activities	18,396	12,973
Cash flows from investing activities		
Net decrease in time deposits in other financial institutions	151	2,226
Available for sale securities:		
Purchases	(125,364)	(105,937)
Maturities, calls and paydowns	24,070	19,861
Net increase in loans	(75,176)	(55,856)
Purchase of restricted equity securities	(28)	(615)
Additions of premises and equipment, net	(48)	(441)
Net cash from investing activities	(176,395)	(140,762)
Cash flows from financing activities		
Repayments of Federal Home Loan Bank advances	(13,173)	(738)
Net increase in deposits	183,450	175,949
Proceeds from issuance of subordinate debt	-	14,505
Proceeds from exercise of stock options	273	970
Purchase of common stock	(812)	(17)
Cash dividends paid	(6,346)	(5,979)
Net cash from financing activities	163,392	184,690
Net change in cash and cash equivalents	5,393	56,901
Cash and cash equivalents at beginning of year	94,096	37,195
Cash and cash equivalents at end of year	$ 99,489	$ 94,096
Supplemental cash flow information:		
Cash paid during year for interest	$ 3,383	$ 2,702
Cash paid during year for income taxes	3,429	2,695
Supplemental noncash disclosure:		
Lease liabilities arising from right of use asset	-	1,130

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, 2022, 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 2025 to 2026.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale: 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.

The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right, if servicing is retained. As of December 31, 2021, the Company has not sold any loans with servicing retained. 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.

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.

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 $504 and $590 were included in other assets as of December 31, 2021 and 2020.

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 earning 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 effects 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.

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.

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.

(Dollars in thousands except share and per share amounts)

NOTE 2 - SECURITIES

The following table summarizes the amortized cost and fair value of the available for sale securities portfolio at December 31, 2021 and 2020 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Asset backed securities	56,483	126	(477)	56,132
Corporate bonds	15,029	183	(127)	15,085
State and political subdivisions	92,692	4,026	(42)	96,676
Collateralized mortgage obligations	90,461	475	(839)	90,097
Mortgage-backed securities: residential	31,756	199	(472)	31,483
Mortgage-backed securities: commercial	12,950	117	(38)	13,029
Total available for sale	$ 299,371	$ 5,126	$ (1,995)	$ 302,502

2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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	16,883	191	(91)	16,983
Total available for sale	$ 200,037	$ 6,884	$ (603)	$ 206,318

(Dollars in thousands except share and per share amounts)

NOTE 2 – SECURITIES (Continued)

There were no sales of available for sale securities during the years ending December 31, 2021, and 2020.

Securities pledged at year-end 2021 and 2020 had a carrying value of $40,313 and $41,670 and were pledged to secure public deposits, interest rate swaps, and one of the bank's federal funds lines 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.

	December 31, 2021	
	Amortized Cost	Fair Value
Within one year	$ 1,503	$ 1,525
One to five years	10,027	10,084
Five to ten years	15,214	15,641
Beyond ten years	80,977	84,511
Asset backed securities	56,483	56,132
Collateralized mortgage obligations	90,461	90,097
Mortgage-backed securities: residential	31,756	31,483
Mortgage-backed securities: commercial	12,950	13,029
Total	$ 299,371	$ 302,502

The following table summarizes the investment securities with unrealized losses at December 31, 2021 and 2020 aggregated by major security type and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
December 31, 2021	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
Asset backed securities	$ 37,927	$ (477)	$ -	$ -	$ 37,927	$ (477)
Corporate bonds	6,363	(127)	-	-	6,363	(127)
State and political subdivisions	2,925	(42)	-	-	2,925	(42)
Collateralized mortgage obligation	59,377	(765)	5,169	(74)	64,546	(839)
Mortgage-backed securities: residential	18,561	(271)	6,333	(201)	24,894	(472)
Mortgage-backed securities: commercial	256	(1)	4,890	(37)	5,146	(38)
Total available for sale	$ 125,409	$ (1,683)	$ 16,392	$ (312)	$ 141,801	$ (1,995)

(Dollars in thousands except share and per share amounts)

NOTE 2 – SECURITIES (Continued)

	Less than 12 Months		12 Months or More		Total	
December 31, 2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
Asset backed securities	$ -	$ -	$ 11,859	$ (247)	$ 11,859	$ (247)
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	3,218	(8)	6,440	(83)	9,658	(91)
Total available for sale	$ 26,146	$ (186)	$ 21,979	$ (417)	$ 48,125	$ (603)

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, 2021.

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, 2021 and 2020:

	2021	2020
Federal Home Loan Bank stock	$ 2,440	$ 2,440
Federal Reserve Bank stock	802	774
	$ 3,242	$ 3,214

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS

Loans at year end were as follows:

	2021	2020
Commercial	$ 38,549	$ 62,792
Commercial real estate	197,047	158,383
Residential real estate:		
Closed-end	160,235	107,261
Open-end	32,780	30,256
Construction and land development	39,999	36,162
Consumer	26,870	25,583
Subtotal	495,480	420,437
Net deferred loan fees	(681)	(809)
Gross loans	$ 494,799	$ 419,628

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 $506 and $24,522 of PPP loans, in 2021 and 2020, respectively.

(Dollars in thousands except share and per share amounts)

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, 2021 and 2020:

December 31, 2021	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 539	$ 2,058	$ 955	$ 668	$ 270	$ -	$ 4,490
Provision (credit) for loan losses	(54)	340	(38)	(112)	13	142	291
Loans charged-off	-	-	(20)	-	-	-	(20)
Recoveries	-	-	14	-	-	-	14
Total ending allowance balance	$ 485	$ 2,398	$ 911	$ 556	$ 283	$ 142	$ 4,775

December 31, 2020	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
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	$ 539	$ 2,058	$ 955	$ 668	$ 270	$ -	$ 4,490

(Dollars in thousands except share and per share amounts)

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, 2021 and 2020. The recorded investment amounts do not include accrued and unpaid interest or any net deferred loan fees or costs due to immateriality.

December 31, 2021	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	485	2,398	911	556	283	142	4,775
Total ending allowance balance	$ 485	$ 2,398	$ 911	$ 556	$ 283	$ 142	$ 4,775
Loans:							
Individually evaluated for impairment	$ -	$ 5,767	$ 307	$ -	$ -	$ -	$ 6,074
Collectively evaluated for impairment	38,549	191,280	192,708	39,999	26,870	-	489,406
Total ending loans balance	$ 38,549	$ 197,047	$ 193,015	$ 39,999	$ 26,870	$ -	$ 495,480
December 31, 2020							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 260	$ -	$ -	$ -	$ 260
Collectively evaluated for impairment	539	2,058	695	668	270	-	4,230
Total ending allowance balance	$ 539	$ 2,058	$ 955	$ 668	$ 270	$ -	$ 4,490
Loans:							
Individually evaluated for impairment	$ -	$ -	$ 2,130	$ -	$ -	$ -	$ 2,130
Collectively evaluated for impairment	62,792	158,383	135,387	36,162	25,583	-	418,307
Total ending loans balance	$ 62,792	$ 158,383	$ 137,517	$ 36,162	$ 25,583	$ -	$ 420,437

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

As of December 31, 2021, and 2020, the Corporation has a recorded investment in troubled debt restructurings of $6,074 and $113. The Corporation has allocated no specific reserves for those loans at December 31, 2021 and 2020.

The modifications in terms associated with troubled debt restructurings that occurred in 2021 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 or commercial 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, 2021.

The following table presents loans by class modified as troubled debt restructuring that occurred during the year ending December 31, 2021, and 2020:

	Number Of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2021			
Troubled debt restructurings:			
Commercial real estate	2	$ 5,767	$ 5,767
Residential real estate:			
Closed-end	1	$ 196	$ 196

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

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, 2021 and 2020.

(Dollars in thousands except share and per share amounts)

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, 2021, and 2020:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2021						
With no related allowance recorded:						
Residential real estate:						
Closed-end	$ 307	$ 307	$ -	$ 226	$ 12	$ 12
With no related allowance recorded:						
Commercial real estate	5,767	5,767	-	949	14	14
With an allowance recorded:						
Residential real estate:						
Closed-end	-	-	-	1,340	134	134
Total	$ 6,074	$ 6,074	$ -	$ 2,515	$ 160	$ 160
December 31, 2020						
With no related allowance recorded:						
Residential real estate:						
Closed-end	$ 113	$ 113	$ -	$ 114	$ 3	$ 3
With an allowance recorded:						
Residential real estate:						
Closed-end	2,017	2,017	260	2,050	29	29
Total	$ 2,130	$ 2,130	$ 260	$ 2,164	$ 32	$ 32

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

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

There were $0 and $12 loans past due over 90 days and still accruing as of December 31, 2021, and 2020, respectively.

There were $0 and $2,017 loans on non-accrual as of December 31, 2021, and 2020, respectively.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2021, and 2020 by class of loans:

December 31, 2021	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial	$ -	$ -	$ -	$ -	$ 38,549	$ 38,549
Commercial real estate	-	-	-	-	197,047	197,047
Residential real estate:						
Closed-end	14	11	-	25	160,210	160,235
Open-end	-	-	-	-	32,780	32,780
Construction and land Development	-	-	-	-	39,999	39,999
Consumer	-	-	-	-	26,870	26,870
Total	$ 14	$ 11	$ -	$ 25	$ 495,455	$ 495,480
December 31, 2020						
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
Total	$ 154	$ 104	$ 2,029	$ 2,287	$ 418,150	$ 420,437

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. The Company had no loans modified at December 31, 2021, and had 3 commercial loans modified with outstanding balances of $5,005 at December 31, 2020.

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:

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

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.

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, 2021, and 2020, based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful
December 31, 2021				
Commercial	$ 38,549	$ -	$ -	$ -
Commercial real estate	191,280	5,767	-	-
Residential real estate:				
Closed-end	160,028	196	11	-
Open-end	32,780	-	-	-
Construction and land development:	39,999	-	-	-
Consumer	26,870	-	-	-
Total	$ 489,506	$ 5,963	$ 11	$ -
December 31, 2020				
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	25,583	-	-	-
Total	$ 417,655	$ 310	$ 2,472	$ -

(Dollars in thousands except share and per share amounts)

NOTE 4 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2021	2020
Leasehold improvements	$ 1,366	$ 1,366
Furniture, fixtures and equipment	905	887
Computer software	991	961
	3,262	3,214
Less: Accumulated depreciation and amortization	(2,946)	(2,707)
Net premises and equipment	$ 316	$ 507

Depreciation and amortization expense totaled $239 and $207 for 2021 and 2020, 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 5 months to 17 months, 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:

Balance Sheet Classification		2021	2020
Right-of-use assets:			
Operating leases	Other assets	$ 681	$ 1,130
Lease liabilities:			
Operating leases	Other liabilities	$ 681	$ 1,130

(Dollars in thousands except share and per share amounts)

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, 2021 are as follows:

	Operating Leases
2022	$ 494
2023	202
Total undiscounted lease payments	696
Less: imputed interest	15
Net lease liabilities	$ 681

Supplemental lease Information

	2021	2020
Operating lease weighted average remaining lease term (years)	1.4	2.4
Operating lease weighted average discount rate	2.77%	2.77%

NOTE 6 - DEPOSITS

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

2022	$ 6,152
2023	1,959
2024	407
2025	7,418
2026	5,767

Time deposits that meet or exceed the FDIC Insurance limit of $250 at December 31, 2021 and 2020 were $15,663 and $25,922.

(Dollars in thousands except share and per share amounts)

NOTE 7 - BORROWINGS

Borrowings include Federal Home Loan Bank advances and subordinated debt.

Federal Home Loan Bank Advances

At December 31, 2021 and 2020, advances from the FHLB were as follows:

For 2021, interest rates ranged from 1.02% to 2.90%, averaging 2.01% with maturities between January 24, 2024 and April 28, 2025.	$ 4,500
For 2020, interest rates ranged from 1.00% to 2.90%, averaging 1.95% with maturities between January 19, 2021 and June 1, 2028.	$ 17,673

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 $87,558 of 1-4 family, first mortgage loans and $21,569 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 $83,835 as of December 31, 2021.

Payments over the next five years are as follows:

2024	$ 2,250
2025	2,250

Subordinated Debt

In 2020, the Corporation issued $15,000 of ten year fixed-to-floating rate subordinated notes maturing September 30, 2030. This subordinated note instrument pays interest semi-annually in arrears based on a 4.5% fixed annual interest rate for the first five years of the notes. For years six through ten, the interest rate resets on a quarterly basis, and will be based on the 3-month Secured Overnight Financing Rate plus a spread of 438 basis points. The Company is entitled to redeem the notes in whole or in part on any interest payment date on or after September 30, 2025.

The Company has recorded the issuance, net of unamortized issuance costs of $372 and $471 as of December 31, 2021, and 2020, respectively.

(Dollars in thousands except share and per share amounts)

NOTE 8 - INCOME TAXES

Income tax expense was as follows:

	2021	2020
Current expense		
Federal	$ 3,230	$ 2,526
State	(255)	20
Total current	2,975	2,546
Deferred benefit		
Federal	(212)	(163)
State	106	(74)
Total deferred	(106)	(237)
Total	$ 2,869	$ 2,309

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

	2021	2020
Federal statutory rate times financial statement income	$ 3,656	$ 2,826
Effect of:		
State taxes, net of federal benefit	(118)	(43)
Tax exempt interest income	(288)	(196)
Bank owned life insurance income	(43)	(45)
Captive insurance premiums and disallowances	(186)	(178)
Other, net	(152)	(55)
Total income tax expense	$ 2,869	$ 2,309

(Dollars in thousands except share and per share amounts)

NOTE 8 - INCOME TAXES (Continued)

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

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 1,242	$ 1,162
Organizational and start-up expenditures	1	2
Loan origination income	237	163
Non-accrual loan interest	-	19
Net unrealized loss on cash flow hedges	-	373
Depreciation	32	9
Other	201	306
Total deferred tax assets	1,713	2,034
Deferred tax liabilities:		
Prepaid expenses	(279)	(282)
Stock based compensation expense	(260)	(224)
Restricted equity stock dividends	(6)	(7)
Loan origination expenses	(63)	(64)
Non-accrual loan interest	(12)	-
Net unrealized gain on cash flow hedges	(16)	-
Net unrealized gains on available for sale securities	(818)	(1,642)
Other	(197)	(294)
Total deferred tax liabilities	(1,651)	(2,513)
Deferred tax asset (liability), net	$ 62	$ (479)

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, 2021, and 2020. 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 2017.

NOTE 9 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors and their affiliates at December 31, 2021 and 2020 totaled $10,241 and $11,925, respectively.

Deposits from principal officers, directors and their affiliates at December 31, 2021 and 2020 totaled $3,123 and $4,284, respectively.

Wealth management fees earned from assets under management for principal officers, directors and their affiliates at December 31, 2021 and 2020 totaled $1,011 and $821, 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, 2021, 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, 2021 and 2020, 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.

(Dollars in thousands except share and per share amounts)

NOTE 10 - REGULATORY CAPITAL MATTERS (Continued)

Actual and required capital amounts and ratios for the Bank are presented below as of December 31, 2021 and 2020. The capital conservation buffer is not included in the required ratios of the table presented below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
2021	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets	$ 82,835	14.66%	$ 45,195	8.00%	$ 56,494	10.00%
Tier 1 (Core) Capital to risk weighted assets	78,060	13.82%	33,896	6.00%	45,195	8.00%
Common Tier 1 (CET1)	78,060	13.82%	25,422	4.50%	36,721	6.50%
Tier 1 (Core) Capital to average assets	78,060	8.95%	34,870	4.00%	43,588	5.00%
2020	Amount	Ratio	Amount	Ratio	Amount	Ratio
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%

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 2021, the Bank could, without prior approval, declare dividends of approximately $15,102 plus any 2021 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:

	2021	2020
Letters of Credit	$ 3,690	$ 3,619
Unused Lines of Credit	141,399	120,103

(Dollars in thousands except share and per share amounts)

NOTE 12 - STOCK BASED COMPENSATION PLAN

Total stock-based compensation expense in 2021 and 2020 was $966 and $928, respectively. Related to the 2021 and 2020 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 2021 employees forfeited 1,011 shares with a total fair value of $47. During 2020 employees forfeited 1,080 shares with a total fair value of $51. These amounts were recorded in salaries and employee benefits on the Corporation's consolidated statements of income in 2021 and 2020.

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, 2021, the Corporation had issued grants totaling 866,249 shares under the 2008 Equity Incentive Plan and its predecessor, the 2004 Employee Share Option Plan. The Corporation's 2021 Equity Incentive Plan, approved by shareholders on May 19, 2021, provides for the grant of stock options, restricted stock, and other equity-based incentives of 233,751 shares. This includes 200,000 shares newly authorized shares under the 2021 Equity Incentive Plan and 33,751 shares previously available under the 2008 Equity Incentive Plan. As of December 31, 2021, the Corporation has not issued any of these shares under the 2021 Equity Incentive Plan.

<u>Stock Option Grants</u>

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 2021 and 2020. 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 2021 and 2020, the Corporation issued incentive stock options to outside directors and certain employees for the purchase of 5,000 shares and no shares of common stock, respectively. The fair value of options granted in 2021 and 2020 was determined using the following assumptions as of grant date:

	2021	2020
Risk-free interest rate	1.20%	-
Expected term	6.75 years	-
Expected stock price volatility	38.69%	-
Dividend yield	2.15%	-

(Dollars in thousands except share and per share amounts)

NOTE 12 - STOCK BASED COMPENSATION PLAN (Continued)

A summary of the stock option activity for 2021 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	42,276	$ 28.01	4.7	
Granted	5,000	52.00		
Forfeited	(644)	31.00		
Exercised	(13,144)	21.59		
Outstanding at end of year	33,488	34.06	6.0	$ 1,304
Vested or expected to vest	33,488	34,06	6.0	1,304
Exercisable at end of year	20,419	28.50	4.8	909

Information related to stock options during each year follows:

	2021	2020
Intrinsic value of options exercised	$ 676	$ 1,445
Cash received from option exercises	273	970
Weighted average fair value of options granted	20.94	-

There was a total of $184 in unrecognized compensation cost related to non-vested stock options granted under the Plan as of December 31, 2021. The cost is expected to be recognized over a weighted-average period of 2.4 years.

Restricted Stock Grants

In 2021 and 2020, the Corporation issued 20,569 and 32,528 restricted shares of common stock, respectively. 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 2026.

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

Non-vested shares	Shares	Weighted-Average Fair Value
Non-vested at January 1, 2021	69,973	$ 39.03
Granted	20,569	47.23
Vested	(25,204)	34.88
Forfeited or expired	(2,458)	40.14
Non-vested at December 31, 2021	62,880	$ 41.65

As of December 31, 2021, there was $1,949 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 2.0 years.

(Dollars in thousands except share and per share amounts)

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 Corporation has entered into swaps designated as Fair Value Hedges for Loans and Securities, totaling $23,317 and $10,750 in notional, respectively, as of December 31, 2021. In February 2020, the Corporation hedged the fair value of six municipal bond holdings with swaps, through which the Corporation pays fixed rates matching the bonds' coupons and receives 3-month USD LIBOR plus a spread until the bonds' first call dates. Prior to 2021, the Corporation had hedged four loans with swaps matching the notional, amortization schedule, and maturity of those loans. With these swaps, the Corporation pays the swap counterparty a fixed rate equal to the loan interest and receives 1-month USD LIBOR plus a spread. The loan customers are not party to the swaps, but their loans have prepayment penalties that would equal the cost to unwind the swaps, if necessary. In 2021, the Corporation entered two more similar swaps to hedge 10-year loans, receiving a floating rate based on 1-month LIBOR for one and an average rate based on the Secured Overnight Financing Rate (SOFR) for the other.

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

Interest rate contracts	Location	2021	2020
Change in fair value on interest rate swaps hedging loans and securities	Loan interest income	$ (12)	$ (18)

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

	2021		2020	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Derivatives designated as hedges:				
Interest rate swaps	$ 34,067	$ 1,036	$ 29,826	$ 2,741
Included in other liabilities:				
Derivatives designated as hedges:				
Interest rate swaps	$ 34,067	$ 781	$ 29,826	$ 2,474

Cash Flow Hedge

Interest Rate Swaps Designated as Cash Flow Hedges: Interest rate swaps with notional amounts totaling $30,000 as of December 31, 2021, and 2020, were designated as cash flow hedges of certain deposit accounts and were determined to be fully effective during the periods presented. For $15,000 notional of the cash flow hedges, the Corporation pays a fixed rate and receives a monthly average of the Effective Federal Funds rate, to which the hedged deposits' rates are indexed. For the other $15,000 notional, the Corporation pays a fixed rate and receives 3-month USD LIBOR, which is highly correlated to the cost of the 3-month wholesale borrowings (such as FHLB advances or brokered CDs) being hedged. As such, no amount of ineffectiveness has been included in net income. Therefore, the

(Dollars in thousands except share and per share amounts)

NOTE 13 – DERIVATIVES (Continued)

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:

	2021:		
	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	$ 1,488	$ -	$ -

	2020:		
	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	$ (439)	$ -	$ -

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

	2021		2020	
Included in other liabilities:	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps related to deposits	$ 30,000	$ (62)	$ 30,000	$ 1,426

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.

(Dollars in thousands except share and per share amounts)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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

		Fair Value Measurements at Using:	
December 31, 2021	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
Financial assets:			
Investment securities available for sale			
Asset backed securities	$ 56,132	$ -	$ 56,132
Corporate bonds	15,085	-	15,085
State and political subdivisions	96,676	-	96,676
Collateralized mortgage obligations	90,097	-	90,097
Mortgage-backed securities: residential	31,483	-	31,483
Mortgage-backed securities: commercial	13,029	-	13,029
Total investment securities available for sale	$ 302,502	$ -	$ 302,502
Derivatives	$ 1,036	$ -	$ 1,036
Financial liabilities:			
Derivatives	$ 719	$ -	$ 719

		Fair Value Measurements at Using:	
December 31, 2020	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
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	$ 206,318	$ -	$ 206,318
Derivatives	$ 2,741	$ -	$ 2,741
Financial liabilities:			
Derivatives	$ 3,900	$ -	$ 3,900

There were no transfers between Level 1 and Level 2 during 2021 or 2020.

(Dollars in thousands except share and per share amounts)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of financial instruments, at December 31, 2021 and December 31, 2020 are as follows:

		Fair Value Measurements Using:			
December 31, 2021	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 99,489	$ 99,489	$ -	$ -	$ 99,489
Time deposits in other financial institutions	2,780	-	2,780	-	2,780
Securities available-for-sale	302,502	-	302,502	-	302,502
Restricted equity securities	3,242	NA	NA	NA	NA
Loans, net	490,024	-	-	489,357	489,357
Accrued interest receivable	2,346	-	1,148	1,198	2,346
Financial liabilities					
Deposits	$ 807,475	$ -	$ 806,902	$ -	$ 806,902
Federal Home Loan Bank advances	4,500	-	4,551	-	4,551
Accrued interest payable	14	14	-	-	14
December 31, 2020					
Financial assets					
Cash and cash equivalents	$ 94,096	$ 94,096	$ -	$ -	$ 94,096
Time deposits in other financial institutions	2,931	-	2,931	-	2,931
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

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.

(Dollars in thousands except share and per share amounts)

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 2021 and 2020 was $298 and $265, respectively.

NOTE 16 – OTHER COMPREHENSIVE INCOME (LOSS)

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

	Balance at 12/31/2020	Current Period Change	Balance at 12/31/2021
Unrealized gains (losses) on securities available for sale	$ 4,627	$ (2,328)	$ 2,299
Unrealized gains (losses) on cash flow hedge	(1,053)	1,099	46
Total	$ 3,574	$ (1,229)	$ 2,345

(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:

	2021	2020
Basic		
Net income	$ 14,541	$ 11,149
Less: Undistributed income allocated to participating securities	350	260
Net earnings allocated to common stock	$ 14,191	$ 10,889
Weighted common shares outstanding including participating securities	2,880,187	2,826,240
Less: Participating securities	69,356	65,867
Weighted average shares	2,810,831	2,760,373
Basic earnings per share	$ 5.05	$ 3.94
Diluted earnings allocated to common stock	$ 14,191	$ 10,889
Weighted average shares	2,810,831	2,760,373
Add: Diluted effects of assumed exercises of stock options and warrants	13,367	29,432
Average shares and dilutive potential common shares	2,824,198	2,789,805
Diluted earnings per share	$ 5.02	$ 3.90

At year-end 2021, there were 5,000 stock options that were not considered in computing diluted earnings per common share for 2021, because they were antidilutive. 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.