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January 20, 2023

#### Dear Fellow Shareholders:

The Bank had a record setting year! Earnings at \$6.4 million compared favorably to \$6.1 million last year. Earnings per share increased from \$11.72 in 2021 to \$12.18 in 2022. The Bank's cash distribution increased from \$7.00 per share in 2021 to \$7.25 per share in 2022. The Return on Average Assets and the Return on Average Equity were excellent at 1.49% and 16.37%, respectively.

Total assets also set a record, finishing the year at \$444 million compared to \$412 million in 2021. Net loans increased to \$285 million compared to \$263 million in 2021. Loan quality continues to be good with low charge-offs and few non-performing loans. The Bank's allocation for loan losses is good at 1.43% of the total loans and the capital ratio is good at 9.09%.

The Homewood branch opened in 2022 and received a warm welcome in the community, exceeding our deposit goal for the first year's operations. Our new Mobile Banking app known as Banno came online in 2022 also. It too has been well received by customers. We will continue to invest in growing markets and technology to provide convenience and local banking expertise to customers.

In 2023, the economic outlook is for "decelerating growth, rapid monetary tightening and moderating inflation. The US could enter a mild recession by the end of the year as higher interest rates slow demand for goods, services and the workers to produce them," according to J.P. Morgan Chase.

Federal Reserve Chair Jerome Powell has warned the fed funds rate would likely peak higher than previously forecast, the "dot plot" of policymakers' median forecasts indicates rates will reach around 5.00% by the end of 2023. This would suggest a prime rate of 8.00-8.25% at year-end 2023.

The message seems to be that while rate increases will occur in 2023, the slower pace of interest rate hikes will allow the Federal Reserve time to assess the impact of tightening, particularly on service sector inflation. Some analysts believe this will result in rates being higher for longer. Regardless, we look forward to the challenges of the new year.

#### President's Letter (Continued)

The Bank applies the Golden Rule as our guide to be a responsible corporate citizen. We take pride in providing community support through donations to various charitable efforts. Our employees volunteer their time and leadership skills to important causes such as financial literacy in area schools, serving on boards to help the underprivileged, civic and industrial development to name a few.

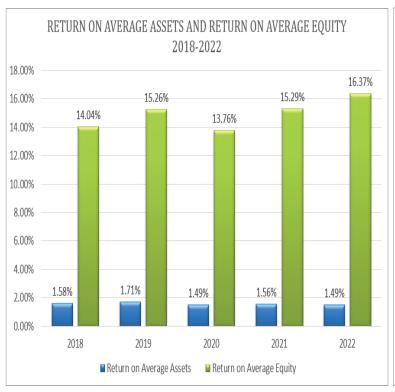
In closing, I would like to thank our staff, customers, and the Board of Directors for their support and contributions that make Robertson Banking Company successful. Thank you for your investment in Robertson Banking Company.

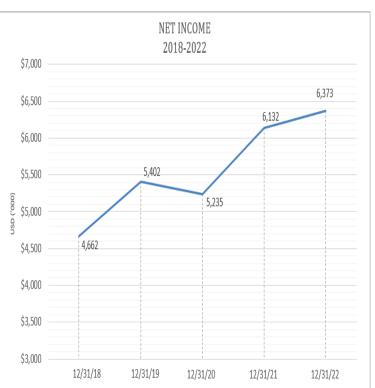
Sincerely yours,

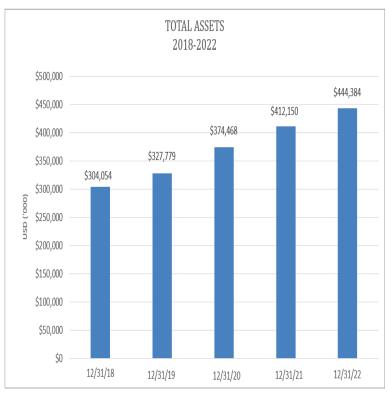
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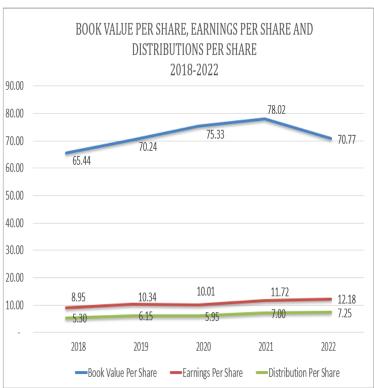
Director, President and Chief Executive Officer

### **RBC, Inc & Subsidiary**









# RBC, Inc. & Subsidiary Financial Highlights

			Percent
December 31,	2022	2021	Increase (Decrease)
Consolidated Balance Sheets			
Total assets	\$ 444,384,210	\$ 412,149,692	7.82%
Loans, net	284,569,427	262,971,723	8.21%
Total deposits	402,176,531	368,986,222	8.99%
Shareholders' equity	37,040,241	40,813,174	(9.24%)
Consolidated Statements of Income			
Net income	\$ 6,373,094	\$ 6,132,245	3.93%
Earnings per share	12.18	11.72	3.88%
Selected Ratios			
Net income to average total assets	1.49%	1.56%	
Net income to average shareholders'			
equity	16.37%	15.29%	
Allowance for loan losses to loans	1.43%	1.57%	
Average shareholders' equity			
to average total assets	9.09%	10.20%	
Common Stock			
Book value per share	\$ 70.77	\$ 78.02	
Cash dividend paid per share	7.25	7.00	
Weighted average shares outstanding	523,375	523,112	



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#### INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the Board of Directors of RBC, Inc. and Subsidiary

#### Opinion

We have audited the accompanying consolidated financial statements of RBC, Inc. (a Delaware corporation) and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RBC, Inc. and Subsidiary as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of RBC, Inc. and Subsidiary and to meet our 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 RBC, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal controls 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 RBC, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about RBC, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

CARR, RIGGS & INGRAM, L.L.C.

er, Riggs! Chypan, L.L.C.

Enterprise, Alabama February 10, 2023

## RBC, Inc. & Subsidiary Consolidated Balance Sheets

December 31,	2022		2021
Assets Cash and due from financial institutions Federal funds sold	\$ 28,684,969 5,090,000	\$	53,885,391 <u>-</u>
Cash and cash equivalents	33,774,969		53,885,391
Interest-bearing deposits in other financial institutions Debt securities available for sale Loans, net of allowance of \$4,136,047 and \$4,206,704	1,001,718 106,357,048		1,007,746 79,203,158
as of December 31, 2022 and 2021, respectively Other restricted stock, at cost Accrued interest receivable	284,569,427 992,000 1,442,241		262,971,723 971,698 1,098,431
Premises and equipment, net Right-of-use operating lease assets Bank owned life insurance Other assets	6,377,788 576,633 8,332,354 960,032		4,393,650 - 8,141,170 476,725
Total assets	\$ 444,384,210	\$	412,149,692
Liabilities and Shareholders' Equity Deposits Non-interest bearing Interest bearing	\$ 120,534,759 281,641,772	\$	111,196,062 257,790,160
Total deposits	402,176,531		368,986,222
Operating lease liabilities  Accrued interest payable and other liabilities	643,929 4,523,509		- 2,350,296
Total liabilities	407,343,969		371,336,518
Shareholders' equity Common stock, \$0.20 par value; 1,000,000 shares authorized;	146 927		146 927
734,137 shares issued at December 31, 2022 and 2021 Additional paid-in capital Retained earnings Accumulated other comprehensive income (loss)	146,827 3,014,669 49,563,717		146,827 2,989,557 46,969,474
Treasury stock, at cost (2022 - 210,693 shares; 2021 - 211,025 shares)	(6,724,117) (8,960,855)		(317,657)
Total shareholders' equity	37,040,241	_	40,813,174
Total liabilities and shareholders' equity	\$ 444,384,210	\$	412,149,692

## RBC, Inc. & Subsidiary Consolidated Statements of Income

For the years ended December 31,		2022	2021
Interest and Dividend Income Loans, including fees	\$	<b>12,918,122</b> \$	12,093,748
Interest and dividend income on securities	Ą	1,484,436	733,876
Federal funds sold and other		366,456	39,343
Total interest and dividend income		·	
rotal interest and dividend income		14,769,014	12,866,967
Interest Expense			
Deposits		770,797	775,148
Federal Home Loan Bank advances		-	15,995
Total interest expense		770,797	791,143
Net interest income		13,998,217	12,075,824
(Provision) for loan losses		(150,000)	(300,000)
Net interest income after provision for loan losses		13,848,217	11,775,824
Non-Interest Income			
Service charges on deposits		873,112	811,348
Other service charges		1,431,972	1,240,573
Trust fees		167,918	180,945
Other		403,846	1,965,689
Total non-interest income		2,876,848	4,198,555
Non-Interest Expense			
Salaries and employee benefits		5,981,121	5,680,133
Occupancy and equipment		1,571,944	1,562,224
Director fees		255,725	263,940
ATM expenses		397,226	357,573
Administrative fees		237,353	220,767
Business Manager		6,184	28,418
Professional fees		192,316	194,819
Postage and shipping		119,546	149,745
Regulatory fees		173,375	166,935
Other		992,181	782,580
Total non-interest expense		9,926,971	9,407,134
Income before income taxes		6,798,094	6,567,245
Income tax expense		425,000	435,000
Net income	\$	<b>6,373,094</b> \$	6,132,245
Earnings per Share	\$	<b>12.18</b> \$	11.72

## RBC, Inc. & Subsidiary Consolidated Statements of Comprehensive Income

For the years ended December 31,	2022	2021
Net income	\$ <b>6,373,094</b> \$	6,132,245
Other comprehensive income (loss): Unrealized gain (loss) on securities:		
Unrealized holding gain/(loss) arising during the period	(6,851,831)	(1,128,954)
Tax effect	445,371	73,378
Net of tax	(6,406,460)	(1,055,576)
Comprehensive income (loss)	\$ <b>(33,366)</b> \$	5,076,669

RBC, Inc. & Subsidiary Consolidated Statements of Changes in Shareholders' Equity

			Additional		Accumulate Oth			
		Common	Paid-in		Comprehens		Treasury	
	Shares	Stock	Capital	Earnings	Income (Lo	ss)	Stock	Total
Balance at January 1, 2021	734,137	\$ 146,827	\$ 2,989,557	\$ 44,499,013	\$ 737,93	9 9	(8,975,027)	\$ 39,398,289
Net income	-	-	-	6,132,245		-	-	6,132,245
Other comprehensive loss	-	-	-	-	(1,055,5	'6)	-	(1,055,576)
Cash dividends paid (\$7.00 per share)	-	-	-	(3,661,784)		-	-	(3,661,784)
Balance at December 31, 2021	734,137	146,827	2,989,557	46,969,474	(317,65	57)	(8,975,027)	40,813,174
Net income	-	-	-	6,373,094		-	-	6,373,094
Other comprehensive loss	-	-	-	-	(6,406,46	50)	-	(6,406,460)
Restricted treasury stock awarded (332 shares)	-	-	25,112	-		-	14,172	39,284
Cash dividends paid (\$7.25 per share)	-	-	-	(3,778,851)		-	-	(3,778,851)
Balance at December 31, 2022	734,137	\$ 146,827	\$ 3,014,669	\$ 49,563,717	\$ (6,724,12	L7) Ş	(8,960,855)	\$ 37,040,241

## RBC, Inc. & Subsidiary Consolidated Statements of Cash Flows

Operating Activities         \$ 6,373,094         \$ 6,132,245           Adjustments to reconcile net income to net cash from operating activities from operating activities         150,000         300,000           Provision for loan losses         150,000         300,000           Net amortization (accretion) of debt securities         57,200         217,079           Depreciation and amortization of premises and equipment (Gain) loss on disposal of fixed assets         95,801         16,794           (Earnings) losses on bank owned life insurance         (191,184)         (123,665)           Net change in operating assets sand liabilities         (576,633)         -           Right-of-use operating lease assets         (576,633)         -           Accrued interest receivable         (343,810)         64,005           Other assets         (37,936)         215,845           Accrued interest payable and other liabilities         643,929         -           Net cash provided by (used in) operating activities         6,726,726         7,426,278           Investing Activities         8         (253,748)           Net increase (decrease) in interest-bearing deposits in other financial institutions         6,028         (253,748)           Available-for-sale securities:         7,680,000         5,571,349           Purchases         (1,474	For the years ended December 31,	2022	2021
Adjustments to reconcile net income to net cash from operating activities Provision for loan losses 150,000 300,000 Net amortization (accretion) of debt securities 57,200 217,079 Depreciation and amortization of premises and equipment (Gain) loss on disposal of fixed assets 95,801 16,794 (Earnings) losses on bank owned life insurance (191,184) (123,665) Net change in operating assets and liabilities Right-of-use operating lease assets (576,633) Accrued interest receivable (343,810) 64,005 Other assets (37,936) 215,845 Accrued interest payable and other liabilities (37,936) 215,845 Accrued interest payable and other liabilities (433,929) 7. Net cash provided by (used in) operating activities (576,633) 643,929 7. Net cash provided by (used in) operating activities (576,633) 643,929 7. Net cash provided by (used in) operating deposits in other financial institutions (5,23,748) Available-for-sale securities: Maturities, prepayments and calls (253,748) Available-for-sale securities, at cost (20,300) 108,400 Loan originations and payments, net (21,747,704) 8,079,102 Purchases of bank owned life insurance (21,747,704) 8,079,102 Purchase of bank owned life insurance (24,50,993) (353,657) Net cash provided by (used in) investing activities (58,275,892) (32,245,903) Financing Activities  Net change in deposits (33,900,000) 7,000,000) 7,000,000 7,000,000 7,000,000 7,000,000	Operating Activities		
From operating activities         150,000         300,000           Provision for loan losses         150,000         217,079           Depreciation and amortization of premises and equipment         371,054         276,451           (Gain) loss on disposal of fixed assets         95,801         16,794           (Earnings) losses on bank owned life insurance         (191,184)         (123,665)           Net change in operating assets and liabilities         (576,633)         -           Right-of-use operating lease assets         (576,633)         -           Accrued interest receivable         (343,810)         64,005           Other assets         (37,936)         215,845           Accrued interest payable and other liabilities         185,211         327,524           Operating lease liabilities         643,929         -           Investing Activities         6,726,726         7,426,278           Investing Activities         6,028         (253,748)           Net cash provided by (used in) operating activities         6,028         (253,748)           Available-for-sale securities:         41,742,923         (41,497,349)           Available-for-sale securities:         41,742,923         (41,497,349)           Sales (purchases) of other securities, at cost         (20,300)         <	Net income	\$ 6,373,094	\$ 6,132,245
Provision for Joan losses         150,000         300,000           Net amortization (accretion) of debt securities         57,200         217,079           Depreciation and amortization of premises and equipment (Gain) loss on disposal of fixed assets         95,801         16,794           (Earnings) losses on bank owned life insurance         (191,184)         (123,665)           Net change in operating assets and liabilities         (576,633)         -           Right-of-use operating lease assets         (576,633)         -           Accrued interest receivable         (343,810)         64,005           Other assets         (37,936)         215,845           Accrued interest payable and other liabilities         185,211         327,524           Operating lease liabilities         643,929         -           Net cash provided by (used in) operating activities         6,726,726         7,426,278           Investing Activities         6,028         (253,748)           Net increase (decrease) in interest-bearing deposits in other financial institutions         6,028         (253,748)           Available-for-sale securities.         7,680,000         5,571,349           Purchases         (41,742,923)         (41,497,349)           Sales (purchases) of other securities, at cost         (20,300)         108,000 <td>Adjustments to reconcile net income to net cash</td> <td></td> <td></td>	Adjustments to reconcile net income to net cash		
Net amortization (accretion) of debt securities         57,200         217,079           Depreciation and amortization of premises and equipment         371,054         276,451           (Gain) loss on disposal of fixed assets         16,794         16,794           (Earnings) losses on bank owned life insurance         (191,184)         (123,665)           Net change in operating assets and liabilities         (191,184)         (23,665)           Net change in operating lease assets         (576,633)         -           Accrued interest receivable         (343,810)         64,005           Other assets         (37,936)         215,845           Accrued interest payable and other liabilities         185,211         327,524           Operating lease liabilities         643,929         -           Net cash provided by (used in) operating activities         6,726,726         7,426,278           Investing Activities         6,028         (253,748)           Net increase (decrease) in interest-bearing deposits in other financial institutions         6,028         (253,748)           Available-for-sale securities:         7,680,000         5,571,349           Purchases         (41,742,923)         (41,474,973,49)           Sales (purchases) of other securities, at cost         (20,300)         108,400			
Depreciation and amortization of premises and equipment (Gain) loss on disposal of fixed assets (Earnings) losses on bank owned life insurance (Rearnings) losses on bank owned life insurance (Rearnings) losses on bank owned life insurance (Rearnings) losses on bank owned life insurance Right-of-use operating assets and liabilities Right-of-use operating lease assets (S76,633) Accrued interest receivable (343,810) Other assets (379,936) Accrued interest payable and other liabilities (343,936) Accrued interest payable and other liabilities Accrued interest payable and other liabilities (Aday,929) Accrued interest payable and other liabilities Accrued interest payable and other		· · · · · · · · · · · · · · · · · · ·	•
(Gain) loss on disposal of fixed assets (Earnings) losses on bank owned life insurance (191,184)         16,794 (123,665)           Net change in operating assets and liabilities Right-of-use operating lease assets         (576,633)         -           Accrued interest receivable Other assets         (343,810)         64,005           Other assets Accrued interest payable and other liabilities Accrued interest payable and other liabilities (643,929)         125,845           Net cash provided by (used in) operating activities (643,929)         -           Net cash provided by (used in) operating activities (643,929)         -           Investing Activities         6,726,726         7,426,278           Net increase (decrease) in interest-bearing deposits in other financial institutions         6,028         (253,748)           Available-for-sale securities:         6,028         (253,748)           Maturrities, prepayments and calls         7,680,000         5,571,349           Purchases         (1,742,923)         (41,497,349)           Sales (purchases) of other securities, at cost         (20,300)         108,400           Loan originations and payments, net         (21,747,704)         8,079,102           Purchase of bank owned life insurance         -         (3,900,000)           Additions to premises and equipment         (2,450,993)         (353,657)           Net cash			
(Earnings) losses on bank owned life insurance Net change in operating assets and liabilities Right-of-use operating lease assets Accrued interest receivable Other assets Accrued interest payable and other liabilities Accrued interest payable and other liabilities 		· · · · · · · · · · · · · · · · · · ·	<u>-</u>
Net change in operating assets and liabilities Right-of-use operating lease assets Accrued interest receivable Other assets (37,936) Accrued interest payable and other liabilities Operating lease liabilities Accrued interest payable and other liabilities Accru	·		
Right-of-use operating lease assets         (576,633)         -           Accrued interest receivable         (343,810)         64,005           Other assets         (37,936)         215,845           Accrued interest payable and other liabilities         185,211         327,524           Operating lease liabilities         643,929         -           Net cash provided by (used in) operating activities         6,726,726         7,426,278           Investing Activities         Net increase (decrease) in interest-bearing deposits in other financial institutions         6,028         (253,748)           Available-for-sale securities:         Available-for-sale securities:         7,680,000         5,571,349           Purchases         (41,742,923)         (41,497,349)           Sales (purchases) of other securities, at cost         (20,300)         108,400           Loan originations and payments, net         (21,747,704)         8,079,102           Purchase of bank owned life insurance         -         (3,900,000)           Additions to premises and equipment         (2,450,993)         (353,657)           Net cash provided by (used in) investing activities         (58,275,892)         (32,245,903)           Financing Activities         33,190,309         36,939,639           Repayments on Federal Home Loan Bank advances <td></td> <td>(191,184)</td> <td>(123,665)</td>		(191,184)	(123,665)
Accrued interest receivable         (343,810)         64,005           Other assets         (37,936)         215,845           Accrued interest payable and other liabilities         185,211         327,524           Operating lease liabilities         643,929         -           Net cash provided by (used in) operating activities         6,726,726         7,426,278           Investing Activities         8         (253,748)           Net increase (decrease) in interest-bearing deposits in other financial institutions         6,028         (253,748)           Available-for-sale securities:         8         (253,748)           Maturities, prepayments and calls         7,680,000         5,571,349           Purchases         (41,742,923)         (41,497,349)           Sales (purchases) of other securities, at cost         (20,300)         108,400           Loan originations and payments, net         (21,747,704)         8,079,102           Purchase of bank owned life insurance         -         (3,900,000)           Additions to premises and equipment         (2,450,993)         (353,657)           Net cash provided by (used in) investing activities         (58,275,892)         (32,245,903)           Financing Activities         33,190,309         36,939,639           Repayments on Federal Home Loan Ba		(576 622)	
Other assets         (37,936)         215,845           Accrued interest payable and other liabilities         185,211         327,524           Operating lease liabilities         643,929         -           Net cash provided by (used in) operating activities         6,726,726         7,426,278           Investing Activities         8         (253,748)           Net increase (decrease) in interest-bearing deposits in other financial institutions         6,028         (253,748)           Available-for-sale securities:         8         (253,748)           Maturities, prepayments and calls         7,680,000         5,571,349           Purchases         (41,742,923)         (41,497,349)           Sales (purchases) of other securities, at cost         (20,300)         108,400           Loan originations and payments, net         (21,747,704)         8,079,102           Purchase of bank owned life insurance         -         (3,900,000)           Additions to premises and equipment         (2,450,993)         (353,657)           Net cash provided by (used in) investing activities         (58,275,892)         (32,245,903)           Financing Activities         33,190,309         36,939,639           Repayments on Federal Home Loan Bank advances         -         (1,000,000)           Proceeds from issua	· · ·		- 64.00E
Accrued interest payable and other liabilities 643,929 -  Net cash provided by (used in) operating activities 6,726,726 7,426,278  Investing Activities  Net increase (decrease) in interest-bearing deposits in other financial institutions 6,028 (253,748)  Available-for-sale securities:  Maturities, prepayments and calls 7,680,000 5,571,349 Purchases (41,742,923) (41,497,349)  Sales (purchases) of other securities, at cost (20,300) 108,400 Loan originations and payments, net (21,747,704) 8,079,102 Purchase of bank owned life insurance - (3,900,000) Additions to premises and equipment (2,450,993) (353,657)  Net cash provided by (used in) investing activities (58,275,892) (32,245,903)  Financing Activities  Net change in deposits  Repayments on Federal Home Loan Bank advances - (1,000,000) Proceeds from issuance of financing lease liabilities (65,909) - Repayment of financing lease liabilities (65,909) - Proceeds from issuance of treasury stock 39,284 - Cash dividends paid (3,778,851) (3,661,784)  Net cash provided by (used in) financing activities 31,438,744 32,277,855  Net change in cash and cash equivalents 53,885,391 46,427,161			-
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Net cash provided by (used in) operating activities  Net increase (decrease) in interest-bearing deposits in other financial institutions  Available-for-sale securities:  Maturities, prepayments and calls Purchases  Sales (purchases) of other securities, at cost Loan originations and payments, net Purchase of bank owned life insurance Additions to premises and equipment  Net cash provided by (used in) investing activities  Net change in deposits Repayments of financing lease liabilities Proceeds from issuance of treasury stock Cash dividends paid  Net cash provided by (used in) financing activities  Net cash provided by (used in) financing activities  Net cash provided by (used in) financing activities  Net change in deposits Repayment of financing lease liabilities Repayment of financing lease liabilities Proceeds from issuance of treasury stock Cash dividends paid  Net cash provided by (used in) financing activities  Net change in cash and cash equivalents  Net change in cash and cash equivalents  Sa, 20, 110, 422  7, 458, 230  Beginning cash and cash equivalents  53, 885, 391  46, 427, 161	• •		327,324
Investing Activities Net increase (decrease) in interest-bearing deposits in other financial institutions Available-for-sale securities:  Maturities, prepayments and calls Purchases (41,742,923) (41,497,349) Sales (purchases) of other securities, at cost (20,300) 108,400 Loan originations and payments, net (21,747,704) 8,079,102 Purchase of bank owned life insurance Purchase of bank owned life insurance Additions to premises and equipment (2,450,993) (353,657)  Net cash provided by (used in) investing activities (58,275,892) (32,245,903)  Financing Activities Net change in deposits Net change in deposits Repayments on Federal Home Loan Bank advances Proceeds from issuance of financing lease liabilities (65,909) Proceeds from issuance of treasury stock 39,284 Cash dividends paid (3,778,851) (3,661,784)  Net cash provided by (used in) financing activities 31,438,744 32,277,855  Net change in cash and cash equivalents (20,110,422) 7,458,230  Beginning cash and cash equivalents 53,885,391 46,427,161		•	
Net increase (decrease) in interest-bearing deposits in other financial institutions Available-for-sale securities:  Maturities, prepayments and calls Purchases Sales (purchases) of other securities, at cost Loan originations and payments, net Purchase of bank owned life insurance Additions to premises and equipment  Net cash provided by (used in) investing activities  Net change in deposits Repayments on Federal Home Loan Bank advances Proceeds from issuance of financing lease liabilities Proceeds from issuance of treasury stock Cash dividends paid  Net cash provided by (used in) financing activities  Ret cash provided by (used in) financing activities  Net change in deposits Repayment of financing lease liabilities Proceeds from issuance of treasury stock Cash dividends paid  Net cash provided by (used in) financing activities  Ret cash provided by (used in) financing activities  Net change in cash and cash equivalents  Reginning cash and cash equivalents  Sa,885,391  46,427,161	Net cash provided by (used in) operating activities	6,726,726	7,426,278
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Available-for-sale securities:  Maturities, prepayments and calls Purchases (41,742,923) (41,497,349) Sales (purchases) of other securities, at cost (20,300) 108,400 Loan originations and payments, net (21,747,704) 8,079,102 Purchase of bank owned life insurance Purchase of bank owned life insurance Additions to premises and equipment (2,450,993) (353,657)  Net cash provided by (used in) investing activities  Financing Activities Net change in deposits Repayments on Federal Home Loan Bank advances Proceeds from issuance of financing lease liabilities Repayment of financing lease liabilities Proceeds from issuance of treasury stock Cash dividends paid (3,778,851) (3,661,784)  Net cash provided by (used in) financing activities (20,110,422) 7,458,230  Beginning cash and cash equivalents 53,885,391 46,427,161	· · · · · · · · · · · · · · · · · · ·		
Maturities, prepayments and calls7,680,0005,571,349Purchases(41,742,923)(41,497,349)Sales (purchases) of other securities, at cost(20,300)108,400Loan originations and payments, net(21,747,704)8,079,102Purchase of bank owned life insurance-(3,900,000)Additions to premises and equipment(2,450,993)(353,657)Net cash provided by (used in) investing activities(58,275,892)(32,245,903)Financing Activities33,190,30936,939,639Repayments on Federal Home Loan Bank advances-(1,000,000)Proceeds from issuance of financing lease liabilities2,053,911-Repayment of financing lease liabilities(65,909)-Proceeds from issuance of treasury stock39,284-Cash dividends paid(3,778,851)(3,661,784)Net cash provided by (used in) financing activities31,438,74432,277,855Net change in cash and cash equivalents(20,110,422)7,458,230Beginning cash and cash equivalents53,885,39146,427,161		6,028	(253,748)
Purchases(41,742,923)(41,497,349)Sales (purchases) of other securities, at cost(20,300)108,400Loan originations and payments, net(21,747,704)8,079,102Purchase of bank owned life insurance-(3,900,000)Additions to premises and equipment(2,450,993)(353,657)Net cash provided by (used in) investing activities(58,275,892)(32,245,903)Financing Activities33,190,30936,939,639Net change in deposits-(1,000,000)Proceeds from issuance of financing lease liabilities2,053,911-Repayment of financing lease liabilities(65,909)-Proceeds from issuance of treasury stock39,284-Cash dividends paid(3,778,851)(3,661,784)Net cash provided by (used in) financing activities31,438,74432,277,855Net change in cash and cash equivalents(20,110,422)7,458,230Beginning cash and cash equivalents53,885,39146,427,161			
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Loan originations and payments, net Purchase of bank owned life insurance Additions to premises and equipment(21,747,704) (3,900,000) 			
Purchase of bank owned life insurance Additions to premises and equipment  (2,450,993) (353,657)  Net cash provided by (used in) investing activities  (58,275,892) (32,245,903)  Financing Activities  Net change in deposits Repayments on Federal Home Loan Bank advances Proceeds from issuance of financing lease liabilities Repayment of financing lease liabilities Proceeds from issuance of treasury stock Cash dividends paid  Net cash provided by (used in) financing activities  Net change in cash and cash equivalents  Reginning cash and cash equivalents  1 (3,900,000) (32,245,903) (32,245,903) (32,245,903) (32,245,903) (1,000,000) (1,000,			
Additions to premises and equipment(2,450,993)(353,657)Net cash provided by (used in) investing activities(58,275,892)(32,245,903)Financing Activities33,190,30936,939,639Net change in deposits33,190,30936,939,639Repayments on Federal Home Loan Bank advances-(1,000,000)Proceeds from issuance of financing lease liabilities2,053,911-Repayment of financing lease liabilities(65,909)-Proceeds from issuance of treasury stock39,284-Cash dividends paid(3,778,851)(3,661,784)Net cash provided by (used in) financing activities31,438,74432,277,855Net change in cash and cash equivalents(20,110,422)7,458,230Beginning cash and cash equivalents53,885,39146,427,161	· · ·	(21,747,704)	
Net cash provided by (used in) investing activities  Financing Activities  Net change in deposits  Repayments on Federal Home Loan Bank advances  Proceeds from issuance of financing lease liabilities  Repayment of financing lease liabilities  Proceeds from issuance of treasury stock  Cash dividends paid  Net cash provided by (used in) financing activities  Repayment of sal, 3778,851)  Net change in cash and cash equivalents  (20,110,422)  7,458,230  Reginning cash and cash equivalents  53,885,391  (32,245,903)  (32,245,903)  (1,000,000)  2,000,000)  2,000,000)  36,939,639  46		-	
Financing Activities  Net change in deposits  Repayments on Federal Home Loan Bank advances  Proceeds from issuance of financing lease liabilities  Repayment of financing lease liabilities  Proceeds from issuance of treasury stock  Cash dividends paid  Net cash provided by (used in) financing activities  Repayment of financing lease liabilities  (65,909)  (3,778,851)  (3,661,784)  Net cash provided by (used in) financing activities  31,438,744  32,277,855  Net change in cash and cash equivalents  (20,110,422)  7,458,230  Beginning cash and cash equivalents  53,885,391  46,427,161	Additions to premises and equipment	(2,450,993)	(353,657)
Net change in deposits33,190,30936,939,639Repayments on Federal Home Loan Bank advances- (1,000,000)Proceeds from issuance of financing lease liabilities2,053,911-Repayment of financing lease liabilities(65,909)-Proceeds from issuance of treasury stock39,284-Cash dividends paid(3,778,851)(3,661,784)Net cash provided by (used in) financing activities31,438,74432,277,855Net change in cash and cash equivalents(20,110,422)7,458,230Beginning cash and cash equivalents53,885,39146,427,161	Net cash provided by (used in) investing activities	(58,275,892)	(32,245,903)
Repayments on Federal Home Loan Bank advances Proceeds from issuance of financing lease liabilities Repayment of financing lease liabilities (65,909) Proceeds from issuance of treasury stock Cash dividends paid (3,778,851) Net cash provided by (used in) financing activities  Net change in cash and cash equivalents (20,110,422) Reginning cash and cash equivalents (1,000,000)  (1,000,000)  (2,053,911  (3,661,784)  (3,661,784)  (3,661,784)  (3,778,851) (3,661,784)  (20,110,422) (3,458,230)  (3,458,230)	Financing Activities		
Proceeds from issuance of financing lease liabilities Repayment of financing lease liabilities (65,909) Proceeds from issuance of treasury stock Cash dividends paid (3,778,851)  Net cash provided by (used in) financing activities  Net change in cash and cash equivalents (20,110,422)  Reginning cash and cash equivalents 53,885,391  46,427,161	Net change in deposits	33,190,309	36,939,639
Proceeds from issuance of financing lease liabilities Repayment of financing lease liabilities (65,909) Proceeds from issuance of treasury stock Cash dividends paid (3,778,851)  Net cash provided by (used in) financing activities  Net change in cash and cash equivalents (20,110,422)  Reginning cash and cash equivalents 53,885,391  46,427,161	Repayments on Federal Home Loan Bank advances	-	(1,000,000)
Proceeds from issuance of treasury stock Cash dividends paid  Net cash provided by (used in) financing activities  Net change in cash and cash equivalents  Beginning cash and cash equivalents  To a significant stress of treasury stock (3,661,784)  32,277,855  (20,110,422)  7,458,230  46,427,161	Proceeds from issuance of financing lease liabilities	2,053,911	-
Cash dividends paid       (3,778,851)       (3,661,784)         Net cash provided by (used in) financing activities       31,438,744       32,277,855         Net change in cash and cash equivalents       (20,110,422)       7,458,230         Beginning cash and cash equivalents       53,885,391       46,427,161	Repayment of financing lease liabilities	(65,909)	-
Net cash provided by (used in) financing activities31,438,74432,277,855Net change in cash and cash equivalents(20,110,422)7,458,230Beginning cash and cash equivalents53,885,39146,427,161	Proceeds from issuance of treasury stock	39,284	-
Net change in cash and cash equivalents       (20,110,422)       7,458,230         Beginning cash and cash equivalents       53,885,391       46,427,161	Cash dividends paid	(3,778,851)	(3,661,784)
Beginning cash and cash equivalents 53,885,391 46,427,161	Net cash provided by (used in) financing activities	31,438,744	32,277,855
	Net change in cash and cash equivalents	(20,110,422)	7,458,230
Ending cash and cash equivalents \$ <b>33,774,969</b> \$ 53,885,391	Beginning cash and cash equivalents	53,885,391	46,427,161
	Ending cash and cash equivalents	\$ 33,774,969	\$ 53,885,391

(Continued)

## RBC, Inc. & Subsidiary Consolidated Statements of Cash Flows (Continued)

For the years ended December 31,	2022	2021
Supplemental cash flow information: Interest paid Income taxes paid	\$ 717,399 209,390	\$ 864,593 -
Supplemental non cash disclosures:  Lease liabilities arising from right-of-use operating lease assets Lease liabilities arising from right-of-use financing lease assets Right-of-use assets purchased via operating lease Right-of-use assets purchased via financing lease	\$ 740,185 2,053,911 668,970 2,065,385	\$ - - - -

#### **Note 1: DESCRIPTION OF THE BUSINESS**

RBC, Inc. (Holding Company) and its wholly-owned subsidiary, Robertson Banking Company (the "Bank"), provide commercial banking services to customers through its offices in Marengo County, as well as Tuscaloosa and Birmingham, Alabama. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are real estate, residential and nonresidential, and commercial loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate.

#### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Holding Company and the Bank (collectively, the "Company"). The Company consolidates an entity if the Company has a controlling financial interest in the entity. All significant intercompany balances and transactions have been eliminated.

#### **Basis of Accounting**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

#### **Use of Estimates**

The preparation of U.S. GAAP consolidated financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to the allowance for loan losses.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash and deposits with other financial institutions with original maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

#### **Restrictions on Cash**

Cash on hand or on deposit with the Federal Reserve Bank (FRB) was required to meet regulatory reserve and clearing requirements.

#### Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits in other financial institutions mature within five years and are carried at cost.

#### **Investments**

The Company holds debt securities available for sale.

Debt securities not classified as held to maturity or trading are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. 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 an annual 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. 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.

#### Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their principal balance outstanding, net of deferred loan fees and costs, selling costs, and an allowance for loan losses. 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 on mortgage and commercial loans is discontinued and placed on a non-accrual status at the time the loan in 90 days delinquent unless the loan is well-secured and in process of collection. Mortgage loans are charged off at 180 days past due, and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Consumer and credit card loans continue to accrue interest until they are charged off no later than 120 days past due unless the loan is in the process of collection. Past-due status is based on the contractual terms of the loan.

#### Loans (continued)

In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Non-accrual 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 non-accrual is 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. Under the cover-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

#### **Allowance for Loan Losses**

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance upon receipt. Management estimates the allowance balance required using loan loss experience, the nature and volume of the loan 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.

The allowance consists of specific and general components.

#### Specific Component

The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company 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 (TDRs) and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

#### Allowance for Loan Losses (continued)

Specific Component (continued)

Management determines the significance of payment delays and payment shortfalls on case-bycase 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 real estate loans over \$50,000 and rated 6 or lower 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.

TDRs are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired. The Company incorporates recent experience related to TDRs including, the performance of TDRs that subsequently default, into the calculation of the allowance by loan portfolio segment.

#### General Component

The general component covers loans that are collectively evaluated for impairment. 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 included in the identified impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as commercial loans below the individual evaluation threshold, as well as those loans that are individually evaluated but are not considered impaired. The general component is based on loss experience adjusted for current factors. The loss experience is determine by portfolio segment and is based on the actual losses experienced by the Company over the most recent five years. This actual loss experience is supplemented with other economic factors based on the risk present for each portfolio segment.

These economic factors include consideration of the following:

- Levels of and trends in delinquencies and impaired loans (including TDRs)
- Levels of and trends in charge-offs and recoveries
- Migration of loans to the classification of special mention, substandard, or doubtful
- 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 concentration.

#### Allowance for Loan Losses (continued)

The following portfolio segments have been identified:

Real Estate - Residential

The Company originates residential mortgage real estate loans for the closed-end purchase or refinancing of mortgages for individual homeowners or rental properties. These loans are secured by 1-4 family residential properties primarily located in the Company's market area. The financial strength of the borrowers and collateral values of the properties are assessed as part of the underwriting criteria of these loans. Risks associated with these loans include reductions in cash flow of borrowers due to job loss or sickness and declines in collateral values of properties securing the loans.

Real Estate – Nonfarm, Nonresidential

Nonresidential loans are owner occupied loans where the primary sources of repayment are cash flows from the ongoing operations and activities conducted by the owners. Underwriting criteria for these loans require initial and on-going reviews of borrower cash flows. Economic conditions impacting cash flows of the borrowers or declines in collateral values are risks to this loan type.

Real Estate – Multi-Family

The Company originates multi-family mortgage real estate loans for the closed-end purchase or refinancing of mortgages for apartment complexes and condominiums. These loans are secured by multi-family properties primarily located in the Company's market area. The financial strength of the borrowers, income from the properties, and collateral values of the properties are assessed as part of the underwriting criteria of these loans. Risks associated with these loans include reductions in cash flow of the property due to market conditions and vacancy rates and declines in collateral values of properties securing the loans.

Real Estate – Farmland

Farmland loans are loans secured by farm and timberland where the primary sources of repayment are cash flows from the farm and timber products originating from the operations and activities conducted by the owners. Underwriting criteria for these loans require initial and on-going reviews of borrower cash flows. Economic conditions impacting cash flows of the borrowers or declines in collateral values are risks to this loan type.

Real Estate – Construction, Land Development and Other Land

The Company originates construction loans to builders and commercial borrowers and, to a limited extent, loans to individuals for the construction of primary residences. These loans are secured by real estate. To the extent construction loans are not made to owner occupants of single-family homes, they are more vulnerable to changes in economic conditions.

#### Allowance for Loan Losses (continued)

Real Estate – Construction, Land Development and Other Land (continued)

Further, the nature of these loans is such that they are difficult to evaluate and monitor. The risk of loss on construction loans is dependent on the accuracy of initial estimates of property value upon completion of the projects, and the estimated costs (including interest) of the projects.

#### Commercial and Industrial

Commercial and industrial loans are made to small and medium sized companies in the Company's market area. Commercial loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture. Primarily all of the Company's commercial loans are secured loans, along with a small amount of unsecured loans. The Company's underwriting analysis consists of a review of the financial statements of the borrower, the lending history of the borrower, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral, if any, and whether the loan is guaranteed by the principals of the borrower. These loans are generally secured by accounts receivable, inventory and equipment.

Commercial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, which makes them of higher risk than residential loans and the collateral securing loans may be difficult to appraise and may fluctuate in value based on the success of the business. The Company seeks to minimize these risks through its underwriting standards.

Sections 1102 and 1106 of the Coronavirus Aid, Relief and Economic Security (CARES) Act added a new loan program administered by the Small Business Administration ("SBA") entitled the Paycheck Protection Program ("PPP"). The PPP is intended to provide economic relief to small businesses through the United States that have been adversely impacted by COVID-19. PPP loans originated by the Company and outstanding as of December 31, 2022 and 2021 are included within this category. See Note 4 for further disclosures.

#### Consumer

Consumer and other loans are extended for various purposes, including purchases of automobiles, recreation vehicles, and boats. The Company also offers home improvement loans, lines of credit, personal loans, and deposit account collateralized loans. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates and may be made on terms of up to five years. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

#### Allowance for Loan Losses (continued)

#### Tax Free Municipal

These are obligations supported by the full, faith and credit of the obligor which is a type of city, state, or other political subdivision. Collateral for these loans generally consists of a promise to pay from monies allocated to a special fund established to service the debt or an otherwise unconditional promise to cover all required payments on the obligation.

#### Other Loans

Other loans are generally made to farmers for various purposes related to crops, livestock, related equipment/machinery, and other farm operations. Repayment is primarily dependent on the personal income of the borrower(s) and income from farming operations, which can be impacted by economic and other market conditions. As a general practice, the Company takes as collateral a security interest in the underlying crops, livestock, equipment, etc. Such loans are monitored via inspections and/or evaluations, as applicable.

#### Other Restricted Stock, at cost

#### Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

#### First National Bankers Bank (FNBB) Stock

The Bank is a member of FNBB. FNBB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recover of par value. Both cash and stock dividends are reported as income.

#### Premises and Equipment, net

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components generally are depreciated using the straight-line method with useful lives ranging from 5 to 50 years. Furniture, fixtures and equipment generally depreciate using the straight-line (or accelerated) method with useful lives ranging from 3 to 50 years.

#### Leases

Leases are classified as operating or finance leases at the lease commencement date. The Company leases certain locations and equipment. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon the incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record leases on the consolidated balance sheets that are classified as short term (less than one year).

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Company's leases do not contain residual value guarantees or material variable lease payments that will impact the Company's ability to pay dividends or cause the Company to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense on the Company's consolidated statements of income. The amortization of the right-of-use asset arising from finance leases is expensed through occupancy and equipment expense and the interest on the related lease liability is expenses through other expense on the Company's consolidated statements of income.

The Company has elected to treat property leases that include both lease and non-lease components as a single component and account for it as a lease.

#### **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.

#### **Loan Commitments and Related Financial Instruments**

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial 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 when they are funded. Instruments, such as standby letters of credit, that are considered financial guarantees are recorded at fair value at inception.

#### **Stock-Based Compensation**

Compensation cost is recognized for restricted stock awards issued to employees, based on the fair value of these awards at the grant date. The market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

#### **Income Taxes**

Income tax expense 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 the 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.

Tax positions are recognized 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 that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax position is recorded. The Company is subjected to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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

#### Earnings Per Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. The weighted average number of common shares outstanding used to calculate earnings per share was 523,375 and 523,112 for the years ended December 31, 2022 and 2021, respectively.

#### Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on debt securities available for sale, which are also recognized as separate components of equity.

#### **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 there are such matters that will have a material effect on the consolidated financial statements.

#### **Treasury Stock**

Treasury stock is carried at cost.

#### **Concentrations of Credit Risk**

Most of the Company's business activity is with customers located in the Marengo County, Tuscaloosa, and Birmingham, Alabama region. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy of the area. The Company grants commercial, real estate and installment loans to its customers. Although the Company has a diversified loan portfolio, 87% and 86% of the portfolio is concentrated in loans secured by real estate as of December 31, 2022 and 2021, respectively.

#### Fair Value of Financial Instruments

Fair value 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 these estimates.

#### Reclassification

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

#### Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, February 10, 2023, and determined there were no events that occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

#### **Recent Accounting Standards**

On January 1, 2022, the Company adopted ASU 2016-02, *Leases (Topic 842)*, and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. The standard was adopted under a modified retrospective approach as of the date of the adoption and elected to apply several of the available practical expedients, including:

- Carryover of historical lease determination and lease classification conclusions
- Carryover of historical initial direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component.

Adoption of the leasing standard resulted in the recognition of an operating right-of-use asset of \$668,970 and an operating lease liability of \$740,185 as of January 1, 2022. These amounts were determined based on the present value of remaining lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note 8 – Leases.

#### **Note 3: SECURITIES**

The following table summarizes the amortized cost and fair value of securities available for sale at December 31, 2022 and 2021 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
Available-for-sale Municipal securities U.S. Government securities Mortgage-backed securities Corporate securities	\$ 38,775,198 64,340,491 7,533,510 2,899,417	\$ 7,019 2,031 6,371 1,402	\$ (2,803,373) (3,577,606) (714,436) (112,976)	\$	35,978,844 60,764,916 6,825,445 2,787,843
Total available-for-sale	\$ 113,548,616	\$ 16,823	\$ (7,208,391)	\$	106,357,048

**Note 3: SECURITIES (Continued)** 

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2021 Available-for-sale Municipal securities U.S. Government securities Mortgage-backed securities Corporate securities	\$ 29,018,408 43,022,794 6,741,403 760,290	\$ 242,587 49,258 53,171 10,748	\$ (188,710) \$ (446,951) (47,294) (12,546)	29,072,285 42,625,101 6,747,280 758,492
Total available-for-sale	\$ 79,542,895	\$ 355,764	\$ (695,501) \$	79,203,158

There were no sales of securities during the years ended December 31, 2022 or 2021.

The amortized cost and fair values of debt securities 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, 2022		Amortized Cost	Fair Value	
Available-for-sale				
Within one year	\$	18,218,299	\$	17,889,179
One to five years		70,342,801		65,917,876
Five to ten years		14,336,768		12,828,451
Beyond ten years		3,117,237		2,896,096
Mortgage-backed securities		7,533,511		6,825,446
Table	<b>A</b>	442 540 646		106 257 040
Total	\$	113,548,616	\$	106,357,048

Securities pledged at year-end 2022 and 2021 had a carrying amount of \$35,932,718 and \$24,153,699 and were pledged to secure public deposits and repurchase agreements.

At year-end 2022 and 2021, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

#### **Note 3: SECURITIES (Continued)**

The following table summarizes securities with unrealized losses at December 31, 2022 and 2021, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	Less Than	12 I	Months	12 Months	or	Total			
			Unrealized		ι	Jnrealized			Unrealized
	Fair Value		Losses	Fair Value		Losses	Fair Value		Losses
<b>December 31, 2022</b> Available-for-sale Municipal									
securities U.S. Government	\$ 17,497,606	\$	(736,518)	\$ 16,923,422	\$	(2,066,852)	\$ 34,421,028	\$	(2,803,370)
securities Mortgage backed	22,169,310		(671,385)	38,094,437		(2,906,222)	60,263,747		(3,577,607)
securities Corporate	2,724,808		(160,538)	3,795,020		(553,899)	6,519,828		(714,437)
securities	1,884,134		(60,248)	446,189		(52,729)	2,330,323		(112,977)
Total available-for-sale	\$ 44,275,858	\$	(1,628,689)	59,259,068		(5,579,702)	\$ 103,534,926	\$	(7,208,391)
December 31, 2021 Available-for-sale Municipal									
securities U.S. Government	\$ 15,631,264	\$	(178,755)	\$ 257,164	\$	(9,955)	\$ 15,888,428	\$	(188,710)
securities Mortgage backed	36,688,601		(334,471)	3,739,054		(112,480)	40,427,655		(446,951)
securities Corporate	2,927,102		(26,902)	474,760		(20,392)	3,401,862		(47,294)
securities	486,028		(12,546)	-		-	486,028		(12,546)
Total available-for-sale	\$ 55,732,995	\$	(552,674)	4,470,978		(142,827)	\$ 60,203,973	\$	(695,501)

Unrealized losses on securities available-for sale have not been recognized into income because the issuers are of high credit quality (rated AA or higher), management does not intend to sell and it is likely 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 interest rates and other market conditions.

As of December 31, 2022, the Company's security portfolio consisted of 294 securities, 285 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's Municipal securities, U.S. Government securities, and Mortgage backed securities, as discussed below.

#### **Municipal Securities**

The unrealized loss on 127 investments in Municipal securities resulted from interest rate changes and other temporary market influences. The contractual terms of the investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments.

#### Note 3: SECURITIES (Continued)

#### Municipal Securities (continued)

Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2022.

#### **U.S.** Government Securities

The unrealized loss on 129 investments in U.S. Government obligations and direct obligations of U.S. Government agencies was caused by market interest rate and repayment speed changes since the time these investments were acquired. The contractual terms of the investment does not permit the issuer to settle the security at a price less than the amortized cost bases of the investment. Because the Company does not intend to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider the investment to be other-than-temporarily impaired at December 31, 2022.

#### **Mortgage-Backed Securities**

The decline in fair value of 23 mortgage-backed securities was a result of change in interest rate and illiquidity, not a decline in credit quality. The Company purchased the investment at a discount relative to its face amount, and the contractual cash flows of the investment are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the security would not be settled at a price less than the amortized cost basis of the Company's investment.

Because the decline in market value is attributable to the current interest rate environment and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at December 31, 2022.

#### **Corporate Securities**

The unrealized loss on six investments in corporate securities resulted from interest rate changes and other temporary market influences. The contractual terms of this investment do not permit the issuer to settle the security at a price less than the amortized cost basis of the investment. Because the Company does not intend to sell the investment it is not more likely than not the Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2022.

Note 4: LOANS

Loans at year-end were as follows:

	2022	2021
Real estate:		
Secured by 1-4 family residential properties	\$ <b>73,958,638</b> \$	73,639,768
Secured by nonfarm, nonresidential properties	139,123,723	116,530,125
Secured by multi-family residential properties	19,318,216	19,214,966
Farmland	12,176,801	11,506,896
Construction, land development and other land	6,524,237	9,939,103
Commercial and industrial	21,913,514	27,511,236
Consumer	3,642,891	4,235,738
Tax free municipal	11,811,724	4,167,952
Other	836,664	920,924
Subtotal	289,306,408	267,666,708
Less: Net deferred loan fees and costs	(600,934)	(488,281)
Allowance for loan losses	(4,136,047)	(4,206,704)
Loans, net	\$ <b>284,569,427</b> \$	262,971,723

PPP loans originated as prescribed in the CARES Act and outstanding represent \$1.3M and \$7.7M as of December 31, 2022 and 2021, respectively, and are included in the commercial and industrial category above. PPP loans are 100% guaranteed by the SBA and are forgivable in whole, or in part, if the proceeds are used by the borrower for payroll and other permitted purposes in accordance with the requirements of the PPP. If not forgiven in whole or in part, the loans carry a fixed interest rate of 1.00% per annum with payments deferred for 24 weeks from the date of the loan, plus another 10 months after the 24-week period.

The following table presents the activity in the allowance for loan losses by portfolio segment for each of the years ending December 31, 2022 and 2021:

		(	Commercial		Tax Free		
	Real Estate	an	d Industrial	Consumer	Municipal	Other	Total
December 31, 2022							
Allowance for loan losses:							
Beginning balance	\$ 3,596,598	\$	480,916	\$ 72,155	\$ 43,240	\$ 13,795	\$ 4,206,704
Provision for loan losses	(34,766)		63,272	28,527	73,384	19,583	150,000
Loans charged-off	(164,168)		(205,011)	(27,318)	-	-	(396,497)
Recoveries	127,405		39,701	8,688	-	46	175,840
Total ending allowance balance	\$ 3,525,069	\$	378,878	\$ 82,052	\$ 116,624	\$ 33,424	\$ 4,136,047

#### Note 4: LOANS (Continued)

		C	Commercial		Tax Free		
	Real Estate	an	d Industrial	Consumer	Municipal	Other	Total
December 31, 2021							
Allowance for loan losses:							
Beginning balance	\$ 2,974,401	\$	747,432	\$ 78,710	\$ 48,590 \$	49,778	\$ 3,898,911
Provision for loan losses	557,550		(240,818)	24,647	(5,350)	(36,029)	300,000
Loans charged-off	(58,178)		(34,757)	(42,030)	-	-	(134,965)
Recoveries	122,825		9,059	10,828	-	46	142,758
Total ending allowance balance	\$ 3,596,598	\$	480,916	\$ 72,155	\$ 43,240 \$	13,795	\$ 4,206,704

The following table represents 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, 2022 and 2021:

				ommercial				Tax Free			
		Real Estate	an	d Industrial	(	Consumer		Municipal	Other		Total
December 31, 2022 Allowance for loan losses: Ending allowance balance attributable to loan	ns:										
Individually evaluated for impairment Collectively evaluated for impairment	\$	- 3,525,069	\$	- 378,878	\$	8,079 73,973	\$	- 116,624	\$ 22,028 11,396	\$	30,107 4,105,940
Total ending allowance balance	\$	3,525,069	\$	378,878	\$	82,052	\$	116,624	\$ 33,424	\$	4,136,047
Loans:											
Loans individually evaluated for impairment Loans collectively evaluated for impairment	\$ 2	1,015,995 250,085,620	•	61,172 1,852,342	•	8,079 ,634,812	•	- 11,811,724	\$ 51,435 785,229	\$ 2	1,136,681 288,169,727
Total ending loans balance	\$ 2	251,101,615	\$ 2	1,913,514	\$3	,642,891	\$:	11,811,724	\$ 836,664	\$ 2	289,306,408
December 31, 2021 Allowance for loan losses: Ending allowance balance attributable to loan Individually evaluated for impairment	ns: \$	_	\$	_	\$	-	\$	_	\$ 22,028	\$	22,028
Collectively evaluated for impairment		3,596,598		480,916		72,155		43,240	(8,233)		4,184,676
Total ending allowance balance	\$	3,596,598	\$	480,916	\$	72,155	\$	43,240	\$ 13,795	\$	4,206,704
Loans: Loans individually evaluated for impairment Loans collectively evaluated for impairment	\$	1,052,908 229,777,950	\$	135,171 7,376,065		- -,235,738	\$	- 4,167,952	\$ 53,965 866,959	\$	1,242,044 266,424,664
Total ending loans balance	\$ 2	230,830,858	\$ 2	7,511,236	\$ 4	,235,738	\$	4,167,952	\$ 920,924	\$ 2	267,666,708

#### Note 4: LOANS (Continued)

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2022 and 2021:

	Unpaid Principal	Recorded	Allowance for Loan Losses	Average Recorded	Inc	rest		Cash Basis Interest
	Balance	Investment	Allocated	Investment	Recogn	ized	Re	ecognized
<b>December 31, 2022</b> With no related allowance records	od:							
Real estate  Commercial and industrial	\$ 1,015,995 61,172	\$ 1,015,995 61,172	\$ -	\$ 1,034,452 98,172		372 276	\$	37,580 10,470
Subtotal	1,077,167	1,077,167	-	1,132,624		648		48,050
With an allowance recorded: Consumer Other	8,079 51,435	8,079 51,435	8,079 22,028	4,040 52,700	(	633 -		534 -
Total	\$ 1,136,681	\$ 1,136,681	\$ 30,107	\$ 1,189,364	\$ 51,	281	\$	48,584
December 31, 2021 With no related allowance recorde Real estate Commercial and industrial	ed: \$ 1,052,908 135,171	\$ 1,052,908 135,171	\$ -	\$ 1,023,802 95,197		612 668)	\$	41,683 2,970
Subtotal	1,188,079	1,188,079	-	1,118,999	35,	944		44,653
With an allowance recorded: Other	53,965	53,965	22,028	26,983		-		
Total	\$ 1,242,044	\$ 1,242,044	\$ 22,028	\$ 1,145,982	\$ 35,	944	\$	44,653

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

Non-accrual loans and loans past due over 89 days still on accrual include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans include commercial loans that are individually evaluated for impairment and deemed impaired (i.e., individually classified impaired loans) as well as TDRs for all loan portfolio segments. The sum of non-accrual loans and loans past due over 89 days still on accrual will differ from the total impaired loan amount.

#### Note 4: LOANS (Continued)

The following tables present the recorded investment in non-accrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2022 and December 31, 2021:

Loans Past Due Over 89 Days Still Accruing Non-accrual 2022 2021 2022 2021 Real estate: Secured by 1-4 family residential \$ **331,498** \$ 407,732 \$ \$ 36,607 108,040 Secured by nonfarm, nonresidential Secured by multi-family residential Farmland Construction, land development and other land Commercial and industrial 160,200 227,974 Consumer 13,188 2,785 192 Tax free municipal Other 51,435 53,965 36,799 \$ **651,173** \$ 702,859 \$ **2,785** \$ Total

The following table presents the aging of the recorded investment in past-due loans as of December 31, 2022 and 2021 by class of loans:

		Greater			
	30-89	Than 90			
	Days Past	Days Past	Total Past	Loans Not	
	Due	Due	Due	Past Due	Total
December 31, 2022					
Real estate					
Secured by 1-4 family residential	\$ 358,474	\$ -	\$ 358,474	\$ 73,600,164	\$ 73,958,638
Secured by nonfarm, nonresidential	1,199,306	108,040	1,307,346	137,816,377	139,123,723
Secured by multi-family residential	-	-	-	19,318,216	19,318,216
Farmland	-	-	-	12,176,801	12,176,801
Construction, land development					
and other land	-	-	-	6,524,237	6,524,237
Commercial and industrial	139,719	-	139,719	21,773,795	21,913,514
Consumer	63,338	2,785	66,123	3,576,768	3,642,891
Tax free municipal	-	-	-	11,811,724	11,811,724
Other	613	-	613	836,051	836,664
Total	\$ 1,761,450	\$ 110,825	\$ 1,872,275	\$ 287,434,133	\$ 289,306,408

#### **Note 4: LOANS (Continued)**

	30-89 Days Past Due	I	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2021						
Real estate						
Secured by 1-4 family residential	\$ 439,808		186,326	\$ 626,134	\$ 73,013,634	\$ 73,639,768
Secured by nonfarm, nonresidential	34,037		-	34,037	116,496,088	116,530,125
Secured by multi-family residential	-		-	-	19,214,966	19,214,966
Farmland	12,545		-	12,545	11,494,351	11,506,896
Construction, land development						
and other land	-		-	-	9,939,103	9,939,103
Commercial and industrial	59,283		-	59,283	27,451,953	27,511,236
Consumer	86,359		192	86,551	4,149,187	4,235,738
Tax free municipal	-		-	-	4,167,952	4,167,952
Other	-		-	-	920,924	920,924
Total	\$ 632,032	\$	186,518	\$ 818,550	\$ 266,848,158	\$ 267,666,708

#### **Troubled Debt Restructuring**

As of December 31, 2022 and 2021, the Company has a recorded investment in TDRs of \$135,036 and \$182,222, respectively. The Company has allocated \$8,079 and \$0 of specific allowance for those loans at December 31, 2022 and 2021, respectively, and has committed to lend no additional amounts.

The following table presents loans by class modified as TDRs that occurred during the year ending December 31, 2022:

		Pre- Modification	Post-Modification
		Outstanding	Outstanding
		Recorded	Recorded
	Number of Loans	Investment	Investment
December 31, 2022			
Troubled Debt Restructurings:			
Real estate:			
Secured by 1-4 family residential properties			
Modified amortization and interest rates	1	\$ 36,299	\$ 36,299
Consumer:			
Modified amortization and interest rates	1	8,079	8,079
Total		\$ 44,378	\$ 44,378

No loans were modified as TDRs during the year ended December 31, 2021.

The TDRs described above increased the allowance for loan losses by \$8,079 and \$0 and resulted in charge-offs of \$74,378 and \$0 during the years ended December 31, 2022 and 2021, respectively. No loans classified as TDRs had payment default within twelve months following the modification.

#### Note 4: LOANS (Continued)

Additionally, the Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2022, all loan modifications made under the CARES Act had expired. As of December 31, 2021, the Company modified the loans below:

		Pr	incipal Balance of	
			Loans Deferred	% of
	Number of		(Dollars in	Portfolio
	Loans Deferred		Thousands)	Balance
As of December 31, 2021				
Real estate:				
Secured by 1-4 family residential properties	47	\$	8,561	25.15%
Secured by nonfarm, nonresidential properties	17		19,782	58.11%
Secured by multi-family residential properties	2		2,231	6.55%
Farmland	5		1,975	5.80%
Commercial and industrial	11		1,286	3.78%
Consumer	4		210	0.61%
			24.245	
Total loans	86	\$	34,045	<u>-</u>

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

#### **Credit Quality Indicators**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$50,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on at least an annual basis. The Company 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.

#### Note 4: LOANS (Continued)

#### **Credit Quality Indicators (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. Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard, doubtful or even charge off.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

		Special			
	Pass	Mention	Su	bstandard	Total
December 31, 2022					
Real estate:					
Secured by 1-4 family					
residential properties Secured by nonfarm,	\$ 72,537,287	\$ 567,099	\$	854,252	\$ 73,958,638
nonresidential properties Secured by multi-family	135,136,792	3,878,891		108,040	139,123,723
residential properties	19,097,543	-		220,673	19,318,216
Farmland Construction, land develop-	11,658,632	518,169		-	12,176,801
ment and other land	6,524,237	-		-	6,524,237
Commercial and industrial	21,453,212	350,643		109,659	21,913,514
Consumer	3,396,843	137,979		108,069	3,642,891
Tax free municipal	11,811,724	-		-	11,811,724
Other	785,229	-		51,435	836,664
Total	\$ 282,401,499	\$ 5,452,781	\$	1,452,128	\$ 289,306,408

Note 4: LOANS (Continued)

#### **Credit Quality Indicators (continued)**

		Special		
	Pass	Mention	Substandard	Total
December 31, 2021				
Real estate:				
Secured by 1-4 family				
residential properties	\$ 72,001,641	\$ 630,767	\$ 1,007,360	\$ 73,639,768
Secured by nonfarm,				
nonresidential properties	113,628,173	2,877,007	24,945	116,530,125
Secured by multi-family				
residential properties	18,970,538	-	244,428	19,214,966
Farmland	10,902,796	604,100	-	11,506,896
Construction, land develop-				
ment and other land	9,939,103	-	-	9,939,103
Commercial and industrial	26,974,875	330,243	206,118	27,511,236
Consumer	3,980,599	152,586	102,553	4,235,738
Tax free municipal	4,167,952	-	-	4,167,952
Other	866,959	-	53,965	920,924
Total	\$ 261,432,636	\$ 4,594,703	\$ 1,639,369	\$ 267,666,708

#### **Note 5: REAL ESTATE OWNED**

The Company had no foreclosed asset activity for the period ending December 31, 2022. For the period ending December 31, 2021, loans in the amount of \$39,000 were transferred to foreclosed assets. The balance of foreclosed assets was \$0 and \$39,000 at December 31, 2022 and 2021, respectively.

#### **Note 6: FAIR VALUE**

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 input 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.

## RBC, Inc. & Subsidiary Notes to the Consolidated Financial Statements

#### **Note 6: FAIR VALUE (Continued)**

Level 2: Significant other observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices that are:
  - o observable; or
  - o can be corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Company used the following methods and significant assumptions to estimate fair value:

#### **Investment Securities**

The fair value 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 based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

#### **Impaired Loans**

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination or approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments were a 20% distressed sale discount, a discount for cost of liquidation (including commissions, property taxes, and insurance premium), and legal fees and resulted in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on at least an annual basis for additional impairment and adjusted in accordance with the allowance policy.

# RBC, Inc. & Subsidiary Notes to the Consolidated Financial Statements

#### **Note 6: FAIR VALUE (Continued)**

Assets measured at fair value on a recurring basis are summarized as follows:

		Fair Value Measurements Using					
	Fair Value		Quoted Prices (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Observable Inputs (Level 3)
December 31, 2022  Municipal securities  U.S. Government securities  Mortgage-backed securities  Corporate securities	\$ 35,978,844 60,764,916 6,825,445 2,787,843	\$	- - -	\$	35,978,844 60,764,916 6,825,445 2,787,843	\$	- - -
Total	\$ 106,357,048	\$		\$	106,357,048	\$	-
December 31, 2021  Municipal securities  U.S. Government securities  Mortgage-backed securities  Corporate securities	\$ 29,072,285 42,625,101 6,747,280 758,492	\$	- - - -	\$	29,072,285 42,625,101 6,747,280 758,492	\$	- - - -
Total	\$ 79,203,158	\$	-	\$	79,203,158	\$	

Assets measured at fair value on a nonrecurring basis are summarized below:

	Fair Value Measurements Using						sing
			Quoted Prices		Significant Other Observable Inputs	•	Significant Observable Inputs
	Fair Value		(Level 1)		(Level 2)		(Level 3)
December 31, 2022 Impaired loans: Other	\$ 29,407	\$	-	\$	-	\$	29,407
December 31, 2021 Impaired loans: Other	\$ 31,937	\$	-	\$	-	\$	31,937

#### **Note 6: FAIR VALUE (Continued)**

The following table presents qualitative information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis at December 31, 2022 and 2021:

					Quantitative
			Valuation	Unobservable	Unobservable
	F	air Value	Technique(s)	Input(s)	Inputs
December 31, 2022					
			Discount to appraised value of	Appraisal comparability	
Impaired loans - Other	\$	29,407	collateral	adjustments	20%
December 31, 2021					
Impaired loans - Other	\$	31,937	Discount to appraised value of collateral	Appraisal comparability adjustments	20%

#### **Note 7: PREMISES AND EQUIPMENT**

Year-end premises and equipment were as follows:

December 31,	2022	2021
Bank premises	\$ <b>5,938,068</b> \$	5,928,543
Furniture, fixtures, and equipment	4,035,666	3,763,053
Right-of-use financing lease assets	2,065,385	-
	12,039,119	9,691,596
Less: accumulated depreciation	(5,661,331)	(5,297,946)
Total	\$ <b>6,377,788</b> \$	4,393,650

Depreciation and amortization expense was \$371,054 and \$276,451 for 2022 and 2021, respectively.

#### **Note 8: LEASES**

The Company entered into leases in the normal course of business primarily for branch locations and back-office operations locations. The Company's leases have remaining terms ranging from 12 to 20 years, some of which include renewal of termination options to extend the lease for up to 10 years.

#### **Note 8: LEASES (Continued)**

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

	Balance Sheet Classification	2022	2021
Right-of-use assets:			
Operating leases	Right-of-use operating lease assets	\$ 576,633	\$ -
Finance leases	Premises and equipment, net	1,962,116	-
Total right-of-use assets		\$ 2,538,749	\$ -
Lease liabilities:			
Operating leases	Operating lease liabilities	\$ 643,929	\$ -
Finance leases	Accrued interest payable and other liabilities	1,988,002	-
		_	
Total lease liabilities		\$ 2,631,931	\$ 

#### Lease Expense

The components of total lease cost were as follows for the period ending:

December 31,	2022	2021
Finance lease cost		
Right-of-use asset amortization	\$ 103,269	\$ -
Interest expense	60,302	-
Operating lease cost	123,695	-
Total lease cost, net	\$ 287,266	\$ 

#### **Lease Obligation**

Future undiscounted lease payments for operating and finance leases with initial terms of one year or more as of December 31, 2022 are as follows:

	Operating Leases	Finance Leases
2023	\$ 103,718	\$ 137,685
2024	111,165	137,685
2025	118,980	137,685
2026	127,203	137,685
2027	135,880	138,639
Thereafter	46,983	1,985,411
Total undiscounted lease payments	643,929	2,674,790
Less: imputed interest	-	686,788
Total lease liabilities	\$ 643,929	\$ 1,988,002

#### **Note 9: DEPOSITS**

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at year-end 2022 and 2021 were \$28,383,900 and \$26,816,616, respectively.

Scheduled maturities of time deposits for the next five years were as follows:

#### For the years ending December 31,

, , ,	
2023	\$ 55,630,526
2024	17,879,399
2025	2,679,040
2026	2,959,801
2027	1,908,324
Total	\$ 81,057,090

#### **Note 10: FEDERAL HOME LOAN BANK ADVANCES**

At year-end, advances from the Federal Home Loan Bank were \$0 for the years ending December 31, 2022 and 2021.

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by \$35,222,251 and \$45,994,124 of 1-4 family residential mortgage loans under a blanket lien arrangement at year end 2022 and 2021. The Company is eligible to borrow up to a total of \$108,328,250 at year-end 2022.

As of December 31, 2022, there are no future payments.

At December 31, 2022, the Company also had three unsecured federal funds lines of credit with other financial institutions enabling the Company to borrow up to \$19,900,000, with interest determined at the time of the draw. The arrangements are reviewed annually for renewal of each credit line.

#### **Note 11: PROFIT SHARING PLAN**

The Company offers the benefit of participating in a 401(k) profit sharing plan to eligible employees. A safe harbor non-elective contribution is made to the account of each eligible employee in an amount equal to 3% of the employee's compensation for the plan year. Profit sharing contributions may also be made at the Company's discretion, which will be allocated among all eligible employees. All Company contributions are subject to certain limitations set by law. Expense for 2022 and 2021 was \$368,184 and \$347,700, respectively.

#### **Note 12: INCOME TAXES**

Income tax expense (benefit) was as follows:

For the years ended December 31,	2022	2021
Current expense (benefit)		
State	\$ <b>425,000</b> \$	435,000
Deferred expense (benefit)	-	
Total	\$ <b>425,000</b> \$	435,000

The provision for state income taxes differs from that computed by applying statutory rates to income before income tax expense primarily due to tax exempt interest income and other non-deductible expenses.

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

December 31,	2022	2021
Deferred tax assets:		
Provision for loan losses	\$ <b>259,693</b> \$	259,693
Net unrealized losses on securities available for sale	467,452	22,083
Total deferred tax assets	727,145	281,776
Deferred tax liabilities:		
Depreciation	(43,341)	(43,341)
Net deferred tax assets	\$ <b>683,804</b> \$	238,435

#### **Note 13: RELATED-PARTY TRANSACTIONS**

Loans to principal officers, directors, and their affiliates during 2022 were as follows:

Beginning balance	\$ 6,791,822
New loans	741,251
Repayments	(5,628,700)
Ending balance	\$ 1,904,373

Standby letters of credit granted to principal officers, directors, and their affiliates consisted of \$5,018,000 and \$3,388,000 at December 31, 2022 and 2021, respectively.

Deposits from principal officers, directors, and their affiliates at year-end 2022 and 2021 were \$7,917,936 and \$4,094,147.

#### **Note 14: STOCK INCENTIVE PLANS**

The Company has a stock incentive plan for certain key employees that provides for the granting of restricted stock, incentive and performance shares. The total number of shares of stock subject to issuance under the plan may not exceed 10,000 shares. The Board of Directors determines the terms of the restricted stock granted.

Performance shares awarded annually are subject to a calculation based on amounts and ratios reflected in the call report of the Company at calendar year end and are subject to any adjustments determined by the Board of Directors. As of the year ended December 31, 2022 and 2021, performance shares of 1,855 and 1,689, respectively, have been awarded to employees since the inception of the stock incentive plan. These shares have vesting periods of 4 years held as treasury stock to satisfy share option exercises. Currently, the Company has a sufficient number of treasury shares to satisfy expected share option exercises.

A summary of the activity in the stock incentive plan for 2022 follows:

	W	eighted - Average
	Number of Shares	Exercise Price
Outstanding at beginning of year	1596 \$	64.17
Granted	166	118.33
Outstanding at end of year	1,762 \$	69.27
Fully vested and exercisable at end of year	1,164	

There was \$286,634 and \$202,657 of total unrecognized compensation expense related to the unvested shares as of December 31, 2022 and 2021, respectively.

#### **Note 15: 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 not included in computing regulatory capital. Management believes as of December 31, 2022, the Company and Bank meet all capital adequacy requirements to which they are subject.

## RBC, Inc. & Subsidiary Notes to the Consolidated Financial Statements

To Be Well

#### **Note 15: REGULATORY CAPITAL MATTERS (Continued)**

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 distributions required. At year-end 2022 and 2021, 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.

Actual and required capital amounts (in thousands) and ratios are presented below at year-end. The amounts disclosed for capital adequacy purposes do not include the applicable capital conservation buffer requirements under BASEL III.

	Actual		Required for Capital Adequacy Purposes		Capitalized Under Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2022						
Total Capital to risk weighted assets						
Bank	43,530	12.85%	27,093	8.00%	33,866	10.00%
Tier 1 (Core) Capital to risk weighted assets						
Bank	39,394	11.63%	20,320	6.00%	27,093	8.00%
Common Tier 1 (CET1) to risk weighted assets						
Bank	39,394	11.63%	15,240	4.50%	22,013	6.50%
Tier 1 (Core) Capital to aver assets	age					
Bank	39,394	9.10%	17,308	4.00%	21,635	5.00%

To Do Woll

Note 15: REGULATORY CAPITAL MATTERS (Continued)

							to ge /	weii
							Capitalize	d Under
				F	Required for Capital		Corrective Action	
	Actual			Adequacy Purposes		Regulations		
	-	Amount	Ratio	F	Amount	Ratio	Amount	Ratio
2021								
Total Capital to risk								
weighted assets								
Consolidated	\$	44,519	15.66%	\$	22,749	8.00%	N/A	N/A
Bank	-	40,069	14.09%	•	22,749	8.00%	28,437	10.00%
Tier 1 (Core) Capital to risk								
weighted assets								
Consolidated		41,131	14.46%		17,062	6.00%	N/A	N/A
Bank		36,507	12.84%		17,062	6.00%	22,749	8.00%
Common Tier 1 (CET1) to								
risk weighted assets								
Consolidated		41,131	14.46%		12,796	4.50%	N/A	N/A
Bank		36,507	12.84%		12,796	4.50%	18,484	6.50%
Tier 1 (Core) Capital to ave	rag	e						
assets								
Consolidated		41,131	10.02%		16,414	4.00%	N/A	N/A
Bank		36,507	8.90%		16,414	4.00%	20,517	5.00%

#### **Dividend Restrictions**

The Company and the Bank are subject to dividend restrictions set forth by the State Banking Department and federal banking agencies. Additional restrictions may be imposed by the State Banking Department and federal banking agencies under the powers granted to them by law. The Bank can pay in the form of dividends the current year earning plus the retained earnings of the two preceding years, less any required transfers to surplus. Amounts in excess of this must be approved by regulatory agencies.

#### **Note 16: LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES**

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, 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, and usually have expiration dates. 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 exercise of the commitment.

#### Note 16: LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES (Continued)

The contractual amounts of financial instruments with off-balance-sheet risk at year-end were as follows:

	2022	2021
Unfunded lines of credit Standby letters of credit	\$ 49,805,327 5,018,000	\$ 31,721,153 3,388,000

#### **Note 17: REVENUE FROM CONTRACTS WITH CUSTOMERS**

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Company's sources of Non-Interest Income for the twelve months ended December 31, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

For the years ended December 31,	2022			2021	
Non-interest income					
Service charges on deposits	\$	873,112	\$	811,348	
Other service charges		1,431,972		1,240,573	
Trust fees		167,918		180,945	
Other <sup>(a)</sup>		403,846		1,965,689	
Total non-interest income	\$	2,876,848	\$	4,198,555	

<sup>(</sup>a) Not within the scope of ASC 606

A description of the Company's revenue streams accounted for under ASC 606 follows:

#### Service Charges on Deposit Accounts and Other Service Charges

The Company earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as automated teller machine (ATM) use fees, stop payment charges, statement rendering, and automated clearing house (ACH) fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

#### Trust Fees

The Company earns trust fees from its contracts with trust customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services.



Joe Bradley Chairman of the Board





William Gary Holemon President and CEO



James W. Bird, Jr. Director



W. W. Dinning, Jr. Director



Albert H. Garrett Director



Richard E. Gibson Director



G. Kim Mayton Director



Hugh V. Overmyer Director



R. A. Pritchett Director



Jason C. Walker Director

### Directors

JOE BRADLEY
Chairman of the Board
WILLIAM GARY HOLEMON
President & CEO

JAMES W. BIRD, JR. W.W. DINNING, JR. ALBERT H. GARRETT RICHARD E. GIBSON KIM MAYTON HUGH V. OVERMYER R.A. PRITCHETT JASON C. WALKER

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KORY F. FIELDS Vice President- Loan Dept LESLIE Q. HASTY Vice President-Cashier BOONE O. LANE Vice President-Branch Manager KRISTI M. PARKER Vice President- Loan Officer JASON W. WARD Vice President/Business Banker REBECCA G. WHARTON Vice President/Branch Admin KATHLEEN G. WIDEMAN Vice President/Credit Analyst STACEY C. ASHE Assistant Vice President Loan Officer WILLIAM R. HOLEMON Assistant Vice President Business Banker HEATH MCCLURE Assistant Vice President-IT KELLEY MULLINS Assistant Vice President Compliance

MORGAN C. WALTERS Assistant Vice President Trust MADELINE J. OUTLAW Credit Analyst PATRICIA H. QUINNEY Executive Assistant BREANNA M. RANDALL Asst Cashier/Head Bookkeeper KATY COPELAND Assistant Cashier SANDY D. HENSON Assistant Cashier CINDY D. LADURON Assistant Cashier DONNA H. MCCARSON Assistant Cashier ANGIE D. PUGH Assistant Cashier MARIANNE J. TAYLOR Assistant Cashier IENNIFER THOMASON Assistant Cashier MACKENZIE CARDEN Assistant Cashier

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