

**UNITED BANCORPORATION
OF ALABAMA, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2022

**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2022**

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
United Bancorporation of Alabama, Inc.
Atmore, Alabama**

Opinion

We have audited the accompanying consolidated financial statements of **United Bancorporation of Alabama, Inc. and Subsidiaries**, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), stockholders' 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 United Bancorporation of Alabama, Inc. and Subsidiaries as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 United Bancorporation of Alabama, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 judgement 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of United Bancorporation of Alabama, Inc. and Subsidiaries' 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 United Bancorporation of Alabama, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

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

Mauldin & Jenkins, LLC

Birmingham, Alabama
March 20, 2023

**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021**

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Cash and due from banks	\$ 43,476,905	\$ 42,049,769
Interest-bearing deposits in banks	225,621,463	71,854,343
Federal funds sold	11,584,193	6,278,135
Cash and short-term investments	280,682,561	120,182,247
Investment in subsidiaries	2,104,039	2,307,937
Securities available for sale, at fair value (amortized cost of \$375,665,760 and \$281,101,133 at December 31, 2022 and 2021, respectively)	328,610,919	278,953,682
Securities held to maturity, at amortized cost (fair value of \$8,583,391 and \$12,105,153 at December 31, 2022 and 2021, respectively)	8,684,231	11,787,052
Restricted equity securities, at cost	1,746,353	2,200,667
Loans held for sale	-	62,864
Loans held for investment	722,515,490	657,155,493
Less: Allowance for loan losses	12,104,774	10,203,372
Loans, net	710,410,716	646,952,121
NMTC Sub-CDE QLICI loans	3,500,000	3,500,000
Premises and equipment, net	16,947,680	16,616,105
Interest receivable	6,257,567	5,248,188
Bank owned life insurance	21,261,627	17,341,720
Other real estate owned, net	-	150,000
Core deposit intangible	575,936	643,040
Goodwill	6,516,169	6,474,056
Other assets	19,938,818	8,523,137
Total assets	\$ 1,407,236,616	\$ 1,120,942,816
<u>Liabilities and Stockholders' Equity</u>		
Deposits		
Noninterest-bearing	\$ 582,600,867	\$ 424,238,173
Interest-bearing	586,436,937	558,492,536
Total deposits	1,169,037,804	982,730,709
Interest payable	176,652	156,966
Other borrowings	18,939,069	13,197,809
Note payable to trust	-	10,310,000
Accrued expenses and other liabilities	6,476,307	4,837,436
Total liabilities	1,194,629,832	1,011,232,920
Commitments (Note 20)		
Stockholders' equity		
Preferred stock, par value \$.01. Authorized 250,000 shares; 123,750 and 0 shares issued, in 2022 and 2021, respectively	123,750,000	-
Class A common stock, par value \$0.01. Authorized 5,000,000 shares; 3,819,684 and 3,804,277 issued; 3,603,602 and 3,765,965 shares outstanding in 2022 and 2021, respectively	38,197	38,043
Class B common stock, par value \$0.01. Authorized 250,000 shares; no shares issued	-	-
Additional paid-in capital	34,837,882	34,137,926
Retained earnings	96,560,279	79,327,583
Accumulated other comprehensive loss, net of tax	(35,291,130)	(1,610,587)
	219,895,228	111,892,965
Less 188,537 and 239 treasury shares, at cost, in 2022 and 2021, respectively	5,395,444	1,951
Less unvested restricted stock and unallocated KSOP shares (83,615 and 100,505, respectively)	1,893,000	2,181,118
Total stockholders' equity	212,606,784	109,709,896
Total liabilities and stockholders' equity	\$ 1,407,236,616	\$ 1,120,942,816

See accompanying notes to consolidated financial statements

**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Interest income		
Interest and fees on loans	\$ 36,947,532	\$ 32,174,282
Interest on investment securities:		
Taxable securities	5,456,920	2,568,269
Nontaxable securities	1,002,281	827,574
Total investment income	6,459,201	3,395,843
Other interest income	3,671,385	193,745
Total interest income	47,078,118	35,763,870
Interest expense		
Interest on deposits	3,050,512	2,393,843
Interest on other borrowings and note payable	635,530	442,938
Total interest expense	3,686,042	2,836,781
Net interest income	43,392,076	32,927,089
Provision for loan losses	2,051,016	1,862,023
Net interest income after provision for loan losses	41,341,060	31,065,066
Noninterest income:		
Service charges and fees	6,448,452	5,834,765
CDFI award income	994,485	9,826,265
New market tax credit sub-allocation and placement fees	2,593,333	1,800,000
Consulting and asset management fees	428,450	1,577,500
Investment securities gains, net	-	84,297
Mortgage loan and related fees	425,752	1,194,714
Other	3,772,959	2,365,636
Total noninterest income	14,663,431	22,683,177
Noninterest expense:		
Salaries and benefits	17,201,457	15,349,537
Net occupancy expense	3,546,532	3,350,093
Other	11,232,900	11,106,377
Total noninterest expense	31,980,889	29,806,007
Income before income tax expense	24,023,602	23,942,236
Income tax expense	5,338,894	5,409,190
Net income	18,684,708	18,533,046
Net income available to common shareholders	\$ 18,684,708	\$ 18,533,046
Basic earnings per common share	\$ 5.11	\$ 4.87
Basic weighted-average shares outstanding	3,654,605	3,807,620
Diluted earnings per common share	\$ 5.11	\$ 4.87
Diluted weighted-average shares outstanding	3,654,605	3,807,620

See accompanying notes to consolidated financial statements

**UNITED BANCORPORATION OF ALABAMA, INC.
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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
Net income	\$ 18,684,708	\$ 18,533,046
Other comprehensive income (loss):		
Unrealized holding losses on securities available for sale arising during the period, net of tax benefit of \$11,226,848 and \$1,350,607, respectively	(33,680,543)	(4,051,822)
Reclassification adjustment for gains on securities available for sale realized in net income, net of taxes of \$0 and \$21,075, respectively	-	(63,222)
Total other comprehensive loss	(33,680,543)	(4,115,044)
Comprehensive income (loss)	\$ (14,995,835)	\$ 14,418,002

See accompanying notes to consolidated financial statements

**UNITED BANCORPORATION OF ALABAMA, INC.
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**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Restricted Stock	Unearned KSOP Shares	Total
	Shares	Amount	Shares	Par Value							
Balance, December 31, 2020	-	\$ -	3,790,647	\$ 37,907	\$ 33,576,095	\$ 61,859,668	\$ 2,504,457	\$ (1,951)	\$ (1,60,937)	(963,599)	\$ 96,849,640
Net income	-	-	-	-	-	18,533,046	-	-	-	-	18,533,046
Other comprehensive loss	-	-	-	-	-	(4,115,044)	-	-	-	-	(4,115,044)
Cash dividend declared (\$0.28 per share)	-	-	-	-	-	(1,065,131)	-	-	-	-	(1,065,131)
Restricted stock grants	-	-	12,327	123	353,279	-	-	-	(353,402)	-	-
Exec officer restricted stock forfeiture/retirement	-	-	(3,185)	(32)	(78,977)	-	-	-	79,009	-	-
KSOP released shares - leveraged	-	-	-	-	170,254	-	-	-	-	349,606	519,860
KSOP unallocated shares purchased	-	-	-	-	-	-	-	-	-	(1,394,100)	(1,394,100)
Stock based compensation	-	-	-	-	-	-	-	-	264,305	-	264,305
Shares issued in accordance with dividend reinvestment plan	-	-	4,488	45	117,275	-	-	-	-	-	117,320
Balance, December 31, 2021	-	-	3,804,277	38,043	34,137,926	79,327,583	(1,610,587)	(1,951)	(171,025)	(2,010,093)	109,709,896
Net income	-	-	-	-	-	18,684,708	-	-	-	-	18,684,708
Other comprehensive loss	-	-	-	-	-	(33,680,543)	-	-	-	-	(33,680,543)
Stock issuance in accordance with ECIP agreement	123,750	123,750,000	-	-	-	-	-	-	-	-	123,750,000
Treasury shares purchased	-	-	-	-	-	-	-	-	-	-	-
Cash dividend declared (\$0.40 per share)	-	-	-	-	-	(1,452,012)	-	(5,393,493)	-	-	(5,393,493)
Restricted stock grants	-	-	11,421	114	331,099	-	-	-	(331,213)	-	-
Exec officer restricted stock forfeiture/retirement	-	-	(446)	(4)	(11,482)	-	-	-	11,486	-	-
KSOP released shares - leveraged	-	-	-	-	256,738	-	-	-	-	-	256,738
Stock based compensation	-	-	-	-	-	-	-	-	-	337,802	337,802
Shares issued in accordance with dividend reinvestment plan	-	-	4,432	44	123,601	-	-	-	-	-	123,645
Balance, December 31, 2022	123,750	\$ 123,750,000	3,819,684	\$ 38,197	\$ 34,837,882	\$ 96,560,279	\$ (35,291,130)	\$ (5,395,444)	\$ (220,709)	(1,672,291)	\$ 212,606,784

See accompanying notes to consolidated financial statements

**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
OPERATING ACTIVITIES		
Net income	\$ 18,684,708	\$ 18,533,046
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	2,051,016	1,862,023
Depreciation of premises and equipment	1,497,321	1,451,557
Net amortization of premium on investment securities available for sale	1,578,976	1,355,400
Net amortization of premium on investment securities held to maturity	38,006	44,651
Gain on sales of investment securities available for sale, net	-	(84,297)
Amortization of core deposit intangible	67,104	27,960
Accretion of discounts on purchased loans	(583,644)	(185,180)
Amortization of premium on purchased deposits	27,335	136,667
Stock based compensation	270,043	264,305
Release of KSOP shares	594,540	519,860
Net (gain) loss on sales of other real estate owned	16,447	(85,032)
Net gain on sales of loans held for sale	(334,902)	(997,705)
Originations of loans held for sale	(12,569,528)	(30,297,744)
Proceeds from sales of loans held for sale	12,967,294	34,050,146
Earnings on bank owned life insurance	(458,222)	(358,872)
Deferred income taxes	(464,451)	(734,474)
Increase in interest receivable	(1,009,379)	(1,072,925)
Decrease in prepaids	61,533	1,116,855
(Increase) decrease in other assets	418,069	(1,317,990)
Increase (decrease) in interest payable	19,686	(92,969)
Increase in accrued expenses and other liabilities	1,448,665	2,037,155
Net cash provided by operating activities	24,320,617	26,172,437
INVESTING ACTIVITIES		
Net cash received in business combination	-	9,678,870
Purchases of securities available for sale	(119,795,661)	(178,493,346)
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	23,651,971	28,306,092
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	3,064,815	2,870,000
Proceeds from sales of investment securities available for sale	-	36,855,280
Purchase of bank owned life insurance	(3,862,000)	(550,000)
Bank owned life insurance death benefits	400,315	-
Net redemption of other equity securities	412,201	149,450
Net increase in loans	(65,110,967)	(64,138,732)
Purchases of premises and equipment	(1,828,896)	(519,233)
Proceeds from sales of other real estate owned	318,553	262,032
Net cash used in investing activities	(162,749,669)	(165,579,587)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	186,279,760	(4,279,089)
Cash dividends paid - common stock	(1,261,806)	(1,025,013)
Issuance of common stock	123,645	117,320
Issuance of preferred stock	123,750,000	-
Purchase of unallocated KSOP shares	-	(1,394,100)
Purchase of treasury shares	(5,393,493)	-
Advances from other borrowings	6,461,049	4,007,140
Repayment of other borrowings	(11,029,789)	(719,789)
Net cash provided by (used in) financing activities	298,929,366	(3,293,531)
Net increase (decrease) in cash and short-term investments	160,500,314	(142,700,681)
Cash and short-term investments at beginning of year	120,182,247	262,882,928
Cash and short-term investments at end of year	\$ 280,682,561	\$ 120,182,247
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	\$ 3,705,728	\$ 2,743,812
Income taxes	\$ 5,587,500	\$ 5,393,800
OTHER NONCASH TRANSACTIONS		
Transfer of loans to other real estate through foreclosure	\$ 260,000	\$ -

See accompanying notes to consolidated financial statements

**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United Bancorporation of Alabama, Inc. (the “Corporation”) is a financial holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, United Bank (UB), Town-Country United Bank (TCUB), UB Community Development, LLC (UBCD), UBA CFSA Investment Fund, LLC (CFSA IF) and UBA AMCREF Investment Fund, LLC (AMCREF IF).

UB is a commercial bank with headquarters in Atmore, Alabama. UB provides a full range of banking services in its primary market areas of Baldwin, Escambia, Monroe, Mobile and Jefferson Counties, Alabama, and Santa Rosa County, Florida. UB wholly-owns United Insurance Services (UIS), a subsidiary entity, allowing bank-employed licensed agents to offer non-deposit insurance products to bank customers and non-customers.

TCUB is a commercial bank with operations in Camden, Alabama. TCUB provides retail and commercial loan and deposit services principally to customers within a 50-mile radius of the Bank’s location. TCUB was acquired by the Corporation on July 26, 2021 as further described in Note 2. At acquisition, TCUB’s legal name was Town-Country National Bank (TCNB). On January 1, 2022, TCNB completed a charter change from a national bank to a state member bank and simultaneously changed its’ name to Town-Country United Bank. TCNB will be referred to as TCUB hence forth.

Throughout the statements, UB and TCUB are collectively referred to as “the Banks”.

UBCD is an entity established to manage allocations of New Market Tax Credits (NMTC) from funds administered by the U.S. Department of Treasury as well as oversee other community development initiatives. UBCD operates from Atmore, Alabama.

In September 2019, the Corporation became a NMTC equity investor via CFSA IF by pre-funding a \$3.5 million transaction. The Corporation will receive \$1,365,000 in tax benefits over a seven-year compliance period. CFSA IF is wholly-owned by the Corporation and is the 99.9% member of UBCD Sub-CDE Uniform Golf, LLC. UBCD is the 0.01% member and manages the Sub-CDE for the investment fund.

In August 2020, the Corporation entered into its second NMTC transaction as equity investor. Through AMCREF IF, the Corporation made a \$705,994 contribution that will result in \$882,492 of tax credits taken over a seven-year compliance period. AMCREF IF is wholly-owned by the Corporation and is the 99.99% member of the AMCREF Fund 63, LLC. AMCREF Fund 63, LLC is managed by the 0.01% member, an entity external to the Corporation’s organizational structure.

Principles of Consolidation

The accompanying consolidated financial statements include the financial statements of United Bancorporation of Alabama, Inc., UB, TCUB, UBCD, CFSA IF and AMCREF IF collectively referred to as “the Corporation”. Significant inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation and Accounting Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting Estimates (Continued)

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned and deferred taxes, the valuation of other than temporary impairment for investment securities, and the fair value of financial instruments.

The Corporation has evaluated all transactions, events, and circumstances for consideration or disclosure through March 20, 2023, the date these financial statements were available to be issued and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

Cash and Short-Term Investments

The Corporation considers cash and due from banks, interest-bearing deposits in banks, and federal funds sold to be cash and short-term investments. Federal funds are generally sold for one-day periods.

Investment Securities

Investment securities are classified in one of two portfolios: securities available for sale or securities held to maturity. Investment securities available for sale are stated at fair value with any unrealized gains and losses reported in a separate component of stockholders' equity, net of tax effect, until realized. Once realized, gains and losses on investment securities available for sale are reflected in current period earnings. Investment securities held to maturity are stated at amortized cost adjusted for amortization of premiums and accretion of discounts.

Net gains and losses on the sale of investment securities available for sale are recorded at trade date. The net gains and losses are computed using the specific identification method and are shown separately in noninterest income in the consolidated statements of earnings. Accretion of discounts and amortization of premiums are calculated on the effective interest method over the anticipated life of the security.

A decline in the fair value of any security below amortized cost that is deemed other than temporary is charged to earnings resulting in the establishment of a new cost basis for the security.

Restricted Equity Securities

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

Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value (LOCOM). For loans carried at LOCOM, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party quoted prices.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs, are recognized at the time the loan is placed on the books.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower may not be able to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Corporation will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

Allowance for Loan Losses

The allowance for loan losses (allowance) is an amount that management believes will be appropriate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses, and may require the Corporation to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans that are classified as impaired, an allowance is established when the collateral value, present value of expected future cash flows or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the trends associated with the composition of the loan portfolio; (6) the trends related to classified assets and (7) effectiveness of the Corporation's loan policies, procedures and internal controls.

Management considers a loan to be impaired when it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. If the loan is collateral-dependent, the fair value of the collateral is used to determine the amount of impairment. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses. Impaired loans are charged off against the allowance when such loans are deemed to be uncollectible. Subsequent recoveries are added to the allowance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

When a loan is considered impaired, payments are recognized as scheduled interest and principal reductions as long as the loan is not in default under the terms of the loan agreement. Otherwise, if in default, cash receipts are applied first to principal and once the recorded principal balance has been reduced to zero, future cash receipts are recognized as interest income, to the extent that any interest has not been recognized. Any further cash receipts are recorded as recoveries of any amount previously charged off.

The ultimate Ability to collect a substantial portion of the Corporation's loan portfolio is susceptible to changes in economic and market conditions in the geographic area served by the Corporation and various other factors.

Troubled Debt Restructurings

The Corporation designates loan modifications as troubled debt restructurings (TDRs) when for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Corporation typically classifies these restructurings as nonaccrual.

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

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

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from three to forty years.

Other Real Estate Owned

Other real estate owned represents property acquired through foreclosure or deeded to the Corporation in lieu of foreclosure on real estate mortgage loans on which borrowers have defaulted. Other real estate owned is carried at the lower of cost or fair value, adjusted for estimated selling costs. Reductions in the balance of other real estate owned at the date of foreclosure are charged to the allowance for loan losses. Subsequent valuation decreases in the carrying value of other real estate owned as well as costs to carry other real estate owned are recognized as charges to noninterest expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business Combinations

The Corporation accounts for business combinations under the acquisition method of accounting in accordance with Accounting Standards Codification (ASC) 805, *Business Combinations*. The Corporation recognizes the full fair value of the assets acquired and liabilities assumed and immediately expenses transaction costs. There is no separate recognition of the acquired allowance for the loan losses on the acquirer's balance sheet as credit-related factors are incorporated directly into the fair value of the net tangible and intangible assets acquired. If the amount of consideration exceeds the fair value of assets purchased less the fair value of liabilities assumed, goodwill is recorded. Alternatively, if the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid, a gain ("bargain purchase gain") is recorded. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Results of operations of the acquired business are included in the statement of earnings from the effective date of the acquisition. Additional information regarding acquisitions is provided in Note 2.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of the net assets purchased in business combinations. Goodwill is required to be tested annually for impairment or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of impairment, the amount by which the carrying amount exceeds the fair value is charged to earnings. The Corporation performs its annual test for impairment in the fourth quarter of each year.

Intangible assets consist of core deposit premiums acquired in connection with business combinations and are based on the established value of acquired customer deposits. The core deposit premium is initially recognized based on a valuation performed as of the consummation date and is amortized over an estimated useful life of three to ten years. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Income Taxes

The Corporation accounts for income taxes in accordance with income tax accounting guidance, FASB ASC 740, *Income Taxes*. The Corporation applies the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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

Stock Based Compensation

At December 31, 2022 and 2021, the Corporation had restricted stock and other equity awards outstanding as defined by a stock based employee compensation plan, which is described more fully in Note 13.

The Corporation accounts for its stock based compensation plan under stock compensation accounting guidance, FASB ASC 718, *Compensation – Stock Compensation*. This guidance requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' 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. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards and stock grants.

Earnings per Common Share

Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if dilutive stock options were exercised and resulted in the issuance of common stock.

Unvested share-based payment awards, which include the right to receive non-forfeitable dividends, are considered participating securities and therefore considered to be outstanding in the computation of earnings per share. For the years ended December 31, 2022 and 2021, earnings per common share is calculated using the two class method, under which calculations (1) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (2) exclude from the denominator the dilutive impact of the participating securities.

Comprehensive Income (Loss)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Recent Accounting Pronouncements

In June 2016 the FASB issued ASU 2016-13, *“Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.”* The new guidance will apply to most financial assets measured at amortized cost and certain other instruments including loans, debt securities held to maturity, net investments in leases and off-balance sheet credit exposures. The guidance will replace the current incurred loss accounting model that delays recognition of a loss until it is probable a loss has been incurred with an expected loss model that reflects expected credit losses based upon a broader range of estimates including consideration of past events, current conditions and supportable forecasts. The guidance also eliminates the current accounting model for purchased credit impaired loans and debt securities, which will require re-measurement of the related allowance at each reporting period. The guidance includes enhanced disclosure requirements intended to help financial statement users better understand estimates and judgement used in estimating credit losses. As originally issued, ASU 2016-13 was effective for financial statements issued for fiscal years and for interim periods within those fiscal years beginning after December 15, 2020, with institutions required to apply the changes through a cumulative-effect adjustment to their retained earnings balance as of the beginning of the first reporting period in which the guidance is effective. On October 16, 2019, the FASB approved a delay in the implementation of ASU 2016-13 by two years for certain business entities, including the Corporation. Management has been in the process of developing a revised model to calculate the allowance for loan and leases losses upon implementation of ASU 2016-13 in order to determine the impact on the Corporation’s consolidated financial statements. Management does not expect a significant impact on the Company’s consolidated financial statements.

NOTE 2. BUSINESS COMBINATION

On July 26, 2021, the Corporation completed its acquisition of Town-Country National Bank (hence forth “TCUB”), a commercial bank with operations in Camden, Wilcox County, Alabama. TCUB’s common shareholders received \$237.34 in cash in exchange for each share of TCUB’s common stock. The Corporation paid cash totaling \$17,800,500 for 75,000 shares of TCUB common stock. The Corporation recorded \$6,474,056 in goodwill. Acquisition expenses of approximately \$853,000 were charged directly to other noninterest expense.

The acquisition of TCUB was accounted for using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and are subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. BUSINESS COMBINATION (Continued)

The following table presents the assets acquired and liabilities assumed of TCUB as of July 26, 2021, at their fair values. (amounts in thousands, except per share data):

	As Recorded By TCUB	Fair Value Adjustments	As Recorded By the Corporation
Cash and cash equivalents	\$ 13,305	\$ -	\$ 13,305
Federal funds sold	14,175	-	14,175
Investments	28,269	(424) (a)	27,845
Loans, net of unearned income	67,993	(1,965) (b)	66,028
Allowance for loan losses	(1,812)	1,812 €	-
Net loans	66,181	(153)	66,028
Bank owned life insurance	4,399	1 (d)	4,400
Premises and equipment, net	1,699	90 €	1,789
Other real estate owned	170	-	170
Core deposit intangible	-	671 (f)	671
Deferred tax asset	137	194 (g)	331
Other assets	859	-	859
Total assets	\$ 129,194	\$ 379	\$ 129,573
Core deposits	\$ 52,679	\$ -	\$ 52,679
Time Deposits – CDs	54,392	164 (h)	54,556
TDOA	1,000	-	1,000
Other deposits	9,584	-	9,584
Other liabilities	427	-	427
Total liabilities	\$ 118,082	\$ 164	\$ 118,246
Net identifiable assets acquired over liabilities assumed	\$ 11,112	\$ 215	\$ 11,327
Goodwill	\$ -	\$ 6,474	\$ 6,474
Net assets acquired over liabilities assumed	\$ 11,112	\$ 6,689	\$ 17,801

(a) Adjustment reflects the fair value adjustment of the acquired security portfolio at the acquisition date.

(b) Adjustment reflects the fair value adjustment of the acquired loan portfolio at the acquisition date.

€ Adjustment reflects the elimination of TCUB's allowance for loan losses.

(d) Adjustment reflects the fair value adjustment of the cash value of life insurance.

€ Adjustment reflects the fair value adjustment to TCUB's buildings and furniture & equipment.

(f) Adjustment reflects the recording of the core deposit intangible.

(g) Adjustment reflects the recording of the net deferred tax asset (liability) created by the purchase adjustments.

(h) Adjustment reflects the fair value adjustment of the time deposits at acquisition date.

Consideration:

Number of shares of TCUB common stock outstanding at July 26, 2021	75,000
Cash consideration each TCUB share is entitled to receive	\$ 237.34
Total cash consideration	\$ 17,800,500

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. BUSINESS COMBINATION (Continued)

The discounts on loans will be accreted to interest income over the life of the loans using the level yield method. The core deposit intangible will be amortized over a ten year period on a straight-line basis.

In many cases, determining the fair value of the acquired assets and assumed liabilities requires the Corporation to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of those determinations is related to the fair valuation of acquired loans. Acquired loans are initially recorded at their acquisition date fair values. The carryover of the allowance for loan losses is prohibited, as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans are based on a discounted cash flow methodology that involves assumptions including the remaining life of the acquired loans, estimated prepayments, estimated value of the underlying collateral and net present value of cash flows expected to be collected. Acquired loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that the acquirer will be unable to collect all contractually required payments are specifically identified and analyzed. The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized in interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable discount. The non-accretable discount represents estimated future credit losses expected to be incurred over the life of the loan.

Loans at the acquisition date are presented in the following table at fair value (amounts in thousands).

	Acquired Impaired Loans	Acquired Performing Loans	Total Acquired Loans
Residential real estate	\$ -	\$ 15,829	\$ 15,829
Commercial real estate	-	18,162	18,162
Agricultural	-	1,770	1,770
Commercial	-	15,393	15,393
Consumer	-	14,874	14,874
Total Loans	\$ -	\$ 66,028	\$ 66,028

NOTE 3. CASH AND DUE FROM BANKS

The Banks may be required by the Federal Reserve Bank to maintain daily cash balances. Both UB and TCUB are required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. On March 15, 2020, the Federal Reserve System Board announced an interim final rule amending Regulation D to lower all transaction account reserve requirement ratios to zero percent, thereby eliminating all reserve requirements, although it did reserve the right to require a reserve requirement at a future date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale at December 31, 2022 and 2021 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2022:				
U.S. Treasury securities	\$ 8,274,153	\$ -	\$ (258,294)	\$ 8,015,859
U.S. government sponsored agencies	115,873,679	65,092	(9,229,634)	106,709,137
State and political subdivisions	98,434,187	4,998	(16,579,129)	81,860,056
Corporate bonds	9,375,519	-	(1,246,260)	8,129,259
Mortgage-backed securities	143,708,222	29,972	(19,841,586)	123,896,608
	<u>\$ 375,665,760</u>	<u>\$ 100,062</u>	<u>\$ (47,154,903)</u>	<u>\$ 328,610,919</u>
December 31, 2021:				
U.S. Treasury securities	\$ 2,468,131	\$ -	\$ (50,943)	\$ 2,417,188
U.S. government sponsored agencies	75,100,416	572,579	(900,910)	74,772,085
State and political subdivisions	85,884,828	1,454,852	(1,049,844)	86,289,836
Corporate bonds	8,458,995	90,688	(205,240)	8,344,443
Mortgage-backed securities	109,188,763	193,414	(2,252,047)	107,130,130
	<u>\$ 281,101,133</u>	<u>\$ 2,311,533</u>	<u>\$ (4,458,984)</u>	<u>\$ 278,953,682</u>

The amortized cost and fair value of investment securities held to maturity at December 31, 2022 and 2021 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity				
December 31, 2022:				
U.S. government sponsored agencies	\$ 2,996,686	\$ -	\$ (43,268)	\$ 2,953,418
State and political subdivisions	5,687,545	213	(57,785)	5,629,973
	<u>\$ 8,684,231</u>	<u>\$ 213</u>	<u>\$ (101,053)</u>	<u>\$ 8,583,391</u>
December 31, 2021:				
U.S. government sponsored agencies	\$ 4,993,546	\$ 107,528	\$ -	\$ 5,101,074
State and political subdivisions	6,793,506	210,573	-	7,004,079
	<u>\$ 11,787,052</u>	<u>\$ 318,101</u>	<u>\$ -</u>	<u>\$ 12,105,153</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. INVESTMENT SECURITIES (Continued)

Those investment securities classified as available for sale which have an unrealized loss position at December 31, 2022 and 2021 are detailed below:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2022:						
U.S. Treasury securities	\$ (18,958)	\$ 5,778,750	\$ (239,336)	\$ 2,237,109	\$ (258,294)	\$ 8,015,859
U.S. government sponsored agencies	(2,415,762)	45,724,018	(6,813,872)	42,606,279	(9,229,634)	88,330,297
State and political subdivisions	(2,749,090)	35,974,346	(13,830,039)	42,993,482	(16,579,129)	78,967,828
Corporate bonds	(218,144)	3,806,976	(1,028,116)	4,322,283	(1,246,260)	8,129,259
Mortgage-backed securities	(2,311,654)	39,397,901	(17,529,932)	77,979,853	(19,841,586)	117,377,754
Total securities	<u>\$ (7,713,608)</u>	<u>\$ 130,681,991</u>	<u>\$ (39,441,295)</u>	<u>\$ 170,139,006</u>	<u>\$ (47,154,903)</u>	<u>\$ 300,820,997</u>
December 31, 2021:						
U.S. Treasury securities	\$ (50,943)	\$ 2,417,188	\$ -	\$ -	\$ (50,943)	\$ 2,417,188
U.S. government sponsored agencies	(843,793)	49,874,819	(57,117)	1,550,700	(900,910)	51,425,519
State and political subdivisions	(595,578)	38,183,656	(454,266)	8,069,286	(1,049,844)	46,252,942
Corporate bonds	(4,293)	1,008,965	(200,947)	4,207,478	(205,240)	5,216,443
Mortgage-backed securities	(1,423,814)	72,569,677	(828,233)	25,654,464	(2,252,047)	98,224,141
Total securities	<u>\$ (2,918,421)</u>	<u>\$ 164,054,305</u>	<u>\$ (1,540,563)</u>	<u>\$ 39,481,928</u>	<u>\$ (4,458,984)</u>	<u>\$ 203,536,233</u>

Those investment securities classified as held to maturity which have an unrealized loss position at December 31, 2022 and 2021 are detailed below:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2022:						
U.S. government sponsored agencies	\$ (43,268)	\$ 2,953,418	\$ -	\$ -	\$ (43,268)	\$ 2,953,418
State and political subdivisions	(57,785)	4,480,270	-	-	(57,785)	4,480,270
Total securities	<u>\$ (101,054)</u>	<u>\$ 7,433,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (101,054)</u>	<u>\$ 7,433,688</u>

The unrealized losses on 365 investment securities available for sale and 16 investment securities held to maturity at December 31, 2022 were attributable to changes in market interest rates since the securities were purchased. The Corporation systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers, (3) structure of the security and (4) the Corporation's intent to sell the security or whether it is more likely than not that the Corporation would be required to sell the security before its anticipated recovery in market value. Because the Corporation does not currently intend to sell the investment securities and it is not more likely than not that the Corporation will be required to sell the investment securities before recovery of their amortized cost bases, which may be maturity, the Corporation does not consider these investment securities to be other-than-temporarily impaired at December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of investment securities as of December 31, 2022 categorized by contractual maturity are shown below. Expected maturities may differ from contractual maturities of mortgage-backed securities because borrowers have the right to call or prepay obligations with or without penalties. Therefore, these securities are not presented by maturity class.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 3,575,779	\$ 3,561,854	\$ 3,462,268	\$ 3,417,254
Due after one year through five years	66,997,692	63,730,362	2,355,714	2,327,621
Due after five years through ten years	56,793,480	50,073,135	2,253,456	2,236,238
Due after ten years	104,590,587	87,348,960	612,793	602,278
Mortgage-backed securities	143,708,222	123,896,608	-	-
	\$ 375,665,760	\$ 328,610,919	\$ 8,684,231	\$ 8,583,391

The gross gains and gross losses realized by the Corporation from sales of investment securities available for sale for the years ended December 31, 2022 and 2021 were as follows:

	Years Ended December 31,	
	2022	2021
Gross gains	\$ -	\$ 138,138
Gross losses	-	(53,841)
Net realized gains	\$ -	\$ 84,297

Investment securities with carrying values of \$70,490,376 and \$57,927,356 at December 31, 2022 and 2021, respectively, were pledged to secure federal funds lines, Federal Home Loan Bank advances, and public and trust deposits as required by law and for other purposes.

Restricted equity investment securities consist of the following as of December 31, 2022 and 2021:

	December 31,	
	2022	2021
Federal Home Loan Bank of Atlanta	\$ 809,800	\$ 889,500
First National Banker's Bankshares, Inc.	893,900	936,014
Central Alabama Title Center, LLC	30,000	30,000
Federal Reserve Bank	-	22,500
First Community, LP	2,500	2,500
Federal Agricultural Mortgage Corporation	10,153	10,153
United Bancorp Capital Trust II	-	310,000
	\$ 1,746,353	\$ 2,200,667

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

Portfolio Segments and Classes

At December 31, 2022 and 2021, the composition of the loan portfolio was as follows:

	December 31,	
	2022	2021
Real estate:		
Construction and land loans	\$ 89,659,666	\$ 69,214,085
Farmland	42,726,175	44,649,907
1-4 family residential mortgages	101,595,752	102,328,068
Multifamily	18,600,634	18,287,096
Commercial	157,357,619	123,445,321
Agricultural	41,853,262	37,417,754
Commercial	187,515,956	195,975,020
Consumer	37,702,020	35,293,190
States and political subdivisions	36,868,900	24,937,164
Other loans	8,635,506	5,607,888
Total	\$ 722,515,490	\$ 657,155,493

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are six primary loan portfolio segments that include real estate, agriculture, commercial, consumer, state and political subdivisions and other loans. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land loans, farmland, 1-4 family residential mortgages, multifamily, and commercial. The portfolio segments of all other non-real estate loans have not been further segregated by class.

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

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

- Construction and land loans are repaid through cash flow related to the operation, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.
- 1-4 family residential mortgages and farmland loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.
- Commercial loans include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the business. Real estate loans for income-producing multifamily properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Portfolio Segments and Classes (Continued)

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

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

State and Political Subdivisions - The state and political subdivision loan portfolio segment includes loans to local municipalities to support municipal operations and projects. Loans are repaid generally from tax revenues collected in those municipalities.

Other Loans - The other loans portfolio segment includes loans to non-related bank holding companies to invest in subordinated-debt. Loans are interest only, fixed rate with interest payable semi-annually.

U.S. Small Business Administration Paycheck Protection Program

UB participated in the Paycheck Protection Program (PPP), a loan program originated from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act (PPPHCEA). The PPP provides loans of up to \$10 million to small businesses affected by economic conditions resulting from the COVID-19 pandemic to provide cash-flow assistance to employers for maintaining their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. PPP loans carry an interest rate of 1% and a maturity of two or five years.

Under this program, UB provided approximately \$94 million in funding to 1,315 customers. The average PPP loan was approximately \$55,000. As compensation for originating the loans, the Corporation received lender processing fees from the U.S. Small Business Administration (SBA) totaling approximately \$4.8 million. Processing fees per loan range from 1% to 5% based on the size of the loan, and are deferred and amortized into interest income over the loans' contractual lives. Upon forgiveness of a loan by the SBA, any unrecognized net deferred fees related to the loan are recognized as interest income in the period the SBA forgiveness payment is received.

These PPP loans are fully guaranteed by the SBA and are not included in UB's allowance for loan losses calculation. If the borrower meets certain criteria and uses the proceeds toward eligible expenses in accordance with the requirements of the PPP, the borrower's obligation to repay the loan can be forgiven up to the full principal amount of the loan plus any accrued interest. Upon borrower forgiveness, the SBA pays UB for the principal and accrued interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the original loan terms with the SBA guaranty remaining in place. Approximately \$514,000 and \$10.6 million in PPP loans remain outstanding as of December 31, 2022 and 2021, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Risk Management

The Corporation assigns a risk rating to each loan when approved. The rating categories are based on information about the ability of borrowers to service the debt. Such information includes, among other things, current financial information, payment history, credit documentation and current economic conditions. Loan Officers are expected and required to initiate recommendations for changes in assigned risk ratings according to changes in the overall levels of risk in each loan in their portfolio no less than monthly. The current risk rating will be reviewed from time to time by the Chief Credit Officer and the Special Assets Officer for concurrence. The Corporation uses the following guidelines in determining the appropriate risk rating:

Grade 1: Investment Grade – There is an absence of credit risk. Loans in this category are fully secured by the Banks certificates of deposit or savings accounts (demand deposit accounts are not eligible as collateral). The certificate should be sufficient in amount to cover principal and interest.

Grade 2: Minimal Credit Risk – The overall financial condition is very strong. Businesses should have high liquidity, a history of stable and predictable earnings, a strong management team and the primary source of repayment is clear and subject to little risk. Customers should have a substantial net worth in liquid assets with a well-defined source of repayment.

Grade 3: Attractive Credit Risk – The overall financial condition is good. Financial statements are current and show satisfactory income, profits, cash flow, and debt service coverage, debt to worth ratio and credit history. Loans in this category are properly structured and documented and require only minimal supervision.

Grade 4: Average Risk – The overall financial condition is average. Credit history has been satisfactory. Refinancing could be obtained with normal effort. Financial statements are current and show some volatility in income, profits, cash flow, debt service coverage or credit history. The volatility is easily identifiable and has been addressed and does not constitute an unwarranted level of risk.

Grade 5: Acceptable Risk – The overall financial condition of the business or individual is acceptable. There is more than average credit risk and the credit should be more closely watched but there is little chance of loss. While acceptable, loans in this category may warrant close monitoring for any number of reasons including inconsistent earnings, leveraged balance sheet, economic conditions, collateral requiring close supervision, financial information that is stale or incomplete or irregular payment record.

Grade 6: Monitor – This asset has potential weakness and deserves management attention. If left uncorrected the potential weakness may result in deterioration of the overall financial condition. There is no room for debt expansion and they are fully leveraged. If liquidation were to take place there could be a minimal loss and thus an analysis should be made to determine if a specific reserve is needed.

Grade 7: Substandard – This asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Loans in this category involve more than a normal risk. There is limited opportunity to refinance. If liquidation were to take place there could be some recognized loss exposure. If the loan is determined to be impaired, an analysis will be performed to determine the amount of reserve, if any, to be recognized.

Grade 8: Doubtful – A loss is highly likely and there probably will be a default. There is no ability to refinance. At this point collection effort should be in full process. Loans in this category will be reserved at a specific amount in line with the impairment analysis performed if the loan is determined to be impaired.

These risk ratings are summarized into categories as follows: Pass includes loans with Grades 1-5, Special Mention includes loans with a Grade of 6, and Substandard/Doubtful include loans with Grades 7 and 8.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Risk Management (Continued)

The following tables summarize the credit risk profile of our loan portfolio by internally assigned grades as of December 31, 2022 and 2021.

	Pass	Special Mention	Substandard	Total
	<i>(Dollars in Thousands)</i>			
December 31, 2022:				
Real estate:				
Construction and land loans	\$ 77,957	\$ 6,167	\$ 5,535	\$ 89,659
Farmland	39,592	2,501	633	42,726
1-4 family residential mortgages	98,159	963	2,474	101,596
Multifamily	18,601	-	-	18,601
Commercial	152,448	2,665	2,245	157,358
Agricultural	40,005	1,532	316	41,853
Commercial	170,696	11,541	5,279	187,516
Consumer	36,989	347	366	37,702
States and political subdivisions	35,366	1,503	-	36,869
Other loans	8,635	-	1	8,636
Total	\$ 678,448	\$ 27,219	\$ 16,849	\$ 722,516

There were no loans considered doubtful as of December 31, 2022.

	Pass	Special Mention	Substandard	Total
	<i>(Dollars in Thousands)</i>			
December 31, 2021:				
Real estate:				
Construction and land loans	\$ 62,889	\$ 823	\$ 5,502	\$ 69,214
Farmland	38,184	4,887	1,579	44,650
1-4 family residential mortgages	99,200	942	2,186	102,328
Multifamily	18,287	-	-	18,287
Commercial	118,344	2,740	2,361	123,445
Agricultural	35,329	1,750	339	37,418
Commercial	183,754	7,616	4,605	195,975
Consumer	35,127	50	116	35,293
States and political subdivisions	24,937	-	-	24,937
Other loans	4,011	1,597	-	5,608
Total	\$ 620,062	\$ 20,405	\$ 16,688	\$ 657,155

There were no loans considered doubtful as of December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses

The following tables detail the change in the allowance for loan losses for the years ended December 31, 2022 and 2021. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Beginning Balance	Charge offs	Recoveries	Provision (credit) Allocation	Ending Balance
<i>(Dollars in Thousands)</i>					
December 31, 2022:					
Real estate	\$ 5,591	\$ -	\$ 163	\$ 1,270	\$ 7,024
Agriculture	515	-	24	6	545
Commercial	3,110	(355)	131	370	3,256
Consumer	512	(271)	168	259	668
States and political subdivisions	362	-	-	142	504
Other loans	113	(12)	3	4	108
Total:	\$ 10,203	\$ (638)	\$ 489	\$ 2,051	\$ 12,105
December 31, 2021:					
Real estate	\$ 4,123	\$ (23)	\$ 497	994	\$ 5,591
Agriculture	552	(21)	8	(24)	515
Commercial	2,100	(10)	21	999	3,110
Consumer	587	(107)	153	(121)	512
States and political subdivisions	219	-	-	143	362
Other loans	242	(6)	6	(129)	113
Total:	\$ 7,823	\$ (167)	\$ 685	\$ 1,862	\$ 10,203

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance for Loan Losses (Continued)

	Loan Balances			Allowance for Loan Loss		
	Total Loans	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Specific Reserves	General Reserves	Total Reserves
December 31, 2022:						
Real estate:						
Construction and land loans	\$ 89,659	\$ 5,050	\$ 84,609	\$ 300	\$ 978	\$ 1,278
Farmland	42,726	934	41,792	-	525	525
1-4 family residential mortgages	101,596	979	100,617	415	1,477	1,892
Multifamily	18,601	-	18,601	-	255	255
Commercial	157,358	1,713	155,645	240	2,834	3,074
Agriculture	41,853	295	41,558	-	545	545
Commercial	187,516	824	186,692	480	2,776	3,256
Consumer	37,702	20	37,682	2	666	668
States and political subdivisions	36,869	-	36,869	-	504	504
Other loans	8,636	-	8,636	-	108	108
Total:	\$ 722,516	\$ 9,815	\$ 712,701	\$ 1,437	\$ 10,668	\$ 12,105
December 31, 2021:						
Real estate:						
Construction and land loans	\$ 69,214	\$ 5,001	\$ 64,213	\$ 313	\$ 1,226	\$ 1,539
Farmland	44,650	2,061	42,589	10	537	547
1-4 family residential mortgages	102,328	1,235	101,093	245	1,101	1,346
Multifamily	18,287	-	18,287	-	241	241
Commercial	123,445	2,950	120,495	230	1,688	1,918
Agriculture	37,418	328	37,090	9	506	515
Commercial	195,975	4,467	191,508	262	2,848	3,110
Consumer	35,293	44	35,249	2	510	512
States and political subdivisions	24,937	-	24,937	-	362	362
Other loans	5,608	-	5,608	-	113	113
Total:	\$ 657,155	\$ 16,086	\$ 641,069	\$ 1,071	\$ 9,132	\$ 10,203

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The following tables detail the Corporation's impaired loans, by portfolio class, as of December 31, 2022 and 2021.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(Dollars in Thousands)</i>					
December 31, 2022:					
With no related allowance recorded:					
Real estate:					
Construction and land loans	\$ -	\$ -	\$ -	\$ -	\$ -
Farmland	934	934	-	1,124	60
1-4 family residential mortgages	255	255	-	333	15
Multifamily	-	-	-	-	-
Commercial	376	376	-	616	20
Agriculture	295	295	-	165	7
Commercial	47	47	-	213	5
Consumer	-	-	-	4	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with no related allowance recorded	<u>1,907</u>	<u>1,907</u>	<u>-</u>	<u>2,455</u>	<u>107</u>
With an allowance recorded:					
Real estate mortgages:					
Construction and land loans	\$ 5,050	\$ 5,050	\$ 300	\$ 5,037	\$ 297
Farmland	-	-	-	146	-
1-4 family residential mortgages	724	724	415	684	37
Multifamily	-	-	-	-	-
Commercial	1,337	1,337	240	1,250	94
Agriculture	-	-	-	31	-
Commercial	777	849	480	690	41
Consumer	20	20	2	21	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with an allowance recorded	<u>7,908</u>	<u>7,980</u>	<u>1,437</u>	<u>7,859</u>	<u>469</u>
Total impaired loans:	<u>\$ 9,815</u>	<u>\$ 9,887</u>	<u>\$ 1,437</u>	<u>\$ 10,314</u>	<u>\$ 576</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2021:					
With no related allowance recorded:					
Real estate:					
Construction and land loans	\$ -	\$ -	\$ -	\$ 38	\$ -
Farmland	1,694	1,694	-	1,929	68
1-4 family residential mortgages	574	574	-	668	35
Multifamily	-	-	-	-	-
Commercial	1,719	1,858	-	1,742	100
Agriculture	250	250	-	222	7
Commercial	3,674	3,677	-	739	178
Consumer	20	20	-	4	3
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with no related allowance recorded	<u>7,931</u>	<u>8,073</u>	<u>-</u>	<u>5,342</u>	<u>391</u>
With an allowance recorded:					
Real estate mortgages:					
Construction and land loans	\$ 5,001	\$ 5,001	\$ 313	\$ 1,000	\$ 148
Farmland	367	367	10	373	19
1-4 family residential mortgages	661	661	245	310	32
Multifamily	-	-	-	-	-
Commercial	1,231	1,231	230	1,301	129
Agriculture	78	87	9	187	-
Commercial	793	793	262	549	19
Consumer	24	24	2	44	-
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total with an allowance recorded	<u>8,155</u>	<u>8,164</u>	<u>1,071</u>	<u>3,764</u>	<u>347</u>
Total impaired loans:	<u>\$ 16,086</u>	<u>\$ 16,237</u>	<u>\$ 1,071</u>	<u>\$ 9,106</u>	<u>\$ 738</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Past Due Loans

The table below provides an age analysis of past due loans as of December 31, 2022 and 2021:

	Past Due Status (Accruing Loans)					Nonaccrual	Total
	Current	30-59 Days	60-89 Days	90+ Days	Total Past Due		
<i>(Dollars in Thousands)</i>							
December 31, 2022:							
Real estate:							
Construction and land loans	\$ 84,588	\$ 13	\$ -	\$ -	\$ 13	\$ 5,058	\$ 89,659
Farmland	41,623	1,103	-	-	1,103	-	42,726
1-4 family residential mortgages	99,765	622	387	47	1056	775	101,596
Multifamily	18,601	-	-	-	-	-	18,601
Commercial	156,855	24	-	-	24	479	157,358
Agriculture	41,441	393	-	-	393	19	41,853
Commercial	186,416	337	195	13	545	555	187,516
Consumer	36,633	681	170	42	893	176	37,702
States and political subdivisions	36,869	-	-	-	-	-	36,869
Other loans	8,634	1	-	-	1	1	8,636
Total:	<u>\$ 711,425</u>	<u>\$ 3,174</u>	<u>\$ 752</u>	<u>\$ 102</u>	<u>\$ 4,028</u>	<u>\$ 7,063</u>	<u>\$ 722,516</u>
December 31, 2021:							
Real estate:							
Construction and land loans	\$ 63,745	\$ 468	\$ -	\$ -	\$ 468	\$ 5,001	\$ 69,214
Farmland	43,968	-	-	-	0	682	44,650
1-4 family residential mortgages	100,971	402	245	26	673	684	102,328
Multifamily	18,287	-	-	-	-	-	18,287
Commercial	121,969	75	-	-	75	1,401	123,445
Agriculture	37,340	-	-	-	0	78	37,418
Commercial	191,974	72	214	126	412	3,589	195,975
Consumer	34,623	398	139	86	623	47	35,293
States and political subdivisions	24,937	-	-	-	-	-	24,937
Other loans	5,608	-	-	-	-	-	5,608
Total:	<u>\$ 643,422</u>	<u>\$ 1,415</u>	<u>\$ 598</u>	<u>\$ -</u>	<u>\$ 2,251</u>	<u>\$ 11,482</u>	<u>\$ 657,155</u>

Related Party Transactions

In the ordinary course of business, certain executive officers and directors of the Corporation, including their families and companies with which they are associated, have been granted loans. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan.

Changes in related party loans for the year ended December 31, 2022 are as follows:

Balance, beginning of year	\$ 11,159,181
Advancements	3,644,855
Repayments	<u>(6,240,352)</u>
Balance, end of year	<u>\$ 8,563,684</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructurings

Restructured loans are loans on which, because of a borrower's financial difficulties, the Corporation has granted a concession that would not otherwise be considered. Modifications of terms that could potentially qualify as a restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current market rate for new debt with similar risk, or a reduction of the face amount of debt, or either forgiveness of either principal or accrued interest. The following table summarizes, as of December 31, 2022 and 2021, loans that have been restructured:

	Troubled-Debt Restructurings			Effect on the Allowance for Loan Losses
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	
<i>(Dollars in Thousands)</i>				
December 31, 2022:				
Real estate:				
Construction and land loans	-	\$ -	\$ -	\$ -
Farmland	-	-	-	-
1-4 family residential mortgages	2	194	182	(75)
Multifamily	-	-	-	-
Commercial	1	223	199	(175)
Agricultural	-	-	-	-
Commercial	1	451	427	(55)
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total:	4	\$ 868	\$ 808	\$ (305)
December 31, 2021:				
Real estate:				
Construction and land loans	-	\$ -	\$ -	\$ -
Farmland	1	511	367	(10)
1-4 family residential mortgages	5	451	371	(86)
Multifamily	-	-	-	-
Commercial	1	223	207	(180)
Agricultural	-	-	-	-
Commercial	1	451	443	(55)
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total:	8	\$ 1,636	\$ 1,388	\$ (331)

The Corporation has not forgiven any principal on the above loans. The changes in the recorded investment prior to modification and after modification are a result of principal payments made on TDR loans from date of modification to year end. At December 31, 2022 and 2021, \$198,671 and \$304,536, respectively, of the above restructured loans were held as nonaccrual.

As of December 31, 2022 and 2021, there were no loans restructured within the last 12 months that had subsequently defaulted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. OTHER REAL ESTATE OWNED

The table below presents a summary of the activity related to other real estate owned for the years ending December 31, 2022 and 2021, respectively.

	Years Ended December 31,	
	2022	2021
Balance, beginning of year	\$ 150,000	\$ 157,000
Additions	260,000	-
Other real estate owned acquired in acquisition	-	170,000
Sales proceeds	(393,552)	(262,032)
Internally financed sales	-	-
Net gain on sales of other real estate owned	(16,448)	85,032
Provision for ORE loss	-	-
Balance, end of year	\$ -	\$ 150,000

Other real estate owned by type is as follows:

	December 31,	
	2022	2021
Residential real estate	\$ -	\$ 150,000
Commercial real estate	-	-
ORE valuation allowance	-	-
	\$ -	\$ 150,000

Expenses related to other real estate owned for the year ended December 31, 2022 and 2021 are as follows:

	Years Ended December 31,	
	2022	2021
Net gain on sales of other real estate owned	\$ (16,447)	\$ (85,032)
Operating expenses, net of lease income	2,165	4,954
	\$ (14,282)	\$ (80,078)

NOTE 7. PREMISES AND EQUIPMENT

At December 31, 2022 and 2021, premises and equipment were as follows:

	December 31,	
	2022	2021
Land	\$ 6,542,264	\$ 6,169,462
Buildings and leasehold improvements (depreciated over 5 to 50 years)	20,581,063	20,522,058
Furniture, fixtures, and equipment (depreciated over 3 to 10 years)	15,789,655	14,607,355
Automobiles (depreciated over 3 years)	204,697	204,697
	43,117,679	41,503,572
Accumulated depreciation	(26,169,999)	(24,887,467)
	\$ 16,947,680	\$ 16,616,105

Depreciation expense for the years ended December 31, 2022 and 2021 was \$1,497,321 and \$1,451,557, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. DEPOSITS

At December 31, 2022 and 2021, deposits were as follows:

	December 31,	
	2022	2021
Noninterest-bearing accounts	\$ 582,600,867	\$ 424,238,173
NOW accounts	157,734,557	147,306,195
Money market investment accounts	146,622,221	120,516,190
Savings accounts	131,782,116	124,046,026
Time deposits:		
Time deposits less than \$250,000	121,276,373	129,268,578
Time deposits equal to or greater than \$250,000	29,021,670	37,355,547
Total deposits	\$ 1,169,037,804	\$ 982,730,709

At December 31, 2022, the contractual maturities of time deposits are as follows:

2023	\$ 105,287,724
2024	28,944,250
2025	7,752,209
2026	5,395,382
2027	2,912,597
Thereafter	5,881
	\$ 150,298,043

At December 31, 2022 and 2021, overdraft demand and savings deposits reclassified to loans totaled \$553,165 and \$353,587, respectively.

At December 31, 2022, there was one large depositor that had total deposit balances of approximately \$116,848,000.

NOTE 9. PARTICIPATION IN U.S. TREASURY PROGRAMS

New Market Tax Credits

On July 15, 2020, UBCD was awarded a \$65,000,000 allocation of the 2019 New Markets Tax Credits from the CDFI Fund. UBCD will deploy these tax credits to qualified projects. As of December 31, 2022, \$61,500,000 has been deployed to qualified projects and the remaining \$3,500,000 has been allocated to a project expected to close in 2023.

On September 1, 2021, UBCD was awarded a \$65,000,000 allocation of the 2020 New Markets Tax Credits from the CDFI Fund. UBCD will deploy these tax credits to qualified projects. As of December 31, 2022, \$56,000,000 has been deployed to qualified projects and the remaining \$8,000,000 has been allocated to a project expected to close in 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. PARTICIPATION IN U.S. TREASURY PROGRAMS (Continued)

New Market Tax Credits (Continued)

On October 28, 2022, UBCD was awarded a \$45,000,000 allocation of the 2021 New Markets Tax Credits from the CDFI Fund. UBCD will deploy these tax credits to qualified projects. As of December 31, 2022, \$19,500,000 has been apportioned to qualified projects expected to close in 2023 and the remaining \$25,500,000 has been apportioned to deals expected to close in 2023 and 2024.

UB Community Development, LLC has applied for a 2022 allocation, to be awarded in the third quarter of 2023.

On June 21, 2022, the Corporation received \$1,190,859 at the unwind of its first NMTC loan pool transaction that was initiated in 2015.

Community Development Financial Institutions Income

On January 21, 2022, the Corporation received \$122,256 from the Community Development Financial Institutions (CDFI) Small Dollar Loan Program award. The award received shall be allocated as a specific reserve for loans \$2,500 and less.

On June 30, 2022, the Corporation received an award of \$701,530 from the Financial Assistance (FA) program 2021 round, administered by the CDFI Fund. The FA award is earmarked to fund general lending operations.

On July 6, 2022, the Corporation received an award of \$170,699 from the Bank Enterprise Award Program (BEA) for the 2021 award allocation, administered by the CDFI Fund. The BEA Program is a performance based grant program that provides monetary awards to FDIC insured depository institutions that successfully demonstrate an increase in their investments in mission driven lenders known as CDFIs, or in their own lending, or service activities in highly distressed communities. The BEA Program awards help offset some of the risks and/or costs associated with investing in these highly distressed communities and provide an incentive to increase their investments.

In 2021, the Corporation received an award of \$8,000,000 from the U.S. Department of Treasury's Capital Magnet Fund (CMF) program administered by the Department of Treasury's Community Development Financial Institutions (CDFI) Fund. The award will be used to develop projects aimed at providing better housing options for low-income families and creating new economic opportunities. The Corporation previously received a CMF award in May 2020 in the amount of \$6,000,000.

In 2021, the Corporation received an award of \$1,826,265 from the Rapid Response Program, administered by the CDFI Fund (CDFI RRP). Through the CDFI RRP, CDFIs were provided with resources necessary to respond to the economic impacts of the COVID-19 pandemic in distressed and underserved communities.

Emergency Capital Investment Program

In July 2022, through the US Department of Treasury's Emergency Capital Investment Program (ECIP), the Corporation issued 123,750 shares in senior preferred stock totaling \$123.75 million. The ECIP funds are meant to support and strengthen underserved and low-income communities that struggled through the pandemic. Dividends will not accrue for the first two years and will begin accruing at 2.0%, maximum. Based on increases in certain types of lending, the rate could decrease.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31,	
	2022	2021
Federal Home Loan Bank Advances	\$ 5,773,269	\$ 6,442,342
USDA Re-Lending Program	10,601,350	4,191,017
NMTC Leverage Loans	2,564,450	2,564,450
Total other borrowings	\$ 18,939,069	\$ 13,197,809

Federal Home Loan Bank Advances

The Corporation's advances from the Federal Home Loan Bank of Atlanta bearing interest rates, ranging from 1.99% to 2.17% at December 31, 2022. These advances are due at various dates through 2034. The weighted average interest rate as of December 31, 2022 and 2021 was 2.10% and 2.10%, respectively.

At December 31, 2022, Federal Home Loan Bank advances were collateralized by 1-4 family first mortgages of \$12,679,687.

USDA Re-Lending Program

During 2016, the Corporation entered into a \$40,000,000 promissory note with the United States Department of Agriculture's Community Facilities Direct Loan program, with a 40 year maturity, which will allow it to re-lend funds to eligible borrowers in rural areas in Alabama and Florida on a fixed rate structure. The outstanding balance under this note agreement was \$10,601,350 and \$4,191,017 as of December 31, 2022 and 2021, respectively.

NMTC Leverage Loans

As a party to NMTC transactions, Investment Funds make qualified equity investments (QEIs) in special purpose subsidiaries that make low-interest loans to qualified businesses in low-income communities. The QEIs are funded with investor equity from the tax credit recipient and leverage loans made by a respective lender in the transaction.

In January 2020, CFSA IF leveraged its \$3,500,000 total qualified equity investment (QEI) in UBCD Sub-CDE Uniform Golf, LLC with a \$2,564,450 leverage loan, payable to The Community Foundation of South Alabama (CFSA). The loan carries a 1.00% interest rate and CFSA IF will make interest-only payments until September 2026, when the Corporation (investor) and CFSA (project sponsor) will execute a put/call option to unwind the transaction. Upon successful execution of the put/call option, any remaining assets and liabilities of CFSA IF would transfer to the project sponsor.

In August 2020, AMCREF IF leveraged its \$2,262,800 total QEI in AMCREF Fund 63, LLC with a \$1,842,179 leverage loan, payable to UB. The loan carries a 4.00% interest rate and AMCREF IF will make interest-only payments over the seven-year compliance period and a balloon payment in August of 2027, at which time the investment fund will dissolve and any remaining assets of AMCREF IF would transfer to the Corporation (the sole member investor in the transaction). The AMCREF IF leveraged loan is eliminated upon consolidation.

At December 31, 2022, other borrowings are due as follows:

2027	\$ 3,064,450
Thereafter	15,874,619
	\$ 18,939,069

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. NOTE PAYABLE TO TRUST (Continued)

United Bancorp Capital Trust II

In 2007, the Corporation formed a wholly-owned grantor trust to issue cumulative trust preferred securities. The grantor trust has invested the proceeds of the trust preferred securities in junior subordinated debentures of the Corporation. The junior subordinated debentures can be redeemed prior to maturity at the option of the Corporation on or after September 30, 2011. The sole assets of the guarantor trust are the Junior Subordinated Deferrable Interest Debentures of the Corporation (the Debentures) held by the grantor trust. The debentures have the same interest rate (three month LIBOR plus 1.68%, floating) as the trust preferred securities. The Corporation has the right to defer interest payments on the Debentures at any time or from time to time for a period not exceeding 20 consecutive quarters provided that no extension period may extend beyond the stated maturity of the related Debentures. During any such extension period, distributions on the trust preferred certificates would also be deferred.

Payment of periodic cash distributions and payment upon liquidation or redemption with respect to the trust preferred securities are guaranteed by the Corporation to the extent of funds held by the grantor trust (the Preferred Securities Guarantee). The Preferred Securities Guarantee, when taken together with the Corporation's other obligations under the Debentures, constitute a full and unconditional guarantee, on a subordinated basis, by the Corporation of payments due on the trust preferred securities.

The trust preferred securities and the related debentures were issued on September 27, 2007. Distributions on the trust preferred securities are paid quarterly on March 30, June 30, September 30 and December 30 of each year. Interest on the Debentures is paid on the corresponding dates. The aggregate principal amount of Debentures outstanding at December 31, 2022 and 2021 was \$0.00 and \$10,310,000, respectively.

On September 30, 2022, the Corporation redeemed the trust preferred securities and paid off its' \$10,310,000 note payable.

NOTE 12. INCOME TAXES

The components of income tax expense are as follows:

	Years Ended December 31,	
	2022	2021
Current:		
Federal	\$ 4,617,107	\$ 4,873,953
State	1,186,238	1,269,711
Total	5,803,345	6,143,664
Deferred:		
Federal	(373,937)	(578,909)
State	(90,514)	(155,565)
Total	(464,451)	(734,474)
Income tax expense	\$ 5,338,894	\$ 5,409,190

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. INCOME TAXES (Continued)

Total income tax expense differed from the amount computed by applying the statutory federal income tax rate of 21% to pretax income is as follows:

	Years Ended December 31,	
	2022	2021
Income tax expense at federal statutory rate	\$ 5,044,956	\$ 5,027,870
Increase (decrease) resulting from:		
Tax exempt interest	(419,102)	(368,021)
Interest disallowance	9,076	11,597
State income tax, net of federal benefit	865,622	880,175
Premium amortization on tax exempt investment securities	93,652	54,052
Cash surrender value of life insurance	(118,147)	(76,241)
Other, net	(137,163)	(120,242)
Total income tax expense	\$ 5,338,894	\$ 5,409,190

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are as follows:

	December 31,	
	2022	2021
Deferred tax assets:		
Loans, principally due to the allowance for loan losses	\$ 3,340,417	\$ 3,009,492
Other real estate, principally due to difference in carrying value	-	28,620
Deferred compensation	375,019	357,650
Accrued expenses	322,368	236,096
Lease liability	44,885	72,774
Restricted stock units	30,520	29,040
Premise and equipment	67,691	-
Investments	-	106,362
Other	46,053	76,315
	4,226,953	3,916,349
Deferred income tax liabilities:		
Discount accretion	5,850	3,091
Premises and equipment	-	146,300
Intangible assets	130,446	145,031
Right of use - lease asset	44,885	72,774
Investment securities available for sale	9,713,962	312,262
Investments	10,575	-
New Market Tax Credit	93,328	71,735
	9,999,046	751,193
Net deferred income tax assets	\$ (5,772,093)	\$ 3,165,156

The federal and state income tax returns of the Corporation for 2020, 2021, and 2022 are subject to examination, generally for three years after they were filed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. STOCK BASED COMPENSATION

Stock Options

2018 Equity Incentive Plan

The United Bancorporation of Alabama, Inc. 2018 Equity Incentive Plan (formerly the 2007 Equity Incentive Plan) provides for the grant of stock options, stock appreciation rights, restricted stock awards, performance units, or any combination thereof to officers, directors, and employees of the Corporation to purchase up to an aggregate of 308,000 shares of Class A Stock. As of December 31, 2022, 242,697 shares of stock could be granted in the future. There are no outstanding stock options for years ending December 31, 2022 and 2021.

Restricted Stock

As of December 31, 2022, the Corporation has awarded stock grants in two formats to two distinct classes. Directors have been awarded grants that 100% vest as of the grant date. The second type of grant has been awarded to senior officers of the Corporation. These grants have three-year terms with one-third of the award shares vesting on each grant date anniversary. The expense of these awards is recorded on a straight-line bases over the 36-month term.

	Restricted Shares	Weighted- Average Grant Price Per Share
Balance at December 31, 2020	12,672	\$ 19.02
Granted	12,327	28.67
Surrendered	(3,185)	24.81
Vested	(11,697)	22.79
Balance at December 31, 2021	10,117	\$ 24.59
Granted	11,421	29.00
Surrendered	(446)	25.75
Vested	(9,720)	26.04
Balance at December 31, 2022	11,372	\$ 27.73

As of December 31, 2022, there was \$220,709 of total unrecognized compensation cost related to non-vested restricted stock, to be recognized over weighted average remaining period of 1.7 years.

NOTE 14. DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Corporation sponsors a dividend reinvestment and share purchase plan. Under the plan, all holders of record of common stock are eligible to participate in the plan. Participants in the plan may direct the plan administrator to invest cash dividends declared with respect to all or any portion of their common stock. Participants may also make optional cash payments that will be invested through the plan. All cash dividends paid to the plan administrator are invested within 30 days of cash dividend payment date. Cash dividends and optional cash payments will be used to purchase common stock of the Corporation in the open market, from newly-issued shares, from shares held in treasury, in negotiated transactions, or in any combination of the foregoing. The purchase price of the shares of common stock is based on the average market price. All administrative costs are borne by the Corporation.

For the year ended December 31, 2022, 4,432 shares were purchased under the Plan. Regular cash dividends of \$0.40 per share were declared in 2022. For the year ended December 31, 2021, 4,488 shares were purchased under the Plan. Regular cash dividends of \$0.28 per share were declared in 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. EMPLOYEE BENEFIT PLANS

401(k) Employee Stock Ownership Plan

During 2017, the Corporation amended its 401(k) Savings Plan and adopted a 401(k) Employee Stock Ownership Plan (the “KSOP”), which covers substantially all employees over 20.5 years of age with at least three months of service. Employees may defer an elected percentage of their compensation bi-weekly. The Bank makes bi-weekly discretionary matching contributions of up to 5.5% of the employees’ contributions, not to exceed 5.5% of the participating employees’ compensation. The Corporation may also make additional discretionary contributions to the KSOP which is unrelated to any employer matching contributions. For the years ended December 31, 2022 and 2021, the Corporation expensed \$499,999 and \$478,234, respectively, for matching discretionary contributions to this Plan. Shares of Corporation common stock owned by the KSOP plan total 114,103 and 97,213 as of December 31, 2022 and 2021 with a fair value of \$4,016,426 and \$2,891,115, respectively. All KSOP shares have been fully allocated to the participants.

During the second quarter of 2019, the KSOP leveraged \$2.0 million from the Corporation to purchase 100,000 shares in the Corporation’s private placement. The shares are securitized by a note held by the Corporation and paid by the Bank with an interest rate of 3.15%, annual principal and interest payments of \$234,559 that are due at December 31 each year until maturity of December 31, 2028. As principal payment is made towards the note, the corresponding amount of shares are to be released from the reserve and allocated to participants’ accounts. As a result, the KSOP reserve shares are excluded from equity until the shares are paid in full and no longer encumbered. The balance of shares in the KSOP Reserve for the year ended December 31, 2022 and 2021 were 27,544 and 38,073 with a fair value of \$976,549 and \$1,132,291, respectively.

During the third quarter of 2021, the KSOP entered into an internal loan (employer loan) with UB to purchase 69,705 shares. The shares, being already issued and outstanding, were placed in the KSOP’s account as unallocated KSOP shares. The shares are securitized by a note held by UB with an interest rate of 2.15%, annual principal and interest payments of \$154,075 that are due at December 31 each year until maturity of December 31, 2030. As principal payment is made towards the note, the corresponding amount of shares are to be released and allocated to participant’s accounts. As a result, the shares are excluded from equity until the shares are paid in full and no longer encumbered. The balance of shares on hold in the KSOP’s account for year ended December 31, 2022 and 2021 were 56,071 and 62,432 with a fair value of \$1,973,699 and \$1,856,728.

Profit-Sharing Plan

The Corporation also maintains a profit-sharing plan for eligible employees. Eligibility requirements for this plan are the same as the 401(k) Employee Incentive Savings Plan. Benefits paid under the Plan are subject to approval by the Board of Directors each year. Contributions to the Plan charged to expense during 2022 and 2021 were \$229,725 and \$120,000, respectively.

Salary Continuation Plan

The Corporation provides a salary continuation plan providing for death and retirement benefits for certain executive officers. The present value of the estimated amounts to be paid under the plan is being accrued over the remaining service period of the executives. The expense recognized for the salary continuation plan amounted to \$172,829 and \$163,133 for the years ended December 31, 2022 and 2021, respectively. The balance of the liability for the salary continuation plan included in other liabilities at December 31, 2022 and 2021 totaled \$1,493,338 and \$1,424,175, respectively.

The cost of the salary continuation plan described above is being offset by earnings from bank owned life insurance policies on the executives. The balance of the policy surrender values totaled \$21,261,627 and \$17,341,720 at December 31, 2022 and 2021, respectively. Income recognized from the increase in cash surrender value on these policies totaled \$458,222 and \$358,872 for the years ended December 31, 2022 and 2021, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. EMPLOYEE BENEFIT PLANS (Continued)

Employee Stock Purchase Plan

The Corporation sponsors an employee stock purchase plan which is available to all employees subject to certain minimum service requirements. The Plan is administered by a Board appointed committee which designates the offering period in which employees may purchase shares and the offering price. All administrative costs are borne by the Corporation. No shares were purchased under the Plan for the years ended December 31, 2022 and 2021, respectively.

NOTE 16. FAIR VALUATION OF FINANCIAL INSTRUMENTS

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

Fair Value Hierarchy

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available for Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy.

The following tables present financial assets measured at fair value on a recurring basis as of December 31, 2022 and 2021, respectively:

Assets Measured at Fair Value December 31, 2022	Fair Value Measurements at December 31, 2022 Using				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	\$ 328,610,919	\$ 8,015,859	\$ 320,595,060	\$ -	
Assets Measured at Fair Value December 31, 2021	Fair Value Measurements at December 31, 2021 Using				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	\$ 278,953,682	\$ 2,417,188	\$ 276,536,494	\$ -	

Assets Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans

Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the loan impairment as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the loan impairment as nonrecurring Level 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis (Continued)

Other Real Estate Owned

Other real estate owned is adjusted to fair value upon transfer from the loan portfolio. Subsequently, other real estate assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the other real estate as nonrecurring Level 3.

The following tables present the assets carried on the consolidated balance sheets by caption and by level within the (FASB ASC 820) valuation hierarchy (as described above) as of December 31, 2022 and 2021, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2022 and 2021, respectively.

Assets Measured at Fair Value December 31, 2022	Carrying Value at December 31, 2022				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	\$ 6,470,849	\$ -	\$ -	\$ 6,470,849	

Assets Measured at Fair Value December 31, 2021	Carrying Value at December 31, 2021				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	\$ 7,123,041	\$ -	\$ -	\$ 7,123,041	
	Other real estate 150,000	-	-	150,000	

Impaired loans, which are usually measured for impairment using the fair value of collateral, had a carrying amount of \$9,814,619 and \$16,087,580, with a specific valuation allowance of \$1,436,995 and \$1,070,680 at December 31, 2022 and 2021, respectively. Of the \$9,814,619 and \$16,087,580 impaired loan portfolio, \$7,907,844 and \$8,193,721 were carried at fair value as a result of charge offs and specific valuation allowances at December 31, 2022 and 2021, respectively. The remaining \$1,906,775 and \$7,893,859 was carried at cost, as the fair value of the collateral on these loans exceeded the book value for each individual loan at December 31, 2022 and 2021, respectively.

The Corporation considers the fair value of other real estate owned to be the liquidation value from the current appraisal. Due to the subjective nature, incorporating both observable and unobservable inputs factored into the appraisal process, including various assumptions and expectations on cash flows, all of the Corporation's other real estate owned carried at fair value are classified within Level 3 of the valuation hierarchy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Quantitative Disclosures for Level 3 Fair Value Measurements

The Corporation had no Level 3 assets measured at fair value on a recurring basis at December 31, 2022 or 2021.

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2022, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	\$ 6,470,849	Appraisal	Appraisal discounts (%)	15-20 %

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2021, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	\$ 7,085,463	Appraisal	Appraisal discounts (%)	15-20 %
Other real estate owned	150,000	Appraisal	Appraisal discounts (%)	10-20 %

Fair Value of Financial Instruments

The assumptions used in estimating the fair value of the Corporation's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Corporation's financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Corporation. FASB ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and Short-Term Investments: Fair value approximates the carrying value of such assets.

Investment Securities and Other Securities: The fair value of investment securities is based on quoted market prices. The fair value of other securities, which includes Federal Home Loan Bank stock and other correspondent stocks, approximates their carrying value.

Loans: The fair value of loans is calculated using discounted cash flows and excludes lease-financing arrangements. The discount rates used to determine the present value of the loan portfolio are estimated market discount rates that reflect the credit and interest rate risk inherent in the loan portfolio. The estimated maturities are based on the Corporation's historical experience with repayments adjusted to estimate the effect of current market conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Fair Value of Financial Instruments (Continued)

Deposits: The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, NOW accounts, savings and money market deposit accounts, approximates the carrying value. Certificates of deposit have been valued using discounted cash flows. The discount rates used are based on estimated market rates for deposits of similar remaining maturities.

The fair value estimates in the table below do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Other Borrowings and Note Payable to Trust: The fair value of the Corporation's note payable to trust and its revolving line of credit approximates the carrying value of such liabilities. The fair value of FHLB advances have been valued using discounted cash flows. The discount rates used are based on estimated market rates for borrowings of similar remaining maturities.

Accrued Interest: The fair value of accrued interest receivable and payable approximates their carrying value.

Commitments to Extend Credit and Standby Letters of Credit: There is no market for the commitment to extend credit and standby letters of credit and they were issued without explicit cost. Therefore, it is not practical to establish their fair value.

The carrying value and estimated fair value of the Corporation's financial instruments at December 31, 2022 and 2021 are as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2022		
		Level 1	Level 2	Level 3
		<i>(Dollars in Thousands)</i>		
Financial assets:				
Cash and short-term investments	\$ 280,683	\$ 280,683	\$ -	\$ -
Investment securities-available for sale	328,611	8,016	320,595	-
Investment securities-held to maturity	8,684	-	8,583	-
Loans held for sale	-	-	-	-
Loans held for investment, net of the allowance for loan losses	710,411	-	682,323	6,471
Bank owned life insurance	21,262	-	21,262	-
Other equity investments	1,746	-	-	1,746
Accrued interest receivable	6,258	-	6,258	-
Financial liabilities:				
Deposits	1,169,038	-	1,180,514	-
Other borrowings	18,939	-	18,932	-
Accrued interest payable	177	-	177	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUATION OF FINANCIAL INSTRUMENTS (Continued)

Fair Value of Financial Instruments (Continued)

	Carrying Amount	Fair Value Measurements at December 31, 2021		
		Level 1	Level 2	Level 3
		<i>(Dollars in Thousands)</i>		
Financial assets:				
Cash and short-term investments	\$ 120,182	\$ 120,182	\$ -	\$ -
Investment securities-available for sale	278,954	2,417	276,537	-
Investment securities-held to maturity	11,787	-	12,105	-
Loans held for sale	63	-	63	-
Loans held for investment, net of the allowance for loan losses	646,952	-	647,698	7,123
Bank owned life insurance	17,342	-	17,342	-
Other equity investments	2,218	-	-	2,218
Other real estate owned	150	-	-	150
Accrued interest receivable	5,248	-	5,248	-
Financial liabilities:				
Deposits	982,731	-	932,184	-
Other borrowings	13,198	-	13,138	-
Note payable to trust	10,310	-	10,310	-
Accrued interest payable	157	-	157	-

NOTE 17. GOODWILL AND INTANGIBLE ASSETS

The Corporation recorded goodwill of \$6,474,056 and a core deposit intangible in the amount of \$671,000 associated with the acquisition of Town-Country National Bank.

Changes to the carrying amount of goodwill for the years ended December 31, 2022 and 2021 are provided in the following table.

	2022	2021
Balance at beginning of year	\$ 6,474,056	\$ -
Goodwill from TCUB acquisition	-	6,474,056
Adjustment in fair market value of other restricted equities	42,113	-
Balance at end of year	\$ 6,516,169	\$ 6,474,056

A summary of core deposit intangible assets as of December 31, 2022 and 2021 is set forth below.

	2022	2021
Gross carrying amount	\$ 643,040	\$ -
Core deposit intangible from TCUB acquisition	-	671,000
Less: accumulated amortization	(67,104)	(27,960)
Net carrying amount	\$ 575,936	\$ 643,040

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. GOODWILL AND INTANGIBLE ASSETS (Continued)

The core deposit intangible is amortized using a straight-line method over ten years from the date of the acquisition. Amortization expense for the year ended December 31, 2022 was \$67,104.

Estimated amortization expenses related to the core deposit intangible assets for the next five years are as follows:

2023	\$	67,104
2024		67,104
2025		67,104
2026		67,104
2027		67,104
Thereafter		240,416
	\$	<u>575,936</u>

NOTE 18. DIVIDENDS FROM SUBSIDIARIES

Dividends paid by the Banks are the primary source of funds available to the Corporation for payment of dividends to its stockholders and for other needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the subsidiary banks. In addition, the subsidiary banks are also required to maintain minimum amounts of capital to both total “risk-weighted” assets and total average assets, as defined by banking regulators. Capital adequacy considerations could further limit the availability of dividends from the subsidiary banks. The payment of dividends from the Banks are regulated by the Alabama State Banking Department and may be limited based on earnings and credit losses. Future payments of dividends by the Banks to the Corporation will be dependent on earnings, loan losses and compliance with applicable regulations of the Alabama State Banking Department and applicable federal regulators.

UBCD also has the discretion to provide dividends to the Corporation. The payment of dividends from UBCD is not regulated by the Alabama State Banking Department nor applicable federal regulators.

NOTE 19. LITIGATION

The Corporation is involved in various legal proceedings arising in connection with their business. In the opinion of management, the ultimate resolution of these proceedings is not expected to have a material adverse effect upon the financial statements of the Corporation.

NOTE 20. COMMITMENTS

The Corporation leases certain property and equipment for use in its business. These leases have lease terms generally not in excess of five years. The Corporation is not committed to any operating leases, which have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2022.

Rental expense for all operating leases charged to earnings aggregated \$141,943 and \$134,745 for the years ended December 31, 2022 and 2021, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20. COMMITMENTS (Continued)

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such instruments involve elements of credit risk in excess of the amounts recognized in the consolidated financial statements.

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

The financial instruments whose contractual amounts represent credit risk as of December 31, 2022 and 2021 are approximately as follows:

	December 31,	
	2022	2021
Commitments to extend credit	\$ 161,309,330	\$ 100,456,574
Standby letters of credit	2,970,029	3,402,624
	\$ 164,279,359	\$ 103,859,198

Standby letters of credit are commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds various assets as collateral supporting those commitments for which collateral is deemed necessary.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

NOTE 21. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 organized within noninterest income for the twelve months ended December 31, 2022 and 2021. Items outside of the scope of ASC 606 are noted as such (a).

	Years Ended December 31,	
	2022	2021
Noninterest income:		
Service charges and fees	\$ 6,448,452	\$ 5,834,765
CDFI award income	994,485	9,826,265
New market tax credit sub-allocation and placement fees	2,593,333	1,800,000
Consulting and asset management fees	428,450	1,577,500
Investment securities gains, net (a)	-	84,297
Mortgage loan and related fees (a)	425,752	1,194,714
Other	3,772,959	2,365,636
Total noninterest income	\$ 14,663,431	\$ 22,683,177

(a) Not within scope of ASC 606.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

A description of the Corporation's significant revenue streams accounted under ASC 606 follows:

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

CDFI award income: The Corporation received awards from the U.S. Department of Treasury's CDFI Fund for both the Capital Magnet Fund (CMF) and Financial Assistance (FA) programs. The awards are recognizable upon receipt with no contractual terms associated with the award.

New market tax credit sub-allocation and placement fees: Revenues from New Market Tax Credit (NMTC) sub-allocation and placement fees are earned in connection with the closing of each NMTC transaction. Placement Fees are received from the Investment Fund and sub-allocation fees from the Sub-CDE level in the transaction. All fees are documented in a Fee Agreement at the closing of the transaction. As stated in ASC 606, "an entity shall recognize revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer". The Fee Agreement is a negotiated document that states the Corporation (or its subsidiaries) has performed the services necessary to earn the Sub-Allocation and Placement Fee. The fees are earned when the Corporation (or its subsidiaries) has transferred NMTC allocation to the Sub-CDE and has helped the Investment Fund successfully deploy its Qualified Equity Investment (QEI) into the Sub-CDE such that the tax credit investor is able to begin utilizing tax credits and the Sub-CDE is able to fulfill its lending obligations. Through the Fee Agreement, the payor parties agree to pay the Corporation (or its subsidiaries) for these completed services, satisfying all conditions precedent to recognize the Sub-Allocation and Placement fee revenue.

Consulting and asset management fees: The Corporation (or its subsidiaries) provides consulting services to a client when NMTC expertise is needed to structure a transaction. These fees are earned when the Corporation (or its subsidiaries) assists in sourcing NMTC allocation for the project, structuring the transaction, securing an investor to purchase the credits, and assisting in the overall transaction closing. Fees are documented in a Fee Agreement with the client and are recognized when the NMTC transaction closes. Asset Management (A/M) Fees are earned by the Corporation (or its subsidiaries) for managing activity throughout the seven-year compliance period for the Investor, Investment Fund, and/or the Sub-CDE in a transaction. UBCD is the Corporation's subsidiary responsible for the management and thus receives the fees. Investor and Investment Fund A/M fees are typically received upon the closing of a transaction. Sub-CDE A/M fees are typically received quarterly throughout the seven-year period. UBCD manages activity for all three entity types in some transactions, but not in all. In some transactions, UBCD only manages for the Investor and Investment Fund and in others only for the Sub-CDE. The management fees are documented in a negotiated Fee Agreement along with agreed upon responsibilities of the manager.

Other income: Other operating income primarily consist of revenues generated from ATM fees and safe deposit box rentals. ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. Safe deposit box rentals income are recognized on a monthly basis as the Corporation's performance obligation for these services is satisfied.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22. OTHER NONINTEREST EXPENSE

Components of other noninterest expense considered significant by the Corporation for the years ended December 31, 2022 or 2021, respectively, include the following:

	Years Ended December 31,	
	2022	2021
Accounting and audit	\$ 746,129	\$ 543,059
Professional fees	452,035	1,978,611
Legal fees	210,189	641,373
Advertising	735,879	696,536
Card-based expense	1,969,640	1,342,065
Network and communications	1,125,979	916,972
Internet and mobile banking	327,530	343,528
Core processing	1,152,776	907,437
Other data processing	466,729	436,200
FDIC deposit insurance	375,920	255,647
Other	3,670,094	3,044,949
	\$ 11,232,900	\$ 11,106,377

NOTE 23. CONCENTRATIONS OF CREDIT RISK

The Corporation originates primarily commercial, agricultural, residential, and consumer loans to customers in its primary market areas. The ability of the majority of the Corporation's customers to honor their contractual loan obligations is dependent on the economy in these areas. As of December 31, 2022 and 2021, approximately 50.2% and 51.4%, respectively, of the Corporation's loans were commercial loans, including those secured by real estate. The Corporation's commercial customers are primarily small to middle market enterprises. The Corporation also specializes in agricultural loans, including loans secured by farmland, which represented approximately 11.8% and 12.5% of the Corporation's total loans at December 31, 2022 and 2021, respectively.

Total loans secured by real estate was approximately 56.7% and 54.5% of the Corporation's loan portfolio at December 31, 2022 and 2021, of which a substantial portion is secured by real estate in the Corporation's market areas. At December 31, 2022 and 2021, real estate construction loans accounted for approximately 12.4% and 10.5%, respectively, of the total loan portfolio, while 1-4 family residential mortgage loans made up approximately 14.1% and 15.6%, respectively, of the loan portfolio. A more complete discussion and analysis of the Corporation's loan types and concentrations and the related credit risk is set forth in Note 5.

UB, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined, or approximately \$27,735,000 or on an unsecured basis in excess of 10% of capital, as defined, or approximately \$13,868,000. TCUB, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined, or approximately \$6,265,000 or on an unsecured basis in excess of 10% of capital, as defined, or approximately \$3,133,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24. REGULATORY MATTERS

United Bank

UB is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on UB financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

UB is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2022, approximately \$29,110,000 of retained earnings were available for dividend declaration without regulatory approval.

Quantitative measures established by regulation to ensure capital adequacy require UB to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, UB is subject to an institution-specific capital buffer, which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. Management believes, as of December 31, 2022 and 2021, that UB meets all capital adequacy requirements to which it is subject.

As of December 31, 2022, the most recent notification from the Federal Deposit Insurance Corporation categorized UB 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 UB’s category.

UB’s actual capital amounts and ratios are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<i>(Dollars in Thousands)</i>					
As of December 31, 2022:						
Total Capital to Risk-Weighted Assets	\$ 135,630	17.396 %	\$ 81,861	10.500%	\$ 77,963	10.000%
Tier 1 Capital to Risk-Weighted Assets	\$ 125,867	16.145 %	\$ 66,269	8.500%	\$ 62,370	8.000%
CET1 Capital to Risk-Weighted Assets	\$ 125,867	16.145 %	\$ 54,574	7.000%	\$ 50,676	6.500%
Tier 1 Capital to Average Total Assets	\$ 125,867	10.767 %	\$ 46,761	4.000%	\$ 58,451	5.000%
As of December 31, 2021:						
Total Capital to Risk-Weighted Assets	\$ 104,711	15.335%	\$ 71,699	10.500%	\$ 68,284	10.000%
Tier 1 Capital to Risk-Weighted Assets	\$ 96,160	14.082%	\$ 58,042	8.500%	\$ 54,628	8.000%
CET1 Capital to Risk-Weighted Assets	\$ 96,160	14.082%	\$ 47,799	7.000%	\$ 44,385	6.500%
Tier 1 Capital to Average Total Assets	\$ 96,160	9.335%	\$ 41,202	4.000%	\$ 51,503	5.000%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24. REGULATORY MATTERS (Continued)

Town-Country United Bank

TCUB is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on TCUB's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, TCUB must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

TCUB is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2022, approximately \$3,527,000 of retained earnings were available for dividend declaration without regulatory approval.

Quantitative measures established by regulation to ensure capital adequacy require the TCUB to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, TCUB is subject to an institution-specific capital buffer, which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. Management believes, as of December 31, 2022 that TCUB meets all capital adequacy requirements to which it is subject.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by TCUB as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirement in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and a 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that TCUB maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2021, TCUB was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24. REGULATORY MATTERS (Continued)

Town-Country United Bank (Continued)

Actual and required capital amounts (in thousands) and ratios are presented below at year end:

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

	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions (CBLR Framework)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in Thousands)</i>						
As of December 31, 2022:						
Tier 1 Capital (to Average Assets)	\$ 23,246	19.293 %	\$ 10,241	9.000%	\$ 10,241	>=9.000%
As of December 31, 2021:						
Tier 1 Capital (to Average Assets)	\$ 11,321	8.7139%	\$ 11,043	8.500%	\$ 11,043	>=8.500%



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

We have audited the consolidated financial statements of **United Bancorporation of Alabama, Inc. and Subsidiaries**, as of and for the years ended December 31, 2022 and 2021, and our report thereon dated March 20, 2023, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1 and 2.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 52 and 53 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mauldin & Jenkins, LLC

Birmingham, Alabama
March 20, 2023

SUPPLEMENTAL INFORMATION
CONSOLIDATING INFORMATION

**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES**

**BALANCE SHEET
DECEMBER 31, 2022**

<u>Assets</u>	2022								
	UBA	UB	TCUB	UBCD	CFSA IF	AMCREF IF	PRECONSOLIDATED	ELIMINATIONS	CONSOLIDATED
Cash and due from banks	\$ 2,991,483	40,130,433	3,346,472	4,815,645	767	16,362	51,301,162	(7,824,257)	43,476,905
Interest-bearing deposits in banks	68,499,171	156,385,934	736,358	-	-	-	225,621,463	-	225,621,463
Federal funds sold	-	8,275,000	3,309,193	-	-	-	11,584,193	-	11,584,193
Cash and short-term investments	71,490,654	204,791,367	7,392,023	4,815,645	767	16,362	288,506,818	(7,824,257)	280,682,561
Investment in subsidiaries	126,792,761	-	-	17,250	-	2,290,260	129,100,271	(126,996,232)	2,104,039
Securities available for sale, at fair value	15,753,938	273,734,038	39,122,943	-	-	-	328,610,919	-	328,610,919
Securities held to maturity, at amortized cost	-	8,684,231	-	-	-	-	8,684,231	-	8,684,231
Restricted equity securities, at cost	-	1,485,753	260,600	-	-	-	1,746,353	-	1,746,353
Loans held for sale	-	-	-	-	-	-	-	-	-
Loans held for investment	-	656,482,556	67,875,113	-	-	-	724,357,669	(1,842,179)	722,515,490
Less allowance for loan losses	-	11,136,692	968,082	-	-	-	12,104,774	-	12,104,774
Loans, net	-	645,345,864	66,907,031	-	-	-	712,252,895	(1,842,179)	710,410,716
NMTC Sub-CDE QLICI Loans	-	-	-	-	3,500,000	-	3,500,000	-	3,500,000
Premises and equipment, net	-	15,308,398	1,639,282	-	-	-	16,947,680	-	16,947,680
Interest receivable	28,370.00	5,594,260	634,390	-	-	-	6,257,020	547	6,257,567
ESOP note receivable	550,873	-	-	-	-	-	550,873	(550,873)	-
Bank owned life insurance	-	17,139,338	4,122,289	-	-	-	21,261,627	-	21,261,627
Other real estate owned, net	-	-	-	-	-	-	-	-	-
Core Deposit Intangible	-	-	575,936	-	-	-	575,936	-	575,936
Goodwill	-	-	6,516,169	-	-	-	6,516,169	-	6,516,169
Other assets	(1,068,011)	17,856,571	2,942,452	21,370	9,609	177,374	19,939,365	(547)	19,938,818
Total assets	\$ 213,548,585	1,189,939,820	130,113,115	4,854,265	3,510,376	2,483,996	1,544,450,157	(137,213,541)	1,407,236,616
Liabilities and Stockholders' Equity									
Deposits									
Noninterest-bearing	\$ -	567,269,003	23,156,121	-	-	-	590,425,124	(7,824,257)	582,600,867
Interest-bearing	-	504,424,383	82,012,554	-	-	-	586,436,937	-	586,436,937
Total deposits	-	1,071,693,386	105,168,675	-	-	-	1,176,862,061	(7,824,257)	1,169,037,804
Interest payable	-	129,282	47,370	-	-	-	176,652	-	176,652
Other borrowings	-	16,925,492	-	-	2,564,450	1,842,179	21,332,121	(2,393,052)	18,939,069
Note payable to Trust	-	-	-	-	-	-	-	-	-
Accrued expenses and other liabilities	941,801	4,714,525	395,173	424,632	176	-	6,476,307	-	6,476,307
Total liabilities	941,801	1,093,462,685	105,611,218	424,632	2,564,626	1,842,179	1,204,847,141	(10,217,309)	1,194,629,832
Commitments (Note 18)									
Stockholders' equity									
Preferred stock	123,750,000	-	-	-	-	-	123,750,000	-	123,750,000
Class A common stock	38,197	28,000	75,000	50,000	1,090,701	706,094	1,987,992	(1,949,795)	38,197
Class B common stock	-	-	-	-	-	-	-	-	-
Additional paid-in capital	34,837,882	45,515,117	27,725,500	-	-	-	108,078,499	(73,240,617)	34,837,882
Retained earnings	96,560,279	81,995,457	2,558,916	4,379,633	(144,951)	(64,277)	185,285,057	(88,724,778)	96,560,279
Accumulated other comprehensive loss, net of tax	(35,291,130)	(29,389,149)	(5,857,519)	-	-	-	(70,537,798)	35,246,668	(35,291,130)
	219,895,228	98,149,425	24,501,897	4,429,633	945,750	641,817	348,563,750	(128,668,522)	219,895,228
Less treasury shares, at cost	5,395,444	-	-	-	-	-	5,395,444	-	5,395,444
Less unvested restricted stock and unallocated KSOP shares	1,893,000	1,672,290	-	-	-	-	3,565,290	(1,672,290)	1,893,000
Total stockholders' equity	212,606,784	96,477,135	24,501,897	4,429,633	945,750	641,817	339,603,016	(126,996,232)	212,606,784
Total liabilities and stockholders' equity	\$ 213,548,585	1,189,939,820	130,113,115	4,854,265	3,510,376	2,483,996	1,544,450,157	(137,213,541)	1,407,236,616

See accompanying notes to consolidated financial statements

**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES**

**STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2022**

	2022								
	UBA	UB	TCUB	UBCD	CFSA IF	AMCREF IF	PRECONSOLIDATED	ELIMINATIONS	CONSOLIDATED
Interest income									
Interest and fees on loans	\$ -	31,568,888	5,405,031	-	36,397	-	37,010,316	(62,784)	36,947,532
Interest on investment securities:									
Taxable securities	17,689	4,907,775	531,456	-	-	-	5,456,920	-	5,456,920
Nontaxable securities	-	862,683	139,598	-	-	-	1,002,281	-	1,002,281
Total investment income	17,689	5,770,458	671,054	-	-	-	6,459,201	-	6,459,201
Other interest income	823,730	2,816,652	54,988	1	-	-	3,695,371	(23,986)	3,671,385
Total interest income	841,419	40,155,998	6,131,073	1	36,397	-	47,164,888	(86,770)	47,078,118
Interest expense									
Interest on deposits	-	2,578,822	471,690	-	-	-	3,050,512	-	3,050,512
Interest on other borrowings and note payable	222,990	393,145	15,210	-	25,645	65,310	722,300	(86,770)	635,530
Total interest expense	222,990	2,971,967	486,900	-	25,645	65,310	3,772,812	(86,770)	3,686,042
Net interest income	618,429	37,184,031	5,644,173	1	10,752	(65,310)	43,392,076	-	43,392,076
Provision for loan losses	-	1,470,723	580,293	-	-	-	2,051,016	-	2,051,016
Net interest income after provision for loan losses	618,429	35,713,308	5,063,880	1	10,752	(65,310)	41,341,060	-	41,341,060
Noninterest income:									
Service charges and fees	-	5,440,644	1,007,808	-	-	-	6,448,452	-	6,448,452
CDFI award income	-	994,485	-	-	-	-	994,485	-	994,485
New market tax credit sub-allocation and placement fees	-	-	-	2,593,333	-	-	2,593,333	-	2,593,333
Consulting and asset management fees	-	-	-	428,450	-	-	428,450	-	428,450
Mortgage loan and related fees	-	425,752	-	-	-	-	425,752	-	425,752
Other	19,431,932	2,057,732	179,697	695,619	220	75,401	22,440,601	(18,667,642)	3,772,959
Total noninterest income	19,431,932	8,918,613	1,187,505	3,717,402	220	75,401	33,331,073	(18,667,642)	14,663,431
Noninterest expense:									
Salaries and benefits	53,849	15,017,996	1,999,612	130,000	-	-	17,201,457	-	17,201,457
Net occupancy expense	86	3,283,619	255,567	7,260	-	-	3,546,532	-	3,546,532
Other	1,155,250	8,162,565	1,677,983	592,593	11,070	42,510	11,641,971	(409,071)	11,232,900
Total noninterest expense	1,209,185	26,464,180	3,933,162	729,853	11,070	42,510	32,389,960	(409,071)	31,980,889
Income before income tax expense	18,841,176	18,167,741	2,318,223	2,987,550	(98)	(32,419)	42,282,173	(18,258,571)	24,023,602
Income tax expense	156,468	3,967,172	460,535	759,294	3,829	(8,404)	5,338,894	-	5,338,894
Net income	18,684,708	14,200,569	1,857,688	2,228,256	(3,927)	(24,015)	36,943,279	(18,258,571)	18,684,708
Net income available to common shareholders	\$ 18,684,708	14,200,569	1,857,688	2,228,256	(3,927)	(24,015)	36,943,279	(18,258,571)	18,684,708

See accompanying notes to consolidated financial statements