Yesterday, Today, and Tomorrow

FIRST NATIONAL BANK

Member FDIC

FIRST McMINNVILLE CORPORATION
2021 Annual Report

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March 24, 2022

Dear Shareholder,

The Board of Directors ("the Board") of First McMinnville Corporation ("the Company") and the Company's subsidiary bank, First National Bank of Middle Tennessee ("the Bank") is proud to announce the very strong results of 2021. The Company grew its assets and ended the year at $691,003,000 which was an increase of $113,151,000 from 2020 and growth of 16.4%. The Bank's loan and deposit growth was also very strong with growth of $119,921,000 or 31.2% and $109,568,000 or 23.5%, respectively. The Company also had a very strong net earnings year with net consolidated earnings of $7,144,000. Even though net earnings decreased from 2020, which was directly due to a reduction in mortgage operations net earnings, the Bank's core earnings and department income increased to offset the exposure of the reduction in mortgage loan originations.

In addition to the strong financial results, the Company also increased the annual total dividend for shareholders with the dividend for Common Stock shareholders being $3.96 per share and the dividend for Class SD shareholders $4.24 per share. The Board believe in the balance between capital retention and capital value accretion and rewarding our shareholders with strong dividends.

Over the last decade the Board has focused on building the Bank into a financial institution that is well-balanced and can take advantage of all interest rate environments. This past year, those efforts were evident and the Bank's net income had a very good combination of interest and non-interest-bearing results with loan and deposit growth being very strong and all other departments or subsidiaries of the Bank being excellent contributors to the overall profitability of the Bank. These areas include the Bank's wholly owned subsidiaries, First Community Title and Escrow, Inc., Premier Title Land and Escrow ("PLTE"), the Bank's mortgage department, the Bank's trust department and the Bank's retail investment department, FNB Wealth Management Services.

The Board's strategic plan has always been to evaluate all business opportunities, and if it makes sense, to move forward with the expansion as it relates to products or the geographic footprint of the Bank. This past year the Bank took advantage of certain opportunities and added another location in Nashville at 33 Music Square West, Suite 110B. This location will also be a new area of specialty banking for the Bank and will be focused on Sports, Entertainment and Private Banking. The Board believe that the addition of a very experienced team will create strong shareholder value for the Bank and the Company.

In addition to the new location, the Bank also purchased a title company to add additional non-interest income. The Bank purchased PLTE mid-2021. The Board expects this purchase to further strengthen the diversification of income for the Bank.

This year one of our longtime employees and directors, Mr. Robert "Bob" Jones, is retiring from his full-time position on the Board and has been appointed to an Honorary Board Member position. Mr. Jones began his banking career in 1960 with the then First National Bank of McMinnville. He was the President and CEO for 15 years and in 1995 was elected Chairman of the Board. Mr. Jones has always been an excellent ambassador for the Bank and the Company, and the Board owe him a debt of gratitude and thank him for over 62 years of dedication to the Bank, the Company, and the community.

As the Board look at the projected results for the year 2022, they are optimistic that the Company and Bank has the right processes and policies in place to address the challenges of the upcoming year. The Board is committed to work with our customers to ensure that they have the best opportunity to be successful and the Bank remains a safe and sound institution. The Board is also committed to focus on enhancing the delivery of our online services. This is an ever-changing environment, and the Board and management will balance the efficiencies gained, the ease of use and your security as we evaluate products and services.

Finally, we want to thank you as shareholder and customers of the Company and the Bank. We appreciate everything you have done for us and respectfully ask you for more of your business and also for any potential customers that we can reach out to in order to continue the growth of your investment!

Sincerely,

Levoy Knowles
Levoy Knowles,
Chairman

Pieter J. van Vuuren,
President and CEO

DIRECTORS OF FIRST McMINNVILLE CORPORATION
and FIRST NATIONAL BANK OF MIDDLE TENNESSEE

Levoy Knowles
Chairman, First National Bank and First McMinnville Corporation and Executive Director of Tennessee Broadband Association

Pieter van Vuuren
President, Chief Executive Officer, First National Bank and First McMinnville Corporation

J. Gregory Brock
Owner, Brock Construction

Rufus Gonder
Retired Certified Public Accountant

Bobby Kirby
Commercial Real Estate Developer/Owner
Investment Partners, LLC
Ownership in several other entities

Shane McFarland
Owner Shane McFarland Construction
Ownership in several other entities

Doug Milner
President, Middle Tennessee Dr Pepper Bottling Company

DIRECTORS OF FIRST McMINNVILLE CORPORATION

and FIRST NATIONAL BANK OF MIDDLE TENNESSEE

Mark A. Pirtle
Commercial Real Estate Developer/Owner
Ownership in several other entities

Bill Rogers
General Manager, Caney Fork Electric Cooperative

Gentry B. Underhill, Jr.
Certified Public Accountant
Totherow, Haile, & Welch, PLLC

Robert W. Jones Retirement

BOARD OF DIRECTOR AT FIRST NATIONAL BANK 1980-2022

"I would like to congratulate Bob Jones on his long and prestigious banking career and for recently being appointed as an Honorary Director of First National Bank of Middle Tennessee. I have known Bob since 1976 when I moved to McMinnville. He has been a constant colleague, mentor and most of all a great friend. Through the years, we have worked together and traveled to many places. This long term relationship has been one of the highlights of my career. The best of luck to Mr. Bob Jones."
-Levoy Knowles, Chairman of First McMinnville Corporation

"Bob Jones has been a very impactful banker and is a person that has helped many in our community be successful over the years. Bob is also very well known in bankers circles for the tremendous job he has done in our industry. I believe I speak for many when I say thank you to Bob and that we appreciate his commitment to First National Bank. He is a person that truly cares about others. Congratulations Bob on being named a Honorary Director of First National Bank of Middle Tennessee. You absolutely deserve it."
-Pieter van Vuuren, President and CEO of First McMinnville Corporation and First National Bank of Middle Tennessee

FIRST NATIONAL BANK

OFFICERS of

FIRST McMINNVILLE CORPORATION

Pieter van Vuuren
President
CEO

Michael Wheeter
Executive Vice President

John Morse
Executive Vice President

Scott Uselton
Executive Vice President

Anne Vance
Vice President
Human Resources/Marketing

Brian Wilcox
Executive Vice President

Davoua Vang
Senior Vice President/Treasurer

FIRST NATIONAL BANK

Yesterday, Today, and Tomorrow

Member FDIC

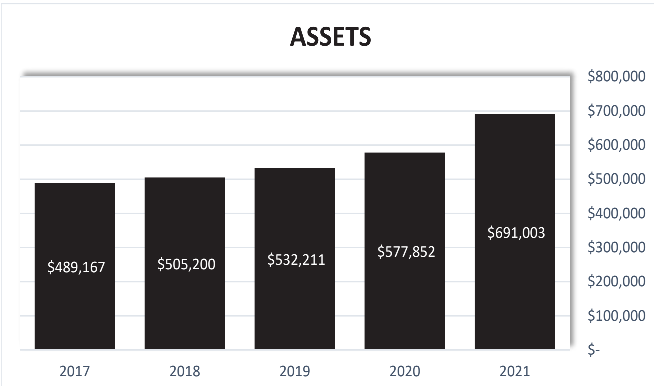
OFFICERS

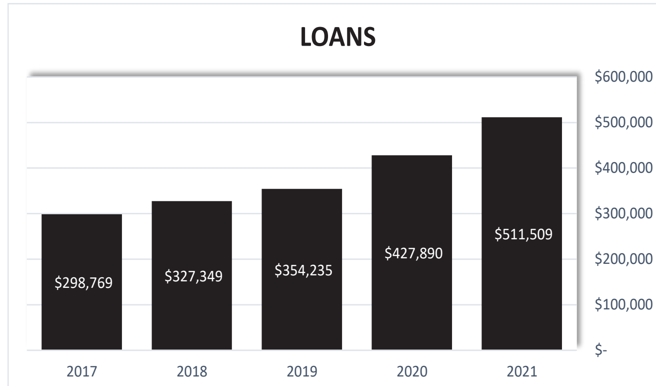
of FIRST NATIONAL BANK OF MIDDLE TENNESSEE

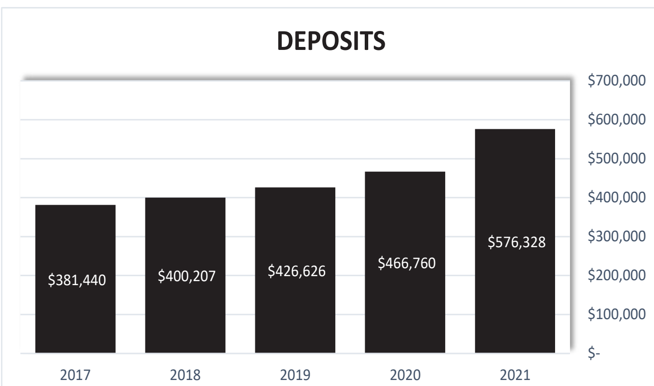
Patti Barnes	Assistant Vice President, Credit Administration	Warren
Mary Jane Bell	Senior Vice President, Loan Officer	Warren
Sherri Blair	Assistant Vice President, Loan Compliance	Warren
Andrew Brock	Assistant Vice President, Loan Officer	Warren
Brandi Cotten	Vice President, Loan Review Officer	Warren
Ryan Crouch	Assistant Vice President, Treasury Management	Warren
Brent Foster	Senior Vice President, Loan Officer	Warren
Kelly Kell	Assistant Vice President, Branch Manager	Warren
Andy Knowles	Assistant Vice President, Wealth Advisor	Warren
David Marttala	Senior Vice President, Legal Counsel/Trust Officer	Warren
Brandon McGee	Assistant Vice President, Network Admin	Warren
Gina Melvin	Banking Officer, CSR Supervisor	Warren
Kim Miller	Bassitant Vice President, Head Teller	Warren
Vickie Mitchell	Banking Officer, Loan Processor	Warren
Mandy Norris	Vice President, Loan Compliance	Warren
Jane Ann Pryor	Vice President, Mortgage Consultant	Warren
Jennifer Roberts	Vice President, Deposit Compliance, Safe Act Officer	Warren
Connie Sanders	Banking Officer, Deposit Ops Specialist	Warren
Peggy Smith	Assistant Vice President, Proof	Warren
Philip Smith	Assistant Vice President, Analyst	Warren
Pieter van Vuuren, CPA	President and CEO	Warren
Anne Vance	Vice President, Human Resources/Marketing, Corporate Secretary	Warren
Davoua Vang, CPA	Senior Vice President, CFO	Warren
Michael Weeter	Executive Vice President, COO, Network Admin	Warren
Regina Womack	Banking Officer, Loan Operations Manager	Warren
Dwayne Woods	Senior Vice President, Loan Officer	Warren
Gail Youngblood	Vice President, Branch Manager	Warren
John Allen	Vice President, Loan Officer	Murfreesboro
Katie Bennett	Executive Vice President, Senior Lender	Murfreesboro
Robin Bowman	Vice President, Waterstone Title	Murfreesboro
Justin Burris	Senior Vice President, Loan Officer	Murfreesboro
Colleen Clary	Assistant Vice President, Branch Manager	Murfreesboro
John Dietrich	Senior Vice President, Loan Officer	Murfreesboro
Bill Fuson	Vice President, Mortgage Consultant	Murfreesboro
Dave Gober	Vice President, Mortgage Consultant	Murfreesboro
Greg Hamilton	Senior Vice President, Senior Credit Officer	Murfreesboro
Brenda Jones	Vice President, Mortgage Operations Manager	Murfreesboro
Sherri Malone	Banking Officer, Loan Processor	Murfreesboro
Julie Matthews	Assistant Vice President, Branch Manager	Murfreesboro
Mary Sewell	Banking Officer, Loan Processor	Murfreesboro
Kimberly Stice	Vice President, Loan Officer	Murfreesboro
Richard L. Thornton	Senior Vice President, Loan Officer	Murfreesboro
Scott Uselton	Executive Vice President. Risk Management	Murfreesboro
Brian Wilcox	Executive Vice President, Rutherford County	Murfreesboro
Josylnne Box	Assistant Vice President Portfolio and Relationship Manager	Nashville
Emily Drecsh	Senior Vice President, Private Client Banker	Nashville
Robin Henderson	Senior Vice President, Sports & Entertainment	Nashville
Ellen May	Senior Vice President, Sports & Entertainment	Nashville
Jonathan Miller	Vice President, Loan Officer	Nashville
John Morse	Executive Vice President, Nashville City President	Nashville
Doug Nall	Senior Vice President, Loan Officer	Nashville
Stacie Petring	Vice President, Anaylst	Nashville
Heather Steele	Senior Vice President, Deposit Services & Treasury Mgmt	Nashville
Sam Usmani	Senior Vice President, Loan Officer	Nashville
Cody Walker	Vice President, Loan Officer	Nashville
Adam Carney	Vice President, Mortgage Consultant	Shelbyville
Chris Pepper	Vice President, Loan Officer	Shelbyville

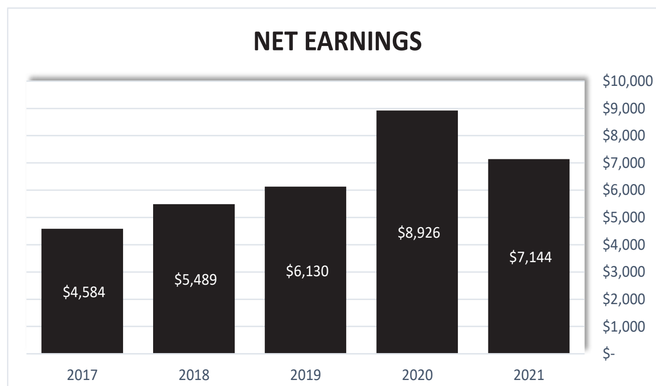
FIVE YEAR PERFORMANCE

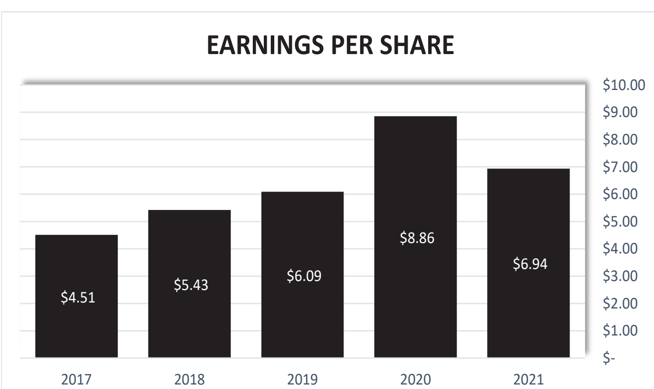
FIRST NATIONAL BANK OF MIDDLE TENNESSEE

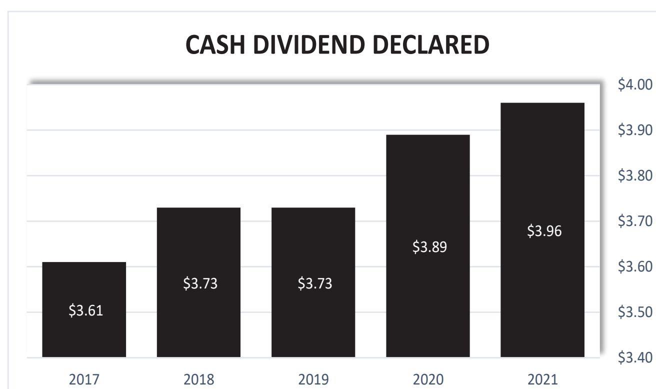












MAGGART
& ASSOCIATES, P.C.
CPAs & Advisors

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
First McMinnville Corporation:

Opinion

We have audited the accompanying consolidated financial statements of First McMinnville Corporation and subsidiaries (the "Company") (a Tennessee C-Corporation), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of earnings, comprehensive earnings, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 First McMinnville Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 the Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

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

Maggart & Associates, P.C.

Nashville, Tennessee
February 23, 2022

FIRST MCMINNVILLE CORPORATION

Consolidated Balance Sheets

December 31, 2021 and 2020

	In Thousands, Except for Share Data	
	2021	**2020**
ASSETS		
Loans, less allowance for loan losses of $5,023 and $3,994, respectively	$ 499,281	$ 380,389
Loans held for sale, at fair value	12,228	47,501
Securities - available-for-sale, at fair value (amortized cost $63,518 and $67,926, respectively)	64,766	70,506
Interest-bearing deposits in financial institutions	73,165	42,833
Restricted equity securities	1,628	1,628
Cash value of bank owned life insurance	17,475	17,096
Total earning assets	668,543	559,953
Cash and due from banks	5,615	2,910
Premises and equipment, net	8,080	8,277
Accrued interest receivable	1,704	1,696
Foreclosed assets	-	7
Goodwill	2,554	195
Refundable income tax	73	212
Deferred tax asset, net	433	-
Other assets	4,001	4,602
Total assets	$ 691,003	$ 577,852
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 576,328	$ 466,760
Securities sold under repurchase agreements	17,526	16,763
Advances from Federal Home Loan Bank	15,000	16,000
Accrued interest payable	479	724
Deferred tax liability, net	-	504
Other liabilities	5,477	4,592
Total liabilities	614,810	505,343
Stockholders' equity:		
Common stock, no par value, authorized 4,800,000 shares, issued 1,269,803 and 1,247,853 shares, respectively	5,492	5,350
Common stock, Class SD, $1 par value, authorized 200,000 shares, issued 69,550 and 69,550 shares, respectively	69	70
Additional paid-in capital	3,317	1,818
Retained earnings	77,539	74,476
Accumulated other comprehensive income, net of taxes	922	1,905
	87,339	83,619
Less cost of treasury stock of 310,288 and 309,821, respectively	(11,146)	(11,110)
Total stockholders' equity	76,193	72,509
COMMITMENTS AND CONTINGENT LIABILITIES		
Total liabilities and stockholders' equity	$ 691,003	$ 577,852

See accompanying notes to consolidated financial statements.

FIRST MCMINNVILLE CORPORATION

Consolidated Statements of Earnings

For The Years Ended December 31, 2021 and 2020

	In Thousands	
	2021	**2020**
Interest income:		
Interest and fees on loans	$ 18,822	$ 19,093
Interest and dividends on securities:		
Taxable securities	1,044	1,474
Exempt from Federal income taxes	320	406
Interest on interest-bearing deposits in other banks	108	170
Interest and dividends on restricted equity securities	33	38
Total interest income	20,327	21,181
Interest expense:		
Interest on negotiable order of withdrawal accounts and other transactional accounts	649	467
Interest on money market demand and savings accounts	530	460
Interest on certificates of deposit and individual retirement accounts	1,433	2,944
Interest on securities sold under repurchase agreements and other borrowings	373	391
Total interest expense	2,985	4,262
Net interest income before provision for loan losses	17,342	16,919
Provision for loan losses	950	1,255
Net interest income after provision for loan losses	16,392	15,664
Non-interest income	13,112	17,649
Non-interest expense	20,413	21,598
Earnings before income taxes	9,091	11,715
Income tax expense	1,947	2,789
Net earnings	$ 7,144	$ 8,926

See accompanying notes to consolidated financial statements.

FIRST MCMINNVILLE CORPORATION

Consolidated Statements of Comprehensive Earnings

For The Years Ended December 31, 2021 and 2020

	In Thousands	
	2021	**2020**
Net earnings	$ 7,144	$ 8,926
Other comprehensive earnings, net of tax:		
Unrealized gains on available-for-sale securities arising during the year, net of taxes of $330 and $620, respectively	(933)	1,751
Reclassification adjustments for gains in securities, net of taxes of $17 and $195, respectively	(50)	(551)
Other comprehensive earnings	(983)	1,200
Comprehensive earnings	$ 6,161	$ 10,126

See accompanying notes to consolidated financial statements.

FIRST MCMINNVILLE CORPORATION

Consolidated Statements of Changes in Stockholders' Equity

For The Years Ended December 31, 2021 and 2020

In Thousands, Except for Share Data	Common Stock	Common Stock Class SD	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Treasury Stock	Total
Balance, December 31, 2019	5,350	70	1,752	69,491	705	(11,046)	66,322
Net earnings	-	-	-	8,926	-	-	8,926
Compensation expense for restricted shares	-	-	66	-	-	-	66
Cash dividend declared on common stock ($3.89 per share)	-	-	-	(3,686)	-	-	(3,686)
Cash dividend declared on common stock - Class SD ($4.17 per share)	-	-	-	(255)	-		(255)
Cost of 852 shares of treasury stock	-	-	-	-	-	(64)	(64)
Net change in unrealized losses on available-for-sale securities during the year, net of taxes of $425	-	-	-	-	1,200	-	1,200
Balance, December 31, 2020	5,350	70	1,818	74,476	1,905	(11,110)	72,509
Net earnings	-	-	-	7,144	-	-	7,144
Compensation expense for restricted shares	-	-	141	-	-	-	141
Cash dividend declared on common stock ($3.96 per share)	-	-	-	(3,823)	-	-	(3,823)
Cash dividend declared on common stock - Class SD ($4.24 per share)	-	-	-	(258)	-	-	(258)
Cost of 467 shares of treasury stock		(1)	-	-	-	(36)	(37)
Exercise of options for 21,200 shares of common stock	142	-	1,358	-	-	-	1,500
Net change in unrealized losses on available-for-sale securities during the year, net of taxes of $347	-	-	-	-	(983)	-	(983)
Balance, December 31, 2021	$ 5,492	$ 69	$ 3,317	$ 77,539	$ 922	$ (11,146)	$ 76,193

See accompanying notes to consolidated financial statements.

FIRST MCMINNVILLE CORPORATION

Consolidated Statements of Cash Flows

For The Years Ended December 31, 2021 and 2020

	In Thousands	
	2022	**2021**
Cash flows from operating activities:		
Interest and dividends received	$ 20,734	$ 21,457
Origination of loans held for sale	(279,451)	(425,190)
Proceeds from sales of loans held for sale	321,163	413,832
Fees and commissions received	2,875	2,262
Interest paid	(3,230)	(4,614)
Cash paid to suppliers and employees	(19,925)	(21,111)
Income taxes paid	(2,333)	(3,307)
Net cash provided by (used in) operating activities	39,833	(16,671)
Cash flows from investing activities:		
Purchase of available-for-sale securities	(21,559)	(11,614)
Proceeds from maturities, calls and paydowns of available-for-sale securities	21,535	30,560
Proceeds from the sales of available-for-sale securities	4,084	29,727
Purchase of restricted equity securities	-	(44)
Loans made to customers, net of repayments	(116,025)	(49,569)
Purchase of premises and equipment	(235)	(104)
Purchase of computer software	(70)	(9)
Proceeds from sale of foreclosed assets	-	30
Purchase of title company subsidiary	(1,238)	-
Net cash used in investing activities	(113,508)	(1,023)
Cash flows from financing activities:		
Net increase in demand, NOW, other transactional, money market and savings deposit accounts	124,038	65,133
Net decrease in certificates of deposit and individual retirement accounts	(14,471)	(24,998)
Net increase (decrease) in securities sold under repurchase agreements	763	(1,910)
Repayments of Federal Home Loan Bank advances	(1,000)	-
Dividends paid	(4,081)	(3,941)
Payments to acquire treasury stock	(37)	(64)
Proceeds from the exercise of stock options	1,500	-
Net cash provided by financing activities	106,712	34,220
Net increase in cash and cash equivalents	33,037	16,526
Cash and cash equivalents at beginning of year	45,743	29,217
Cash and cash equivalents at end of year	$ 78,780	$ 45,743

See accompanying notes to consolidated financial statements.

FIRST MCMINNVILLE CORPORATION

Consolidated Statements of Cash Flows, Continued

For The Years Ended December 31, 2021 and 2020

	In Thousands 2021	2020
Reconciliation of net earnings to net cash provided by (used in) operating activities:		
Net earnings	$ 7,144	8,926
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	450	506
Amortization and accretion, net	465	606
Provision for loan losses	950	1,255
Provision for deferred taxes, net	(590)	(483)
Net gains on sales of securities	(67)	(746)
Loss on sale of foreclosed assets	-	5
Compensation expense for restricted shares	141	66
Originations of loans held for sale	(279,451)	(425,190)
Proceeds from sales of loans held for sale	321,163	413,832
Net gain on sale of loans held for sale	(9,353)	(14,359)
Increase in cash value of life insurance	(378)	(377)
Decrease (increase) in refundable taxes, net	139	(35)
Increase in interest receivable	(8)	(190)
Decrease in interest payable	(245)	(348)
Change in other assets and liabilities, net	(527)	(139)
Total adjustments	32,689	(25,597)
Net cash provided by (used in) operating activities	$ 39,833	$ (16,671)

	2021	2020
Supplemental Schedule of Non-Cash Activities:		
Non-cash transfers from loans to foreclosed assets	$ -	$ 42
Non-cash transfers from foreclosed assets to loans	$ -	$ -
Non-cash transfers from loans held for sale to loans	$ 3,210	$ 1,081
Unrealized gain (loss) in value of securities available-for-sale, net of income taxes of $347 and $425, respectively	$ (983)	$ 1,200

See accompanying notes to consolidated financial statements.

FIRST MCMINNVILLE CORPORATION

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of First McMinnville Corporation (the "Company"), its wholly-owned subsidiary, First National Bank of Middle Tennessee ("Bank") and the Bank's wholly-owned subsidiaries, First Community Title and Escrow Company, Premier Land, Title, and Escrow, LLC and Middle Tennessee Real Estate Holdings, LLC, are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry.

The following is a brief summary of the significant policies.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, First National Bank of Middle Tennessee and the Bank's wholly-owned subsidiaries, First Community Title and Escrow Company, Premier Land, Title, and Escrow, LLC and Middle Tennessee Real Estate Holdings, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Nature of Operations

The Company is registered as a one bank holding company under the Bank Holding Company Act of 1956. The Bank operates under a Federal Bank Charter and provides full banking services. As a national bank, the subsidiary bank is subject to regulation by the Office of the Comptroller of the Currency ("OCC"). The principal area served by First National Bank of Middle Tennessee is Warren County, Tennessee and surrounding counties in Middle Tennessee, including the Rutherford, Davidson, and Bedford County areas. Full banking services are provided at the main office, four branches in Warren County, Tennessee, the two branches in Rutherford County, Tennessee, one branch in Bedford County, Tennessee and two branches in Davidson County, Tennessee. The Bank's mortgage department has one location in Rutherford County, Tennessee. One of the title and escrow services office in Murfreesboro, Rutherford County, Tennessee is known as Waterstone Title and operates under the charter of First Community Title and Escrow Company in McMinnville, Tennessee. Premier Land, Title, and Escrow, LLC also has an office in Smyrna, Rutherford County, Tennessee.

(c) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to determination of the allowance for loan losses, other-than-temporary impairments of securities, deferred taxes and the fair value of financial instruments.

(d) Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Middle Tennessee. The types of securities in which the Company invests are included in note 3. The types of lending in which the Company engages are included in note 2. The Company does not have any significant concentrations to any one industry or customer other than as disclosed in notes 2 and 3.

(e) Loans

Loans are stated at the principal amount outstanding, net of unamortized loan origination costs and deferred loan fees. The allowance for loan losses is shown as a reduction of loans. Loan origination and commitment fees and certain loan-related costs are generally deferred at origination and recognized as an adjustment of the related loan's yield. Interest income on most loans is accrued based on the principal amount outstanding.

(1) Summary of Significant Accounting Policies, Continued

(e) Loans, Continued

For financial reporting purposes, the Company classifies its loan portfolio based on the underlying collateral utilized to secure each loan. These classifications are generally consistent with those utilized in the Quarterly Report of Condition and Income filed by the subsidiary Bank with the Federal Deposit Insurance Corporation ("FDIC").

The Company uses six loan categories (1) commercial, financial and agricultural, (2) commercial real estate, (3) residential real estate, (4) construction and land development, (5) multifamily real estate, and (6) consumer and other.

Commercial, financial and agricultural. Commercial, financial and agricultural loans include loans to business enterprises and individuals issued for commercial, industrial, agricultural and/or other professional purposes.

Commercial real estate. Commercial real estate loans are categorized as such where repayment is largely dependent upon the operation, refinance, or sale of the underling real estate. This category also includes owner occupied commercial real estate which shares a similar risk profile to our commercial, financial and agricultural loan products.

Residential real estate. Residential real estate loans consists primarily of loans secured by 1-4 residential properties including home equity lines of credit.

Construction and land development. Construction and land development loans include loans where the repayment is primarily dependent on the successful operation of the related real estate project. Construction and land development loans include 1-4 family construction projects and commercial construction endeavors such as warehouses, apartments, office and retail space and land acquisition and development.

Multifamily real estate. Multifamily real estate loans consists primarily of loans secured by multifamily residential real estate properties such as apartments. This category shares similar risk profile characteristics to our commercial real estate loan products.

Consumer and other. Consumer and other loans include all loans issued to individuals not included in the residential real estate classification. Examples of consumer and other loans are automobile loans, credit cards and loans for personal reasons, among others. In addition, loans purchased from the Small Business Administration ("SBA") and loans funded under the Paycheck Protection Program ("PPP") administered by the SBA are included in this category.

The Company follows the provisions of the FASB ASC 310-10, "Accounting by Creditors for Impairment of a Loan" and "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures" ("FASB ASC 310-10"). These provisions apply to impaired loans except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment including residential mortgage and consumer loans.

A loan is impaired when it is probable that the Company will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the Company shall recognize an impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

(1) Summary of Significant Accounting Policies, Continued

(e) Loans, Continued

The Company's residential mortgage and consumer loans are divided into various groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and, thus, are not subject to the provisions of FASB ASC 310-10. Substantially all other loans of the Company are evaluated for impairment under the provisions of FASB ASC 310-10.

The Company considers all loans subject to the provisions of FASB ASC 310-10 that are on nonaccrual status to be impaired. Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection. Past due status is based on contractual terms of the loan. Delays or shortfalls in loan payments are evaluated along with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to pay.

Generally, at the time a loan is placed on nonaccrual status, all interest accrued and uncollected on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectibility of outstanding principal is doubtful, such cash received is applied as a reduction of principal. A nonaccrual loan may be restored to an accruing status when principal and interest are no longer past due and unpaid and future collection of principal and interest on a timely basis is not in doubt.

Loans not on nonaccrual status are classified as impaired in certain cases when there is inadequate protection by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. In those cases, such loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Company will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Company's criteria for nonaccrual status.

The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. Generally, the Company classifies these TDR's as impaired. Interest is generally accrued on such loans that continue to meet the modified terms of their loan agreements.

The Company's charge-off policy for impaired loans is similar to its charge-off policy for all loans in that loans are charged off in the month when they are considered uncollectible.

(f) Allowance for Loan Losses

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

(1) Summary of Significant Accounting Policies, Continued

(f) Allowance for Loan Losses, Continued

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

In assessing the adequacy of the allowance, management considers the results of our ongoing loan review process. We undertake this process both to ascertain whether there are loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management and loan reviewers. We incorporate relevant loan review results in the loan impairment determination. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Company's allowance for loan losses and may require the Company to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

In addition to the above-mentioned loan review process, the aforementioned risk ratings are subject to continual review by loan officers to determine that the appropriate risk ratings are being utilized in our allowance for loan loss process. Each risk rating is also subject to review by our loan review personnel and Loan Review Committee. Currently, our loan review process targets reviews of loan relationships with aggregate debt of $750,000 and greater. In addition, our loan review process includes reviews on a sample of smaller commercial relationships to insure policies and risk ratings are applied correctly.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are individually classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general components covers nonclassified loans and is based on historical charge-off experience, historical loan loss factors, loss experience of various loan segments and other adjustments based on management's assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a bankruptcy or restructuring agreement due to financial difficulties of the borrowers.

(g) Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at fair value. Management considers the amounts reported as loans held for sale as of December 31, 2021 and 2020 to approximate fair value. Net unrealized gains and losses, if any, are recorded as a valuation allowance and charged to earnings. Gains and losses on loans sales (sales proceeds minus carrying value) are included in non-interest income.

(h) Securities

The Company follows the provisions of FASB ASC 320, "Accounting for Certain Investments in Debt and Equity Securities" ("FASB ASC 320"). Under the provisions of FASB ASC 320, securities are to be classified in three categories and accounted for as follows:

- *Securities Held-to-Maturity*
  Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Amortization of premiums and accretion of discounts are recognized by the interest method. No securities have been classified as held-to-maturity securities.

(1) Summary of Significant Accounting Policies, Continued

(h) Securities, Continued

- *Trading Securities*
  Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. No securities have been classified as trading securities.

- *Securities Available-for-Sale*
  Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity in other comprehensive income. Amortization of premiums and accretion of discounts are recognized by the interest method.

  Realized gains or losses from the securities are determined on the specific-identification method.

  The Company follows the accounting guidance related to recognition and presentation of other-than-temporary impairment setforth in FASB ASC 320-10. The ASC specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

  For equity securities, when the Company has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not been made.

(i) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and Federal funds sold. Generally, Federal funds sold are purchased and sold for one-day periods. The Company periodically maintains deposits with other financial institutions in excess of the Federal insurance amounts as disclosed in Note 14 of the consolidated financial statements. Management makes deposits only with financial institutions it considers to be financially sound.

(j) Interest-Bearing Deposits in Financial Institutions

Interest-bearing deposits in financial institutions generally mature within one year and are carried at cost.

(k) Restricted Equity Securities

The Bank, as a member of the Federal Home Loan Bank ("FHLB") Cincinnati system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provision of the FHLB, the stock has no quoted market value and is carried at cost. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. In addition, the Bank is a member of the Federal Reserve Bank. To be a member the Bank must invest in stock of the Federal Reserve Bank. Also, the Bank owns First National Bankers Bank ("FNBB") common stock which can be sold back only at par to FNBB or to another financial institution.

(1) Summary of Significant Accounting Policies, Continued

(l) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the related assets. Gain or loss on items retired and otherwise disposed of is credited or charged to operations and cost and related accumulated depreciation are removed from the asset and accumulated depreciation accounts.

Expenditures for major renewals and improvements of premises and equipment are capitalized and those for maintenance and repairs are charged to earnings as incurred.

These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired the assets are recorded at fair value.

(m) Foreclosed Assets

Real estate acquired in settlement of loans is initially recorded at estimated fair value, less estimated cost of disposal. Based on periodic evaluations by management, the carrying values are reduced by a direct charge to earnings when they exceed net realizable value. Costs relating to the development and improvement of the property are capitalized, while holding costs of the property are charged to expense in the period incurred.

(n) Goodwill

The excess of the purchase price over the fair value of identifiable tangible and intangible assets is allocated to goodwill. Goodwill is not amortized unless events or circumstances occur indicating that an impairment exists. Impairment losses, if any, are recorded in the statement of earnings as part of earnings from operations.

(o) Mortgage Banking Derivatives

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and adjusted for the expected exercise of the commitment before the loan is funded. Fair values of these mortgage derivatives are estimated based on the changes in mortgage interest rates from the date the interest rate on the loan is locked. The Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in fair values of these derivative are included in net gains on sale of mortgage loans.

(p) Securities Sold Under Agreements to Repurchase

Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by Federal deposit insurance.

(q) Stock-Based Compensation

Stock-Based Compensation Accounting Guidance (“FASB ASC 718”) addresses all forms of share-based payment awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. FASB ASC 718 requires the Company to expense share-based payment awards with compensation cost measured at the fair value of the award. In addition, FASB ASC 718 requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than an operating cash flow.

(1) Summary of Significant Accounting Policies, Continued

(q) Stock-Based Compensation, Continued

Under the provisions of FASB ASC 718, stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. Stock-based compensation expense recognized in the accompanying statements of operations include compensation expense for stock-based awards granted based on the grant date fair value estimated in accordance with FASB ASC 718. As stock-based compensation expense recognized in the accompanying statements of operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. FASB ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

(r) Income Taxes

The Company accounts for income taxes in accordance with Income Tax Accounting Guidance ("FASB ASC 740"). The Company adopted the recent 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.

The income tax accounting guidance 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 Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is "more likely than not", based on the technical merits, 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 are reduced by a valuation allowance if, based on the weight of evidence available, it is "more likely than not" some portion or all of a deferred tax asset will not be realized.

It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

(s) Benefit Plans

The subsidiary Bank participates in the Financial Institution Retirement Fund. Under this arrangement, the Bank recognizes as net pension cost the required contribution for the period and recognizes as a liability the required contributions due and unpaid. Effective January 1, 2010, the subsidiary Bank adopted a company owned life insurance arrangement and an executive deferred compensation retirement plan whereby certain key-employees are eligible for participation. Net earnings on the life insurance policies are recognized as net changes in underlying cash values. The actuarial cost of the deferred compensation plan is recognized based on actuarial calculations provided by the Plan administrator. 401(K) plan expense is the amount contributed as determined by the Board of Directors.

(1) Summary of Significant Accounting Policies, Continued

(t) Advertising Costs
Advertising costs are expensed when incurred and totaled $321,000 in 2021 and $354,000 in 2020, respectively.

(u) Off-Balance-Sheet Financial Instruments
In the ordinary course of business the subsidiary Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments to make mortgage loans, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

(v) Fair Value of Financial Instruments
Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in note 18 of the consolidated financial statements. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

(w) Reclassifications
Certain reclassifications have been made to the 2020 figures to conform to the presentation for 2021.

(x) Restriction of Cash Balances
Regulation D of the Federal Reserve Act requires that Banks maintain reserve balances with the Federal Reserve Bank based principally upon the type and amount of their deposits. The reserve requirement at December 31, 2021 was zero.

(y) Accounting Standard Updates

FASB ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326); Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 along with several other subsequent codification updates related to accounting for credit losses, requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

We currently believe the adoption of ASU 2016-13 will result in a slight increase in our allowance for loan losses as of January 1, 2023. That estimated increase is a result of changing from an “incurred loss” model, which encompasses allowances for current known and inherent losses within the portfolio, to an “expected loss” model, which encompasses allowances for losses expected to be incurred over the life of the portfolio.

The pronouncement will become effective for the Company beginning January 1, 2023.

FASB ASU 2020-08, “Codification Improvements to Subtopic 310-20, Receivables - Nonrefundable Fees and Other Costs.” ASU 2020-08 clarifies the accounting for the amortization of purchase premiums for callable debt securities with multiple call dates. ASU 2020-8 was effective for us on January 1, 2021 and did not have a material impact on our financial statements.

(1) Summary of Significant Accounting Policies, Continued

(y) Accounting Standard Updates, Continued

FASB ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 will be effective for us on January 1, 2022 and will require transition; using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. Management is presently evaluating the potential impact on the Company's financial condition and regulatory capital, but does not anticipate a material impact from the implementation.

Other than those previously discussed, there were no other recently issued accounting pronouncements that are expected to materially impact the Company.

(2) Loans and Allowance for Loan Losses

Loans and allowance for loan losses at December 31, 2021 and 2020 are summarized as follows:

	In Thousands	
	2021	**2020**
Commercial, financial and agricultural	$ 41,366	$ 36,989
Commercial real estate	187,693	140,018
Residential real estate	190,603	134,506
Construction and land development	71,567	53,542
Multifamily real estate	7,685	5,538
Consumer and other	5,390	13,790
Total loans	504,304	384,383
Less allowance for loan losses	(5,023)	(3,994)
Loans, net	$ 499,281	$ 380,389

Unamortized direct loan origination costs, net of unamortized deferred loan fees, totaling $1,494,000 and $1,100,000 were included in the above loan balances as of December 31, 2021 and 2020, respectively.

In the normal course of business, the Company's subsidiary has made loans at prevailing interest rates and terms to directors and officers of the Company, and their affiliates. A summary of the activity with respect to such loans is as follows:

	In Thousands	
	2021	**2020**
Balance, January 1	$ 26,701	$ 17,407
Loan originations and advances during the year	25,853	19,062
Repayments during the year	(10,800)	(9,768)
Balance, December 31	$ 41,754	$ 26,701

(2) Loans and Allowance for Loan Losses, Continued

As of December 31, 2021 and 2020, none of these loans were restructured, nor were any related party loans charged-off during the past two years, nor did they involve more than the normal risk of collectability or present other unfavorable features.

At December 31, 2021, variable rate and fixed rate loans totaled approximately $323,040,000 and $181,264,000, respectively. At December 31, 2020, variable rate and fixed rate loans totaled approximately $180,056,000 and $204,327,000, respectively.

At December 31, 2021 and 2020, loans purchased from the Small Business Administration and included in consumer and other loans totaled $1,775,000 and $4,800,000, respectively.

During 2021, the Bank entered into interest rate swap agreements with its loan customers. The notional amount of interest rate swaps with its loan customers as of December 31, 2021 and 2020 was $8,291,000 and $8,840,000, respectively. The Company enters into corresponding offsetting derivatives with third parties.

Transactions in the allowance for loan losses by type of loan for the years ended December 31, 2021 and 2020 and information about impaired loans are summarized as follows:

In Thousands

	Commercial Financial and Agricultural	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Multifamily Real Estate	Consumer and Other	Unallocated	Total
December 31, 2021								
Allowance for loan losses:								
Beginning balance...........	$ 343	$ 1,300	$ 1,369	$ 626	$ 35	$ 41	$ 280	$ 3,994
Provision......................	(61)	344	454	166	9	8	30	950
Charge-offs...................		-	(7)	-	-	(27)	-	(34)
Recoveries....................	106	-	1	-	-	6	-	113
Ending balance................	$ 388	$ 1,644	$ 1,817	$ 792	$ 44	$ 28	$ 310	$ 5,023
Specific reserves:								
Impaired loans.................	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
General reserves..............	388	1,644	1,817	792	44	28	310	5,023
	$ 388	$ 1,644	$ 1,817	$ 792	$ 44	$ 28	$ 310	$ 5,023
Loans individually evaluated for impairment.................	$ -	$ 1,635	$ 326	$ -	$ -	$ -		$ 1,961
Loans collectively evaluated for impairment.................	41,366	186,058	190,277	71,567	7,685	5,390		502,343
Total............................	$ 41,366	$ 187,693	$ 190,603	$ 71,567	$ 7,685	$ 5,390		$ 504,304

(2) Loans and Allowance for Loan Losses, Continued

In Thousands

	Commercial Financial and Agricultural	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Multifamily Real Estate	Consumer and Other	Unallocated	Total
December 31, 2020								
Allowance for loan losses:								
Beginning balance...........	$ 185	$ 1,307	$ 949	$ 503	$ 16	$ 51	$ 449	$ 3,460
Provision......................	678	192	427	123	19	(15)	(169)	1,255
Charge-offs..................	(597)	(199)	(18)	-	-	(11)	-	(825)
Recoveries...................	77	-	11	-	-	16	-	104
Ending balance................	$ 343	$ 1,300	$ 1,369	$ 626	$ 35	$ 41	$ 280	$ 3,994
Specific reserves:								
Impaired loans................	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
General reserves..............	343	1,300	1,369	626	35	41	280	3,994
	$ 343	$ 1,300	$ 1,369	$ 626	$ 35	$ 41	$ 280	$ 3,994
Loans individually evaluated for impairment................	$ -	$ 1,988	$ 802	$ -	$ -	$ -		$ 2,790
Loans collectively evaluated for impairment................	36,989	138,030	133,704	53,542	5,538	13,790		381,593
Total............................	$ 36,989	$ 140,018	$ 134,506	$ 53,542	$ 5,538	$ 13,790		$ 384,383

Impaired loans and related allowance for loan loss allocation amounts at December 31, 2021 and 2020 were as follows:

In Thousands

	Impaired Loans With Allowance			Impaired Loans With No Allowance	
December 31, 2021	Unpaid Principal Balance	Recorded Investment	Allocated Allowance for Loans Losses	Unpaid Principal Balance	Recorded Investment
Commercial, financial and agricultural...........	$ -	$ -	$ -	$ -	$ -
Real estate:					
Commercial...	-	-	-	1,635	1,646
Residential..	-	-	-	326	329
Construction and land development............	-	-	-	-	-
Multifamily..	-	-	-	-	-
Consumer and other....................................	-	-	-	-	-
Total...	$ -	$ -	$ -	$ 1,961	$ 1,975

(2) Loans and Allowance for Loan Losses, Continued

	In Thousands				
	Impaired Loans With Allowance			**Impaired Loans With No Allowance**	
December 31, 2020	**Unpaid Principal Balance**	**Recorded Investment**	**Allocated Allowance for Loans Losses**	**Unpaid Principal Balance**	**Recorded Investment**
Commercial, financial and agricultural	$ -	$ -	$ -	$ -	$ -
Real estate:					
Commercial	-	-	-	1,988	2,030
Residential	-	-	-	802	806
Construction and land development	-	-	-	-	-
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total	$ -	$ -	$ -	$ 2,790	$ 2,836

The average recorded investment in impaired loans for the years ended December 31, 2021 and 2020 was $1,798,000 and $3,347,000, respectively. The related total amount of interest income recognized on the cash basis for the period that such loans were impaired was $64,000 and $141,000 for 2021 and 2020, respectively. The related total amount of interest income recognized on an accrual basis for the period that such loans were impaired was $24,000 and $175,000 for 2021 and 2020, respectively.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. Loans which are greater than or equal to $250,000 and classified as special mention, substandard or doubtful, are reviewed regularly by the Bank to determine if appropriately classified or to determine if the loan is impaired. The Bank's loan portfolio is reviewed for credit quality on a monthly basis, with samples being selected based on loan size, credit grades, etc., to ensure that the Bank's management is properly applying credit risk management processes.

Loans excluded from the scope of the annual review process are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Bank for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to pass (4 risk ratings), pass-watch, special mention, substandard or doubtful, or could even be considered for charge-off. The Bank uses the following definitions for risk ratings:

Risk Rate 1 - Pass – Cash secured with the Bank's deposits.

Risk Rate 2 - Pass - Strong quality, excellent financial condition, no identifiable risk of loss. This grade may also apply to loans secured by appropriately margined and monitored readily marketable securities.

Risk Rate 3 - Pass - Loans showing moderately strong financial condition with no below average characteristics. Most loans in this category, if measured purely on a risk-of-loss basis, would be considered moderately above average.

(2) Loans and Allowance for Loan Losses, Continued

Credit Quality Indicators, Continued, Continued

Risk Rate 4 - Pass – Loans showing moderate financial condition. Most loans in this category, if measured purely on a risk-of loss basis, would be considered average. This is due to moderate financial condition coupled with moderate collateral coverage.

For non-consumer transactions with aggregate exposure less than $350,000 that include only amortizing debt and no unapproved policy exceptions, the loan requested will be deemed a “4” as long as there are no more than 3-30 day delinquencies since origination or last renewal in any loan in the aggregate relationship. Non-amortizing loan(s), more than 3-30 day delinquencies or unapproved policy exceptions in any loan in the aggregate will result in formal risk rating.

Risk Rate 5 - Pass/Watch – Loans showing moderately weak financial condition and/or collateral coverage and may be susceptible to changing economic conditions that would raise risk to a minor concern. Normal comfort levels can be achieved through monitoring financial statements and collateral.

Risk Rate 6 - Special Mention - Assets of this grade are currently protected but potentially weak. They do possess credit deficiencies deserving of management’s close attention. If these deficiencies are not corrected, the trends may expose the Bank to an increased risk of loss in the future. While potentially weak, these borrowers are currently marginally acceptable; no loss of principal or interest is expected. These assets must be monitored more closely and a determination made as to course of action that will result in an upgrade or downgrade.

Risk Rate 7 - Substandard - Assets of this grade are inadequately protected by the sound worth and financial capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Risk Rate 8 - Doubtful - Assets of this grade have all the inherent weaknesses of those rated Substandard with the added characteristic that the weaknesses make collection in full highly questionable and improbable. Probability of loss is extremely high but due to certain pending factors which may work to strengthen the asset, its classification as Loss is deferred until a more exact status may be determined.

Risk Rate 9 - Loss - These assets are considered uncollectible and their continuance as bankable assets is not warranted. This does not mean that the asset has absolutely no recovery or salvage value, but rather that is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be attained in the future. Losses should be taken in the period in which they are identified as uncollectible.

Consumer Loan Risk Ratings – The Bank has adopted the FFIEC Uniform Retail Credit Classification and Account Management Policy for classification of Consumer loans. Consumer loans will be risk rated based on payment performance.

Generally, open and closed end retail loans will be risk rated on payment performance as follows:

> 90 days past due - Substandard
>120 days past due - Loss

(2) Loans and Allowance for Loan Losses, Continued

Credit Quality Indicators, Continued

The following table breaks down the Bank's credit quality indicators by type of loan as of December 31, 2021 and 2020:

	In Thousands						
December 31, 2021	**Commercial Financial and Agricultural**	**Commercial Real Estate**	**Residential Real Estate**	**Construction and Land Development**	**Multifamily Real Estate**	**Consumer and Other**	**Total**
Credit Risk Profile by internally assigned grade:							
Pass	$ 32,132	$ 180,364	$ 194,105	$ 71,567	$ 7,685	$ 5,378	$ 491,231
Special Mention	2,694	5,694	2,373	-	-	-	10,761
Substandard	-	1,635	677	-	-	-	2,312
Doubtful	-	-	-	-	-	-	-
Total	$ 34,826	$ 187,693	$ 197,155	$ 71,567	$ 7,685	$ 5,378	$ 504,304

	In Thousands						
December 31, 2020	**Commercial Financial and Agricultural**	**Commercial Real Estate**	**Residential Real Estate**	**Construction and Land Development**	**Multifamily Real Estate**	**Consumer and Other**	**Total**
Credit Risk Profile by internally assigned grade:							
Pass	$ 36,952	$ 136,536	$ 133,343	$ 53,542	$ 5,538	$ 13,790	$ 379,701
Special Mention	37	1,405	546	-	-	-	1,988
Substandard	-	2,077	617	-	-	-	2,694
Doubtful	-	-	-	-	-	-	-
Total	$ 36,989	$ 140,018	$ 134,506	$ 53,542	$ 5,538	$ 13,790	$ 384,383

(2) Loans and Allowance for Loan Losses, Continued

Credit Quality Indicators, Continued

The following tables provide an aging analysis of the Bank's loans as of December 31, 2021 and 2020:

	In Thousands						
	30 - 59 Days Past Due and Still Accruing	60 - 89 Days Past Due and Still Accruing	Greater Than 90 Days and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current and Accruing	Total Loans
December 31, 2021							
Commercial, financial and agricultural	$ 44	$ 106	$	$	$ 150	$ 34,676	$ 34,826
Real estate :							
Commercial	-	-	-	427	427	187,266	187,693
Residential	1,124	153	58	302	1,637	195,518	197,155
Construction and land development	-	-	-	-	-	71,567	71,567
Multifamily	-	-	-	-	-	7,685	7,685
Consumer and other	16			-	16	5,362	5,378
Total	$ 1,184	$ 259	$ 58	$ 729	$ 2,230	$ 502,074	$ 504,304

	In Thousands						
	30 - 59 Days Past Due and Still Accruing	60 - 89 Days Past Due and Still Accruing	Greater Than 90 Days and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current and Accruing	Total Loans
December 31, 2020							
Commercial, financial and agricultural	$ 127	$ 24	$ 24	$ -	$ 175	$ 36,814	$ 36,989
Real estate :							
Commercial	-	-	-	998	998	139,020	140,018
Residential	101	79	193	354	727	133,779	134,506
Construction and land development	-	-	-	-	-	53,542	53,542
Multifamily	-	-	-	-	-	5,538	5,538
Consumer and other	170	18	-	-	188	13,602	13,790
Total	$ 398	$ 121	$ 217	$ 1,352	$ 2,088	$ 382,295	$ 384,383

Had interest income been recognized on nonaccrual loans in 2021 and 2020, net earnings would have increased by approximately $40,000 and $20,000, respectively.

(2) Loans and Allowance for Loan Losses, Continued

Credit Quality Indicators, Continued

The following tables provide an analysis of the Bank's troubled debt restructures during the year ended December 31, 2021 and 2020:

	(In Thousands)			
	2021		2020	
	Number of Contracts	Post-Modification Outstanding Recorded Investment Net of Related Allowance	Number of Contracts	Post-Modification Outstanding Recorded Investment Net of Related Allowance
Trouble Debt Restructurings:				
Commercial, financial & agricultural	-	-	-	-
Commercial real estate	-	-	-	-
Residential real estate	1	268	-	-
Construction and land development	-	-	-	-
Multifamily real estate	-	-	-	-
Consumer and other	-	-	-	-
	1	268	-	-

The following table summarizes the carrying balances of TDRs at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Performing TDRs	$ 484	$ 1,085
Non-performing TDRs	302	60
Total TDRs	$ 786	$ 1,145

The Bank is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferrals or full principal and interest payment deferrals. The majority of those modifications were for a period of up to three months. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulations. At December 31, 2021 and 2020, the Bank had 82 and 101 loans, respectively, with outstanding principal balances totaling $58,131,000 and $61,407,000, respectively, making payments according to modified payment terms categorized as follows:

	December 31, 2021	December 31, 2020
Commercial, financial and agricultural	$ 9,286	$ 9,816
Commercial real estate	44,399	44,227
Residential real estate	4,217	7,052
Consumer and other	229	312
	$ 58,131	$ 61,407

(2) Loans and Allowance for Loan Losses, Continued

Credit Quality Indicators, Continued

The CARES Act provides for emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the Small Business Administration ("SBA") to administer new loan programs including, but not limited to, the guarantee of loans under a new loan program called the Paycheck Protection Program ("PPP"). The Bank originated 119 PPP loans totaling $11,599,000. At December 31, 2021 and 2020, the Bank had 10 and 80, respectively, PPP loans outstanding with principal balances totaling $132,000 and $5,034,000, respectively, which are included in the consumer and other loans category. PPP loans do not have a corresponding allowance as they are expected to be fully guaranteed by the SBA. Fees range from 1% to 5% and are amortized over the life of the loan. As PPP loans are forgiven, any deferred loan fee and cost is recognized related to each individual loan.

In 2021 and 2020 the Bank originated $274,945,000 and $430,384,000, respectively, and funded $279,451,000 and $425,190,000, respectively, in residential mortgage loans for sale in the secondary market. The Bank underwrites these mortgage loans and has recourse related to the mortgage loans sold that would occur if a borrower misrepresented their financial position to obtain the loan, and the Bank had knowledge of the misrepresentation but failed to act. The Bank's recourse also extends to situations in which borrowers become more than 30 days past due on any of the first three payments due on their mortgage loans and certain other defaults where deficiencies in underwriting are noted in connection with an external examination by regulatory and investor agencies requiring the Bank to execute an indemnity on behalf of the regulatory or investor agencies. The Bank has had to repurchase loans in the past, previously sold to third parties, but the amount of loans repurchased has been relatively minimal.

The related net gains on loans held for sale totaled $9,353,000 and $14,359,000 in 2021 and 2020, respectively. These net gains are included in non-interest income.

(3) Securities

Securities have been classified in the balance sheet according to management's intent. The Company's classification of securities at December 31, 2021 and 2020 are as follows:

	In Thousands			
	2021			
	Securities Available-For-Sale			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Market Value**
U.S. Treasury and other U.S. Government agencies and corporations	$ 2,021	$ 14	$ -	$ 2,035
Obligations of states and political subdivisions	22,043	670	88	22,625
Mortgage-backed securities	33,115	713	168	33,660
Collateralized mortgage obligations	5,386	85	-	5,471
Commercial mortgage-backed securities	953	22	-	975
	$ 63,518	$ 1,504	$ 256	$ 64,766

(3) Securities, Continued

	In Thousands			
	2020			
	Securities Available-For-Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury and other U.S. Government agencies and corporations	$ 6,267	$ 157	$ -	$ 6,424
Obligations of states and political subdivisions	17,810	816	19	18,607
Mortgage-backed securities	34,985	1,287	3	36,269
Collateralized mortgage obligations	4,923	141	-	5,064
Commercial mortgage-backed securities	3,941	201	-	4,142
	$ 67,926	$ 2,602	$ 22	$ 70,506

The amortized cost and estimated market value of debt securities at December 31, 2021, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	In Thousands	
Securities Available-For-Sale	Amortized Cost	Estimated Market Value
Due in one year or less	$ 1,001	$ 1,003
Due after one year through five years	3,046	3,128
Due after five years through ten years	14,511	15,127
Due after ten years	44,960	45,508
	$ 63,518	$ 64,766

Results from sales of securities are as follows:

	In Thousands	
	2021	2020
Gross proceeds	$ 4,084	$ 29,727
Gross realized gains	$ 67	$ 746
Gross realized losses	-	-
Net realized gains	$ 67	$ 746

Securities with an approximate amortized cost totaling $58,505,000 (approximate market value of $59,767,000) and $64,633,000 (approximate market value of $67,101,000) at December 31, 2021 and 2020, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes required or permitted by law.

(3) Securities, Continued

Included in securities at December 31, 2021 are securities of U.S. Government agencies and corporations, mortgage backed securities, and collateralized mortgage obligations with issuers as follows:

	In Thousands	
	Amortized Cost	**Estimated Market Value**
Federal National Mortgage Association	$ 12,875	$ 13,128
Federal Home Loan Mortgage Corporation	16,515	16,770
Government National Mortgage Association	8,035	8,140
	$ 37,425	$ 38,038

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2021:

	In Thousands, Except Number of Securities							
	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
U.S. Treasury and other U.S. Government agencies and corporations	$ -	$ -	-	$ -	$ -	-	$ -	$ -
Obligations of states and political sub-divisions	4,324	49	6	1,370	39	2	5,694	88
Mortgage backed securities	14,334	154	9	1,030	14	1	15,364	168
Collateralized mortgage obligations	-	-	-	-	-	-	-	-
Total temporarily impaired securities	$ 18,658	$ 203	15	$ 2,400	$ 53	3	$ 21,058	$ 256

(3) Securities, Continued

The impaired securities are considered high quality investments in line with normal industry investing practices. The unrealized losses are primarily the result of changes in the interest rate and sector environments along with the effect on securities exempt from Federal income taxes from the change in the Federal income tax rate. Consistent with the original classification, as available-for-sale securities, the Company intends and has the ability to hold the above securities until the value is realized.

The Company may sell the above or other securities in the ordinary course of business in response to unexpected and significant changes in liquidity needs, unexpected and significant increases in interest rates and/or sector spreads that significantly extend the security's holding period, or for other reasons as determined by management

(4) Restricted Equity Securities

Restricted equity securities consists of stock of the Federal Home Loan Bank, the Federal Reserve Bank, and the First National Bankers Bank at December 31, 2021 and 2020 as follows:

	In Thousands	
	2021	**2020**
Federal Home Loan Bank	$ 1,462	$ 1,462
Federal Reserve Bank	91	91
First National Bankers Bank	75	75
	$ 1,628	$ 1,628

(5) Premises and Equipment

The detail of premises and equipment at December 31, 2021 and 2020 is as follows:

	In Thousands	
	2021	**2020**
Land	$ 2,491	$ 2,491
Buildings	8,556	8,556
Furniture and equipment	5,142	4,889
	16,189	15,936
Less accumulated depreciation	(8,109)	(7,659)
	$ 8,080	$ 8,277

Depreciation expense for the years ended December 31, 2021 and 2020, amounted to $450,000 and $506,000, respectively.

(6) Deposits

Deposits at December 31, 2021 and 2020 are summarized as follows:

	In Thousands	
	2021	**2020**
Demand deposits	$ 204,899	$ 143,588
Negotiable order of withdrawal and other transactional accounts	51,991	47,535
Money market demand accounts	89,312	48,410
Savings deposits	78,067	60,698
Certificates of deposit $250,000 or greater	48,428	51,280
Other certificates of deposit	78,378	89,852
Individual retirement accounts $250,000 or greater	2,780	2,830
Other individual retirement accounts	22,473	22,567
	$ 576,328	$ 466,760

Principal maturities of certificates of deposit and individual retirement accounts at December 31, 2021 are as follows:

Maturity	*In Thousands*
2022	$ 104,259
2023	25,699
2024	8,892
2025	12,704
2026 and thereafter	505
	$ 152,059

In the normal course of business, the Company's subsidiary accepts deposits from directors and officers of the Company and subsidiary. The aggregate dollar amounts of these deposits was $17,534,000 and $12,360,000 at December 31, 2021 and 2020, respectively.

The aggregate amount of overdrafts reclassified as loans receivable was $9,000 and $3,000 at December 31, 2021 and 2020, respectively.

(7) Securities Sold Under Repurchase Agreements

The maximum amounts of outstanding repurchase agreements during 2021 and 2020 were $17,910,000 and $19,300,000, respectively. The average daily balance outstanding during 2021 and 2020 was $14,539,000 and $16,428,000, respectively. The weighted average interest rate at December 31, 2021 and 2020 was .92% and .91%, respectively. The underlying securities are typically held by other financial institutions and are designated as pledged.

(8) Federal Home Loan Bank Borrowings

The advances from the Federal Home Loan Bank at December 31, 2021 and 2020 consist of the following:

	In Thousands, except rates	
	2021	**2020**
Fixed rate advances	$ 15,000	$ 16,000
Weighted average rate	1.74%	1.72%

Future maturities of Federal Home Loan Bank borrowings at December 31, 2021 are as follows:

Maturity	*In Thousands*
2022	$ 9,000
2023	1,000
2024	5,000
	15,000

Interest expense for Federal Home Loan Bank borrowings totaled $239,000 and $277,000, respectively, for the years ended December 31, 2021 and 2020. The unused balance of the commitment with the Federal Home Loan Bank is $5,000,000 as of December 31, 2021.

(9) Non-Interest Income and Non-Interest Expense

The significant components of non-interest income and non-interest expense for the years ended December 31 2021 and 2020 are presented below:

	In Thousands	
	2021	**2020**
Non-interest income:		
Service charges on deposits	$ 673	$ 555
Other fees and commissions	834	669
Commissions on fiduciary activities	157	113
Net gains on sales of securities	67	746
Net gains on sales of loans	9,353	14,359
Earnings on life insurance policies	378	377
Other income	1,650	830
Total non-interest income	$ 13,112	17,649

(9) Non-Interest Income and Non-Interest Expense, Continued

	In Thousands 2021	2020
Non-interest expense:		
Salaries and employee benefits	$ 13,498	$ 14,747
Occupancy expenses, net	994	945
Furniture and equipment expenses	397	404
Loss on sale of foreclosed assets	4	5
FDIC insurance	161	127
Other operating expenses	5,359	5,370
Total non-interest expense	$ 20,413	$ 21,598

(10) Income Taxes

The components of the net deferred tax asset (liability) are as follows:

	In Thousands 2021	2020
Deferred tax asset:		
Federal	$ 1,156	$ 628
State	269	177
	1,425	805
Deferred tax liability:		
Federal	(762)	(1,006)
State	(230)	(303)
	(992)	(1,309)
	$ 433	$ (504)

The tax effects of each type of significant item that gave rise to deferred taxes at December 31, 2021 and 2020 are:

	In Thousands 2021	2020
Tax allowance for loan losses in excess of financial statement allowance	$ 845	$ 346
Excess of depreciation and amortization deducted for tax purposes over the amounts deducted in the financial statements	(461)	(429)
Excess of deferred compensation expense deducted in the financial statements over the amounts deducted for tax purposes	580	459
Unrealized gain on investment securities available-for-sale	(326)	(674)
FHLB stock dividends excluded for tax purposes	(205)	(205)
Excess of deferred restricted share compensation expense deducted in the financial statements over the amounts deducted for tax purposes	-	(1)
	$ 433	(504)

(10) Income Taxes, Continued

The components of income tax expense are summarized as follows:

	In Thousands		
	Federal	State	Total
2021			
Current	$ 2,256	$ 281	$ 2,537
Deferred	(512)	(78)	(590)
Total	$ 1,744	$ 203	$ 1,947
2020			
Current	$ 2,544	$ 728	$ 3,272
Deferred	(367)	(116)	(483)
Total	$ 2,177	$ 612	$ 2,789

A reconciliation of actual income tax expense of $1,947,000 and $2,789,000 for the years ended December 31, 2021 and 2020, respectively, to the “expected” tax expense (computed by applying the statutory rate of 21% to earnings before income taxes) is as follows:

	In Thousands	
	2021	2020
Computed “expected” tax expense	$ 1,909	$ 2,460
State income taxes, net of Federal income tax effect	82	457
Tax exempt interest, net of interest expense exclusion	(64)	(80)
Non-taxable life insurance income	(79)	(79)
Other, net	99	31
Actual tax expense	$ 1,947	$ 2,789

As of December 31, 2021, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company’s policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company does not expect that unrecognized tax benefits will significantly increase or decrease within the next 12 months. Included in the balances at December 31, 2021 and 2020, were approximately $1,425,000 and $805,000, respectively, of tax positions (deferred tax assets) for which the ultimate deductibility is highly certain under the current tax laws and regulations but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company and its subsidiary file income tax returns in the United States (“U.S.”), as well as in the State of Tennessee. With few exceptions the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2018.

(11) Employee Benefit Plans

At December 31, 2021, the Bank is a participant in a defined benefit noncontributory pension plan sponsored under the Financial Institutions Retirement Fund which covers substantially all employees hired before January 1, 2009.

The Bank's plan participates in the Pentegra Defined Benefit Plan for Financial Institutions ("The Pentegra DB Plan"), a tax-qualified defined-benefit pension plan. The Pentegra DB Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Pentegra DB Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan.

The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan, contributions made by a participating employer are commingled with other participants and may be used to provide benefits to participants of other participating employers.

The funded status (market value of plan assets divided by funding target) is as follows as of July 1, 2021 and 2020:

	In Thousands	
	2021*	**2020***
Bank's Plan	126.48%	101.05%

*Market value of plan assets reflects any contributions received through June 30, 2021 and 2020, respectively.

Total contributions made to the Pentegra DB Plan for all participants as reported on Form 5500, equal $253,199,000 and $138,322,000 for the Plan years ending June 30, 2020 and June 30, 2019, respectively. The Bank's contributions to the Pentegra DB Plan are not more than 5% of the total contributions to the Pentegra DB Plan.

Employer contributions paid by the Bank for each of the years ended December 31, 2021 and 2020 were $81,000 and $82,000, respectively. Minimum required contributions due for the remainder of the Plan year ending June 30, 2022 total $53,000 and is expected to be paid during the first and second quarter of 2022.

The Bank has also adopted a 401(k) plan which covers eligible employees. To be eligible, an employee must have obtained the age of 21 and must have completed one year of service. The provision of this plan provides for both employee and employer contributions. For the years ended December 31, 2021 and 2020, related expense totaled $235,000 and $288,000, respectively.

The Bank has a company owned life insurance arrangement whereby coverage is provided for certain key-employees with the subsidiary Bank and family members as beneficiaries of such coverage. The cash value under this arrangement totaled $17,475,000 and $17,096,000 at December 31, 2021 and 2020, respectively. Net earnings on the underlying policies totaled $378,000 and $377,000, respectively, for the years ended December 31, 2021 and 2020. The Company currently has these company owned life insurance arrangements with five separate issuers and does a detailed analysis on each of these companies on a periodic basis. This analysis includes, but is not limited to, a review of the tax equivalent yield of the investments, the credit rating and the overall performance of the issuer.

(11) Employee Benefit Plans, Continued

The Bank also adopted an executive deferred compensation retirement plan whereby certain key-employees are eligible to participate. Plan expenses are accrued based on actuarial calculations provided by the plan administrator. Included in liabilities at December 31, 2021 and 2020 is an amount totaling $2,220,000 and $1,756,000, respectively. Related expense, which includes administrative costs, totaled $490,000 and $412,000 for the years ended December 31, 2021 and 2020, respectively.

(12) Regulatory Matters and Restrictions on Dividends

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's 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 their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy requires the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2021 and 2020, that the Bank meets all capital adequacy requirements to which it is subject. The actual capital ratios of the Bank were as follows:

	Bank		Minimum Requirement
	2021	2020	
Common Equity Tier 1 Ratio	15.91%	18.30%	7.000%
Tier I ratio	15.91%	18.30%	8.500%
Total risk-based ratio	16.99%	19.34%	10.500%
Leverage ratio	10.89%	12.27%	4.000%

As of December 31, 2021, the most recent notification from the banking regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

The dividends paid by the Company are generally funded by dividends received by the Company from the Bank. The Company and the Bank are limited by law, regulation and prudence as to the amount of dividends they can pay. At December 31, 2021, under the most restrictive of these regulatory limits, the Company may pay additional cash dividends of $10,406,000 without prior approval of the applicable Federal regulatory agencies.

(12) Regulatory Matters and Restrictions on Dividends, Continued

In the normal course of business there are commitments outstanding and contingent liabilities, such as legal proceedings pending against the Company. In the opinion of management, no material adverse effect on the financial position is anticipated as a result of these matters.

The Bank has lines of credit with other financial institutions totaling $20,000,000. At December 31, 2021 there were no outstanding balances on these lines of credit.

(13) Concentration of Credit Risk

The values of the Company's assets as reported in the financial statements are subject to the volatility in the financial markets; and accordingly, the ultimate realization may be subject to the condition of the U.S. economy and banking system in general.

Substantially all of the Company's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Company's market area. A substantial number of such customers are depositors of the Bank. Investment in state and municipal securities also include governmental entities within the Company's market area. Additional information regarding concentrations in securities are included in note 3 to the consolidated financial statements. The concentrations of credit by type of loan are set forth in note 2 to the consolidated financial statements.

At December 31, 2021 the Company's cash and cash equivalents included commercial bank deposit accounts aggregating $32,783,000 in excess of the Federal Deposit Insurance Corporation limit of $250,000 per depositor.

(14) Mortgage Banking Derivatives

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans.

The net gain (losses) relating to free-standing derivative instruments used for risk management is summarized below:

	In Thousands	
	2021	**2020**
Forward contracts related to mortgage loans held for sale and interest rate lock contracts	$ 632	$ (582)
Interest rate lock contracts for customers	$ (435)	$ 429

The results of the hedge of forward commitments is a $553,000 gain in 2021 and $4,177,000 loss in 2020. These are included in net gains on sale of loans in non-interest income.

(14) Mortgage Banking Derivatives, Continued

The following table reflects the amount of fair value of mortgage banking derivatives included in the consolidated balance sheet as of December 31, 2021 and 2020:

	In Thousands			
	2021		2020	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets (liabilities):				
Interest rate contracts for customers	$ 12,258	$ 128	$ 42,941	$ 563
Forward contracts related to mortgage loans held for sale	$ 22,500	$ 8	$ 76,000	$ (623)

(15) Financial Instruments with Off-Balance-Sheet Risk

The Company is 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 consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

	In Thousands	
	Contract or Notional Amount	
	2021	2020
Financial instruments whose contract amounts represent credit risk:		
Commitments to make mortgage loans	$ 13,537	$ 46,754
Unused commitments to extend credit	93,499	75,632
Standby letters of credit	1,146	3,108
Total	$ 108,182	$ 125,494

Commitments to make loans and 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 be drawn upon, the total commitment amounts generally represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterpart. Collateral normally consists of real property.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees extend from one to three years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers

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(16) **First McMinnville Corporation - Parent Company Financial Information**

FIRST MCMINNVILLE CORPORATION
(Parent Company Only)

Balance Sheets

December 31, 2021 and 2020

	In Thousands, Except for Share Data 2021	2020
ASSETS		
Cash	$ 356*	$ 93*
Investment in commercial bank subsidiary	75,757*	72,392*
Due from commercial bank subsidiary	80*	25*
Total assets	$ 76,193	$ 72,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deferred tax liability, net	$ -	$ 1
Total liabilities	-	1
Stockholders' equity:		
Common stock, no par value authorized 4,800,000 shares, issued 1,269,503 and 1,247,853 shares, respectively	5,492	5,350
Common stock, Class SD, $1 par value, authorized 200,000 shares, issued 69,383 and 69,550 shares, respectively	69	70
Additional paid-in capital	3,317	1,818
Retained earnings	77,539	74,476
Accumulated other comprehensive income, net of taxes	922	1,905
	87,339	83,619
Less cost of treasury stock of 310,288 and 309,821 shares, respectively	(11,146)	(11,110)
Total stockholders' equity	76,193	72,509
COMMITMENTS AND CONTINGENCIES		
Total liabilities and stockholders' equity	$ 76,193	72,510

*Eliminated in consolidation.

(16) First McMinnville Corporation -
Parent Company Financial Information, Continued

FIRST MCMINNVILLE CORPORATION
(Parent Company Only)

Statements of Earnings and Comprehensive Earnings

For the Years Ended December 31, 2021 and 2020

	In Thousands 2021	2020
Income:		
Dividends from commercial bank subsidiary	$ 2,956*	$ 3,949*
Other expenses	216	120
Earnings before income tax benefits and equity in undistributed earnings of commercial bank subsidiary	2,740	3,829
Income tax benefit	56	28
Equity in undistributed earnings of commercial bank subsidiary	4,348*	5,069*
Net earnings	7,144	8,926
Other comprehensive earnings, net of tax:		
Unrealized gains on available-for-sale securities arising during the year, net of taxes of $330 and $620, respectively	(933)	1,751
Reclassification adjustments for gains in securities, net of taxes of $17 and $195, respectively	(50)	(551)
Other comprehensive earnings	(983)	1,200
Comprehensive earnings	$ 6,161	$ 10,126

*Eliminated in consolidation.

(16) First McMinnville Corporation -
Parent Company Financial Information, Continued

FIRST MCMINNVILLE CORPORATION
(Parent Company Only)

Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2021 and 2020

In Thousands, Except for Share Data	Common Stock	Common Stock Class SD	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Treasury Stock	Total
Balance, December 31, 2019	$ 5,350	$ 70	$ 1,752	$ 69,491	$ 705	$ (11,046)	$ 66,322
Net earnings	-	-	-	8,926	-	-	8,926
Compensation expense for restricted shares		-	66	-	-	-	66
Cash dividend declared on common stock - ($3.89 per share)	-	-	-	(3,686)	-	-	(3,686)
Cash dividend declared on common stock - Class SD ($4.17 per share)	-	-	-	(255)	-	-	(255)
Cost of 852 shares of treasury stock	-	-	-	-	-	(64)	(64)
Net change in unrealized losses on available-for-sale securities during the year, net of taxes of $425	-	-	-	-	1,200	-	1,200
Balance, December 31, 2020	5,350	70	1,818	74,476	1,905	(11,110)	72,509
Net earnings		-	-	7,144	-	-	7,144
Compensation expense for restricted shares		-	141	-	-	-	141
Cash dividend declared on common stock - ($3.96 per share)		-	-	(3,823)	-	-	(3,823)
Cash dividend declared on common stock - Class SD ($4.24 per share)		-	-	(258)	-		(258)
Cost of 467 shares of treasury stock		(1)	-	-	-	(36)	(37)
Exercise of options for 21,200 shares of common stock	142	-	1,358	-	-	-	1,500
Net change in unrealized losses on available-for-sale securities during the year, net of taxes of $347	-	-	-	-	(983)	-	(983)
Balance, December 31, 2021	$ 5,492	$ 69	$ 3,317	$ 77,539	$ 922	$ (11,146)	$ 76,193

(16) First McMinnville Corporation -
Parent Company Financial Information, Continued

FIRST MCMINNVILLE CORPORATION
(Parent Company Only)

Statements of Cash Flows

For the Years Ended December 31, 2021 and 2020

	In Thousands	
	2021	**2020**
Cash flows from operating activities:		
Dividend received from commercial bank subsidiary	$ 2,956	$ 3,949
Cash paid to suppliers	(76)	(338)
Income tax benefit received	1	164
Net cash provided by operating activities	2,881	3,775
Cash flows from financing activities:		
Dividends paid	(4,081)	(3,941)
Proceeds from the exercise of stock options	1,500	-
Payments made to acquire treasury stock	(37)	(64)
Net cash used in financing activities	(2,618)	(4,005)
Net increase (decrease) in cash and cash equivalents	263	(230)
Cash and cash equivalents at beginning of year	93	323
Cash and cash equivalents at end of year	$ 356	$ 93
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	7,144	$ 8,926
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Dividend received from commercial bank subsidiary	2,956	3,949
Equity in earnings of commercial bank subsidiary	(7,304)	(9,302)
Decrease (increase) in due from commercial bank subsidiary	(54)	139
Provision for deferred taxes	(2)	(3)
Stock compensation expense for restricted shares	141	66
Total adjustments	(4,263)	(5,151)
Net cash provided by operating activities	$ 2,881	$ 3,775

(17) Disclosures About Fair Value of Financial Instruments

The Company adopted FASB ASC 820 "Fair Value Measurements," which establishes a fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

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

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

FASB ASC 825, "Disclosures about Fair Value of Financial Instruments" requires that the Company disclose estimated fair values for its financial instruments. A financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Fair value estimates, methods, and assumptions are set forth below for the Company's financial instruments.

Derivatives
The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Investment Securities
Where quoted prices are available for identical securities in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other financial products. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities within similar characteristics and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation and more complex pricing models or discounted cash flow are used, securities are classified within Level 3 of the valuation hierarchy.

Impaired Loans
A loan is considered to be impaired when it is probable the Bank will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses or the expense is recognized as a charge-off. Impaired loans are classified within Level 3 of the hierarchy due to the unobservable inputs used in determining their fair value such as collateral values and the borrower's underlying financial condition.

Loans Held for Sale

These loans are typically sold to an investor following loan origination and the fair value of such accounts are readily available based on direct quotes from investors or similar transactions experienced in the secondary loan market. Fair value adjustments, as well as realized gains and losses are recorded in current earnings. Fair value is determined by market prices for similar transactions adjusted for specific attributes of that loan (Level 2). Beginning the year ended December 31, 2018, the Company elected the fair value option for reporting amounts classified as loans held for sale.

(17) Disclosures About Fair Value of Financial Instruments, Continued

Foreclosed Assets

Foreclosed assets or other real estate owned ("OREO") represents real estate foreclosed upon by the Bank through loan defaults by customers or acquired in lieu of foreclosure. Substantially all of these amounts related to lots, homes and development projects that are either completed or are in various stages of construction for which the Bank believes it has adequate collateral. Upon foreclosure, the property is recorded at the lower of cost or fair value, based on appraised value, less selling costs estimated as of the date acquired with any loss recognized as a charge-off through the allowance for loan losses. Additional OREO losses for subsequent valuation downward adjustments are determined on a specific property basis and are included as a component of noninterest expense along with holding costs. Any gains or losses realized at the time of disposal are also reflected in noninterest expense, as applicable. OREO is included in Level 3 of the valuation hierarchy due to the lack of observable market inputs into the determination of fair value. Appraisal values are property-specific and sensitive to the changes in overall economic environment.

Other Assets

Included in other assets are certain assets carried at fair value, including the cash surrender value of bank owned life insurance policies. The Bank uses financial information received from insurance carriers indicating the performance of the insurance policies and cash surrender values in determining the carrying value of life insurance. The Bank reflects these assets within Level 3 of the valuation hierarchy due to the unobservable inputs included in the valuation of these items. The Bank does not consider the fair values of these policies to be materially sensitive to changes in these unobservable inputs.

Liabilities

Included in other liabilities are certain liabilities covered at fair value, including mortgage banking derivatives. The Bank uses information received from third-parties for analyzing the performance of the derivatives and determining their carrying values. The Bank reflects these liabilities within Level 2 of the valuation hierarchy due to the observable inputs included in the valuation of these items.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

		Fair Value Measurements Using		
In Thousands	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Assets:				
Available-for-sale securities	$ 64,766	$ -	$ 64,766	$ -
Cash value of life insurance	$ 17,475	$ -	$ -	$ 17,475
Loans held for sale	$ 12,228	$ -	$ 12,228	$ -
Mortgage banking derivatives	$ 136	$ -	$ 136	$ -

(17) Disclosures About Fair Value of Financial Instruments, Continued

Limitations, Continued

In Thousands	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Assets:				
Available-for-sale securities	$ 70,506	$ -	$ 70,506	$ -
Cash value of life insurance	$ 17,096	$ -	$ -	$ 17,096
Loans held for sale	$ 47,501	$ -	$ 47,501	$ -
Mortgage banking derivatives	$ 563	$ -	$ 563	$ -
Liabilities:				
Mortgage banking derivatives	$ 623	$ -	$ 623	$ -

Available-for-sale securities and cash surrender value of life insurance are measured on a recurring basis and are obtained from an independent pricing service. The fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables and pricing matrices.

Assets measured at fair value on a non-recurring basis are summarized below:

In Thousands	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Assets:				
Impaired loans	$ 1,975	$ -	$ -	$ 1,975
Foreclosed assets	$ -	$ -	$ -	$ -

In Thousands	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Assets:				
Impaired loans	$ 2,836	$ -	$ -	$ 2,836
Foreclosed assets	$ 7	$ -	$ -	$ 7

In the case of the available-for-sale securities portfolio, the Company monitors the valuation technique utilized by various pricing agencies to ascertain when transfers between levels have been affected. The nature of the remaining assets is such that the transfers in and out of any level are expected to be rare. For the twelve months ended December 31, 2021 and 2020, respectively, there were no transfers between levels 1, 2, or 3.

(17) Disclosures About Fair Value of Financial Instruments, Continued

Limitations, Continued

Impaired loan balances in the table above represent those collateral-dependent loans where management has estimated the credit loss by comparing the loan carrying values against the expected realized fair values of the collateral securing those loans. As of December 31, 2021 and 2020, impaired loans had a recorded investment amount of $1,975,000 and $2,836,000 with no valuation allowances resulting in an estimated net fair value of $1,975,000 and $2,836,000, respectively.

The table below includes a rollforward of the balance sheet amounts for the year ended December 31, 2021 and 2020 (including the change in fair value) for financial instruments classified by the Bank within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology (in thousands):

	For the Twelve Months Ended December 31			
	2021		*2020*	
	Other Assets	*Other Liabilities*	*Other Assets*	*Other Liabilities*
Fair value, January 1	$ 17,096	$ -	$ 16,720	$ -
Total realized gains included in income	379	$ -	376	-
Change in unrealized gains/losses included in other comprehensive income for assets and liabilities still held at December 31	-	-	-	-
Purchases, issuance and settlement, net	-	-	-	-
Sales	-	-	-	-
Transfers out of Level 3	-	-	-	-
Fair value, December 31	$ 17,475	$ -	$ 17,096	$ -
Total realized gains included in income related to financial assets and liabilities still on the consolidated balance sheet at December 31	$ 379	$ -	$ 376	$ -

(18) Common Stock

The Company is authorized to issue 5,000,000 shares of its common stock in one or more classes and series. At least one class or series of the common stock must have unlimited voting rights and at least one class or series must be entitled to share equally in any net assets of the Company received upon liquidation.

(18) Common Stock, Continued

The Company has issued shares of two classes of common stock. In one class (“ordinary” shares), as of December 31, 2021 and 2020, there are 4,800,000 common shares with no par value authorized of which 1,269,803 and 1,247,853, respectively, of those shares are issued and 968,132 and 946,482, respectively, are outstanding. In the other class (“SD” shares), as of December 31, 2021 and 2020, there are 200,000 common shares with $1 par value of which 69,550 and 69,550, respectively, of those shares are issued and 60,933 and 61,100, respectively, are outstanding. The ordinary class has unlimited voting powers with no preferential dividend rights. The SD class is entitled to preferential dividends but has limited voting powers. Generally, if and when the Board of Directors declares and pays a dividend on the ordinary shares, it must also declare and pay a dividend on the SD shares equal to 107% of the per share amount paid on the ordinary shares.

Under certain circumstances, the Company has the right to issue up to 1,500,000 convertible shares of a separate class of stock (“PD”). In the event of the issuance of Class PD shares, a deduction from shares available for issuance of other classes of stock would occur and the result would be no net increase in total number of shares available. At December 31, 2020, no Class PD shares were outstanding or committed for issuance.

(19) Stock Based Compensation

Restricted Stock Plan:

In May, 2014, the stockholders of the Company approved the First McMinnville Corporation 2014 Restricted Stock Incentive Plan (The “Restricted Stock Plan”). The Restricted Stock Plan provides for the granting of restricted stock awards to eligible employees and directors. The number of common shares issuable under the Restricted Stock Plan shall not exceed 25,000 and may be issued from the Company’s authorized but unissued shares. The holder of restricted shares shall have the same voting, dividend and other rights as the Company’s other stockholders unless the restricted share agreement provides otherwise. The restricted shares shall vest upon the satisfaction of the conditions as specified in the respective participant’s restricted share agreement.

During the years ended December 31, 2021 and 2020, the Company awarded 1,600 and 2,240 shares, respectively, of restricted stock to eligible employees and directors. A summary of the restricted stock activity for 2021 and 2020 is as follows:

	2021		2020	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Outstanding at beginning of year	3,418	$ 68.45	2,179	$ 64.21
Granted	1,600	74.87	2,240	70.18
Vested	(870)	65.60	(785)	64.52
Forfeited	(850)	75.54	(216)	57.88
Outstanding at end of year	3,298	$ 70.49	3,418	$ 68.45

Stock-based compensation expense associated with the restricted share awards is recognized over the time period that the restriction associated with the awards lapse on a straight-line basis based on the total cost of the award. The related stock-based compensation expense for the years ended December 31, 2021 and 2020 was $70,000 and $65,000, respectively. Unrecognized stock-based compensation expense under the Restricted Stock Plan at December 31, 2021 and 2020 totaled $144,000 and $159,000, respectively.

(19) Stock Based Compensation, Continued

Equity Incentive Plan:

In August, 2020, the Board of Directors of the Bank adopted the First McMinnville Corporation 2020 Equity Incentive Plan (the "2020 Plan"). The 2020 Plan provides for the granting of stock options, restricted stock and restricted stock units and authorizes the issuance of common stock upon the vesting and exercise of such awards for up to 50,000 shares of common stock to directors and employees of the Company. As of December 31, 2021 there were 10,100 shares available for issuance under the 2020 Plan.

Under the 2020 Plan, stock option awards may be granted in the form of incentive stock options or non-qualified stock options and are generally exercisable for up to ten years following the date such options are granted. Exercise prices of incentive stock options must be equal to or greater than 100% of the fair market value of the common stock on the grant date.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions used for grants in 2021:

Expected dividends	5.30%
Expected term (in years)	6.00
Expected stock price volatility	15.00%
Risk-free rate	0.32%

A summary of the stock option activity within the 2021 Plan during the year ended December 31, 2021 and information regarding expected vesting, contractual terms remaining, intrinsic values and other matters is as follows:

	2021		2020	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding at beginning of year	37,500	$ 70.75		$ 70.75
Granted	2,400	70.75	37,500	70.75
Exercised	(21,200)	(70.75)	-	(70.75)
Forfeited	-	-	-	-
Outstanding at end of year	18,700	$ 70.75	37,500	$ 70.75
Options exercisable at year end	16,300	$ -	16,300	$ -

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding at 12/31/21	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Number Exercisable at 12/31/21	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
$ 70.75	18,700	$ 70.75	8.33 years	16,300	$ 70.75	8.33 years

Stock based compensation expense associated with the Equity Incentive Plan awards is recognized over the contractual term of the award. The related stock based compensation expense under the Plan for the year ended December 1, 2021 was $71,000. As of December 31, 2021 and 2020, there was $57,000 and $128,000, respectively, of total unrecognized cost related to non-vested stock options granted under the 2020 Plan.

(20) Leases

The subsidiary Bank has entered into certain lease arrangements with two directors and an affiliate company of a director for office space located in Murfreesboro, Tennessee. The initial terms of the leases with one of the directors and an affiliate company of the director, range from five to ten years commencing September, 2007 with options to renew for additional five year increments upon expiration of the initial terms.

The total rent expensed under the related party lease arrangements for years ending December 31, 2021 and 2020 was $225,000 and $174,000, respectively. The total rent expensed under the other arrangements for both of the years ending December 31, 2021 and 2020 was $115,000 and $214,000, respectively.

Future base rent payments under these lease arrangements are as follows:

	In Thousands		
	Annual Base Rent		
	Related Party	**Other**	**Total**
2022	$ 137	$ 215	$ 352
2023	141	186	327
2024	50	87	137
2025	53	80	133
	$ 381	$ 568	$ 949

(21) Uncertainties Resulting from COVID-19

There has been a global outbreak of the Coronavirus Disease ("COVID-19"), which the World Health Organization has declared a "Public Health Emergency of International Concern" and a pandemic. The effects of this public health emergency has materially and adversely impacted the value and performance of a large number of businesses assets and liabilities and their ability to achieve profitability. In addition, the operations of these impacted businesses have been and may continue to be adversely impacted, or temporarily or permanently halted, as a result of required office closures, government quarantine measures, voluntary and precautionary restrictions on travel or meetings, and other factors related to this public health emergency, including COVID-19's potential adverse impact on the health of any such entity's personnel. As discussed in note 2, the Bank is participating in the PPP as a lender. In addition, the Bank has been working with borrowers impacted by COVID-19 by providing modifications of loan terms to certain customers who have requested such modification. At this point, management cannot reasonably estimate the duration and severity of this pandemic, which will most likely continue to have a material adverse impact on certain of the Company's customer's financial condition, which, in turn, will most likely negatively impact the credit quality of loans from these customers in the industries most affected by COVID-19.

(22) Acquisition

Effective June 30, 2021, the Company acquired all of the outstanding membership interest of Premier Land, Title and Escrow, LLC ("Premier") for $2,443,000. One of the sellers that owned 25.33% is a member of the Company's Board of Directors. The acquisition results in an expanded market for the Company's title company operation. The acquisition was funded with a cash payment of $1,238,000 at closing and $1,205,000 of additional payments that are expected to be paid over the next four or five years. The amount of future payments and the timing of future payments may be impacted by future earnings of the Company but in no event shall future principal and interest payments exceed $1,237,000. The Company has included Premier as a single-member LLC in the consolidated financial statements as of the effective date of the acquisition.

(22) Acquisition, Continued

The following table details the allocation of the purchase to the fair market value of the assets acquired including goodwill:

	(In Thousands)	
Purchase Price:		
Cash paid at closing	$ 1,238	
Estimated future principal payments	1,205	
Purchase price		$ 2,443
Fair Value of Assets Acquired:		
Cash	38	
Property and equipment	38	
Other assets	8	
Total fair value of assets acquired		84
Goodwill		$ 2,359

The Company has elected to evaluate the goodwill for impairment periodically as opposed to amortizing over a 10 year period.

(23) Subsequent Events

FASB ASC 855 "Subsequent Events" establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Management evaluated all events or transactions that occurred after December 31, 2021, through February 23, 2022, the date these financial statements were available for issuance. All recognizable subsequent events have been disclosed in the accompanying disclosures to the consolidated financial statements.

LINE OF BUSINESS

During 2021, the Company and its subsidiary, First National Bank of Middle Tennessee (the "Bank"), were engaged primarily in the general banking business and activities closely related to banking or to managing or controlling banks, as authorized by the laws of the United States and the State of Tennessee and regulations pursuant thereto. Services offered by the Bank include checking, savings and certificate accounts, safe deposit box rental, personal, commercial, agricultural, construction and real estate loans, traveler's checks, cashier's checks, bank drafts, wealth management services, trust services, estate planning, and other banking services. The Bank renders other services in connection with its general banking business such as individual credit and financial counseling, automatic teller services and credit card accounts.

SHAREHOLDER INFORMATION

As of December 31, 2021, there were 668 holders of First McMinnville Corporation Stock ("FMC Stock"), with 395 holders of regular Common Stock and 273 holders of Superior Dividend Common Stock. FMC Stock has a book value of $73.26 as of December 31, 2021 as compared to a book value of $71.96 as of December 31, 2020. This represents an increase in book value of 1.8% in addition $ 3.96 and $4.24 per share dividend for Common Stock and class SD shareholders, respectively.

There is no stabiles trading market for shares of FMC Stock; however, FMC Stock is traded either between individuals or could be sold to First McMinnville Corporation in conjunction with the stock repurchase program. For questions regarding your FMC Stock, please contact Gina Melvin at (931) 473-4402 or via e-mail at gmelvin@fnbmt.com.

Our Mission Statement

The mission of First National Bank is to be the premier community bank in the markets we serve. We will enhance the customer experience by serving the personal and business needs of our markets, providing superior customer service, investing in the communities we serve, and enriching the lives of our employees.