UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended: March 31, 2022
or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________
Commission File Number: 001-40727

Southern States Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Alabama	**26-2518085**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
615 Quintard Ave., Anniston, AL	**36201**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (256) 241-1092

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $5.00 par value per share	**SSBK**	**The Nasdaq Stock Market, LLC**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x

As of May 13, 2022, the registrant had 8,749,878 shares of common stock, $5 par value per share, issued and outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q of Southern States Bancshares, Inc. (“Southern States” or the “Company”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which reflect our current expectations and beliefs with respect to, among other things, future events and our financial performance. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. This may be especially true given the current COVID-19 pandemic and uncertainty about its continuation. Although we believe that the expectations reflected in such forward-looking statements are reasonable as of the dates made, we cannot give any assurance that such expectations will prove correct and actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict.

These statements are often, but not always, made through the use of words or phrases such as “may,” “can,” “should,” “could,” “to be,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “likely,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “target,” “project,” “would” and “outlook,” or the negative version of those words or other similar words or phrases of a future or forward-looking nature. Forward-looking statements appear in a number of places in this Quarterly Report on Form 10-Q and may include statements about business strategy and prospects for growth, operations, ability to pay dividends, competition, regulation and general economic conditions.

There are or may be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- potential risks and uncertainties relating to the effects of COVID-19, including the duration of the COVID-19 outbreak, actions that have been and will be taken by governmental authorities to contain the COVID-19 outbreak or to treat its impact, and the potential negative impacts of COVID-19 on the global economy and financial markets, including U.S. GDP decreases and increases in unemployment;
- our ability to execute and prudently manage our growth and execute our strategy, including expansion activities;
- our ability to adequately measure and limit our credit risk;
- business, market and economic conditions generally and in the financial services industry, nationally and within our local markets;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our markets and the financial health of our commercial borrowers;
- the failure of assumptions and estimates, as well as differences in, and changes to, economic, market, and credit conditions, including changes in borrowers’ credit risks and payment behaviors;
- compliance with governmental and regulatory requirements, including the Dodd-Frank Act and others relating to banking, consumer protection, securities and tax matters, and our ability to maintain licenses required in connection with mortgage origination, sale and servicing operations;
- compliance with the Bank Secrecy Act, OFAC rules and anti-money laundering laws and regulations;
- governmental monetary and fiscal policies;
- the effectiveness of our risk management framework, including internal controls;
- the composition of and future changes in our management team and our ability to attract and retain key personnel;
- geographic concentration of our business in certain Alabama and Georgia markets;
- our ability to attract and retain customers;
- the risks of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest-sensitive assets and liabilities, and the risks and uncertainty of the amounts realizable;
- changes in the availability and cost of credit and capital in the financial markets, and the types of instruments that may be included as capital for regulatory purposes;

- changes in the prices, values and sales volumes of residential and commercial real estate;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment, trust and other wealth management services and insurance services, including the disruption effects of financial technology and other competitors who are not subject to the same regulations as the Company and Southern States Bank ("the Bank");
- the failure of assumptions and estimates underlying the establishment of allowances for possible loan losses and other asset impairments, losses, valuations of assets and liabilities and other estimates;
- the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;
- changes in technology or products that may be more difficult, costly, or less effective than anticipated;
- systems failures or interruptions involving our risk management framework, our information technology and telecommunications systems or third-party servicers;
- unauthorized data access, cyber-crime and other threats to data security and customer privacy;
- our ability to maintain our historical rate of growth;
- our ability to identify potential candidates for, consummate, and achieve synergies resulting from, potential future acquisitions;
- deterioration of our asset quality or the value of collateral securing loans;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters and appropriate compliance with applicable law and regulation;
- operational risks associated with our business;
- volatility and direction of market interest rates and the shape of the yield curve;
- our ability to maintain important deposit customer relationships, maintain our reputation or otherwise avoid liquidity risks;
- the obligations associated with being a public company;
- the commencement and outcome of litigation and other legal proceedings against us or to which we may become subject;
- natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or other international or domestic calamities as well as national and international economic conditions and health issues, such as COVID-19, and other matters beyond our control; and
- other factors that are discussed in the sections titled "Risk Factors" in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements and the "Risk Factors" included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share amounts)

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Assets		
Cash and due from banks	$ 22,851	$ 6,397
Interest-bearing deposits in banks	111,951	203,537
Federal funds sold	74,022	74,022
Total cash and cash equivalents	208,824	283,956
Securities available for sale, at fair value	151,027	132,172
Securities held to maturity, at amortized cost	19,667	19,672
Other equity securities, at fair value	8,937	9,232
Restricted equity securities, at cost	2,825	2,600
Loans held for sale	2,509	2,400
Loans, net of unearned income	1,310,070	1,250,300
Less allowance for loan losses	15,492	14,844
Loans, net	1,294,578	1,235,456
Premises and equipment, net	28,065	27,044
Accrued interest receivable	4,427	4,170
Bank owned life insurance	29,343	22,201
Annuities	15,523	12,888
Foreclosed assets	2,930	2,930
Goodwill	16,862	16,862
Core deposit intangible	1,434	1,500
Other assets	11,883	9,509
Total assets	$ 1,798,834	$ 1,782,592
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 515,110	$ 541,546
Interest-bearing	1,026,729	1,014,905
Total deposits	1,541,839	1,556,451
Other borrowings	—	12,498
FHLB advances	25,950	25,950
Subordinated notes	47,154	—
Accrued interest payable	107	132
Other liabilities	14,595	10,363
Total liabilities	1,629,645	1,605,394

Stockholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized; 0 shares issued and outstanding at March 31, 2022 and December 31, 2021	—	—
Common stock, $5 par value, 30,000,000 shares authorized; 8,749,878 and 9,012,857 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively	43,749	45,064
Capital surplus	76,426	80,640
Retained earnings	53,604	49,858
Accumulated other comprehensive income (loss)	(3,755)	2,113
Unvested restricted stock	(835)	(477)
Total stockholders' equity	169,189	177,198
Total liabilities and stockholders' equity	$ 1,798,834	$ 1,782,592

See Notes to Consolidated Financial Statements.

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except per share amounts)

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021
Interest income:		
Loans, including fees	$ 14,766	$ 13,021
Taxable securities	619	401
Nontaxable securities	299	207
Other interest and dividends	188	48
Total interest income	15,872	13,677
Interest expense:		
Deposits	873	1,190
Other borrowings	345	203
Total interest expense	1,218	1,393
Net interest income	14,654	12,284
Provision for loan losses	700	750
Net interest income after provision for loan losses	13,954	11,534
Noninterest income:		
Service charges on deposit accounts	445	360
Swap fees	15	558
SBA/USDA fees	388	2,865
Mortgage origination fees	286	407
Net gain (loss) on securities	(361)	(232)
Other operating income	560	538
Total noninterest income	1,333	4,496
Noninterest expenses:		
Salaries and employee benefits	5,725	5,057
Equipment and occupancy expenses	705	879
Data processing fees	564	514
Regulatory assessments	263	221
Other operating expenses	2,033	1,861
Total noninterest expenses	9,290	8,532
Income before income taxes	5,997	7,498
Income tax expense	1,440	1,817
Net income	$ 4,557	$ 5,681
Basic earnings per share	$ 0.51	$ 0.74
Diluted earnings per share	$ 0.50	$ 0.73

See Notes to Consolidated Financial Statements.

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In thousands)

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Net income	$ 4,557	$ 5,681
Other comprehensive income (loss):		
Unrealized holding losses on securities available for sale arising during the period, net of benefit of $2,062 and $543, respectively	(5,868)	(1,546)
Reclassification adjustment for losses on securities available for sale realized in net income, net of benefit of $0 and $56, respectively	—	161
Other comprehensive loss	(5,868)	(1,385)
Comprehensive income (loss)	$ (1,311)	$ 4,296

See Notes to Consolidated Financial Statements.

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(In thousands, except share amounts)

	Preferred Stock		Common Stock		Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unvested Restricted Stock	Total Stockholders' Equity
	Shares	Par Value	Shares	Par Value					
Balance, December 31, 2021	—	$ —	9,012,857	$ 45,064	$ 80,640	$ 49,858	$ 2,113	$ (477)	$ 177,198
Net income	—	—	—	—	—	4,557	—	—	4,557
Issuance of restricted stock	—	—	24,265	121	379	—	—	(500)	—
Repurchase of common stock under the stock repurchase program	—	—	(287,244)	(1,436)	(4,696)	—	—	—	(6,132)
Stock-based compensation	—	—	—	—	103	—	—	142	245
Common stock dividends paid	—	—	—	—	—	(811)	—	—	(811)
Other comprehensive loss	—	—	—	—	—	—	(5,868)	—	(5,868)
Balance, March 31, 2022	—	$ —	8,749,878	$ 43,749	$ 76,426	$ 53,604	$ (3,755)	$ (835)	$ 169,189

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	For the Three Months Ended March 31,	
	2022	2021
OPERATING ACTIVITIES		
Net income	$ 4,557	$ 5,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and software amortization	289	477
Net loss on securities	361	232
Net amortization of securities	227	207
Amortization of core deposit intangible	66	66
Provision for loan losses	700	750
Stock-based compensation	245	173
Net (increase) decrease in loans held for sale	(109)	3,427
Income from bank owned life insurance	(122)	(125)
(Increase) decrease in interest receivable	(257)	155
Decrease in interest payable	(25)	(4)
Net other operating activities	3,907	2,103
Net cash provided by operating activities	9,839	13,142
INVESTING ACTIVITIES		
Purchase of securities available for sale	(30,000)	(12,949)
Proceeds from sale of securities available for sale	—	15,759
Proceeds from maturities, calls, and paydowns of securities available for sale	2,927	2,683
Net (purchase) redemption of restricted equity securities	(225)	437
Purchase of bank owned life insurance	(7,021)	—
Purchase of annuities	(2,622)	—
Net increase in loans	(59,822)	(53,263)
Proceeds from sale of foreclosed assets	—	95
Purchase of premises, equipment and software	(1,309)	(951)
Net cash used in investing activities	(98,072)	(48,189)
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(14,612)	120,383
Proceeds from issuance of common stock	—	165
Repurchase of common stock	(6,132)	—
Net proceeds of other borrowings	—	1,011
Repayment of note payable	(12,498)	—
Net proceeds of subordinated notes	47,154	—
Common stock dividends paid	(811)	(691)
Net cash provided by financing activities	13,101	120,868
Net increase (decrease) in cash and cash equivalents	(75,132)	85,821
Cash and cash equivalents at beginning of year	283,956	84,907
Cash and cash equivalents at end of year	$ 208,824	$ 170,728
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	$ 1,243	$ 1,397
Income taxes	$ 74	$ —
NONCASH TRANSACTIONS		
Transfers of loans to foreclosed assets	$ —	$ 100
Internally financed sales of foreclosed assets	$ —	$ —

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Southern States Bancshares, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Southern States Bank (the "Bank"). The Bank is a commercial bank headquartered in Anniston, Calhoun County, Alabama. The Bank also operates branch offices in Birmingham, Opelika, Auburn, Huntsville, Sylacauga, Wedowee, Ranburne, Roanoke, Heflin, Alabama as well as Columbus, Carrollton, Dallas, and Newnan, Georgia. The Bank also has an LPO office located in Atlanta, Georgia. The Bank provides a full range of banking services in its primary market areas and the surrounding areas.

Basis of Presentation and Accounting Estimates

The unaudited consolidated financial statements include the accounts of the Company and its subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the unaudited consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet date 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 the determination of the allowance for loan losses, the valuation of foreclosed assets, financial instruments, deferred taxes, and other-than-temporary impairment of securities. In connection with the determination of the estimated losses on loans and the valuation of foreclosed assets, management obtains independent appraisals for significant collateral.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash, Cash Equivalents and Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, cash items in process of collection, amounts due from banks, interest-bearing deposits in banks and federal funds sold. Cash flows from loans held for sale, loans, restricted equity securities, and deposits are reported net.

The Company maintains amounts due from banks which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

The Bank may be required to maintain reserve balances in cash or on deposit with a correspondent bank for the Federal Reserve Bank, based on a percentage of deposits. The total of those reserve balances was $0 at March 31, 2022 and December 31, 2021.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities

The Company classifies its securities into one of two categories based upon management's intent and ability to hold the securities: (i) securities held to maturity or (ii) securities available for sale. Securities classified as held to maturity are stated at cost adjusted for amortization of premiums and accretion of discounts. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. The Company has the ability, and it is management's intention, to hold such securities to maturity. Securities classified as available for sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities available for sale are recorded on the trade date and are determined using the specific identification method.

The Company evaluates investment securities for other-than-temporary impairment (OTTI) using relevant accounting guidance on a regular basis. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer including an evaluation of credit ratings, (3) the impact of changes in market interest rates, (4) the intent of the Company to sell a security, and (5) whether it is more likely than not the Company will have to sell the security before recovery of its cost basis. If the Company intends to sell an impaired security, or if it is more likely than not the Company will have to sell the security before recovery of its cost basis, the Company records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. Otherwise, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss is recognized in other comprehensive income (loss).

Other Equity Securities

The mutual funds owned by the Company are classified as equity securities and are carried at fair value with any periodic changes in value recorded through the income statement.

Restricted Equity Securities

Restricted equity securities are investments that are restricted in marketability. The Company, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB based upon its assets or outstanding advances. The Company has also purchased stock in First National Banker's Bankshares, Inc. (FNBB), and Pacific Coast Banker's Bank (PCBB), both correspondent banks. These securities are carried at cost and periodically evaluated for impairment based on ultimate recoverability of par value.

Loans Held For Sale

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less deferred fees and costs on originated loans and the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield over the life of the loan, using the straight-line method without anticipating prepayments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or charged to the allowance; unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms generally for a period of not less than six months.

Certain Purchased Loans

Purchased loans are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased impaired or purchased non-impaired. Purchased impaired loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. The purchased impaired loans acquired are subject to the Company's internal and external credit review and monitoring. If credit deterioration is experienced subsequent to the initial acquisition fair value amount, such deterioration will be measured, and a provision for credit losses will be charged to earnings.

Such purchased loans are accounted for individually. The Company estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan, expected cash flows will continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income. Purchased impaired loans at the time of acquisition are accounted for under ASC 310-30.

Purchased non-impaired loans are accounted for under ASC 310-20, with the difference between the fair value and unpaid principal balance of the loan at the acquisition date amortized or accreted to interest income over the estimated life of the loans.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when it is probable, based on current information and events, the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower's request, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are not generally classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The Company's allowance is allocated among commercial real estate loans, real estate construction and development loans, residential real estate loans, commercial and industrial loans, and consumer loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality and foreclosure rates; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the experience and ability of lending personnel and management; (7) effectiveness of the Company's loan policies, procedures and internal controls; (8) current conditions in the real estate and construction markets; (9) the effect of entrance into new markets or the offering of a new product; (10) the loan review system and oversight of the Board of Directors. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio adjusted for internal and external factors and the total dollar amount of the loans in the pool.

Troubled Debt Restructurings

A loan is considered a troubled debt restructuring (TDR) based on individual facts and circumstances. The Company designates loan modifications as TDRs when for economic or legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses.

In determining whether a borrower is experiencing financial difficulties, the Company considers if the borrower is in payment default or would be in payment default in the foreseeable future without the modification, the borrower declared or is in the process of declaring bankruptcy, the borrower's projected cash flows will not be sufficient to service any of its debt, or the borrower cannot obtain funds from sources other than the Company at a market rate for debt with similar risk characteristics.

In determining whether the Company has granted a concession, the Company assesses, if it does not expect to collect all amounts due, whether the current value of the collateral will satisfy the amounts owed, whether additional collateral or guarantees from the borrower will serve as adequate compensation for other terms of the restructuring, and whether the borrower otherwise has access to funds at a market rate for debt with similar risk characteristics.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are reflected in income. The estimated useful lives are as follows:

	Years
Buildings	10-39
Furniture and equipment	3-7

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs related to holding foreclosed assets and subsequent write-downs to the value are expensed. Any gains and losses realized at the time of disposal are reflected in income.

Goodwill

Goodwill represents the excess of the amount paid over the fair value of the net assets at the date of acquisition. Goodwill is subject to an annual evaluation of impairment. If desired, the Company can assess qualitative factors to determine if comparing the carrying value of the reporting unit to its fair value is necessary. Should the fair value be less than the carrying value, an impairment write-down would be taken. Based on its assessment of qualitative factors, the Company determined that no impairment exists at March 31, 2022.

Goodwill is not amortized but is evaluated for impairment on an annual basis or whenever an event occurs or circumstances change to indicate that it is more likely than not that an impairment loss has been incurred (i.e., a triggering event). The Company performed a goodwill impairment test in March 2022. The qualitative factors considered in determining if fair value of the unit was less than the carrying amount were economic conditions related to the COVID-19 virus and the change in the interest rate environment. A quantitative assessment of goodwill impairment included determining the estimated fair value of Company using a market-based approach. It was determined there was no impairment.

Core Deposit Intangible

A core deposit intangible is initially recognized based on a valuation, of acquired deposits, performed as of the acquisition date. The core deposit intangible is amortized over the average remaining life of the acquired customer deposits, or approximately 7 years. The intangible asset is reviewed annually for events or circumstances that could negatively impact the recoverability of the intangible. These events could include loss of core deposits, increased competition, or adverse changes in the economy.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Core Deposit Intangible (Continued)

To the extent this intangible asset is deemed unrecoverable, an impairment charge would be recorded. The Company maintains steady deposit growth across our markets and continues to attract new customer deposits. The intangible asset was evaluated for impairment as of March 31, 2022 and based on that evaluation there was no impairment.

Accounting Policy for Derivative Instruments and Hedging Activities

FASB ASC 815, *Derivatives and Hedging* (ASC 815), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance in ASU 2011-04, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Income Taxes

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Compensation Plans

Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options and warrants, restricted stock plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the estimated market price of the Company's common stock at the date of grant is used for restricted stock awards and stock grants.

Comprehensive Income (Loss)

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

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 12. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Revenue Recognition

On January 1, 2019, the Company adopted ASC 606 and all subsequent amendments (collectively ASC 606) which (1) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (2) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as foreclosed assets. The majority of the Company's revenues come from interest income and other sources, including loans and securities that are outside the scope of ASC 606. With the exception of gains/losses on sale of foreclosed assets, the Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligations to the customer. Services within the scope of ASC 606 reported in noninterest income include service charges on deposit accounts, bank card services and interchange fees, and ATM fees.

Recent Accounting Pronouncements

In February 2016 the Financial Accounting Standards Board (FASB) issued ASU 2016-02, "Leases (Topic 842)" to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. ASU 2016-02 requires organizations that lease assets (lessees) to recognize on the balance sheet the assets and liabilities for the rights and obligations created by the lease for all operating leases under current U.S. GAAP with a term of more than 12 months. The ASU is effective for non-public business entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. The ASU should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted ASU 2016-02 on June 30, 2021 and there was no material impact on the Company's consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In July 2018 the FASB issued ASU 2018-11, "Leases – Targeted Improvements" to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (January 1, 2022 for the Company). The Company adopted ASU 2018-11 on June 30, 2021 and there was no material impact on the Company's consolidated financial statements.

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

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for other than public business entities for fiscal years beginning after December 15, 2020, with early adoption, including adoption in an interim period, permitted. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The amended presentation and disclosure guidance is required only prospectively. The Company did not experience any impact on the Company's consolidated financial position, results of operations or cash flows as a result of ASU 2017-12.

NOTE 2. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share reflect additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options.

(in thousands, except share and per share amounts)

NOTE 2. EARNINGS PER SHARE (Continued)

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021
Basic Earnings Per Share:		
Net Income	$ 4,557	$ 5,681
Weighted average common shares outstanding	8,935,384	7,681,578
Basic earnings per share	$ 0.51	$ 0.74
Diluted Earnings Per Share:		
Net income allocated to common shareholders	$ 4,549	$ 5,674
Weighted average common shares outstanding	8,935,384	7,681,578
Net dilutive effect of:		
Assumed exercises of stock options	129,980	113,281
Average shares and dilutive potential common shares	9,065,364	7,794,859
Dilutive earnings per share	$ 0.50	$ 0.73

NOTE 3. SECURITIES

The amortized cost and fair value of securities at March 31, 2022 and December 31, 2021 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2022				
Securities Available for Sale				
U.S. Treasury securities	$ 9,797	$ —	$ (556)	$ 9,241
U.S. Government Sponsored Enterprises (GSEs)	8,453	—	(414)	8,039
State and municipal securities	56,963	607	(2,924)	54,646
Corporate debt securities	10,528	129	(216)	10,441
Asset based securities	10,096	14	(105)	10,005
Mortgage-backed GSE residential/multifamily and non-GSE	60,264	6	(1,615)	58,655
Total securities available for sale	$ 156,101	$ 756	$ (5,830)	$ 151,027
Securities Held to Maturity				
State and municipal securities	19,667	—	(1,440)	18,227
Total securities held to maturity	$ 19,667	$ —	$ (1,440)	$ 18,227
Total securities	$ 175,768	$ 756	$ (7,270)	$ 169,254

(in thousands, except share and per share amounts)

NOTE 3. SECURITIES (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Securities Available for Sale				
U.S. Treasury securities	$ 7,820	$ 22	$ (20)	$ 7,822
U.S. Government Sponsored Enterprises (GSEs)	9,228	68	(103)	9,193
State and municipal securities	54,236	2,611	(66)	56,781
Corporate debt securities	10,530	289	(35)	10,784
Asset based securities	10,380	116	(24)	10,472
Mortgage-backed GSE residential/multifamily and non-GSE	37,123	185	(188)	37,120
Total securities available for sale	$ 129,317	$ 3,291	$ (436)	$ 132,172
Securities Held to Maturity				
State and municipal securities	19,672	364	(126)	19,910
Total securities held to maturity	$ 19,672	$ 364	$ (126)	$ 19,910
Total securities	$ 148,989	$ 3,655	$ (562)	$ 152,082

Securities with a carrying value of $45,534 and $46,263 at March 31, 2022 and December 31, 2021, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The amortized cost and fair value of securities available for sale and securities held to maturity as of March 31, 2022 and December 31, 2021 by contractual maturity are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid with or without penalty. Therefore, these securities are not included by maturity in the following summary:

	March 31, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities Available for Sale				
Due in less than one year	$ 301	$ 301	$ 302	$ 302
Due from one year to five years	6,997	6,881	2,766	2,790
Due after five to ten years	23,679	22,684	26,475	26,764
Due after ten years	64,860	62,506	62,651	65,196
Mortgage-backed securities	60,264	58,655	37,123	37,120
Total securities available for sale	$ 156,101	$ 151,027	$ 129,317	$ 132,172
Securities Held to Maturity				
Due in less than one year	$ —	$ —	$ —	$ —
Due from one year to five years	—	—	—	—
Due after five to ten years	1,772	1,689	1,100	1,115
Due after ten years	17,895	16,538	18,572	18,795
Mortgage-backed securities	—	—	—	—
Total securities held to maturity	$ 19,667	$ 18,227	$ 19,672	$ 19,910
Total securities	$ 175,768	$ 169,254	$ 148,989	$ 152,082

(in thousands, except share and per share amounts)

NOTE 3. SECURITIES (Continued)

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

	March 31, 2022	December 31, 2021
Federal Home Loan Bank stock	$ 1,900	$ 1,675
First National Banker's Bankshares, Inc. stock	675	675
Pacific Coast Banker's Bank stock	250	250
Total restricted equity securities	$ 2,825	$ 2,600

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of securities, aggregated by category and length of time that securities have been in a continuous unrealized loss position at March 31, 2022 and December 31, 2021.

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
March 31, 2022					
Securities Available for Sale					
U.S. Treasury securities	$ (556)	$ 9,241	$ —	$ —	$ (556)
U.S. Government Sponsored Enterprises (GSEs)	(215)	5,596	(199)	2,443	(414)
State and municipal securities	(2,924)	39,112	—	—	(2,924)
Corporate debt securities	(177)	5,351	(39)	711	(216)
Asset based securities	(101)	7,473	(4)	844	(105)
Mortgage-backed GSE residential/multifamily and non-GSE	(1,522)	41,499	(93)	2,442	(1,615)
Total securities available for sale	$ (5,495)	$ 108,272	$ (335)	$ 6,440	$ (5,830)
Securities Held to Maturity					
State and municipal securities	(1,377)	17,786	(63)	441	(1,440)
Total securities held to maturity	$ (1,377)	$ 17,786	$ (63)	$ 441	$ (1,440)
Total securities	$ (6,872)	$ 126,058	$ (398)	$ 6,881	$ (7,270)

(in thousands, except share and per share amounts)

NOTE 3. SECURITIES (Continued)

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2021					
Securities Available for Sale					
U.S. Treasury securities	$ (20)	$ 5,347	$ —	$ —	$ (20)
U.S. Government Sponsored Enterprises (GSEs)	(57)	1,946	(46)	1,899	(103)
State and municipal securities	(66)	6,270	—	—	(66)
Corporate debt securities	(35)	2,995	—	—	(35)
Asset based securities	(21)	2,842	(3)	879	(24)
Mortgage-backed GSE residential/multifamily and non-GSE	(158)	16,226	(30)	2,749	(188)
Total securities available for sale	$ (357)	$ 35,626	$ (79)	$ 5,527	$ (436)
Securities Held to Maturity					
State and municipal securities	(126)	6,450	—	—	(126)
Total securities held to maturity	$ (126)	$ 6,450	$ —	$ —	$ (126)
Total securities	$ (483)	$ 42,076	$ (79)	$ 5,527	$ (562)

The unrealized losses on 172 securities were caused by interest rate changes. Because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost bases, at maturity, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2022.

Other-Than-Temporary Impairment

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Factors included in the evaluation process may include geographic concentrations, credit ratings, and other performance indicators of the underlying asset. As of March 31, 2022 and December 31, 2021, no securities within the Company's investment securities portfolio was considered other-than-temporarily impaired.

NOTE 4. LOANS

Portfolio Segments and Classes

The composition of loans, excluding loans held for sale, is summarized as follows:

	March 31, 2022		December 31, 2021	
	Amount	% of Total	Amount	% of Total
	(in thousands, except percentages)			
Real estate mortgages:				
Construction and development	$ 165,400	12.6%	$ 174,480	13.9%
Residential	154,143	11.7%	147,490	11.8%
Commercial	765,685	58.3%	716,541	57.1%
Commercial and industrial	219,761	16.7%	206,897	16.5%
Consumer and other	9,077	0.7%	8,709	0.7%
Gross Loans	1,314,066	100.0%	1,254,117	100.0%
Deferred loan fees	(3,996)		(3,817)	
Allowance for loan losses	(15,492)		(14,844)	
Loans, net	$ 1,294,578		$ 1,235,456	

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are three loan portfolio segments that include real estate, commercial and industrial, and consumer and other. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Commercial and industrial is a separate commercial loan class. Classes within the real estate portfolio segment include construction and development, residential mortgages, and commercial mortgages. Consumer loans and other are a class in itself.

In light of the U.S. and global economic crisis brought about by the COVID-19 pandemic, the Company has prioritized assisting its clients through this troubled time. The CARES Act provides for Paycheck Protection Plan (PPP) loans to be made by banks to employers with less than 500 employees if they continue to employ their existing workers. As of March 31, 2022, the Company has outstanding 6 loans for a total amount of $893 under the PPP. At March 31, 2022, unaccreted deferred loan origination fees related to PPP loans totaled $0. PPP loan origination fees recorded as an adjustment to loan yield for the three months ended was $298. These PPP loans are included within the commercial and industrial loan category in the table above.

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

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

- Loans for real estate construction and development are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.
- Residential mortgages include 1-4 family first mortgage loans which are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. Also included in residential mortgages are real estate loans secured by farmland, second liens, or open end real estate loans, such as home equity lines. These loans are typically repaid in the same means as 1-4 family first mortgages.

NOTE 4. LOANS (Continued)

Portfolio Segments and Classes (Continued)

- Commercial real estate mortgage loans include both owner-occupied commercial real estate loans and other commercial real estate loans such as commercial loans secured by income producing properties. Owner-occupied commercial real estate loans made to operating businesses are long-term financing of land and buildings and are repaid by cash flows generated from business operations. Real estate loans for income-producing properties such as apartment buildings, hotels, office and industrial buildings, and retail shopping centers are repaid by cash flows from rent income derived from the properties.

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

Consumer and other - The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures which affects borrowers' incomes and cash for repayment.

Credit Risk Management

The Chief Credit Officer, Officers Loan Committee and Directors Loan Committee are each involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to manage the portfolios and reduce risk, particularly in the more problematic portfolios.

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by a comprehensive Loan Policy that provides for a consistent and prudent approach to underwriting and approvals of credits. Within the Board approved Loan Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios. To ensure problem credits are identified on a timely basis, several specific portfolio reviews occur each year to assess the larger adversely rated credits for proper risk rating and accrual status.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by the Chief Credit Officer and reported to the Board of Directors.

A description of the general characteristics of the risk categories used by the Company is as follows:

- **Pass** - A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.
- **Special Mention** - A loan that has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. These loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

NOTE 4. LOANS (Continued)

Credit Risk Management

- **Substandard** - Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans 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 institution will sustain some loss if the deficiencies are not corrected.
- **Doubtful** - Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.
- **Loss** - Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

The following tables summarize the risk category of the Company's loan portfolio based upon the most recent analysis performed as of March 31, 2022 and December 31, 2021:

	Pass	Special Mention	Substandard	Doubtful	Total
			(dollars in thousands)		
As of March 31, 2022					
Real estate mortgages:					
Construction and development	$ 160,243	$ 388	$ 4,769	$ —	$ 165,400
Residential	149,011	3,841	1,291	—	154,143
Commercial	739,916	15,830	9,939	—	765,685
Commercial and industrial	216,375	3,103	59	224	219,761
Consumer and other	9,054	20	3	—	9,077
Total	$ 1,274,599	$ 23,182	$ 16,061	$ 224	$ 1,314,066
As of December 31, 2021					
Real estate mortgages:					
Construction and development	$ 168,751	$ 388	$ 5,341	$ —	$ 174,480
Residential	142,782	3,554	1,154	—	147,490
Commercial	691,863	16,371	8,307	—	716,541
Commercial and industrial	203,630	2,960	73	234	206,897
Consumer and other	8,682	21	6	—	8,709
Total	$ 1,215,708	$ 23,294	$ 14,881	$ 234	$ 1,254,117

(in thousands, except share and per share amounts)

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NOTE 4. LOANS (Continued)

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places a loan on nonaccrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans and leases as of March 31, 2022 and December 31, 2021:

		Past Due Status (Accruing Loans)					
	Current	30-59 Days	60-89 Days	90+ Days	Total Past Due	Nonaccrual	Total
As of March 31, 2022							
Real estate mortgages:							
Construction and development	$ 164,583	$ 647	$ 94	$ —	$ 741	$ 76	$ 165,400
Residential	153,432	201	—	—	201	510	154,143
Commercial	762,558	739	—	—	739	2,388	765,685
Commercial and industrial	219,476	16	—	—	16	269	219,761
Consumer and other	9,074	—	—	—	—	3	9,077
Total	$ 1,309,123	$ 1,603	$ 94	$ —	$ 1,697	$ 3,246	$ 1,314,066
As of December 31, 2021							
Real estate mortgages:							
Construction and development	$ 173,027	$ 62	$ 746	$ 299	$ 1,107	$ 346	$ 174,480
Residential	146,871	129	128	195	452	167	147,490
Commercial	714,092	1,775	—	—	1,775	674	716,541
Commercial and industrial	206,027	99	486	—	585	285	206,897
Consumer and other	8,673	30	—	—	30	6	8,709
Total	$ 1,248,690	$ 2,095	$ 1,360	$ 494	$ 3,949	$ 1,478	$ 1,254,117

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

Allowance for Loans Losses

The following tables detail activity in the allowance for loan losses by portfolio segment as of March 31, 2022 and March 31, 2021. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Real Estate	Commercial	Consumer	Total
Allowance for loan losses:				
Balance at December 31, 2021	$ 11,554	$ 3,166	$ 124	$ 14,844
Provision (credit) for loan losses	(1,299)	2,009	(10)	700
Loans charged off	(66)	—	(6)	(72)
Recoveries of loans previously charged off	17	—	3	20
Ending balance at March 31, 2022	$ 10,206	$ 5,175	$ 111	$ 15,492
Ending balance - individually evaluated for impairment	$ 400	$ 269	$ —	$ 669
Ending balance - collectively evaluated for impairment	9,743	4,906	111	14,760
Ending balance - loans acquired with deteriorated credit quality	63	—	—	63
Total ending balance at March 31, 2022	$ 10,206	$ 5,175	$ 111	$ 15,492
Loans:				
Ending balance - individually evaluated for impairment	$ 15,943	$ 283	$ 22	$ 16,248
Ending balance - collectively evaluated for impairment	1,068,050	219,478	9,055	1,296,583
Ending balance - loans acquired with deteriorated credit quality	1,235	—	—	1,235
Total ending balance at March 31, 2022	$ 1,085,228	$ 219,761	$ 9,077	$ 1,314,066

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

Allowance for Loans Losses (Continued)

	Real Estate	Commercial	Consumer	Total
Allowance for loan losses:				
Balance at December 31, 2020	$ 8,057	$ 3,609	$ 193	$ 11,859
Provision (credit) for loan losses	1,231	(428)	(53)	750
Loans charged off	(16)	—	(2)	(18)
Recoveries of loans previously charged off	2	11	1	14
Ending balance at March 31, 2021	$ 9,274	$ 3,192	$ 139	$ 12,605
Ending balance - individually evaluated for impairment	$ 357	$ 390	$ 12	$ 759
Ending balance - collectively evaluated for impairment	8,823	2,802	127	11,752
Ending balance - loans acquired with deteriorated credit quality	94	—	—	94
Total ending balance at March 31, 2021	$ 9,274	$ 3,192	$ 139	$ 12,605
Loans:				
Ending balance - individually evaluated for impairment	$ 15,829	$ 583	$ 42	$ 16,454
Ending balance - collectively evaluated for impairment	830,912	229,574	9,158	1,069,644
Ending balance - loans acquired with deteriorated credit quality	1,363	—	—	1,363
Total ending balance at March 31, 2021	$ 848,104	$ 230,157	$ 9,200	$ 1,087,461

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

Impaired Loans

A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail our impaired loans, by portfolio class as of March 31, 2022 and December 31, 2021.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
March 31, 2022				
With no related allowance recorded:				
Real estate mortgages:				
Construction and development	$ 4,810	$ 4,810	$ —	$ 4,813
Residential	1,477	1,477	—	1,485
Commercial	7,891	7,891	—	7,922
Commercial and industrial	14	14	—	17
Consumer and other	22	22	—	23
Total with no related allowance recorded	14,214	14,214	—	14,260
With an allowance recorded:				
Real estate mortgages:				
Construction and development	234	234	62	236
Residential	362	433	97	364
Commercial	2,404	2,404	304	2,406
Commercial and industrial	269	269	269	276
Consumer and other	—	—	—	—
Total with an allowance recorded	3,269	3,340	732	3,282
Total impaired loans	$ 17,483	$ 17,554	$ 732	$ 17,542

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

Impaired Loans (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
December 31, 2021				
With no related allowance recorded:				
Real estate mortgages:				
Construction and development	$ 5,258	$ 5,258	$ —	$ 5,261
Residential	1,081	1,081	—	1,090
Commercial	7,992	7,992	—	7,993
Commercial and industrial	22	22	—	25
Consumer and other	15	15	—	16
Total with no related allowance recorded	14,368	14,368	—	14,385
With an allowance recorded:				
Real estate mortgages:				
Construction and development	370	370	148	370
Residential	633	704	125	636
Commercial	680	680	136	682
Commercial and industrial	285	285	292	289
Consumer and other	11	11	3	11
Total with an allowance recorded	1,979	2,050	704	1,988
Total impaired loans	$ 16,347	$ 16,418	$ 704	$ 16,373

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

Impaired Loans (Continued)

A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail our interest income recognized on impaired loans, by portfolio class in the three months ended March 31, 2022 and 2021.

	Recorded Investment	Average Recorded Investment	Interest Income Recognized
Three Months Ended March 31, 2022			
With no related allowance recorded:			
Real estate mortgages:			
Construction and development	$ 4,810	$ 4,813	$ 55
Residential	1,477	1,485	21
Commercial	7,891	7,922	115
Commercial and industrial	14	17	—
Consumer and other	22	23	—
Total with no related allowance recorded	14,214	14,260	191
With an allowance recorded:			
Real estate mortgages:			
Construction and development	234	236	3
Residential	362	364	4
Commercial	2,404	2,406	9
Commercial and industrial	269	276	6
Consumer and other	—	—	—
Total with an allowance recorded	3,269	3,282	22
Total impaired loans	$ 17,483	$ 17,542	$ 213

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

Impaired Loans (Continued)

	Recorded Investment	Average Recorded Investment	Interest Income Recognized
Three Months Ended March 31, 2021			
With no related allowance recorded:			
Real estate mortgages:			
Construction and development	$ 5,511	$ 5,511	$ 41
Residential	2,396	2,405	23
Commercial	6,411	6,395	98
Commercial and industrial	200	208	3
Consumer and other	22	23	—
Total with no related allowance recorded	14,540	14,542	165
With an allowance recorded:			
Real estate mortgages:			
Construction and development	567	573	9
Residential	800	804	11
Commercial	1,507	1,517	22
Commercial and industrial	383	387	5
Consumer and other	20	21	—
Total with an allowance recorded	3,277	3,302	47
Total impaired loans	$ 17,817	$ 17,844	$ 212

NOTE 5. DEPOSITS

Major classifications of deposits are as follows:

	March 31, 2022	December 31, 2021
Noninterest-bearing transaction	$ 515,110	$ 541,546
Interest-bearing transaction	749,119	704,326
Savings	62,462	56,715
Time deposits, $250,000 and under	189,172	224,556
Time deposits, over $250,000	25,976	29,308
	$ 1,541,839	$ 1,556,451

(in thousands, except share and per share amounts)

NOTE 5. DEPOSITS (Continued)

Brokered deposits totaled $34,110 at March 31, 2022 and December 31, 2021. The scheduled maturities of time deposits at March 31, 2022 are as follows:

April 1, 2022 to March 31, 2023	$	181,564
April 1, 2023 to March 31, 2024		12,514
April 1, 2024 to March 31, 2025		15,828
April 1, 2025 to March 31, 2026		3,597
April 1, 2026 to March 31, 2027		1,459
Thereafter		186
	$	215,148

At March 31, 2022 and December 31, 2021, overdrawn transaction accounts reclassified to loans totaled $131 and $208, respectively.

NOTE 6. SUBORDINATED NOTES

On June 23, 2016, the Company issued $4,500 of Fixed-to-Floating Rate Subordinated Notes due July 2026 (the “2026 Notes”). The 2026 Notes initially bore interest at 6.625% per annum, payable semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2017 until July 1, 2021. Thereafter and to, but excluding, the maturity date or earlier redemption, interest was payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined for the applicable quarterly period, plus 5.412%. The Company could, at its option, beginning on July 1, 2021 and on any scheduled interest payment date thereafter, redeem the 2026 Notes, in whole or in part, at a redemption price equal to the outstanding principal amount of the 2026 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption. Issuance costs related to the 2026 Notes totaled $79 and were netted against the subordinated notes liability on the balance sheet. At March 31, 2022 and December 31, 2021, there was no remaining balance of the debt issuance cost related to the 2026 Notes. On June 23, 2021, the Company redeemed all of the outstanding 2026 Notes.

On February 7, 2022, the Company issued $48,000 of Fixed-to-Floating Rate Subordinated Notes due February 2032 (the “Notes”). The Notes bear interest at 3.50% per annum, payable quarterly in arrears. From and including February 7, 2027, to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to a Three-Month Term Secured Overnight Financing Rate plus 205 basis points, payable quarterly in arrears. The Company will be entitled to redeem the Notes, in whole or in part, on any interest payment on or after February 7, 2027, and to redeem the Notes in whole upon certain other events. Issuance costs related to the Notes totaled $875 and have been netted against the subordinated notes liability on the balance sheet. At March 31, 2022, the remaining balance of the debt issuance cost was $846. The debt issuance costs are being amortized using the straight line method over sixty months and are recorded as a component of interest expense.

(in thousands, except share and per share amounts)

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates.

Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings.

Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments including the effects of offsetting as well as their classification on the consolidated balance sheets as of March 31, 2022 and December 31, 2021. As of March 31, 2022, the Company has posted cash collateral of $4,470. The amount of gain recognized in income on derivatives as a fair value adjustment and fee income, for the three months ended March 31, 2022, were $15 and $0, respectively.

March 31, 2022				December 31, 2021			
Derivatives not Designated as Hedging Instruments	Notional Amount	Balance Sheet Location	Fair Value	Derivatives not Designated as Hedging Instruments	Notional Amount	Balance Sheet Location	Fair Value
Interest Rate Products	$ 76,883	Other Assets	$ 4,278	Interest Rate Products	$ 77,534	Other Assets	$ 1,784
Interest Rate Products	76,883	Other Liabilities	(4,322)	Interest Rate Products	77,534	Other Liabilities	(1,843)

Credit-risk-related Contingent Features

Applicable for OTC derivatives with dealers

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the company fails to maintain its status as a well / adequate capitalized institution, then the Company could be required to post additional collateral.

As of March 31, 2022, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $4,240. If the Company had breached any of these provisions at March 31, 2022, it could have been required to settle its obligations under the agreements at their termination value of $4,240, less the required collateral of $4,470.

(in thousands, except share and per share amounts)

NOTE 8. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate 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 amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. A summary of the Company's commitments is as follows:

	March 31, 2022	December 31, 2021
Commitments to extend credit	$ 313,155	$ 314,194
Standby letters of credit	4,428	3,434
Total	$ 317,583	$ 317,628

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies and is required in instances which the Company deems necessary.

The Company has not been required to perform on any standby letters of credit, and the Company has not incurred any losses on financial standby letters of credit for the three months ended March 31, 2022 and March 31, 2021.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

NOTE 9. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, commercial real estate, residential real estate, and consumer loans to customers in Alabama and Georgia. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas.

Eighty-three percent of the Company's loan portfolio is concentrated in real estate. A substantial portion of these loans are secured by real estate in the Company's primary market area. In addition, a substantial portion of the other real estate owned is located in those same markets. Accordingly, the ultimate collectibility of the loan portfolio and the recovery of the carrying amount of the other real estate owned are susceptible to changes in market conditions in the Company's primary market area. The other concentrations of credit by type of loan are set forth in Note 4.

NOTE 9. CONCENTRATIONS OF CREDIT (CONTINUED)

The Company, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined, or approximately $41,298 or on an unsecured basis in excess of 10% of capital, as defined, or approximately $20,649.

NOTE 10. STOCKHOLDERS' EQUITY

As of March 31, 2022, the Company had 8,749,878 shares of common stock issued and outstanding and does not have any non-voting shares issued and outstanding.

As of December 31, 2021, the Company had 9,012,857 shares of common stock issued and outstanding and does not have any non-voting shares issued and outstanding.

NOTE 11. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At March 31, 2022, approximately $38,082 of retained earnings was available for dividend declaration without regulatory approval.

The Bank is also subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank'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 its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

As of March 31, 2022, the Company and the Bank believe they are each well capitalized on a consolidated basis for bank regulatory purposes as their respective capital ratios exceed minimum total Tier 1 and CET1 risk-based capital ratios and Tier 1 leverage capital ratios as set forth in the following table. As a bank holding company with less than $3 billion in total consolidated assets, the Company is eligible to be treated as a "small bank holding company" under the Federal Reserve's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement. As a result, the Company's capital adequacy is evaluated at the bank level and on a parent-only basis, and it is not subject to consolidated capital standards for regulatory purposes. The ratios set forth below as to the Company are for illustrative purposes in the event it were to become subject to consolidated capital standards for regulatory purposes. The column styled "Required for Capital Adequacy Purposes" includes the 2.5% capital conservation buffer.

NOTE 11. REGULATORY MATTERS (Continued)

	Actual		Required for Capital Adequacy Purposes		Minimums To Be "Well Capitalized" Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of March 31, 2022						
Tier 1 capital (to average assets)						
Company	$ 154,648	8.75 %	$ 70,717	4.00 %	$ —	—
Bank	$ 192,383	10.88 %	$ 70,717	4.00 %	$ 88,396	5.00 %
CET 1 capital (to risk-weighted assets)						
Company	$ 154,648	9.90 %	$ 109,331	7.00 %	$ —	—
Bank	$ 192,383	12.32 %	$ 109,331	7.00 %	$ 101,522	6.50 %
Tier 1 capital (to risk-weighted assets)						
Company	$ 154,648	9.90 %	$ 132,759	8.50 %	$ —	—
Bank	$ 192,383	12.32 %	$ 132,759	8.50 %	$ 124,950	8.00 %
Total capital (to risk-weighted assets)						
Company	$ 218,140	13.97 %	$ 163,997	10.50 %	$ —	—
Bank	$ 207,875	13.31 %	$ 163,997	10.50 %	$ 156,187	10.00 %

	Actual		Required for Capital Adequacy Purposes		Minimums To Be "Well Capitalized" Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2021						
Tier 1 capital (to average assets)						
Company	$ 156,723	9.74 %	$ 64,376	4.00 %	$ —	—
Bank	$ 168,027	10.44 %	$ 64,376	4.00 %	$ 80,470	5.00 %
CET 1 capital (to risk-weighted assets)						
Company	$ 156,723	10.35 %	$ 106,019	7.00 %	$ —	—
Bank	$ 168,027	11.09 %	$ 106,019	7.00 %	$ 98,446	6.50 %
Tier 1 capital (to risk-weighted assets)						
Company	$ 156,723	10.35 %	$ 128,737	8.50 %	$ —	—
Bank	$ 168,027	11.09 %	$ 128,737	8.50 %	$ 121,164	8.00 %
Total capital (to risk-weighted assets)						
Company	$ 171,567	11.33 %	$ 159,028	10.50 %	$ —	—
Bank	$ 182,871	12.07 %	$ 159,028	10.50 %	$ 151,455	10.00 %

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

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

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

Fair Value Hierarchy

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

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

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

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

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

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents: The carrying amounts of cash and due from banks, interest-bearing deposits in banks, and federal funds sold make up cash and cash equivalents. The carrying amount of these short-term instruments approximate fair value.

Securities and Other Equity Securities: Where quoted prices are available in an active market, management classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange-traded equities.

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value Hierarchy (Continued)

If quoted market prices are not available, management estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations, and state and municipal securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, those securities would be classified in Level 3.

Restricted Equity Securities: The carrying amount of restricted equity securities with no readily determinable fair value approximates fair value based on the redemption provisions of the issuers which is cost.

Loans Held for Sale: The carrying amounts of loans held for sale approximates fair value.

Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair values of fixed rate loans is estimated based on discounted contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Bank Owned Life Insurance: The carrying amount of bank owned life insurance approximates fair value.

Annuities: The carrying amounts of annuities approximate their fair values.

Deposits: The fair values disclosed for transaction deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Other Borrowings: The fair value of fixed rate other borrowings is based on discounted contractual cash flows using interest rates currently being offered for borrowings of similar maturities. The fair values of the Company’s variable rate other borrowings approximate their carrying values.

Subordinated Notes: The carrying amounts of the subordinated notes approximate fair value.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Trading Assets and Liabilities: The Company has derivative instruments in the form of interest rate swap agreements accounted for as trading assets and liabilities and carried at fair value. The fair value of these instruments is based on information obtained from a third party financial institution. The Company reflects these instruments within Level 2 of the valuation hierarchy.

Off-Balance Sheet Credit-Related Instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing.

(in thousands, except share and per share amounts)

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets Measured at Fair Value on a Recurring Basis

The only assets and liabilities measured at fair value on a recurring basis are our securities available for sale and swaps. There were no transfers between levels during the period. Information related to the Company's assets and liabilities measured at fair value on a recurring basis at March 31, 2022 and December 31, 2021 is as follows:

	Fair Value Measurements At Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2022				
U.S. Treasury securities	$ 9,241	$ —	$ 9,241	$ —
U.S. Government Sponsored Enterprises (GSEs)	8,039	—	8,039	—
State and municipal securities	54,646	—	54,646	—
Corporate debt securities	10,441	—	10,441	—
Asset based securities	10,005	—	10,005	—
Mortgage-backed GSE residential/multifamily and non-GSE	58,655	—	58,655	—
Other equity securities	8,937	4,854	—	4,083
Interest Rate Products - asset	4,278	—	4,278	—
Interest Rate Products - liabilities	(4,322)	—	(4,322)	—
December 31, 2021				
U.S. Treasury securities	$ 7,822	$ —	$ 7,822	$ —
U.S. Government Sponsored Enterprises (GSEs)	9,193	—	9,193	—
State and municipal securities	56,781	—	56,781	—
Corporate debt securities	10,784	—	10,784	—
Asset based securities	10,472	—	10,472	—
Mortgage-backed GSE residential/multifamily and non-GSE	37,120	—	37,120	—
Other equity securities	9,232	4,985	—	4,247
Interest Rate Products - asset	1,784	—	1,784	—
Interest Rate Products - liabilities	(1,843)	—	(1,843)	—

Assets Measured at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measure at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of March 31, 2022 and December 31, 2021:

	Fair Value Measurements At Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2022:				
Impaired loans	$ 8,329	$ —	$ —	$ 8,329
Foreclosed assets	2,930	—	—	2,930
Totals	$ 11,259	$ —	$ —	$ 11,259

(in thousands, except share and per share amounts)

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

	Fair 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:				
Impaired loans	$ 7,718	$ —	$ —	$ 7,718
Foreclosed assets	2,930	—	—	2,930
Totals	$ 10,648	$ —	$ —	$ 10,648

Impaired Loans

Loans considered impaired under ASC 310-10-35, *Receivables*, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be 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 estimated selling costs if the loan is collateral dependent.

The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company generally determines the value of real estate collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for estimated costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Impaired loans, which are usually measured for impairment using the fair value of collateral, had a carrying amount of $17,483 and $16,347 with a specific valuation allowance of $732 and $704 at March 31, 2022 and December 31, 2021, respectively. Of the $17,483 and $16,347 impaired loan portfolio, $9,061 and $8,422 were carried at fair value as a result of charge offs, specific valuation allowances, and the fair market adjustments at March 31, 2022 and December 31, 2021, respectively. The remaining $8,422 and $7,925 was carried at cost, as the fair value of the collateral on these loans exceeded the book value for each individual credit at March 31, 2022 and December 31, 2021, respectively. Charge offs and changes in specific valuation allowances at March 31, 2022 and December 31, 2021 on impaired loans carried at fair value resulted in additional provision for loan losses of $111 and $40, respectively.

Foreclosed Assets

Foreclosed assets, consisting of properties/assets obtained through foreclosure or in satisfaction of loans, are initially recorded at fair value less estimated costs to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less estimated costs to sell. Fair values are generally based on third party appraisals of the property/assets and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

(in thousands, except share and per share amounts)

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Quantitative Disclosures for Level 3 Fair Value Measurements

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

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

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 8,329	Appraisal	Appraisal discounts (%)	15-20%
Foreclosed assets	$ 2,930	Appraisal	Appraisal discounts (%)	10-15%

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

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 7,718	Appraisal	Appraisal discounts (%)	15-20%
Foreclosed assets	$ 2,930	Appraisal	Appraisal discounts (%)	10-15%

Fair Value of Financial Instruments

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

	March 31, 2022			
		Estimated Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 208,824	$ 208,824	$ —	$ —
Securities available for sale	151,027	—	151,027	—
Other equity securities	8,937	4,854	—	4,083
Loans held for sale	2,509	—	2,509	—
Trading assets	4,278	—	4,278	—
Loans, net	1,294,578	—	1,277,836	8,329
Bank owned life insurance	29,343	—	29,343	—
Annuities	15,523	—	15,523	—
Accrued interest receivable	4,427	—	4,427	—
Restricted equity securities	2,825	—	—	2,825
Financial liabilities:				
Deposits	$ 1,541,839	$ —	$ 1,469,334	$ —
Trading liabilities	4,322	—	4,322	—
FHLB advances	25,950	—	25,829	—
Other borrowings	—	—	—	—
Subordinated notes	47,154	—	47,154	—
Accrued interest payable	107	—	107	—

(in thousands, except share and per share amounts)

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value of Financial Instruments (Continued)

	December 31, 2021			
		Estimated Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 283,956	$ 283,956	$ —	$ —
Securities available for sale	132,172	—	132,172	—
Other equity securities	9,232	4,985	—	4,247
Loans held for sale	2,400	—	2,400	—
Trading assets	1,784	—	1,784	—
Loans, net	1,235,456	—	1,237,491	7,718
Bank owned life insurance	22,201	—	22,201	—
Annuities	12,888	—	12,888	—
Accrued interest receivable	4,170	—	4,170	—
Restricted equity securities	2,600	—	—	2,600
Financial liabilities:				
Deposits	$ 1,556,451	$ —	$ 1,507,190	$ —
Trading liabilities	1,843	—	1,843	—
FHLB advances	25,950	—	25,926	—
Other borrowings	12,498	—	12,498	—
Subordinated notes	—	—	—	—
Accrued interest payable	132	—	132	—

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the years ended December 31, 2021 and December 31, 2020, included in our Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may not be realized. Certain risks, uncertainties and other factors, including those set forth under "Risk Factors," "Cautionary Note Regarding Forward-Looking Statements" and elsewhere in this Quarterly Report on Form 10-Q, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. We assume no obligation to update any of these forward-looking statements.

Overview

Southern States Bancshares, Inc. (including its subsidiaries, the "Company," "our" or "we") is a bank holding company headquartered in Anniston, Alabama. We operate primarily through our wholly-owned subsidiary, Southern States Bank (the "Bank"), an Alabama banking corporation. We provide banking services from 15 offices in Alabama and Georgia. The Bank is a full service community banking institution, which offers an array of deposit, loan and other banking-related products and services to businesses and individuals in our communities. Our principal business activities include commercial and retail banking.

Our management's discussion and analysis of financial condition and results of operations is intended to provide the reader with information that will assist in the understanding of our business, results of operations, financial condition and financial statements; changes in certain key items in our financial statements from period to period; and the primary factors that we use to evaluate our business.

Recent Developments

On February 7, 2022, we entered into Subordinated Note Purchase Agreements (each, a "Purchase Agreement") with certain institutional accredited investors and qualified institutional buyers (the "Purchasers" and each, a "Purchaser") pursuant to which we issued and sold in a private placement $48.0 million in aggregate principal amount of our 3.50% Fixed-to-Floating Rate Subordinated notes due 2032 (the "Notes"). We used a portion of the net proceeds to repay borrowings under our Line of Credit and to make purchases under the Program (as defined below) and intend to use the remaining net proceeds for general corporate purposes, including capital and liquidity to support our growth and further purchases under the Program.

On February 16, 2022, we announced that our board of directors approved a stock repurchase program (the "Program") that authorizes us to repurchase up to $10.0 million of our common stock. The Program will be in effect until December 31, 2022 with the timing of purchases and number of shares repurchased under the Program dependent upon a variety of factors including price, trading volume, corporate and regulatory requirements, and market conditions. We are not obligated to purchase any shares under the Program and the Program may be suspended or discontinued at any time without notice. We repurchased 287,244 shares of our common stock during the first quarter of 2022 at an average price of $21.35 per share.

Update Regarding COVID-19 and Current Developments

During the pandemic, we took steps to protect both customers and employees while continuing to provide full service banking. This included closing branches to walk-in business when appropriate and utilizing all drive through facilities and allowing for appointment-based banking. We increased cash levels in ATMs and communicated with customers regarding remote options for banking services. New technology was implemented to allow employees to work from home in addition to allowing for external parties such as auditors and examiners to continue to conduct necessary reviews and examinations.

We participated as a lender in the PPP as established by the CARES Act. Loans totaling $71.7 million were made to 399 existing customers. We proactively worked with customers to assist them in navigating through the pandemic. We granted deferrals on 396 loans totaling $280.1 million, or approximately 28.0% of our loan portfolio. As of December 31, 2020, there were eight loans on deferral for a total of $8.0 million, or 0.78% of total loans. There was one loan remaining on deferral totaling $442,000, or 0.04% of total loans at December 31, 2021, and such deferral ended in February 2022. There were no loans remaining on deferral at March 31, 2022. We know of no significant customer issues resulting from the pandemic.

We participated in the second round of PPP loans, which has been substantially second requests from the 2020 PPP loan recipients. In the second round of PPP loans, $31.7 million of loans were made to 194 existing customers. We continue to actively monitor and consider COVID-19 implications in our operations, lending, and customer needs.

Overview of First Quarter 2022 Results

Net income was $4.6 million for the quarter ended March 31, 2022, compared to $4.1 million for the quarter ended December 31, 2021 and $5.7 million for the quarter ended March 31, 2021. Significant measures in the first quarter included:

- Annualized return on average assets (ROAA) was 1.03% for the three months ended March 31, 2022, compared to 0.99% for the three months ended December 31, 2021 and 1.68% for the three months ended March 31, 2021.
- Annualized return on average equity (ROAE) was 10.43% for the three months ended March 31, 2022, compared to 9.15% for the three months ended December 31, 2021 and 16.11% for the three months ended March 31, 2021.
- Earnings per common share was $0.51 for the three months ended March 31, 2022, compared to $0.45 for the three months ended December 31, 2021 and $0.74 for the three months ended March 31, 2021.
- Net interest margin of 3.53% for the first quarter of 2022, compared to 3.68% for the fourth quarter of 2021 and 3.97% for the first quarter of 2021.
- Net interest income was $14.7 million for the three months ended March 31, 2022, an increase of $558,000, or 4.0%, from $14.1 million for the three months ended December 31, 2021 and an increase of $2.4 million, or 19.3%, from $12.3 million for the three months ended March 31, 2021.
- Gross loans, net of unearned income, were $1.3 billion as of March 31, 2022, a $59.8 million, or 4.8%, increase compared to December 31, 2021. Not considering the impact of PPP loans, the quarterly growth was 5.5%, or an annualized rate of 22.2%.
- Deposits decreased $14.6 million, a 0.9% decrease, to $1.5 billion as of March 31, 2022 from December 31, 2021.

Primary Factors Used to Evaluate Our Business

The most significant factors we use to evaluate our business and results of operation are net income, return on average assets and return on average equity. We also use net interest income, noninterest income and noninterest expense.

Net Interest Income

Net interest income is our principal source of net income and represents the difference between interest income and interest expense. We generate interest income from interest-earning assets that we own, including loans and investment securities. We incur interest expense from interest-bearing liabilities, including interest-bearing deposits and other borrowings, notably FHLB advances, our Notes and our Line of Credit.

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities, are usually the largest drivers of periodic changes.

Noninterest Income

Noninterest income primarily consists of: (i) service charges on deposit accounts; (ii) swap fees; (iii) SBA/USDA fees; (iv) bank card services and interchange fees; (v) mortgage banking activities; (vi) benefits from changes in cash surrender value of BOLI; and (vii) other miscellaneous fees and income.

Our income from service charges on deposit accounts, which includes nonsufficient funds fees, is impacted by several factors, including number of accounts, products utilized and account holder cash management behaviors. These are further impacted by deposit products utilized by customers, marketing of new products and other factors. The income recognized on SBA and USDA loans, mortgage banking and interest rate swaps are impacted by prevailing market conditions and volumes of loans originated.

Noninterest Expense

Noninterest expense primarily consists of: (i) salaries and employee benefits; (ii) equipment and occupancy expenses; (iii) professional and other service fees; (iv) data processing and telecommunication expenses; (v) FDIC deposit insurance and regulatory assessments; and (vi) other operating expenses.

Primary Factors Used to Evaluate Our Financial Condition

The most significant factors we use to evaluate and manage our financial condition include asset quality, capital and liquidity.

Asset Quality

We monitor the quality of our assets based upon factors including level and severity of deterioration in borrower cash flows and asset quality. Problem assets are assessed and reported as delinquent, classified, nonperforming, nonaccrual or troubled debt restructurings. We also monitor credit concentrations. We manage the allowance for loan losses to reflect loan volumes, identified credit and collateral conditions, economic conditions and other qualitative factors.

Capital

We monitor capital using regulatory capital ratios. Factors used other than regulatory rules include overall financial condition, including the trend and volume of problem assets, reserves, risks, level and quality of earnings, and anticipated growth, including acquisitions.

Liquidity

Deposits primarily consist of commercial and personal accounts maintained by businesses and individuals in our primary market areas. We also utilize brokered deposits, Qwickrate certificates of deposits and reciprocal deposits through a third-party network that effectively allows depositors to receive insurance on amounts greater than the FDIC insurance limit, which is currently $250,000. We manage liquidity based on factors that include the amount of core deposits to total deposits, level of non-customer deposits, short-term funding needs and sources, and the availability of unused funding sources.

Results of Operations for the Three Months Ended March 31, 2022 and 2021

We had net income of $4.6 million for the three months ended March 31, 2022, compared to net income of $5.7 million for the three months ended March 31, 2021, a decrease of $1.1 million, or 19.8%. The decreased net income was substantially the result of a $2.8 million gain on sale of a USDA loan that occurred during the first quarter of 2021, plus increased salaries and benefits expense on additional employees in both production and support and higher noninterest expense as a result of being a public company. This decrease was partially offset by overall asset growth and increased net interest income.

The following table shows the average outstanding balance of each principal category of our assets, liabilities and stockholders' equity, together with the average yields on our assets and average costs of our liabilities for the periods indicated. Yields and costs are calculated by dividing the annualized income or expense by the average daily balances of the corresponding assets or liabilities for the same period.

	Three Months Ended March 31, 2022					Three Months Ended March 31, 2021				
	Average Balance		Interest		Yield/Rate	Average Balance		Interest		Yield/Rate
	(Dollars in thousands)									
Assets:										
Interest-earning assets:										
Gross loans, net of unearned income[(1)]	$	1,278,413	$	14,766	4.68 %	$	1,066,556	$	13,021	4.95 %
Taxable securities		106,820		619	2.35 %		78,354		401	2.08 %
Nontaxable securities		54,863		299	2.21 %		33,255		207	2.52 %
Other interest-earnings assets		244,202		188	0.31 %		78,154		48	0.25 %
Total interest-earning assets	$	1,684,298	$	15,872	3.82 %	$	1,256,319	$	13,677	4.42 %
Allowance for loan losses		(15,041)					(12,138)			
Noninterest-earning assets		117,758					123,941			
Total Assets	$	1,787,015				$	1,368,122			
Liabilities and Stockholders' Equity:										
Interest-bearing liabilities:										
Interest-bearing transaction accounts		110,983		26	0.09 %		88,578		18	0.08 %
Savings and money market accounts		675,504		591	0.36 %		440,803		677	0.62 %
Time deposits		237,411		256	0.44 %		324,668		495	0.62 %
FHLB advances		25,950		22	0.34 %		33,244		51	0.62 %
Other borrowings		32,924		323	3.98 %		12,755		152	4.82 %
Total interest-bearing liabilities	$	1,082,772	$	1,218	0.46 %	$	900,048	$	1,393	0.63 %
Noninterest-bearing liabilities:										
Noninterest-bearing deposits	$	514,456				$	316,553			
Other liabilities		12,543					8,532			
Total noninterest-bearing liabilities	$	526,999				$	325,085			
Stockholders' Equity		177,244					142,989			
Total Liabilities and Stockholders' Equity	$	1,787,015				$	1,368,122			
Net interest income			$	14,654				$	12,284	
Net interest spread[(2)]					3.36 %					3.79 %
Net interest margin[(3)]					3.53 %					3.97 %

(1) Includes nonaccrual loans.
(2) Net interest spread is the difference between interest rates earned on interest-earning assets and interest rates paid on interest-bearing liabilities.
(3) Net interest margin is a ratio of net interest income to average interest earning-assets for the same period.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates.

The following tables set forth the effects of changing rates and volumes on our net interest income during the periods shown. Information is provided with respect to: (i) effects on interest income attributable to changes in volume (change in volume multiplied by prior rate); and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been proportionately allocated to both volume and rate.

	Three Months Ended March 31, 2022 vs. Three Months Ended March 31, 2021		
	Changes due to:		
	Volume	Rate	Total Variance
	(dollars in thousands)		
Interest-earning assets:			
Gross loans, net of unearned income	$ 2,428	$ (683)	$ 1,745
Taxable securities	165	53	218
Nontaxable securities	118	(26)	92
Other interest-earning assets	128	12	140
Total increase in interest income	$ 2,839	$ (644)	$ 2,195
Interest-bearing liabilities:			
Interest-bearing transaction accounts	5	3	8
Savings and money market accounts	205	(291)	(86)
Time deposits	(94)	(145)	(239)
FHLB advances	(6)	(23)	(29)
Other borrowings	198	(27)	171
Total decrease in interest expense	$ 308	$ (483)	$ (175)
Increase in net interest income	$ 2,531	$ (161)	$ 2,370

Net interest income for the three months ended March 31, 2022 was $14.7 million compared to $12.3 million for the three months ended March 31, 2021, an increase of $2.4 million, or 19.3%. The increase in net interest income was comprised of a $2.2 million, or 16.0%, increase in interest income, plus a $175,000, or 12.6%, decrease in interest expense. The growth in interest income was primarily attributable to a $211.9 million, or 19.9%, increase in average gross loans outstanding as of March 31, 2022, compared to March 31, 2021. The increase in average gross loans outstanding was due to organic growth. The $175,000 decrease in interest expense for the quarter ended March 31, 2022 was substantially related to a 0.17% decrease in the rate paid on interest-bearing liabilities partially offset by an increase of $182.7 million, or 20.3%, in average interest-bearing liabilities as of March 31, 2022 compared to March 31, 2021. The increase in average interest-bearing liabilities from March 31, 2021 to March 31, 2022 was due to organic growth. For the three months ended March 31, 2022, net interest margin and net interest spread were 3.53% and 3.36%, respectively, compared to 3.97% and 3.79%, respectively, for the same period in 2021.

Provision for Loan Losses

The provision for loan losses for the three months ended March 31, 2022 was $700,000 compared to $750,000 for the three months ended March 31, 2021. In March 2022, the provision was recorded primarily based on growth, and in March 2021, it included environmental factors related to the pandemic. In the three months ended March 31, 2022, there were net charge offs of $52,000. In the three months ended March 31, 2021, there were net charge offs of $4,000.

The allowance for loan losses as a percentage of gross loans was 1.18% and 1.16% at March 31, 2022 and 2021, respectively. The allowance for loan losses as a percentage of gross loans, without including PPP loans, was 1.18% and 1.23% at March 31, 2022 and 2021, respectively.

Noninterest Income

Noninterest income for the three months ended March 31, 2022 was $1.3 million compared to $4.5 million for the three months ended March 31, 2021, a decrease of $3.2 million, or 70.4%. The following table sets forth the major components of our noninterest income for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,		
	2022	2021	Increase (Decrease)
	(dollars in thousands)		
Service charges on deposit accounts	$ 445	$ 360	$ 85
Swap fees	15	558	(543)
SBA/USDA fees	388	2,865	(2,477)
Bank card services and interchange fees	413	362	51
Mortgage banking activities	286	407	(121)
Net loss on securities	(361)	(232)	(129)
Other operating income(1)	147	176	(29)
Total noninterest income	$ 1,333	$ 4,496	$ (3,163)

(1) Other income and fees include income and fees associated with miscellaneous services and the increase in the cash surrender value of BOLI.

Income from service charges on deposit accounts includes fees for overdraft privilege charges, insufficient funds charges, account analysis service fees on commercial accounts, and monthly account service fees. These fees increased $85,000, or 23.6%, to $445,000 for the three months ended March 31, 2022 from $360,000 for the three months ended March 31, 2021. The increase was primarily attributed to an increase in insufficient funds fees based on volume.

Interest rate swap fees represent fees received when the Bank's customer enters into a back-to-back swap agreement. These fees decreased $543,000, or 97.3%, to $15,000 for the three months ended March 31, 2022 from $558,000 for the three months ended March 31, 2021. The Bank did not participate in interest rate swaps during the first quarter of 2022.

SBA/USDA fees primarily include gains on the sale of loans and servicing of the loans. These fees decreased $2.5 million, or 86.5%, to $388,000 for the three months ended March 31, 2022, from $2.9 million for the three months ended March 31, 2021. The decrease was primarily due to a $2.8 million gain on sale of a USDA loan that occurred during the first quarter of 2021.

Bank card services and interchange fees are derived from debit cards and foreign ATM transactions. These fees increased $51,000, or 14.1%, to $413,000 for the three months ended March 31, 2022, from $362,000 for the three months ended March 31, 2021. The increase was primarily the result of greater transactional volume that generated additional interchange fees during the first quarter of 2022.

Income from mortgage banking activities primarily includes origination fees and gains on the sale of mortgage loans originated for sale in the secondary market. Income from mortgage banking activities decreased $121,000, or 29.7%, to $286,000 for the three months ended March 31, 2022 from $407,000 for the three months ended March 31, 2021. This decrease was the result of decreased volumes in the secondary market.

Net loss on securities was $361,000 for the three months ended March 31, 2022 as a result of market adjustments on equity securities during the quarter. Net loss on securities was $232,000 for the three months ended March 31, 2021 as result of repositioning a portion of the securities portfolio into tax-exempt municipals.

Other income and fees decreased $29,000, or 16.5%, to $147,000 for the three months ended March 31, 2022 from $176,000 for the three months ended March 31, 2021. This decrease was primarily a result of the Bank receiving rental income from a tenant during the first quarter of 2021 that was not available for rent in the first quarter of 2022.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2022 was $9.3 million compared to $8.5 million for the three months ended March 31, 2021, an increase of $758,000, or 8.9%, which primarily resulted from increases in salaries, performance-based compensation and employee benefits, net of decreased SBA expense from the first quarter of 2021.

The following table sets forth the major components of our noninterest expense for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,		
	2022	2021	Increase (Decrease)
	(dollars in thousands)		
Salaries and employee benefits	$ 5,725	$ 5,057	$ 668
Equipment and occupancy expenses	705	879	(174)
Professional services	465	625	(160)
Data processing fees	564	514	50
Other real estate (income) expenses	(21)	(90)	69
Other operating expenses(1)	1,852	1,547	305
Total noninterest expense	$ 9,290	$ 8,532	$ 758

(1) Other expenses include items such as FDIC insurance, telephone expenses, marketing and advertising expense, debit card expenses, courier fees, directors' fees, travel and entertainment expenses, and insurance.

Salaries and employee benefits primarily include: (i) amounts paid to employees for base pay, incentive compensation, and bonuses; (ii) health and other related insurance paid by the Bank on behalf of our employees; and (iii) retirement plans provided for employees including the 401(k) and non-qualified plans maintained for certain key employees. Salaries and employee benefits increased $668,000, or 13.2%, from $5.1 million for the quarter ended March 31, 2021 to $5.7 million for the quarter ended March 31, 2022. The increase was primarily due to normal salary adjustments, increases in benefit and incentive costs, and the addition of production and support personnel.

Equipment and occupancy expenses consist of depreciation on property, premises, equipment and software, rent expense for leased facilities, maintenance agreements on equipment, property taxes, and other expenses related to maintaining owned or leased assets. Equipment and occupancy expense for the three months ended March 31, 2022 was $705,000 compared to $879,000 for the three months ended March 31, 2021, a decrease of $174,000, or 19.8%. The decrease was primarily attributable to accelerated depreciation of our Birmingham branch during 2021 in preparation for the branch moving to a new location in December 2021.

Professional services expenses, which include legal fees, audit and accounting fees, and consulting fees, decreased $160,000, or 25.6%, to $465,000 for the three months ended March 31, 2022 compared to $625,000 for the three months ended March 31, 2021. This decrease was primarily the result of elevated SBA related expenses during the first quarter of 2021 that was partially offset by increased professional fees as a result of being a public company.

Data processing fees, which primarily consists of data processing services for core processing from a third-party vendor, increased $50,000, or 9.7%, to $564,000 for the three months ended March 31, 2022 compared to $514,000 for the three months ended March 31, 2021. The increase was primarily the result of of additional software and general increases.

Other real estate income decreased $69,000, or 76.7%, to a net income of $21,000 for the three months ended March 31, 2022, from a net income of $90,000 for the three months ended March 31, 2021. This decrease was substantially the result of a reduction in net OREO rental income during the three months ended March 31, 2022 as a large property was sold.

Other expenses increased $305,000, or 19.7%, to $1.9 million for the three months ended March 31, 2022, compared to $1.5 million for the three months ended March 31, 2021. The increase was substantially due to an increase in FDIC insurance expense based on the growth of assets and increased insurance and other expense as a result of being a public company.

Financial Condition

Total assets grew $16.2 million, or 0.9%, to $1.8 billion at March 31, 2022 from $1.8 billion at December 31, 2021.

Our loans, net of unearned income, increased $59.8 million, or 4.8%, to $1.3 billion at March 31, 2022 from $1.3 billion at December 31, 2021. Not considering the impact of PPP loans, the growth for the three months ended March 31, 2022 was $68.1 million, which represents 5.5% growth, or an annualized rate of 22.2%.

Our securities portfolio increased $18.9 million, or 12.4%, to $170.7 million at March 31, 2022, compared to $151.8 million at December 31, 2021.

Cash and cash equivalents fell $75.1 million, or 26.5%, to $208.8 million at March 31, 2022, from $284.0 million at December 31, 2021 as excess cash was used to fund loans and securities.

Deposits fell $14.6 million, or 0.9%, to $1.5 billion at March 31, 2022 compared to $1.6 billion at December 31, 2021. The majority of the reduction was in noninterest-bearing deposits and time deposits, and partially offset by an increase in money markets. There were large unusual deposits received in December 2021 as a result of customers selling businesses and a portion of the funds left the Company in the first quarter of 2022.

Total stockholders' equity decreased $8.0 million, or 4.5%, to $169.2 million at March 31, 2022, compared to $177.2 million at December 31, 2021. This reduction was primarily due to a decrease in accumulated other comprehensive income (loss) resulting from changes in the value of the securities portfolio due to increases in interest rates during the quarter along with the repurchase of common shares.

Loan Portfolio

Loans represent the largest portion of earning assets, greater than the securities portfolio or any other asset category, and the quality and diversification of the loan portfolio is an important consideration when reviewing the Company's financial condition.

The Company originates residential real estate loans for the secondary market. The Company sells the residential real estate loans exclusively to two private investors who solely and independently make the credit decision and set the closing conditions. The loans are closed in the Company's name but are immediately assigned to the designated investor. These loans have an average turn time to purchase of 30 days or less. These mortgage loans are designated on the Company's balance sheet as held for sale. This segment represents less than 0.002% of total loans based on the latest thirteen-month average.

We have three loan portfolio segments: real estate (RE) which is divided into three classes, commercial and industrial (C&I), and consumer and other. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and method for monitoring and assessing credit risk. Classes within the RE portfolio segment include construction and development or (C&D), residential mortgages, and commercial mortgages.

Our loan clients primarily consist of small to medium sized business, the owners and operators of these businesses, as well as other professionals, entrepreneurs and high net worth individuals. We believe owner-occupied and investment commercial real estate loans, residential construction loans and commercial business loans provide us with higher risk-adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations, and are complemented by our relatively lower risk residential real estate loans to individuals.

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

Real estate—The Company offers various types of real estate loan products, which are divided into the classes described below. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Construction and development, or C&D, loans include extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

- Residential mortgages include 1-4 family first mortgage loans, which are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. These include second liens or open-end residential real estate loans, such as home equity lines. These loans are typically repaid by the same means as 1-4 family first mortgages.

- Commercial mortgages include both owner-occupied commercial real estate loans and other commercial real estate loans, such as commercial loans secured by income producing properties. Owner-occupied commercial real estate loans made to operating businesses are long-term financing of land and buildings and are repaid by cash flows generated from business operations. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

Commercial and industrial—This loan portfolio segment includes loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, leases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers' business operations.

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

The following table presents the balance and associated percentage of the composition of loans, excluding loans held for sale on the dates indicated:

	March 31, 2022		December 31, 2021	
	Amount	% of Total	Amount	% of Total
	(in thousands, except percentages)			
Real estate mortgages:				
Construction and development	$ 165,400	12.6 %	$ 174,480	13.9 %
Residential	154,143	11.7 %	147,490	11.8 %
Commercial	765,685	58.3 %	716,541	57.1 %
Commercial and industrial	218,868	16.6 %	197,694	15.8 %
PPP Loans	893	0.1 %	9,203	0.7 %
Consumer and other	9,077	0.7 %	8,709	0.7 %
Gross Loans	1,314,066	100.0 %	1,254,117	100.0 %
Deferred loan fees	(3,996)		(3,817)	
Allowance for loan losses	(15,492)		(14,844)	
Loans, net	$ 1,294,578		$ 1,235,456	

Gross loans increased $59.9 million, or 4.8%, to $1.3 billion as of March 31, 2022 as compared to $1.3 billion as of December 31, 2021. The net increase in the Company's gross loans was due to organic growth of $68.3 million and offset by a net decrease of $8.3 million in PPP loans. During the three months ended March 31, 2022, the Company's participation in the PPP program resulted in the forgiveness of $8.3 million on existing loans. Portfolio segments and classes remained relatively consistent since December 31, 2021.

The majority of our fixed rate loans have a one to five-year maturity. This type of loan has historically been about 50% of total loans over the past three years because the majority of our commercial loans are priced with five-year balloons.

We are primarily involved in real estate, commercial, agricultural and consumer lending activities with customers throughout our markets in Alabama and Georgia. About 82.6% of our gross loans were secured by real property as of March 31, 2022, compared to 82.8% as of December 31, 2021. We believe that these loans are not concentrated in any one single property type and that they are geographically dispersed throughout our markets. Our debtors' ability to repay their loans is substantially dependent upon the economic conditions of the markets in which we operate, which consist primarily of wholesale/retail and related businesses.

Commercial real estate loans were 58.3% of total gross loans as of March 31, 2022 and represented 57.1% of total gross loans as of December 31, 2021. C&D loans were 12.6% of total gross loans as of March 31, 2022, and represented 13.9%

of total gross loans as of December 31, 2021. The regulatory concentration ratio of the Company's commercial real estate loans to total risk-based Bank capital is 261.9% as of March 31, 2022 and 273.8% as of December 31, 2021. C&D loans represented 79.6% of total risk-based Bank capital as of March 31, 2022 as compared to 95.4% as of December 31, 2021. The regulatory concentration ratios of commercial real estate loans and construction and development loans to total risk-based capital as of March 31, 2022 and December 31, 2021 were each below the 300%/100% concentration limits provided in regulatory guidance. Further, these loans are geographically diversified, primarily throughout our markets in Alabama and Georgia.

The Company has established concentration limits in its loan portfolio for commercial real estate loans by loan types, including collateral and industry, among others. As of March 31, 2022, all loan types are within established limits. The Company capped its hospitality loans in January 2020 and multi-family loans in September 2020. This sector's concentration is actively managed by the Senior Management team, including the Chief Executive Officer, President, Chief Risk/Credit Officer, and Chief Operating Officer.

The Company requires all business purpose loans to be underwritten by a centralized underwriting department located in Birmingham, Alabama. Industry-tested underwriting guidelines are used to assess a borrower's historical cash flow to determine debt service, and the Company further stress tests the debt service under higher interest rate scenarios. Financial and performance covenants are used in commercial lending to allow us to react to a borrower's deteriorating financial condition, should that occur.

Construction and Development. Loans for residential construction are for single-family properties to developers or investors. These loans are underwritten based on estimates of costs and the completed value of the project. Funds are advanced based on estimated percentage of completion for the project. Performance of these loans is affected by economic conditions as well as the ability to control the costs of the projects. This category also includes commercial construction projects.

Construction and development loans decreased $9.1 million, or 5.2%, to $165.4 million as of March 31, 2022 from $174.5 million as of December 31, 2021. The majority of this decrease was due to a loan reclassification to commercial real estate in the Birmingham market and slightly offset by loan growth primarily in the Huntsville, Alabama market.

Residential. We offer one-to-four family mortgage loans on both owner-occupied primary residences and investor-owned residences, which make up approximately 69.7% of our residential loan portfolio. Our residential loans also include home equity lines of credit, which total $19.2 million, or approximately 12.5% of our residential portfolio as of March 31, 2022. By offering a full line of residential loan products, the owners of the small to medium sized businesses that we lend to use us, instead of a competitor, for financing a personal residence. We also offer multi-family loans, which comprise 17.1% of the portfolio. Other residential loans make up the remaining 0.7% of the portfolio.

Residential multi-family loans increased $6.7 million, or 4.5%, to $154.1 million as of March 31, 2022 from $147.5 million as of December 31, 2021. The majority of this increase was due to loan growth in the Newnan, Georgia and Auburn, Alabama markets.

Commercial Real Estate. The Company's commercial real estate loan portfolio includes loans for commercial property that is owned by real estate investors, construction loans to build owner-occupied properties, and loans to developers of commercial real estate investment properties and residential developments. Commercial real estate loans are subject to underwriting standards and processes similar to the Company's commercial loans. These loans are underwritten primarily based on projected cash flows for income-producing properties and collateral values for non-income-producing properties. The repayment of these loans is generally dependent on the successful operation of the property securing the loans or the sale or refinancing of the property. Real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are diversified by type and geographic location. The Company believes the diversity helps reduce the exposure to adverse economic events that may affect any single market or industry.

Commercial real estate loans increased $49.1 million, or 6.9%, to $765.7 million as of March 31, 2022 from $716.5 million as of December 31, 2021. The increase in commercial real estate loans during this period was mostly driven by general increases in lending activity, primarily in the Company's Georgia markets. As of March 31, 2022, the Company's commercial real estate portfolio was comprised of $354.0 million in non-owner occupied commercial real estate loans and $64.1 million in commercial construction loans.

Commercial and Industrial. Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Underwriting standards have been designed to determine whether the borrower possesses sound business ethics and practices, to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations, and to ensure appropriate collateral is obtained to secure the loan. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as real estate, accounts receivable, or inventory, and typically include personal guarantees. Owner-occupied real estate is included in commercial and industrial loans, as the repayment of these loans is generally dependent on the operations of the commercial borrower's business rather than on income-producing properties or the sale of the properties.

Commercial and industrial loans increased $21.2 million, or 10.7% to $218.9 million as of March 31, 2022 from $197.7 million as of December 31, 2021. The Company sold a $20.6 million loan to USDA during the first quarter of 2021 that was originated at the end of 2020, resulting in a gain of $2.8 million.

Consumer and Other. The Company utilizes the central underwriting department for all consumer loans over $200,000 in total credit exposure regardless of collateral type. Loans below this threshold are underwritten by the responsible loan officer in accordance with the Company's consumer loan policy. The loan policy addresses types of consumer loans that may be originated and the requisite collateral, if any, which must be perfected. We believe the relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers minimize risk.

Consumer and other loans (non-real estate loans) increased $368,000, or 4.2%, to $9.1 million as of March 31, 2022 from $8.7 million as of December 31, 2021.

Loan Participations

In the normal course of business, the Company periodically sells participating interests in loans to other banks and investors. All participations are sold on a proportionate (pro-rata) basis with all cash flows divided proportionately among the participants and no party has the right to pledge or exchange the entire financial asset without the consent of all the participants. Other than standard 90-day prepayment provisions and standard representations and warranties, participating interests are sold without recourse. We also purchase loan participations from time to time.

At March 31, 2022 and December 31, 2021 loan participations sold to third-parties (which are not included in the accompanying consolidated balance sheets) totaled $100.9 million and $81.7 million, respectively. We sell participations to manage our credit exposures to borrowers. At March 31, 2022 and December 31, 2021, we purchased loan participations totaling $66.3 million and $62.1 million, respectively. The variances come from purchases and sales of participations in the ordinary course of business.

Allowance for Loan Losses

The allowance for loan losses is funded as losses are estimated through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, the overall portfolio quality, specific problem loans, current economic conditions that may affect the borrower's ability to pay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

Other adjustments may be made to the allowance for loan losses for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when it is probable, based on current information and events, that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower's request, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and are classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are not generally classified as impaired. Impaired loans are measured by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent, less estimated costs to sell the collateral. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The Company's homogeneous loan pools include commercial real estate loans, real estate construction and development loans, residential real estate loans, commercial and industrial loans, and consumer loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality and foreclosure rates; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the experience and ability of lending personnel and management; (7) the effectiveness of the Company's loan policies, procedures and internal controls; (8) current conditions in the real estate and construction markets; (9) the effect of entrance into new markets or the offering of a new product; and (10) the loan review system and oversight of our board of directors. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio adjusted for internal and external factors and the total dollar amount of the loans in the pool.

The allowance for loan losses was $15.5 million at March 31, 2022 compared to $14.8 million at December 31, 2021, an increase of $648,000, or 4.4%. Additional provisions were recorded based on overall growth in loans.

The following table provides an analysis of the allowance for loan losses as of the dates indicated.

	Three Months Ended	
	March 31, 2022	March 31, 2021
	(dollars in thousands)	
Average loans, net of unearned income	$ 1,278,413	$ 1,066,556
Loans, net of unearned income	$ 1,310,070	$ 1,083,274
Allowance for loan losses at beginning of the period	$ 14,844	$ 11,859
Charge offs:		
Construction and development	66	—
Residential	—	16
Commercial	—	—
Commercial and industrial	—	—
Consumer and other	6	2
Total charge offs	72	18
Recoveries:		
Construction and development	—	—
Residential	17	2
Commercial	—	—
Commercial and industrial	—	11
Consumer and other	3	1
Total recoveries	20	14
Net charge offs (recoveries)	$ 52	$ 4
Provision for loan losses	$ 700	$ 750
Balance at end of period	$ 15,492	$ 12,605
Ratio of allowance to end of period loans	1.18 %	1.16 %
Ratio of net charge offs (recoveries) to average loans	0.00 %	0.00 %

Net charge offs for the three months ended March 31, 2022 totaled $52,000, an increase of $48,000 compared to net charge offs of $4,000 for the three months ended March 31, 2021.

The following table presents the allocation of the allowance for loan losses for each respective loan category with the corresponding percentage of loans in each category to total loans:

	March 31, 2022		March 31, 2021	
	Amount	**Percentage of loans in each category to gross loans**	**Amount**	**Percentage of loans in each category to gross loans**
	(dollars in thousands)			
Real estate mortgages:				
Construction and development	$ 2,422	12.6 %	$ 977	11.1 %
Residential	1,051	11.7 %	1,020	14.0 %
Commercial	6,733	58.3 %	7,277	52.9 %
Commercial and industrial	5,175	16.7 %	3,192	21.2 %
Consumer and other	111	0.7 %	139	0.8 %
Total	$ 15,492	100.0 %	$ 12,605	100.0 %

Nonperforming Loans

Loans are considered delinquent when principal or interest payments are past due 30 days or more. Delinquent loans may remain on accrual status between 30 days and 90 days past due. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Typically, the accrual of interest on loans is discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are restored to accrual status when loans become well-secured and management believes full collectability of principal and interest is probable.

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans include loans on nonaccrual status and performing restructured loans. Income from loans on nonaccrual status is recognized to the extent cash is received and when the loan's principal balance is deemed collectible. Depending on a particular loan's circumstances, the Company measures impairment of a loan based upon the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. A loan is considered collateral dependent when repayment of the loan is based solely on the liquidation of the collateral. Fair value, where possible, is determined by independent appraisals, typically on an annual basis. Between appraisal periods, the fair value may be adjusted based on specific events, such as if deterioration of quality of the collateral comes to the Company's attention as part of its problem loan monitoring process, or if discussions with the borrower lead us to believe the last appraised value no longer reflects the actual market for the collateral. The impairment amount on a collateral-dependent loan is charged off to the allowance if deemed not collectible and the impairment amount on a loan that is not collateral-dependent is set up as a specific reserve.

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs related to holding other real estate owned and subsequent write-downs to the value are expensed. Any gains and losses realized at the time of disposal are reflected in income.

Real estate, which the Company acquires as a result of foreclosure or by deed-in-lieu of foreclosure, is classified as foreclosed assets until sold and is initially recorded at fair value less costs to sell when acquired, establishing a new carrying value. Foreclosed assets totaled $2.9 million at March 31, 2022 consisting of one property, located in Birmingham, Alabama, that is under contract for sale with no loss expected.

Nonperforming loans include nonaccrual loans and loans past due 90 days or more. Nonperforming assets consist of nonperforming loans plus OREO and collateral taken in foreclosure or similar proceedings.

Total nonperforming loans increased approximately $1.3 million from December 31, 2021 to March 31, 2022. The net increase was primarily the result of a commercial real estate loan associated with one borrower that was being placed on nonaccrual.

Nonperforming Assets

The following table sets forth the allocation of the Company's nonperforming assets among different asset categories as of the dates indicated. Nonperforming assets consist of nonperforming loans plus OREO and repossessed property. Nonperforming loans include nonaccrual loans and loans past due 90 days or more.

	March 31, 2022	March 31, 2021	December 31, 2021
	(dollars in thousands)		
Nonaccrual loans	$ 3,246	$ 3,857	$ 1,478
Past due loans 90 days or more and still accruing interest	—	—	494
Total nonperforming loans	3,246	3,857	1,972
OREO	2,930	10,229	2,930
Total nonperforming assets	$ 6,176	$ 14,086	$ 4,902
Troubled debt restructured loans – nonaccrual[(1)]	904	731	940
Troubled debt restructured loans – accruing	1,058	1,005	1,072
Total troubled debt restructured loans	$ 1,962	$ 1,736	$ 2,012
Allowance for loan losses	$ 15,492	$ 12,605	$ 14,844
Gross loans outstanding at the end of period	$ 1,314,066	$ 1,087,461	$ 1,254,117
Allowance for loan losses to gross loans	1.18 %	1.16 %	1.18 %
Allowance for loan losses to nonperforming loans	477.26 %	326.81 %	752.74 %
Nonperforming loans to gross loans	0.25 %	0.35 %	0.16 %
Nonperforming assets to gross loans and OREO	0.47 %	1.28 %	0.39 %
Nonaccrual loans by category:			
Real Estate:			
Construction and development	$ 76	$ 1,062	$ 346
Residential	510	825	167
Commercial	2,388	1,572	674
Commercial and industrial	269	383	285
Consumer and other	3	15	6
	$ 3,246	$ 3,857	$ 1,478

(1) Troubled debt restructured loans are excluded from nonperforming loans unless they otherwise meet the definition of nonaccrual loans or are more than 90 days past due.

Securities Portfolio

The securities portfolio serves the following purposes: (i) it provides liquidity supplement cash flows from the loan and deposit activities of customers; (ii) it can be used as an interest rate risk management tool since it provides a large base of assets and the Company can change the maturity and interest rate characteristics more readily than the loan portfolio to better match changes in the deposit base and other Company funding sources; (iii) it is an alternative interest-earning asset when loan demand is weak or when deposits grow more rapidly than loans; and (iv) it provides a source of pledged assets for securing certain deposits and borrowed funds, as may be required by law or by specific agreement with a depositor or lender

The securities portfolio consists of securities classified as available for sale and held to maturity. All available for sale securities are reported at fair value. Securities available for sale consist primarily of state and municipal securities and mortgage-backed securities. All held to maturity securities are recorded at amortized cost. Securities held to maturity consist of state and municipal securities. We determine the appropriate classification at the time of purchase.

The following table summarizes the fair value of the securities portfolio as of March 31, 2022 and December 31, 2021:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2022	(dollars in thousands)			
Securities Available for Sale				
U.S. Treasury securities	$ 9,797	$ —	$ (556)	$ 9,241
U.S. Government Sponsored Enterprises (GSEs)	8,453	—	(414)	8,039
State and municipal securities	56,963	607	(2,924)	54,646
Corporate debt securities	10,528	129	(216)	10,441
Asset based securities	10,096	14	(105)	10,005
Mortgage-backed GSE residential/multifamily and non-GSE	60,264	6	(1,615)	58,655
Total securities available for sale	$ 156,101	$ 756	$ (5,830)	$ 151,027
Securities Held to Maturity				
State and municipal securities	19,667	—	(1,440)	18,227
Total securities held to maturity	$ 19,667	$ —	$ (1,440)	$ 18,227
Total securities	$ 175,768	$ 756	$ (7,270)	$ 169,254
December 31, 2021				
Securities Available for Sale				
U.S. Treasury securities	$ 7,820	$ 22	$ (20)	$ 7,822
U.S. Government Sponsored Enterprises (GSEs)	9,228	68	(103)	9,193
State and municipal securities	54,236	2,611	(66)	56,781
Corporate debt securities	10,530	289	(35)	10,784
Asset based securities	10,380	116	(24)	10,472
Mortgage-backed GSE residential/multifamily and non-GSE	37,123	185	(188)	37,120
Total securities available for sale	$ 129,317	$ 3,291	$ (436)	$ 132,172
Securities Held to Maturity				
State and municipal securities	19,672	364	(126)	19,910
Total securities held to maturity	$ 19,672	$ 364	$ (126)	$ 19,910
Total securities	$ 148,989	$ 3,655	$ (562)	$ 152,082

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. At March 31, 2022, we evaluated the securities that had an unrealized loss for other-than-temporary impairment and determined all declines in value to be temporary. We anticipate full recovery of amortized cost with respect to these securities by maturity, or sooner in the event of a more favorable market interest rate environment. We do not intend to sell these securities and it is not probable that we will be required to sell them before recovery of the amortized cost basis, which may be at maturity.

The following tables set forth certain information regarding contractual maturities and the weighted average yields of our investment securities as of March 31, 2022 and December 31, 2021. Weighted average yield is calculated by taking the sum of each category of securities multiplied by the respective yield for a given maturity, and dividing by the sum of the securities for the same maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Due in One Year or Less		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(in thousands, except percentages)									
March 31, 2022										
Securities Available for Sale										
U.S. Treasury securities	$ —	— %	$ 1,989	1.33 %	$ 7,808	1.37 %	$ —	— %	$ 9,797	1.36 %
U.S. Government Sponsored Enterprises (GSEs)	—	—	807	0.59	5,340	1.56	2,306	1.27	8,453	1.39
State and municipal securities	301	0.16	1,173	1.79	3,031	1.95	52,458	2.18	56,963	2.15
Corporate debt securities	—	—	3,028	4.82	7,500	4.72	—	—	10,528	4.75
Asset based securities	—	—	—	—	—	—	10,096	1.13	10,096	1.13
Mortgage-backed GSE residential/multifamily and non-GSE	—	—	24,334	2.96	7,114	2.21	28,816	1.96	60,264	2.39
Total securities available for sale	$ 301	0.16 %	$ 31,331	2.93 %	$ 30,793	2.47 %	$ 93,676	1.98 %	$ 156,101	2.26 %
Securities Held to Maturity										
State and municipal securities	—	—	—	—	1,772	2.44	17,895	2.36	19,667	2.37
Total securities held to maturity	$ —	— %	$ —	— %	$ 1,772 1100	2.44 %	$ 17,895	2.36 %	$ 19,667	2.37 %
Total securities	$ 301	0.16 %	$ 31,331	2.93 %	$ 32,565	2.47 %	$ 111,571	2.04 %	$ 175,768	2.27 %

	Due in One Year or Less		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(in thousands, except percentages)									
December 31, 2021										
Securities Available for Sale										
U.S. Treasury securities	$ —	— %	$ —	— %	$ 7,820	1.36 %	$ —	— %	$ 7,820	1.36 %
U.S. Government Sponsored Enterprises (GSEs)	—	—	561	1.94	6,122	0.46	2,545	2.13	9,228	1.01
State and municipal securities	302	0.16	1,175	1.79	3,033	1.95	49,726	2.19	54,236	2.16
Corporate debt securities	—	—	1,030	3.50	9,500	4.89	—	—	10,530	4.75
Asset based securities	—	—	—	—	—	—	10,380	0.94	10,380	0.94
Mortgage-backed GSE residential/multifamily and non-GSE	—	—	15,870	3.02	5,299	1.41	15,954	1.30	37,123	2.05
Total securities available for sale	$ 302	0.16 %	$ 18,636	2.94 %	$ 31,774	2.31 %	$ 78,605	1.84 %	$ 129,317	2.11 %
Securities Held to Maturity										
State and municipal securities	—	—	—	—	1,100	2.36	18,572	2.37	19,672	2.37
Total securities held to maturity	$ —	— %	$ —	— %	$ 1,100 1100	2.36 %	$ 18,572	2.37 %	$ 19,672	2.37 %
Total securities	$ 302	0.16 %	$ 18,636	2.94 %	$ 32,874	2.31 %	$ 97,177	1.94 %	$ 148,989	2.15 %

Bank Owned Life Insurance

We maintain investments in BOLI policies to help control employee benefit costs, as a protection against loss of certain employees and as a tax planning strategy. We are the sole owner and beneficiary of the BOLI policies. At March 31, 2022, BOLI totaled $29.3 million compared to $22.2 million at December 31, 2021. The increase represents additional insurance of $7.0 million and an increase in the cash surrender value.

Deposits

Deposits represent the Company’s primary and most vital source of funds. We offer a variety of deposit products including demand deposits accounts, interest-bearing products, savings accounts and certificate of deposits. The Bank also acquires brokered deposits, QwickRate internet certificates of deposit, and reciprocal deposits through the Promontory network. The reciprocal deposits include both the Certificate of Deposit Account Registry Service (CDARS) and Insured Cash Sweep program. The Company is a member of the Promontory network, which effectively allows depositors to receive FDIC insurance on amounts greater than the FDIC insurance limit, which is currently $250,000. Promontory allows institutions to break large deposits into smaller amounts and place them in a network of other Promontory institutions to ensure full FDIC insurance is gained on the entire deposit. Generally, internet and reciprocal deposits are not brokered deposits for regulatory purposes.

Our strong asset growth requires us to place a greater emphasis on both interest and noninterest-bearing deposits. Deposit accounts are added by loan production cross-selling, customer referrals, marketing advertisements, mobile and online banking and our involvement within our communities.

Total deposits at March 31, 2022 were $1.5 billion, representing an decrease of $14.6 million, or 0.9%, compared to $1.6 billion at December 31, 2021. As of March 31, 2022, 33.4% of total deposits were comprised of noninterest-bearing demand accounts, 52.7% of interest-bearing non-maturity accounts and 13.9% of time deposits.

The following table summarizes our deposit balances as of March 31, 2022 and December 31, 2021:

	March 31, 2022		December 31, 2021	
	Amount	Percent of Total	Amount	Percent of Total
	(in thousands, except percentages)			
Noninterest-bearing transaction	$ 515,110	33.4%	$ 541,546	34.8%
Interest-bearing transaction	749,119	48.6%	704,326	45.3%
Savings	62,462	4.1%	56,715	3.6%
Time deposits, $250,000 and under	189,172	12.2%	224,556	14.4%
Time deposits, over $250,000	25,976	1.7%	29,308	1.9%
Total deposits	$ 1,541,839	100.0%	$ 1,556,451	100.0%

The following tables set forth the maturity of time deposits as of March 31, 2022 and December 31, 2021:

	March 31, 2022				
	Maturity Within:				
	Three Months	Three Months Through 12 Months	Over 12 Months Through 3 Years	Over 3 Years	Total
	(dollars in thousands)				
Time deposits, less than $100,000	$ 32,724	$ 53,200	$ 22,668	$ 2,909	$ 111,501
Time deposits, $100,000 through $250,000	22,170	49,743	4,608	1,150	77,671
Time deposits, over $250,000	7,273	16,454	1,066	1,183	25,976
Total time deposits	$ 62,167	$ 119,397	$ 28,342	$ 5,242	$ 215,148

	December 31, 2021				
	Maturity Within:				
	Three Months	Three Months Through 12 Months	Over 12 Months Through 3 Years	Over 3 Years	Total
	(dollars in thousands)				
Time deposits, less than $100,000	$ 33,061	$ 61,646	$ 29,563	$ 2,832	$ 127,102
Time deposits, $100,000 through $250,000	39,753	51,112	5,464	1,125	97,454
Time deposits, over $250,000	13,238	13,560	1,327	1,183	29,308
Total time deposits	$ 86,052	$ 126,318	$ 36,354	$ 5,140	$ 253,864

Time deposits issued in amounts of more than $250,000 represent the type of deposit most likely to affect the Company's future earnings because of interest rate sensitivity. The effective cost of these funds is generally higher than other time deposits because the funds are usually obtained at premium rates of interest.

The following table presents the average balance and average rate paid on each of the following deposit categories as of March 31, 2022 and 2021:

	March 31,			
	2022		**2021**	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(dollars in thousands)			
Noninterest-bearing transaction	$ 514,456	—%	$ 316,553	—%
Interest-bearing transaction	110,983	0.09%	88,578	0.08%
Money markets	616,663	0.37%	396,894	0.67%
Savings	58,841	0.20%	43,909	0.20%
Time deposits	237,411	0.44%	324,668	0.62%
Total deposits	$ 1,538,354	0.23%	$ 1,170,602	0.41%

Borrowed Funds

In addition to deposits, we utilize advances from the FHLB and other borrowings as a supplementary funding source to finance our operations.

FHLB Advances. The FHLB allows us to borrow, on both short and long-term, collateralized by a blanket floating lien on first mortgage loans and commercial real estate loans as well as FHLB stock. At March 31, 2022 and December 31, 2021, we had borrowing capacity from the FHLB of $62.2 million and $68.4 million, respectively. We had $26.0 million in short-term FHLB borrowings as of March 31, 2022 and $26.0 million as of December 31, 2021. We had no long-term FHLB borrowings as of March 31, 2022 and December 31, 2021. All our outstanding FHLB advances have fixed rates of interest.

The following table sets forth our FHLB borrowings as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
	(dollars in thousands)	
Amount outstanding at end of period	$ 25,950	$ 25,950
Weighted average interest rate at end of period	0.34 %	0.34 %
Maximum month-end balance	$ 25,950	$ 25,950
Average balance outstanding during the period	$ 25,950	$ 30,636
Weighted average interest rate during the period	0.34 %	0.47 %

Lines of Credit. The Bank has uncollateralized, uncommitted federal funds lines of credit with multiple banks as a source of funding for liquidity management. The total amount of the lines of credit was $87.2 million as of March 31, 2022 and December 31, 2021, all of which was available at these dates.

First Horizon Line of Credit. During 2019, the Company obtained the $25.0 million Line of Credit with First Horizon, which was extended in November 2020 and matures in August 2022. The Line of Credit is collateralized by 100% of the capital stock of the Bank. The Line of Credit includes various financial and nonfinancial covenants. The Line of Credit has a variable interest rate of 90-day LIBOR plus 2.50% with a LIBOR floor of 0.50%, and requires quarterly interest payments. The Company utilized $8.0 million of the Line of Credit in connection with the purchase of East Alabama and another $4.5 million to redeem subordinated debt of $4.5 million. The Company repaid the Line of Credit in full during February 2022 using proceeds from a new subordinated debt issue.

Subordinated Debt Securities

In June 2016, the Company issued $4.5 million of Fixed-to-Floating Rate Subordinated Notes due July 2026 (the “2026 Notes”). The 2026 Notes bore interest at 6.625% per annum, payable semiannually in arrears on January 1 and July 1 of each year until July 2021. Thereafter interest was payable quarterly in arrears at an annual floating rate equal to three-month LIBOR as determined for the applicable quarter plus 5.412%. The Company repaid the 2026 Notes in full on June 23, 2021.

On February 7, 2022, the Company issued $48.0 million of Fixed-to-Floating Rate Subordinated Notes due February 2032. The Notes bear interest at 3.50% per annum, payable quarterly in arrears. From and including February 7, 2027, to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to a Three-Month Term Secured Overnight Financing Rate plus 205 basis points, payable quarterly in arrears. The Company will be entitled to redeem the Notes, in whole or in part, on any interest payment on or after February 7, 2027, and to redeem the Notes in whole upon certain other events.

Liquidity and Capital Resources

Liquidity

Liquidity refers to the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

Interest rate sensitivity involves the relationships between rate-sensitive assets and liabilities and is an indication of the probable effects of interest rate fluctuations on the Company’s net interest income. Interest rate sensitive assets and liabilities are those with yields or rates that are subject to change within a future time period due to maturity or changes in market rates. A model is used to project future net interest income under a set of possible interest rate movements. The Company’s Asset Liability Committee, or ALCO, reviews this information to determine if the projected future net interest income levels would be acceptable. The Company attempts to stay within acceptable net interest income levels.

Our liquidity position is supported by management of liquid assets and access to alternative sources of funds. Our liquid assets include cash, interest-bearing deposits in correspondent banks, federal funds sold, and the fair value of unpledged investment securities. Other available sources of liquidity include wholesale deposits, and additional borrowings from correspondent banks, FHLB advances and the Line of Credit.

Our short-term and long-term liquidity requirements are primarily met through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, and increases in customer deposits. Other alternative sources of funds will supplement these primary sources to the extent necessary to meet additional liquidity requirements on either a short-term or long-term basis.

The Company and the Bank are separate corporate entities. The Company's liquidity depends primarily upon dividends received from the Bank and capital and debt issued by the Company. The Company relies on its liquidity to pay interest and principal on Company indebtedness, company operating expenses, and dividends to Company shareholders.

Capital Requirements

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for "prompt corrective action" (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies. The capital amounts and classifications are subject to qualitative judgments by the federal banking regulators about components, risk weightings and other factors.

As of March 31, 2022, both we and the Bank exceeded all the minimum bank regulatory capital requirements to be well capitalized to which we and the Bank were subject.

The table below summarizes the capital requirements applicable to the Company and the Bank in order to be considered "well capitalized" from a regulatory perspective, as well as the Company's and the Bank's capital ratios as of March 31, 2022 and December 31, 2021. The Federal Deposit Insurance Act requires, among other things, that the federal banking regulators take prompt corrective action with respect to FDIC-insured depository institutions that do not meet certain minimum capital requirements. Under the Federal Deposit Insurance Act, insured depository institutions are divided into five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under applicable regulations, an institution is defined to be well capitalized if it has a common equity tier 1 capital ratio ("CET1 capital") of 6.5%, a leverage ratio of at least 5%, a tier 1 risk-based capital ratio of at least 8%, and a total risk-based capital ratio of at least 10%, and it is not subject to a directive, order or written agreement to meet and maintain specific capital levels.

We and the Bank exceeded all regulatory capital requirements under Basel III and the Bank met all the minimum capital adequacy requirements to be considered "well capitalized" as of the dates reflected in the table below. As a bank holding company with less than $3 billion in total consolidated assets, Southern States is eligible to be treated as a "small bank holding company" under the Federal Reserve's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement. As a result, Southern States' capital adequacy is evaluated at the bank level and on a parent-only basis, and it is not subject to consolidated capital standards for regulatory purposes. The ratios set forth below as to Southern States are for illustrative purposes in the event Southern States were to become subject to consolidated capital standards for regulatory purposes. The column styled "Required for Capital Adequacy Purposes" includes the 2.5% capital conservation buffer.

	Actual				Required for Capital Adequacy Purposes				Minimums To Be "Well Capitalized" Under Prompt Corrective Action		
		Amount	Ratio		Amount	Ratio		Amount	Ratio		
	(dollars in thousands)										
As of March 31, 2022											
Tier 1 capital (to average assets)											
Company	$	154,648	8.75%	$	70,717	4.00%	$	—	—		
Bank	$	192,383	10.88%	$	70,717	4.00%	$	88,396	5.00%		
CET 1 capital (to risk-weighted assets)											
Company	$	154,648	9.90%	$	109,331	7.00%	$	—	—		
Bank	$	192,383	12.32%	$	109,331	7.00%	$	101,522	6.50%		
Tier 1 capital (to risk-weighted assets)											
Company	$	154,648	9.90%	$	132,759	8.50%	$	—	—		
Bank	$	192,383	12.32%	$	132,759	8.50%	$	124,950	8.00%		
Total capital (to risk-weighted assets)											
Company	$	218,140	13.97%	$	163,997	10.50%	$	—	—		
Bank	$	207,875	13.31%	$	163,997	10.50%	$	156,187	10.00%		

	Actual		Required for Capital Adequacy Purposes		Minimums To Be "Well Capitalized" Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
As of December 31, 2021						
Tier 1 capital (to average assets)						
Company	$ 156,723	9.74%	$ 64,376	4.00%	$ —	—
Bank	$ 168,027	10.44%	$ 64,376	4.00%	$ 80,470	5.00%
CET 1 capital (to risk-weighted assets)						
Company	$ 156,723	10.35%	$ 106,019	7.00%	$ —	—
Bank	$ 168,027	11.09%	$ 106,019	7.00%	$ 98,446	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$ 156,723	10.35%	$ 128,737	8.50%	$ —	—
Bank	$ 168,027	11.09%	$ 128,737	8.50%	$ 121,164	8.00%
Total capital (to risk-weighted assets)						
Company	$ 171,567	11.33%	$ 159,028	10.50%	$ —	—
Bank	$ 182,871	12.07%	$ 159,028	10.50%	$ 151,455	10.00%

Contractual Obligations

The following tables contain supplemental information regarding our total contractual obligations at March 31, 2022.

	Payments Due as of March 31, 2022			
	Within One Year	One to Five Years	After Five Years	Total
	(dollars in thousands)			
Time deposits	$ 181,564	$ 33,398	$ 186	$ 215,148
FHLB advances	25,950	—	—	25,950
Subordinated debt borrowings	—	—	47,154	47,154
Total contractual obligations	$ 207,514	$ 33,398	$ 47,340	$ 288,252

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. 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 and standby letters of credit to our customers is represented by the contractual or notional amount of those instruments. Commitments to extend credit and standby letters of credit are not recorded as an asset or liability by the Company until the instrument is exercised. The contractual or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments. The amount and nature of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the potential borrower.

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 short-term borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments for which collateral is deemed necessary.

The following table summarizes commitments we have made as of the dates presented.

	March 31, 2022	December 31, 2021
	(dollars in thousands)	
Commitments to extend credit	$ 313,155	$ 314,194
Standby letters of credit	4,428	3,434
Total	$ 317,583	$ 317,628

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our interest rate risk policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by adjusting our balance sheet assets and liabilities in the ordinary course of business. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk.

Our exposure to interest rate risk is managed by ALCO in accordance with policies approved by the Bank's board of directors. ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, ALCO considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. ALCO meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, commitments to originate loans and the maturities of investments and borrowings. Additionally, ALCO reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management also employs methodologies to manage interest rate risk, which include an analysis of the relationships between interest-earning assets and interest bearing liabilities and an interest rate risk simulation model and shock analyses.

We use interest rate risk simulation models and shock analyses to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics.

Contractual maturities and re-pricing opportunities of loans are incorporated in the models. The average lives of non-maturity deposit accounts are based on decay assumptions and are incorporated into the models. All of the assumptions used in our analyses are inherently uncertain and, as a result, the models cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the models' simulated results due to the timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On a quarterly basis, we run a simulation model for a static balance sheet and other scenarios. These models test the impact on net interest income from changes in market interest rates under various scenarios. Under the static model, rates are shocked instantaneously and ramped rates change over a 12-month and 24-month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Our internal policy regarding internal rate risk simulations currently specifies that for parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than 10% for a 100 basis point shift, 15% for a 200 basis point shift, 20% for a 300 basis point shift, and 25% for a 400 basis point shift.

The following tables summarize the simulated change in net interest income over a 12-month horizon as of the dates indicated:

	Percent Change in Net Interest Income	
	As of March 31, 2022	As of March 31, 2021
Change in Interest Rates (Basis Points)		
+400	26.47	18.27
+300	19.94	13.78
+200	13.33	9.17
+100	6.68	4.56
-100	(9.01)	0.42
-200	(19.33)	(4.39)
-300	(24.96)	(9.68)
-400	(29.72)	(14.22)

Inflation and increases in interest rates may result from fiscal stimulus and monetary stimulus, and the Federal Reserve has indicated it is willing to permit inflation to run moderately above its 2% target for some time. Increases in interest rates may cause consumers to shift their funds to more interest-bearing instruments and to increase the competition for and costs of deposits. If customers move money out of bank deposits and into other investment assets or from transaction deposits to higher interest-bearing time deposits, our funding costs may increase. Additionally, any such loss of funds could result in lower loan originations and growth, which could materially and adversely affect our results of operations and financial condition. Increases in market interest rates may reduce demand for loans, including residential mortgage loan originations. At the same time, increases in rates will increase the rates we charge on variable rate loans and may increase our net interest margin. Higher interest rates would decrease the values of our existing fixed rate securities investments and could potentially adversely affect the values and liquidity of collateral securing our loans. The effects of increased rates will depend on the rates of changes in our costs of funds and interest earned on our loans and investments and the shape of the yield curve.

Impact of Inflation

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with GAAP and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution’s performance than the effects of general levels of inflation.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform to GAAP and conform to general practices within our industry. To prepare financial statements in conformity with GAAP, management makes estimates, assumptions and judgments based on available information. These estimates, assumptions and judgments affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements and, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the financial statements. In particular, management has identified several accounting policies that, due to the estimates, assumptions and judgments inherent in those policies, are critical to understanding our financial statements.

The JOBS Act and our regulators provided us with an extended transition period to January 1, 2023 for complying with CECL accounting standards affecting public companies.

The following is a discussion of the critical accounting policies and significant estimates that we believe require us to make the most complex or subjective decisions or assessments. Additional information about these policies can be found in Note 1 of the Company’s consolidated financial statements as of December 31, 2021, included in our Annual Report on Form 10-K.

Basis of Presentation and Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned consolidated subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. The Company includes all cash on hand, balances due from other banks, and federal funds sold, all of which have original maturities within three months, as cash and cash equivalents.

Securities. Investment securities may be classified into trading, held to maturity, or available for sale portfolios. Securities that are held principally for resale in the near term are classified as trading. Securities that management has the ability and intent to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as trading or held to maturity are available for sale and are reported at fair value with unrealized gains and losses excluded from earnings but included in the determination of other comprehensive income. Management uses these assets as part of its asset/liability management strategy. These securities may be sold in response to changes in liquidity needs, interest rates, resultant prepayment risk changes, and other factors. Management determines the appropriate classification of securities at the time of purchase. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses and declines in value determined to be other-than-temporary are included in gain or loss on sale of securities. The cost of securities sold is based on the specific identification method.

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances net of any unearned income, charge offs, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the straight-line method, which is not materially different from the effective interest method required by GAAP.

Loans are placed on nonaccrual status when, in management's opinion, collection of interest is unlikely, which typically occurs when principal or interest payments are more than 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses. We have elected to take advantage of this extended transition period, which means that the financial statements included in the prospectus, as well as financial statements that we file in the future during the transition period, will not be subject to all new or revised accounting standards generally applicable to public companies for so long as we remain an emerging growth company or until we affirmatively and irrevocably opt out of the extended transition period under the JOBS Act. 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. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance. The Company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and general valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends, discretionarily adjusted for general economic conditions and other qualitative internal and external risk factors.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's review of the collectability 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. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in economic and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and other business assets.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on various factors. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. All loans rated substandard or worse and greater than $250,000 are specifically reviewed to determine if they are impaired. Factors considered by management in determining whether a loan is impaired include payment status and the sources, amounts, and probabilities of estimated cash flow available to service debt in relation to amounts due according to contractual terms. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Loans that are determined to be impaired are then evaluated to determine estimated impairment, if any. GAAP allows impairment to be measured on a loan-by-loan basis by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if repayment is collateral dependent. Loans that are not individually determined to be impaired or are not subject to the specific review of impaired status are subject to the general valuation allowance portion of the allowance for loan loss.

Loans Held for Sale. Loans held for sale are comprised of residential mortgage loans. Loans that are originated for best efforts delivery are carried at the lower of aggregate cost or fair value as determined by aggregate outstanding commitments from investors or current investor yield requirements. All other loans held for sale are carried at fair value. Loans sold are typically subject to certain indemnification provisions with the purchaser. Management does not believe these provisions will have any significant consequences.

Recently Issued Accounting Pronouncements

The following provides a brief description of accounting standards that have been issued but are not yet adopted that could have a material effect on our consolidated financial statements. Please also refer to the Notes to our consolidated financial statements included in this Quarterly Report on Form 10-Q for a full description of recent accounting pronouncements, including the respective expected dates of adoption and anticipated effects on our results of operations and financial condition.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. ASU 2016-02 requires organizations that lease assets (lessees) to recognize on the balance sheet the assets and liabilities for the rights and obligations created by the lease for all operating leases under current U.S. GAAP with a term of more than 12 months. The ASU is effective for non-public business entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. The ASU should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted ASU 2016-02 on June 30, 2021 and there was no material impact on the Company's consolidated financial statements.

In July 2018, the FASB issued ASU 2018-11, "Leases –Targeted Improvements" to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (January 1, 2022 for the Company). The Company adopted ASU 2018-11 on June 30, 2021 and there was no material impact on the Company's consolidated financial statements.

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

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for other than public business entities for fiscal years beginning after December 15, 2020, with early adoption, including adoption in an interim period, permitted. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The amended presentation and disclosure guidance is required only prospectively. The Company did not experience any impact on the Company's consolidated financial position, results of operations or cash flows as a result of ASU 2017-12.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are presented in our Annual Report on Form 10-K for the year ended December 31, 2021, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Sensitivity and Market Risk". Additional information as of March 31, 2022, is included herein under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Interest Rate Sensitivity and Market Risk".

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, an evaluation was performed by the Company, under the supervision and with the participation of its management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer), of the effectiveness of the design and operation of its disclosure controls and procedures. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the first quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Southern States and Southern States Bank are parties to various legal proceedings in the ordinary course of their respective businesses, including proceedings to collect loans or enforce security interests. In the opinion of management, none of these legal proceedings currently pending will, when resolved, have a material adverse effect on the financial condition or the results of operations of Southern States or Southern States Bank. However, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business, including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security and anti-money laundering and anti-terrorism laws, we, like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risks.

Item 1A. Risk Factors

For information regarding risk factors that could affect our business, financial condition, and results of operations, see the information in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds

On August 12, 2021, we sold 996,429 new shares of our common stock at a public offering price of $19.00 per share in our IPO, and on August 19, 2021, we sold an additional 300,000 at the public offering price pursuant to the exercise of the underwriters' option to purchase additional shares in the offering. In addition, selling stockholders sold 1,003,571 shares of common stock. The offering resulted in approximately $21.1 million of net proceeds, after deducting underwriting discounts and commissions, and offering expenses, to us, and approximately $17.7 million to the selling stockholders. The offer and sale of shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-257915), which the SEC declared effective on August 11, 2021. Keefe, Bruyette & Woods, Inc. and Truist Securities, Inc. acted as underwriters. The offering commenced on July 30, 2021, and did not terminate until the sale of all of the shares offered. There has been no material change in the planned use of proceeds from our IPO as described in our Final Prospectus that was filed with the SEC on August 12, 2021, pursuant to Rule 424(b)(4) under the Securities Act.

Our purchase of shares of common stock made during the quarter consisted of stock repurchases made under our publicly announced Program and are summarized in the table below.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Dollar Value of Shares that May Yet Be Purchased Under the Program[(1)]
				(Dollars in thousands)
January 1 - January 31, 2022	—	$ —	—	$ —
February 1 - February 28, 2022	10,475	$ 20.58	10,475	$ 9,784
March 1 - March 31, 2022	276,769	$ 21.37	276,769	$ 3,869
Total	287,244	$ 21.35	287,244	

(1) On February 16, 2022, we announced that our board of directors approved a Program that authorizes us to repurchase up to $10.0 million of our common stock. The Program will be in effect until December 31, 2022 with the timing of purchases and number of shares repurchased under the Program dependent upon a variety of factors including price, trading volume, corporate and regulatory requirements, and market conditions. We are not obligated to purchase any shares under the Program and the Program may be suspended or discontinued at any time without notice.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

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Item 6. Exhibits

NUMBER	DESCRIPTION
2.1#	Agreement and Plan of Merger by and between Southern States Bancshares, Inc. and East Alabama Financial Group, Inc., dated as of May 7, 2019 (incorporated by reference to Exhibit 2.1 to Southern States Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on July 15, 2021, file number 333-257915).
3.1	Certificate of Incorporation of Southern States Bancshares, Inc., as amended (incorporated by reference to Exhibit 3.1 to Southern States Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on July 15, 2021, file number 333-257915).
3.2	Amended and Restated Bylaws of Southern States Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to Southern States Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on July 15, 2021, file number 333-257915).
4.1	Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to Southern States Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on July 15, 2021, file number 333-257915).
4.2	Indenture, dated February 7, 2022, by and between Southern States Bancshares, Inc. and UMB Bank, N.A., as trustee. (incorporated by reference to Exhibit 4.1 to Southern States Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on February 8, 2022, file number 001-40727).
4.3	Form of 3.50% Fixed-to-Floating Rate Subordinated Note due February 7, 2032 (included as Exhibit A-1 and Exhibit A-2 to the Indenture filed as Exhibit 4.2 hereto) (incorporated by reference to Exhibit 4.2 to Southern States Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on February 8, 2022, file number 001-40727).
10.1	Form of Registration Rights Agreement, dated February 7, 2022, by and among Southern States Bancshares, Inc. and each Purchaser (incorporated by reference to Exhibit 10.2 to Southern States Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on February 8, 2022, file number 001-40727).
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File - Formatted as Inline XBRL and contained within the Inline XBRL Instance Document in Exhibit 101.

*	Filed herewith
**	These exhibits are furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.
†	Indicates a management contract or compensatory plan.
#	Certain schedules, exhibits and appendices have been omitted pursuant to Item 601(b)(5). We will furnish the omitted schedules exhibits and appendices to the Securities and Exchange Commission upon request by the Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN STATES BANCSHARES, INC.

Date: May 13, 2022	By:	/s/ Stephen W. Whatley
		Stephen W. Whatley Chairman and Chief Executive Officer, and Director (Principal Executive Officer)
Date: May 13, 2022	By:	/s/ Lynn Joyce
		Lynn Joyce Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Stephen W. Whatley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southern States Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2022

By: /s/ Stephen W. Whatley
Stephen W. Whatley
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Lynn Joyce, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southern States Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2022

By: /s/ Lynn Joyce
Lynn Joyce
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Southern States Bancshares, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen W. Whatley, Chairman and Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2022	By:	/s/ Stephen W. Whatley
		Stephen W. Whatley
		Chairman and Chief Executive Officer, and Director
		(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Southern States Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lynn Joyce, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2022

By: /s/ Lynn Joyce
Lynn Joyce
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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