SOUTHERN

BANCSHARES

2021 Consolidated Financial Statements

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY

TABLE OF CONTENTS

Independent Auditors' Report

Board of Directors
Southern BancShares (N.C.), Inc.
Mount Olive, NC

Opinion
We have audited the consolidated financial statements of Southern BancShares (N.C.), Inc. and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

We have also audited in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2021, based on the criteria established in *Internal Control—Integrated Framework (2013),* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 21, 2022 expressed an unmodified opinion thereon.

Basis for Opinion
We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southern BancShares (N.C.), Inc. and subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Dixon Hughes Goodman LLP

Greenville, NC
March 21, 2022

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands Except Share and Per Share Data)

	December 31,	
ASSETS	2021	2020
Cash and cash equivalents:		
Cash and due from banks	$ 35,106	$ 19,002
Interest-bearing deposits with banks	138,469	236,872
Certificates of deposit with banks	11,946	17,043
Total cash and cash equivalents	185,521	272,917
Investment in marketable equity securities at fair value (cost of $25,973 and $23,057, respectively)	188,420	130,755
Investment securities available for sale, at fair value (amortized cost of $1,617,009 and $952,292, respectively)	1,613,292	976,616
Loans held for sale	15,126	18,101
Loans:		
Acquired loans	93,315	122,195
Non-acquired loans	2,346,234	2,177,434
Less allowance for loan losses:		
Acquired loans	(1,860)	(2,608)
Non-acquired loans	(27,449)	(27,542)
Net loans	2,410,240	2,269,479
Premises and equipment, net	65,524	63,434
Operating lease right of use assets	4,035	5,719
Accrued interest receivable	12,034	12,213
Stock in Federal Home Loan Bank of Atlanta	1,855	2,633
Other real estate owned	86	442
Goodwill	26,649	26,649
Intangible assets	6,425	5,160
Bank owned life insurance	28,919	28,191
Other assets	32,854	23,556
Total assets	$ 4,590,980	$3,835,865
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 1,386,132	$1,178,736
Interest-bearing	2,533,051	2,137,064
Total deposits	3,919,183	3,315,800
Short-term borrowings	63,670	55,263
Long-term borrowings	88,874	23,711
Operating lease liabilities	4,231	5,909
Other liabilities	48,083	42,017
Total liabilities	4,124,041	3,442,700
SHAREHOLDERS' EQUITY		
Preferred stock	1,802	1,805
Common stock, $5 par value; 158,485 shares authorized; 79,357 and 80,085 shares issued and outstanding at December 31, 2021 and 2020, respectively	397	400
Surplus	27,043	27,043
Retained earnings	440,622	352,670
Accumulated other comprehensive income (loss)	(2,925)	11,247
Total shareholders' equity	466,939	393,165
Total liabilities and shareholders' equity	$ 4,590,980	$3,835,865

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Dollars in Thousands Except Share and Per Share Data)

	Year Ended December 31, 2021	2020
Interest income:		
Loans	$ 100,646	$ 99,466
Investment securities	21,945	17,847
Federal funds sold and deposits with banks	447	822
Total interest income	123,038	118,135
Interest expense:		
Deposits	2,263	5,749
Short-term borrowings	60	131
Long-term borrowings	2,796	2,323
Total interest expense	5,119	8,203
Net interest income	117,919	109,932
Provision (recovery) for loan losses	(815)	9,115
Net interest income after provision (recovery) for loan and lease losses	118,734	100,817
Noninterest income:		
Service charges on deposit accounts	6,859	6,756
Other service charges and fees	6,261	5,104
Investment securities gains	514	3,045
Marketable equity securities gains	54,749	11,533
Gain on sale of loans	4,931	6,133
Gain (loss) on sale and writedowns of other real estate owned	2	(124)
Investment services revenue	3,600	2,404
Other	7,933	6,254
Total noninterest income	84,849	41,105
Noninterest expense:		
Personnel	54,329	50,036
Data processing	8,344	7,680
Occupancy	7,189	7,088
Furniture and equipment	6,146	6,830
FDIC assessments	1,226	723
Professional fees	2,590	2,487
Amortization of intangibles and mortgage servicing rights	1,668	1,599
FHLB advance prepayment penalty	-	1,774
Other	6,942	7,621
Total noninterest expense	88,434	85,838
Income before income taxes	115,149	56,084
Income taxes	21,603	11,448
Net income	93,546	44,636
Other comprehensive income (loss):		
Unrealized gains (losses) arising during period on debt securities available for sale	(27,526)	17,623
Tax effect	6,239	(4,000)
Reclassification adjustment from security transactions	(514)	(3,045)
Tax effect	116	690
Net of tax amount	(21,685)	11,268
Pension obligation	7,564	429
Tax effect	(1,715)	(97)
Amortization of actuarial losses	2,149	1,492
Tax effect	(485)	(334)
Net of tax amount	7,513	1,490
Total other comprehensive income (loss)	(14,172)	12,758
Comprehensive income	$ 79,374	$ 57,394
Per share information:		
Net income available to common shareholders per common share, basic and diluted	$ 1,168.54	$ 547.29
Cash dividends declared on common shares	20.00	15.00
Weighted average common shares outstanding	79,823	80,520

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Thousands Except Share and Per Share Data)

	Preferred		Common			Accumulated Other Comprehensive	Total Shareholders'
	Series B	Series C	Stock	Surplus	Retained Earnings	Income (Loss)	Equity
BALANCE, DECEMBER 31, 2019	$ 1,321	$ 489	$ 405	$ 47,043	$ 312,887	$ (1,511)	$ 360,634
Net income	-	-	-	-	44,636	-	44,636
Purchase and retirement of stock	(5)	-	(5)	(20,000)	(3,078)	-	(23,088)
Cash dividends:							
Common stock	-	-	-	-	(1,207)	-	(1,207)
Preferred B	-	-	-	-	(237)	-	(237)
Preferred C	-	-	-	-	(33)	-	(33)
Preferred F	-	-	-	-	(298)	-	(298)
Other comprehensive income	-	-	-	-	-	12,758	12,758
BALANCE, DECEMBER 31, 2020	1,316	489	400	27,043	352,670	11,247	393,165
Net income	-	-	-	-	93,546	-	93,546
Purchase and retirement of stock	(3)	-	(3)	-	(3,728)	-	(3,734)
Cash dividends:							
Common stock	-	-	-	-	(1,596)	-	(1,596)
Preferred B	-	-	-	-	(237)	-	(237)
Preferred C	-	-	-	-	(33)	-	(33)
Other comprehensive loss	-	-	-	-	-	(14,172)	(14,172)
BALANCE, DECEMBER 31, 2021	$ 1,313	$ 489	$ 397	$ 27,043	$ 440,622	$ (2,925)	$ 466,939

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands Except Share and Per Share Data)

	Year Ended December 31, 2021	2020
OPERATING ACTIVITIES:		
Net income	$ 93,546	$ 44,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (recovery) for loan and lease losses	(815)	9,115
Deferred income tax expense	9,384	946
Gain on marketable equity securities	(54,749)	(11,533)
Gain on sales and issuer calls of securities	(514)	(3,045)
Loss on disposal of premises and equipment	24	23
(Gain) loss on sale and writedowns of other real estate owned	(2)	124
Valuation adjustments on real estate held for sale	-	102
Gain on sale of loans	(4,931)	(6,133)
Net amortization on investments	5,242	6,214
Accretion on acquired loans	(5,339)	(7,331)
Amortization of intangibles and mortgage servicing rights	1,520	1,599
Depreciation	4,892	5,060
Amortization of long-term borrowings issuance costs	59	-
Proceeds from sales of loans held for sale	222,216	254,225
Origination of loans held for sale	(214,310)	(264,117)
Amortization of operating lease right of use assets	970	802
FHLB advance prepayment penalty	-	1,774
Payments on operating lease liabilities	(691)	(756)
Net increase in intangible assets	(2,785)	(2,099)
Net decrease (increase) in accrued interest receivable	179	(1,618)
Net increase in cash surrender value of bank owned life insurance	(728)	(596)
Net (increase) decrease in other assets	(8,983)	774
Net increase in other liabilities	11,765	1,435
NET CASH PROVIDED BY OPERATING ACTIVITIES	55,950	29,601
INVESTING ACTIVITIES:		
Purchases of marketable equity securities	(2,916)	(7,193)
Proceeds from maturities, paydowns, and issuer calls of investment securities available for sale	277,017	289,315
Proceeds from sales of investment securities available for sale	41,609	60,740
Purchases of investment securities available for sale	(989,873)	(519,340)
Net increase in loans	(134,712)	(451,278)
Net decrease in FHLB stock	778	1,854
Purchases of premises and equipment	(7,397)	(3,975)
Proceeds from sale of premises and equipment	391	80
Proceeds from the sale of other real estate owned	463	939
NET CASH USED BY INVESTING ACTIVITIES	(814,640)	(628,858)
FINANCING ACTIVITIES:		
Net increase in noninterest-bearing demand deposits	207,396	378,711
Net increase in interest-bearing deposits	395,987	434,750
Net increase in short-term borrowed funds	8,407	10,019
Proceeds from issuance of long-term debt	88,815	-
Payments on junior subordinated debentures	(23,711)	-
Proceeds from FHLB advances	-	50,000
Payments on FHLB advances	-	(101,774)
Cash dividends paid	(1,866)	(1,775)
Purchase and retirement of stock	(3,734)	(23,088)
NET CASH PROVIDED BY FINANCING ACTIVITIES	671,294	746,843
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(87,396)	147,586
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	272,917	125,331
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	$ 185,521	$ 272,917

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in Thousands Except Share and Per Share Data)

	Year Ended December 31, 2021	Year Ended December 31, 2020
SUPPLEMENTAL DISCLOSURES OF CASH PAID DURING THE YEAR FOR:		
Interest	$ 4,976	$ 6,585
Income taxes	12,705	9,425
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Unrealized (losses) gains on available-for-sale securities, net of tax	$ (21,685)	$ 11,268
Investment securities transferred to other assets	1,802	-
Change in pension obligation, net of tax	7,513	1,490
Non-acquired foreclosed loans transferred to other real estate	105	732
Premises and equipment transferred to other assets	-	297
Recognition of new and modified operating lease right of use assets	(714)	(223)

Note 1. Nature of Operations and Summary of Significant Accounting Policies

BancShares

Southern BancShares (N.C.), Inc. ("BancShares") is the holding company for Southern Bank and Trust Company ("Southern"), which operates 49 banking offices in eastern North Carolina and 10 banking offices and one loan production office in southeastern Virginia.

Southern, which began operations January 29, 1901, has a wholly-owned subsidiary, Goshen, Inc., whose primary operations include holding certain investments. Southern also has a wholly owned subsidiary, Tuscarora Properties, LLC, that was created to hold, manage and ultimately dispose of select other real estate owned ("OREO") properties. BancShares and Southern are headquartered in Mount Olive, North Carolina.

BancShares has no foreign operations and BancShares' customers are principally located in eastern North Carolina and southeastern Virginia.

BancShares and Southern are subject to extensive federal and state banking laws and regulations. These laws and regulations focus on the protection of depositors, federal deposit insurance funds, and the banking system as a whole rather than the protection of security holders. Federal and state banking regulators possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums, increased expenses, reductions in fee income and limitations on activities that could have a materially adverse effect on our results of operations.

Principles of Consolidation

The consolidated financial statements include the accounts of BancShares and other entities in which BancShares has a controlling interest. All significant intercompany balances have been eliminated in consolidation.

Basis of Financial Statement Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates made by BancShares in the preparation of its consolidated financial statements are:

- Determination of the allowance for loan and lease losses
- Goodwill impairment
- Pension plan assumptions
- Mortgage servicing rights
- Income taxes

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation. Such reclassifications had no effect on net income or shareholders' equity as previously reported.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and certificates of deposit with banks. Overnight and federal funds are purchased and sold for one day periods.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Marketable Equity Securities

Equity securities are recorded on a trade date basis and measured at fair value with all changes recorded through income. Realized and unrealized gains and losses are determined by specific identification and are included in Noninterest income. Non-marketable equity securities are securities that do not have readily determinable fair values and are measured at cost. Equity securities with no recurring market value data available are reviewed periodically and any observable market value changes are adjusted through Noninterest income. BancShares evaluates its non-marketable equity securities for impairment and recoverability of the recorded investment by considering positive and negative evidence, including the profitability and asset quality of the issuer, dividend payment history and recent redemption experience. Impairment is assessed at each reporting period and if identified, is recognized in Noninterest income.

For equity investments without a readily determinable fair value, BancShares has elected to measure the equity investments using the measurement alternative, which requires BancShares to make a qualitative assessment of whether the investment is impaired at each reporting period. Under the measurement alternative, these investments will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. If a qualitative assessment indicates that the investment is impaired, BancShares will have to estimate the investment's fair value in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic ASC 820, *Fair Value Measurements and Disclosure* and, if the fair value is less than the investment's carrying value, recognize an impairment loss in net income equal to the difference between carrying value and fair value. Equity investments without a readily determinable fair value totaling $4.0 million and $2.6 million at December 31, 2021 and 2020, respectively are recorded within Other assets in the Consolidated Balance Sheets.

Investment Securities Available for Sale

BancShares classifies debt securities as available for sale and they are reported at estimated fair value, with unrealized gains and losses, net of income taxes, reported in Accumulated other comprehensive income (“AOCI”). Amortization of premiums and accretion of discounts for debt securities are included in Interest income. Realized gains and losses from the sale of debt securities are determined by specific identification on a trade date basis and are included in Noninterest income. BancShares evaluates each available for sale security in a loss position for other-than-temporary impairment (“OTTI”) at least quarterly. BancShares considers such factors as the length of time and the extent to which the market value has been below amortized cost, long-term expectations and recent experience regarding principal and interest payments, BancShares' intent to sell, and whether it is more likely than not that it would be required to sell those securities before the anticipated recovery of the amortized cost. The credit component of an OTTI loss is recognized in Noninterest income and the non-credit component is recognized in AOCI in situations where BancShares does not intend to sell the security, and it is more likely than not that BancShares will not be required to sell the security prior to recovery.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Estimated fair value is determined on the basis of existing forward commitments or the current market value of similar loans. Net unrealized losses, if any, are recognized through a valuation allowance by charges to Noninterest income. Prior to closing loans intended for sale in the secondary market, an interest rate lock commitment is entered into with the borrower. The interest rate lock is considered a derivative for Southern, whose estimated fair value is determined by current market rates for similar loans. Loans held-for-sale are normally sold to investors as part of a “mandatory” delivery program for mortgage loans. Under the mandatory delivery system, loans with interest rate locks are paired with the sale of a “to be announced” (“TBA”) mortgage-backed security bearing similar attributes. Under the mandatory delivery program, we commit to deliver loans to an investor at an agreed upon price prior to the close of such loans. Loans held-for-sale may also be sold to investors with the best efforts intent and ability to sell the loans as long as they meet the underwriting standards of the potential investor. A “best efforts” delivery sets the sale price with the investor on a loan-by-loan basis when each loan is locked. At December 31, 2021 and 2020, the estimated fair value of mortgage related derivatives was determined to be immaterial.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Loans

Non-acquired loans that are held for investment purposes are carried at the principal amount outstanding reduced by unearned income and an allowance for loan losses.

Southern accounts for its acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No Allowance for loan losses ("ALLL") related to acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Acquired loans with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit-impaired. Evidence of credit quality deterioration as of the acquisition date may include information such as past due and nonaccrual status, borrower credit scores and recent loan to value percentages. Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Acquired credit-impaired loans accounted for in accordance with FASB ASC Topic 310-30 are recorded net of a nonaccretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable difference, which is included as a reduction to the carrying amount of acquired FASB ASC Topic 310-30 loans. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in Interest income over the remaining life of the loan when there is a reasonable expectation regarding the amount and timing of such cash flows. In accordance with FASB ASC Topic 310-30, Southern has aggregated substantially all acquired credit-impaired loans that have common risk characteristics into pools and is accounting for these loans on a pool level basis. Certain large or non-homogeneous acquired credit-impaired loans are accounted for on an individual loan basis.

Cash flow analyses are performed on acquired FASB ASC Topic 310-30 loans in order to determine the cash flows expected to be collected. Subsequent decreases to expected cash flows will generally result in recognition of an allowance by a charge to Provision for loan and lease losses. Subsequent increases in expected cash flows result in either a reversal of the Provision for loan and lease losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on the accretable yield.

Acquired loans that do not meet the specific criteria of FASB ASC Topic 310-30, but for which a discount is attributable at least in part to credit quality are generally accounted for under this guidance. As a result, related discounts are recognized subsequently through accretion based on the expected cash flow of the acquired loans. Certain acquired loans, such as lines of credit (consumer and commercial) and loans with no significant credit related discount are accounted for in accordance with FASB ASC Topic 310-20, where the discount is accreted through earnings based on contractual cash flows over the estimated life of the loan.

Interest income on non-acquired loans is recognized in a manner that approximates the level yield method when related to the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes the borrower's financial condition is such that collection of principal or interest is doubtful. Loans are returned to the accrual status when the factors indicating doubtful collectability cease to exist and the loan has performed in accordance with its terms for a demonstrated period of time. Acquired credit-impaired loans that are accounted for in accordance with FASB ASC Topic 310-30, as well as acquired non-credit-impaired loans accounted for under FASB ASC Topic 310-20 are accruing interest under the accretion method and are thus not reported as nonaccrual. The past due status of loans is based on the contractual terms of the loan.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Loans (Continued)

Management considers a non-acquired loan or an acquired loan accounted for in accordance with FASB ASC Topic 310-20 to be impaired when, based on current information or events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. Impaired loans are valued using either the discounted expected cash flow method or the collateral value. When the ultimate collectability of the non-acquired impaired loan's principal is doubtful, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to Interest income, to the extent that any interest has been foregone. Future cash receipts are recorded as recoveries of any amounts previously charged-off.

Southern provides an ALLL on non-acquired loans and acquired loans accounted for in accordance with FASB ASC Topic 310-20 on a reserve basis and includes in operating expenses a Provision for loan and lease losses determined by management. The allowance is reduced by charge-offs and increased by subsequent recoveries. Management's periodic evaluation of the adequacy of the allowance is based on Southern's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect borrowers' experience, the estimated value of any underlying collateral, current economic conditions and other risk factors. Management believes it has established the allowance in accordance with accounting principles generally accepted in the United States of America and in consideration of the current economic environment. While management uses the best information available to make evaluations, future adjustments may be necessary.

The evaluation of the adequacy of the ALLL includes both loans evaluated collectively for impairment and loans evaluated individually for impairment. Impaired loans with a balance less than $100,000 are not evaluated individually for impairment, unless the loan is not performing and unsecured, or if the condition of the collateral has significantly deteriorated since the collateral was last appraised. For loans evaluated collectively for impairment, loans are grouped based on common risk characteristics which include call report code and risk grade. Call report codes segregate loans based on loan type and collateral type and helps to provide consistent reporting across accounting principles generally accepted in the United States ("GAAP") and regulatory reports. Historical loss rates are calculated based on the historical probability of default ("PD") and loss given default ("LGD") for each loan grouping. PDs represent the likelihood that a loan will default within a one year period of time, and LGDs represent the estimated magnitude of loss Southern will incur if a loan defaults. A loan is considered to be in default if it becomes 90 days or more past due, meets the criteria for nonaccrual status, or incurs a charge-off. Historical loss rates are developed with five years of trailing default and loss data. These historical loss rates are then combined with certain qualitative factors to determine the ALLL reserve rates for each loan grouping. Qualitative factors include consideration of certain internal and external factors, such as loan delinquency levels and trends, loan growth, loan portfolio composition and concentrations, local and national economic conditions, the loan review function, and other factors management deems relevant to the ALLL calculation.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review Southern's Allowance for loan and lease losses and actual losses on OREO. Such agencies may require Southern to recognize adjustments to the allowance based on the examiners' judgments about information available to them at the time of their examinations.

Troubled Debt Restructurings ("TDRs")

Southern 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. Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of modification are initially classified as accruing TDRs at the date of modification, if the note is reasonably assured of repayment and performance is in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the modification date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. Nonaccrual TDRs are returned to accruing status when there is economic substance to the restructuring, there is well documented credit evaluation of the borrower's financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated sustained repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months).

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Troubled Debt Restructurings ("TDRs") (Continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. Section 4013 of the CARES Act provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act terminates. Southern elected to adopt these provisions of the CARES Act and accordingly have offered short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These generally include short-term, 180 days or less, modifications in the form of payment deferrals, extensions of repayment terms, or other delays in payment that are insignificant. On December 27, 2020 the President of the United States signed into law the 2021 Consolidated Appropriations Act (the "Appropriations Act"). The Appropriations Act included legislation that extends certain relief provisions from the CARES Act that were set to expire on December 31, 2020. Included in the Appropriations Act is a provision to extend the TDR relief noted in the CARES Act to the earlier of 60 days after the termination date of the national emergency concerning the COVID-19 outbreak or January 1, 2022. As of December 31, 2021 and 2020, Southern had 13 and 31 loans with modifications under Section 4013 with total outstanding balances of $4.3 million and $12.4 million, respectively. Southern continues to review risk grades and update credit risk when additional modifications are needed.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated lives of the assets, ranging from 15 to 39 years for buildings and improvements and 3 to 9 years for furniture and equipment.

Leases

Southern leases certain office facilities and office equipment under operating leases. Southern also subleases certain office facilities and owns certain office facilities that are leased to outside parties; however, such leases are not significant. In 2019, Southern adopted certain accounting standard updates related to accounting for leases as further discussed below. Under the new standards, for operating leases other than those considered to be short-term, Southern recognizes Operating lease right of use assets and related Operating lease liabilities which are reported in the Consolidated Balance Sheets. Southern does not recognize short-term operating leases in the Consolidated Balance Sheets. A lease is considered short-term if it has an original term of 12 months or less and does not have a purchase option that is likely to be exercised.

In recognizing Operating lease right of use assets and related Operating lease liabilities, Southern has elected the practical expedient that allows for lease and non-lease components (such as taxes, insurance, and common area maintenance costs) to be accounted for as a single lease component. Lease payments over the expected term are discounted using Southern's incremental borrowing rate referenced to the Federal Home Loan Bank Secure Connect advance rates for borrowings of similar term. Management also considers renewal and termination options in the determination of the expected term of each lease. If it is reasonably certain that a renewal or termination option will be exercised, the effects of such options are included in the determination of the expected lease term. Most leases include one or more renewal options. At December 31, 2021 and 2020, leases for office facilities have terms, including renewal options that Management is reasonably certain will be exercised, that range from 10 months to 10 years. Southern's leases do not contain material residual value guarantees or material restrictive covenants.

Stock in Federal Home Loan Bank of Atlanta

Stock in Federal Home Loan Bank of Atlanta ("FHLB") is acquired for regulatory purposes. This security does not have a readily determinable fair value because its ownership is restricted and lacks a market for trading. As a result, this security is carried at cost and is periodically evaluated for impairment.

(Dollars in Thousands for Tabular Presentations)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

OREO

OREO acquired through, or in lieu of, foreclosure is held for sale and is stated at estimated fair market value of the property, less estimated disposal costs at time of foreclosure then lower of cost or net realizable value throughout the remaining life. At least annually, current valuations in the form of internal or external appraisals are obtained for all OREO and carrying values are adjusted, if required, with a charge to current expenses for adjustments to reflect the current appraised values less the estimated cost to sell.

BancShares estimates fair value at the asset's fair market value less disposal costs using management's assumptions, which are based on current market trends and historical losses for similar assets. Any excess of cost over the estimated fair market value at the time of foreclosure is charged to the Allowance for loan and lease losses.

Goodwill and Intangible Assets

Intangible assets are composed of goodwill, core deposit premiums and mortgage servicing rights ("MSRs"). Core deposit premiums are generally amortized on an accelerated basis over a period of 5 to 10 years and the useful lives are periodically reviewed for reasonableness.

MSRs represent the estimated value of the right to service mortgage loans for others. Capitalization of MSRs occurs when the underlying loans are sold with servicing retained by Southern. Capitalized MSRs are amortized into income over the projected servicing life of the underlying loans.

As of December 31, 2021, BancShares had goodwill and intangible assets totaling $33.1 million. Management evaluated BancShares' existing intangible assets and goodwill for impairment as of September 30, 2021. BancShares will continue to amortize the intangible assets with finite lives, totaling $6.4 million at December 31, 2021, which relate to acquisitions of core deposit intangibles and MSRs. The amortization expense associated with intangible assets was $1.5 million and $1.6 million for the years ended December 31, 2021 and 2020, respectively.

Goodwill arising from acquisitions is not amortized but is reviewed for potential impairment at least annually or if events or circumstances indicate a potential impairment. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. BancShares concluded that goodwill was not impaired as of December 31, 2021; however, future events impacting financial institutions could negatively impact BancShares' goodwill asset in the future.

The following is a summary of the gross carrying amounts, accumulated amortization and net carrying amounts of amortized intangible assets and the gross carrying amount of unamortized intangible assets as of December 31, 2021 and December 31, 2020:

	December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposits intangibles	$ 23,528	$ 23,520	$ 8
Mortgage servicing rights	16,437	10,020	6,417
Total	$ 39,965	$ 33,540	$ 6,425
Unamortized intangible assets:			
Goodwill	$ 26,649		

	December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposits intangibles	$ 23,528	$ 23,372	$ 156
Mortgage servicing rights	13,652	8,648	5,004
Total	$ 37,180	$ 32,020	$ 5,160
Unamortized intangible assets:			
Goodwill	$ 26,649		

(Dollars in Thousands for Tabular Presentations)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Goodwill and Intangible Assets (Continued)

At December 31, 2021, the scheduled amortization expense for intangible assets is as follows:

2022	$ 729
2023	439
2024	328
2025	277
2026	235
Thereafter	4,417
Total	$ 6,425

The actual amortization expense in future periods may be subject to change based on changes in the useful life of the assets, expectations for loan prepayments, future acquisitions and future loan sales.

Bank-Owned Life Insurance

Southern has purchased life insurance policies on certain current and past key employees and directors where the insurance policy benefits and ownership are retained by the employer. These policies are recorded at their cash surrender value. Income from these policies and changes in the net cash surrender value are recorded in Noninterest income as earnings on bank-owned life insurance. The cash value accumulation is permanently tax deferred if the policy is held to the insured person's death and certain other conditions are met.

Income Taxes

BancShares uses the asset and liability method to account for deferred income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of BancShares' assets and liabilities at enacted rates expected to be in effect when such amounts are realized or settled.

Recognition of deferred tax assets is based on management's belief that it is "more likely than not" that the tax benefit associated with certain temporary differences will be realized. A valuation allowance is recorded for deferred tax assets when the "more likely than not" standard is not met.

Shareholders' Equity

Common shareholders are entitled to one vote per share and preferred series B and C shareholders are entitled to one vote for each 38 shares owned of a class. Dividends on BancShares' common stock may be paid only after annual dividends of $.90 per share on both preferred series B and C shares have been paid.

(Dollars in Thousands for Tabular Presentations)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Shareholders' Equity (Continued)

Share activity and other information for each of the preferred and common stock issues is presented below:

	Non-cumulative Preferred Series B	Non-cumulative Preferred Series C	Non-cumulative Preferred Series F	Common
December 31, 2019	264,224	36,867	20,000	81,020
Purchase and retirement	(1,005)	-	(20,000)	(935)
December 31, 2020	263,219	36,867	-	80,085
Purchase and retirement	(520)	-	-	(728)
December 31, 2021	262,699	36,867	-	79,357
Shares authorized	408,728	43,631	20,000	158,485
Par value	None	None	$ 0.01	$ 5.00
Liquidation value				
December 31, 2020	$ 2,632	$ 369	$ -	N/A
December 31, 2021	$ 2,627	$ 369	$ -	N/A

Earnings per common share are computed by dividing income applicable to common shares by the weighted average number of common shares outstanding during the period. Income applicable to common shares represents net income reduced by dividends paid to preferred shareholders. BancShares has no potentially dilutive securities.

Earnings per common share are calculated based on the following amounts for the years ended December 31:

	2021	2020
Net income	$ 93,546	$ 44,636
Less: preferred dividends	(270)	(568)
Net income applicable to common shares	$ 93,276	$ 44,068
Weighted average common shares outstanding during the period	79,823	80,520

Comprehensive Income

Comprehensive income is defined as the change in equity during a period for non-owner transactions and includes net income and other comprehensive income. Other comprehensive income includes revenues, expenses, gains, and losses that are excluded from earnings under current accounting standards. Components of other comprehensive income for BancShares consist of the unrealized gains and losses, net of taxes, in BancShares' available-for-sale securities portfolio and changes in the defined benefit pension plan obligation.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Revenue Recognition

BancShares generally acts in a principal capacity, on its own behalf, in its contracts with customers. In these transactions, BancShares recognizes revenues and the related costs to generate those revenues on a gross basis. In certain circumstances BancShares acts in an agent capacity on behalf of the customers with other entities and recognize revenues and the related costs to provide BancShares' services on a net basis. Business lines where BancShares acts as an agent include interchange and debit card income, merchant services and check sales. Descriptions of BancShares' noninterest revenue-generating activities are broadly segregated as follows:

Service Charges on deposit accounts - These deposit account-related fees represent monthly account maintenance and transaction-based service fees such as overdraft fees, stop payment fees and charges for issuing cashier's checks and money orders. For account maintenance services, revenue is recognized at the end of the statement period when BancShares' performance obligation has been satisfied. All other revenues from transaction-based services are recognized at a point in time when the performance obligation has been completed.

Other service charges and fees - These include, but are not limited to, check cashing fees, internet banking fees, wire transfer fees and safe deposit fees. The performance obligation is fulfilled, and revenue is recognized, at the point in time the requested service is provided to the customer.

Interchange and debit card revenue - These represent interchange fees, included in Other service charges and fees, from customer debit and credit card transactions that are earned at the time a cardholder engages in a transaction with a merchant. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the card transaction. Additionally, costs associated with interchange and debit card revenue are netted against the fee income from such transactions.

Sales of OREO - OREO property consists of foreclosed real estate used as collateral for loans. Revenue is generally recognized on the date of sale where the performance obligation of providing access and transferring control of the specified OREO property to the buyer in good faith and good title is satisfied.

Investment Services - These primarily represent annuity fees, sales commissions, management fees, insurance sales, and advisory fees. The performance obligation for investment services is the provision of services to place annuity products issued by the counterparty to investors, and the provision of services to manage the client's assets, including brokerage custodial and other management services. Revenue from investment services is recognized over the period in which services are performed, and is based on a percentage of the value of the assets under management/administration. This revenue is either fixed or variable based on account type, or transaction-based.

Merchant services- These represent fees charged to merchants, included in Other noninterest income, for providing them the ability to accept and process debit and credit card transactions. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the card transaction. Costs associated with merchant services transactions are netted against the fee income from such transactions.

Check sales – These represent the fees, included in Other noninterest income, charged for checks sold to customers. A contract has been established with a third party vendor to provide the checks to the customer. Southern receives a commission based upon contractual terms with the third party vendor and the volume of sales that occur over a period of time. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the sale of the checks. Additionally, costs associated check sales transactions are netted against the fee income from such transactions.

Other - This consists of several forms of recurring revenue such as dividends on equity investments without a readily determinable fair value FHLB dividends, and income earned on changes in the cash surrender value of bank-owned life insurance, all of which are outside the scope of FASB ASC Topic 606, *Revenue from Contracts with Customers*. The remaining miscellaneous income is the result of immaterial transactions where revenue is recognized when, or as, the performance obligation is satisfied.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by BancShares.

In June 2016, the FASB issued Accounting Standards Update 2016-13*, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-03"). This ASU eliminates the delayed recognition of the full amount of credit losses until the loss was probable of occurring and instead will reflect an entity's current estimate of all expected credit losses. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The ASU does not specify a method for measuring expected credit losses and allows an entity to apply methods that reasonably reflect its expectations of the credit loss estimate based on the entity's size, complexity and risk profile. In November 2019, the FASB issued Accounting Standards Update 2019-10*, Financial Instruments - Credit Losses (Topic 326, Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates* ("ASU 2019-10). This ASU delayed the effective date of ASU 2016-13 to interim and annual periods beginning after December 15, 2022 for smaller reporting companies as defined by the Securities and Exchange Commission. Early adoption is allowed, however Southern plans to adopt the standard in January 2023. Management is currently evaluating the effect that implementation of the new standard will have on our consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-04 *Intangibles and Other – Simplifying the Test for Goodwill Impairment* ("ASU-2017-04"). This ASU eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative test. BancShares adopted this ASU during the first quarter 2020 with no impact to our consolidated financial position or consolidated results of operations as a result of the adoption.

In August 2018, the FASB issued Accounting Standards Update 2018-13 *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). This ASU modifies the disclosure requirements on fair value measurements by eliminating the requirements to disclose (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy (2) the policy for timing of transfers between levels and (3) the valuation processes for Level 3 fair value measurements. This ASU also added specific disclosure requirements for fair value measurements for public business entities including the requirement to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. BancShares adopted this ASU during the first quarter of 2020.

In August 2018, the FASB issued Accounting Standards Update 2018-14 *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by eliminating the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and adding a requirement to disclose an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments in this ASU are effective for public entities for fiscal years ending after December 15, 2020. Early adoption is permitted for all entities. BancShares adopted all applicable amendments and updated the disclosures as appropriate during the first quarter of 2021.

(Dollars in Thousands for Tabular Presentations)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In May 2020, the FASB issued Accounting Standard Update 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). This ASU provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. This ASU applies only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate or another reference rate expected to be discontinued because of reference rate reform. This ASU was effective upon issuance and generally can be applied through December 31, 2022. The adoption of this ASU did not significantly impact our consolidated financial statements.

From time to time, the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements in the consolidated financial statements of BancShares and monitors the status of changes to and proposed effective dates of exposure drafts.

Note 2. Investment Securities

The amortized cost and estimated fair values of investment securities at December 31 were as follows:

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	$ 25,973	$ 162,447	$ -	$ 188,420
Investment securities available for sale:				
U.S. Treasuries and government-sponsored entities debt*	$ 467,878	$ 257	$ (9,918)	$ 458,217
Corporate debt securities	11,396	192	(11)	11,577
Obligations of states and political subdivisions	275,161	10,123	(451)	284,833
Government-sponsored mortgage-backed securities	862,574	5,266	(9,175)	858,665
Total investment securities available for sale	$ 1,617,009	$ 15,838	$ (19,555)	$ 1,613,292

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	$ 23,057	$ 107,698	$ -	$ 130,755
Investment securities available for sale:				
U.S. Treasuries and government-sponsored entities debt*	$ 218,085	$ 1,060	$ (767)	$ 218,378
Corporate debt securities	11,085	219	(65)	11,239
Obligations of states and political subdivisions	163,374	9,874	(2)	173,246
Government-sponsored mortgage-backed securities	559,748	14,085	(80)	573,753
Total investment securities available for sale	$ 952,292	$ 25,238	$ (914)	$ 976,616

*Government-sponsored entities debt consists of debt securities offered by Federal Home Loan Mortgage Corporation, Federal National Mortgage Corporation, Federal Home Loan Bank, Small Business Administration ("SBA") and Federal Farm Credit Banks.

(Dollars in Thousands for Tabular Presentations)

Note 2. Investment Securities (Continued)

The following table provides the unrealized gains on marketable equity securities arising during the year ended:

	December 31	
	2021	2020
Marketable equity securities gains	$ 54,749	$ 11,533

Investment securities available for sale with a carrying value of $521.3 million and $82.4 million were pledged at December 31, 2021 to secure public deposits and short-term borrowings, respectively.

Included in the following tables are all investments with unrealized loss positions. At December 31, 2021 and 2020, there were no securities with unrealized losses for which other-than-temporary impairment has been recognized.

Temporarily impaired securities at December 31 were as follows:

	2021					
	Less Than 12 Months		12 Months or Longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasuries and government-sponsored entities debt	$ 6,832	$ 292,379	$ 3,086	$ 89,172	$ 9,918	$ 381,551
Corporate debt securities	11	489	-	-	11	489
Obligations of states and political subdivisions	431	50,295	20	2,325	451	52,620
Government-sponsored mortgage-backed securities	8,796	560,291	379	7,031	9,175	567,322
Total temporarily impaired securities	$ 16,070	$ 903,454	$ 3,485	$ 98,528	$ 19,555	$ 1,001,982

	2020					
	Less Than 12 Months		12 Months or Longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Treasuries and government-sponsored entities debt	$ 767	$ 99,240	$ -	$ -	$ 767	$ 99,240
Corporate debt securities	-	-	65	2,930	65	2,930
Obligations of states and political subdivisions	2	2,368	-	-	2	2,368
Government-sponsored mortgage-backed securities	59	12,231	21	6,707	80	18,938
Total temporarily impaired securities	$ 828	$ 113,839	$ 86	$ 9,637	$ 914	$ 123,476

(Dollars in Thousands for Tabular Presentations)

Note 2. Investment Securities (Continued)

The above securities' losses were considered temporary losses at December 31, 2021 principally resulting from the increase in market interest rates since the securities were purchased. The following numbers of securities were in an unrealized loss position at:

	December 31, 2021	December 31, 2020
U.S. Treasuries and government-sponsored entities debt	42	13
Corporate debt securities	1	1
Obligations of states and political subdivision	64	8
Government-sponsored mortgage-backed securities	78	18
Total temporarily impaired securities	185	40

The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased or until the security matures or is called by the issuer. Since none of the unrealized losses relate to the marketability of the securities or the issuer's ability to honor redemption obligations, none of the securities are deemed to be other than temporarily impaired. As of December 31, 2021, there was no intent to sell any of the securities classified as available-for-sale. Furthermore, it is not likely that BancShares will have to sell any such securities before a recovery of the carrying value.

The amortized cost and estimated fair value of debt securities at December 31, 2021, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Repayments of the government-sponsored mortgage-backed securities are dependent on the repayments of the underlying loan balances.

	Amortized Cost	Fair Value
Securities available-for-sale:		
U.S. Treasuries and government-sponsored entities debt		
Due after one year through five years	$ 43,990	$ 43,152
Due after five years through ten years	169,050	165,526
Due after ten years	254,838	249,539
	467,878	458,217
Corporate debt securities		
Due after one year through five years	2,996	2,996
Due after five years through ten years	8,400	8,581
	11,396	11,577
Obligations of states and political subdivisions		
Due after one year through five years	1,180	1,238
Due after five years through ten years	18,644	19,582
Due after ten years	255,337	264,013
	275,161	284,833
Government-sponsored mortgage-backed securities	862,574	858,665
Total	$ 1,617,009	$ 1,613,292

Sales and issuer calls of securities available-for-sale having a cost basis of $41.1 million and $76.6 million in 2021 and 2020, respectively, resulted in gross realized gains of $514,000 and $3.0 million for 2021 and 2020, respectively. The proceeds from such sales and issuer calls were $41.6 million and $79.6 million for the years ended December 31, 2021 and 2020, respectively. Sales and issuer calls of securities available-for-sale having a cost basis of $25,000 in 2020 resulted in gross realized losses of $1,000 in 2020. The proceeds from such sales and issuer calls were $23,800 for the year ended December 31, 2020.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

	December 31, 2021	December 31, 2020
Commercial:		
Construction and land development	$ 110,373	$ 94,162
Agricultural	221,896	214,230
Commercial mortgage	988,172	823,048
Commercial and industrial	204,240	182,784
Paycheck Protection Program	42,861	236,328
Other	28,829	14,374
Non-commercial:		
Residential mortgage	519,277	407,003
Revolving mortgage (HELOCS)	148,370	137,895
Construction and land development	56,403	40,808
Consumer	25,541	26,582
Demand overdrafts	272	220
Total non-acquired loans	$ 2,346,234	$ 2,177,434
Loans held for sale (excluded from total loans)	$ 15,126	$ 18,101
Loans serviced for others (excluded from total loans)	$ 684,452	$ 637,044

Net deferred fees included within the respective balances for each loan type presented above total $2.9 million and $4.4 million at December 31, 2021 and 2020, respectively.

Total loans to directors, executive officers and related individuals and organizations were $427,000 and $2.4 million at December 31, 2021 and 2020, respectively. During 2021, there were $2.7 million of advances of these loans made to this group and repayments totaling $4.7 million. There were no restructured or nonaccrual loans to directors, executive officers or related individuals and organizations. All extensions of credit to such persons have been made in the ordinary course of business.

Each portfolio segment and the classes within those segments are subject to risks that could have an adverse impact on the credit quality of the loan and lease portfolio. Management has identified the most significant risks as described below which are generally similar among the segments and classes. While the list is not exhaustive, it provides a description of the risks that management has determined are the most significant.

Commercial loans
Each commercial loan or lease is underwritten based primarily upon the customer’s ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. A complete understanding of the borrower’s businesses including the experience and background of the principals is obtained prior to approval. To the extent that the loan or lease is secured by collateral, which is true for the majority of commercial loans, the likely value of the collateral and what level of strength the collateral brings to the transaction is evaluated. To the extent that the principals or other parties provide personal guarantees, the relative financial strength and liquidity of each guarantor is assessed. Common risks to each class of commercial loans include general economic conditions within the markets BancShares serves, as well as risks that are specific to each transaction including demand for products and services, personal events such as disability or change in marital status, and reductions in the value of collateral.

Note 3. Loans and Allowance for Loan Losses (Continued)

In addition to these common risks for the majority of commercial loans, additional risks are inherent in certain classes of commercial loans, as follows:

Construction and land development
Construction and land development loans are highly dependent on the supply and demand for commercial real estate in the markets served by BancShares as well as the demand for newly constructed residential homes and lots that customers are developing. Continuing deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for customers.

Agricultural, commercial mortgage, and commercial and industrial
Agricultural, commercial mortgage, and commercial and industrial loans are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. To the extent that a customer's business results are significantly unfavorable versus the original projections, the ability for the loan to be serviced on a basis consistent with the contractual terms may be at risk. The performance of agricultural loans is highly dependent on favorable weather, reasonable costs for seed and fertilizer, and the ability to successfully market the product at a profitable margin. The demand for these products is also dependent on macroeconomic conditions that are beyond the control of the borrower. While these loans are generally secured by real property, personal property, or business assets such as inventory or accounts receivable, it is possible that the liquidation of the collateral will not fully satisfy the obligation.

Paycheck Protection Program ("PPP")
PPP loans include loans to businesses and other entities that would otherwise be reported as commercial and industrial loans originated under guidelines discussed above. PPP loans totaled $42.9 million and $236.3 million at December 31, 2021 and 2020, respectively. During 2021 and 2020, we recognized $8.1 million and $7.3 million, respectively, in net deferred loan fees, which are included in loan interest income. As of December 31, 2021, we expect to recognize additional net deferred fees on PPP loans totaling approximately $1.3 million as a yield adjustment over the remaining terms of these loans, most of which is expected to be recognized in 2022.

Commercial other
Commercial other loans consist primarily of loans to municipalities and not for profit organizations, such as volunteer fire departments. Commercial other loans are dependent on the municipality or not for profit entity's ability to generate adequate cash flows to service the loan, primarily through tax revenues, fee revenues, federal and state grants, and donations by local citizens. As such, deterioration in the general economy could impact a borrower's ability to repay the loan due to declines in a municipality's tax base, available federal and state grants, and citizen's ability to provide donations. These loans are primarily secured by equipment used by the municipality or not for profit entity.

Non-commercial loans
Each non-commercial loan is underwritten based primarily upon the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. A complete understanding of the borrower's financial situation is obtained prior to loan approval. To the extent that the loan is secured by collateral we also evaluate the likely value of that collateral. Common risks to each class of non-commercial loans include risks that are not specific to individual transactions such as general economic conditions within the markets BancShares serves, particularly unemployment and potential declines in real estate values. Personal events such as disability or change in marital status also add risk to non-commercial loans.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

In addition to these common risks for the majority of non-commercial loans, additional risks are inherent in certain classes of non-commercial loans, as follows:

Revolving mortgage ("HELOCS")
HELOC loans are often secured by second liens on residential real estate, thereby making such loans particularly susceptible to declining collateral values. A substantial decline in collateral value could render a second lien position to be effectively unsecured. Additional risks include lien perfection inaccuracies and disputes with first lien holders that may further weaken the collateral position. Further, the open-end structure of these loans creates the risk that customers may draw on the lines in excess of the collateral value if there have been significant declines since origination.

Consumer
The consumer loan portfolio includes loans secured by personal property such as automobiles, marketable securities, other titled recreational vehicles including boats and motorcycles, as well as unsecured consumer debt. The value of underlying collateral within this class is especially volatile due to potential rapid depreciation in values since the date of loan origination in excess of principal repayment.

Residential mortgage and non-commercial construction and land development
Residential mortgage and non-commercial construction and land development loans are made to individuals and are typically secured by 1-4 family residential property, undeveloped land, and partially developed land in anticipation of pending construction of a personal residence. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral. Such a decline in values has led to unprecedented levels of foreclosures and losses within the banking industry. Non-commercial construction and land development projects can experience delays in completion and cost overruns that exceed the borrower's financial ability to complete the project. Such cost overruns can routinely result in foreclosure of partially completed and unmarketable collateral.

Acquired loans
The risks associated with acquired loans are generally consistent with the risks identified for commercial and non-commercial loans and the classes of loans within those segments. Since these loans were not originally underwritten by Southern, there is a risk that these loans were not adequately supported by the paying capacity of the borrower or the value of underlying collateral at the time of origination.

During 2021 and 2020, (recovery) provision for loan and lease losses on acquired loans totaled ($1.0) million and $1.3 million respectively.

In accordance with FASB guidance on accounting for acquired loans with deteriorated credit quality, BancShares aggregated the majority of acquired loans that have common risk characteristics into pools of loan categories as described in the tables that follow. Certain loans with unique characteristics or larger balances that did not conform to the pools are accounted for individually. These loans are identified as "Loans individually accounted for under FASB ASC Topic 310-30" in the tables that follow. The collectability of these loans is influenced by the continued stabilization of the local real estate market combined with borrower strength. The carrying value, which is net of specific reserves of $105,000 and $560,000 in 2021 and 2020, respectively and classification of these loans are as follows:

	December 31, 2021	December 31, 2020
Loans individually accounted for under FASB ASC Topic 310-30		
Non-farm, non-residential	$ 1,936	$ 2,017
1-4 family residential property	1,999	2,117
Commercial and industrial	700	540
1-4 family residential construction	5	15
Construction and land development	-	598
Other	-	11
Total loans individually accounted for under FASB ASC Topic 310-30	$ 4,640	$ 5,298

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

Southern's acquired loan portfolio is comprised of the following balances net of related discount:

	2021	2020
FASB ASC Topic 310-30 acquired loans:		
Commercial performing	$ 9	$ 10
Consumer performing	76	153
Consumer non-performing	574	659
Construction and development performing	692	795
Construction and development non-performing	495	829
Consumer real estate performing	2,509	4,641
Consumer real estate non-performing	1,825	3,046
Commercial real estate performing short term amortizing	687	721
Commercial real estate performing long term amortizing	2,317	2,805
Commercial real estate non-performing long term amortizing	11,936	12,097
Loans individually accounted for under FASB ASC Topic 310-30	4,745	5,858
Total FASB ASC Topic 310-30 acquired loans	25,865	31,614
FASB ASC Topic 310-20 acquired loans	67,450	90,581
Total acquired loans:	$ 93,315	$ 122,195
Less allowance for loan losses	(1,860)	(2,608)
Acquired loans, net	$ 91,455	$ 119,587

The total contractual principal balance for acquired loans at December 31, 2021 and 2020 was $107.5 million and $139.8 million, respectively.

The following are changes in the carrying value of acquired loans during the years ended December 31, 2021 and 2020.

	FASB ASC Topic 310-30
Balance at December 31, 2019	$ 39,743
Reductions for payments, foreclosures, and draws net of accretion	(8,819)
Change in the allowance for loan losses on loans	(1,126)
Balance at December 31, 2020	29,798
Reductions for payments, foreclosures, and draws net of accretion	(5,746)
Change in the allowance for loan losses on loans	459
Balance at December 31, 2021	$ 24,511

The total outstanding balance, which includes contractual principal and interest owed at the end of the reporting period, for loans accounted for under FASB ASC Topic 310-30 was $39.5 million and $48.4 million at December 31, 2021 and 2020, respectively.

The table above excludes $67.5 million ($336.0 million in fair value of acquired loans at acquisition date and $268.5 million in net decreases for payments, draws, and accretion) in acquired loans at carrying value as of December 31, 2021 that are accounted for under FASB ASC Topic 310-20. The table above excludes $90.6 million ($336.0 million in fair value of acquired loans at acquisition date and $245.4 million in net decreases for payments, draws, and accretion) in acquired loans at carrying value as of December 31, 2020 that are accounted for under FASB ASC Topic 310-20. At December 31, 2021 and 2020 there was an allowance for loan loss in the amount of $502,000 and $791,000, respectively which related to FASB ASC Topic 310-20 loans.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

The following are changes in the carrying amount of accretable yield for loans accounted for under FASB ASC Topic 310-30:

	Years Ended December 31,	
	2021	2020
Balance at beginning of period	$ 24,489	$ 32,072
Accretion recorded in interest income	(5,339)	(7,331)
Reclass of nonaccretable difference due to improvement in expected cash flows	28	1,172
Other changes, net	1,166	(1,424)
Balance at end of period	$ 20,344	$ 24,489

Allowance for loan losses
The allowance for loan losses is based upon estimates made by management. We maintain an allowance for loan losses at a level that we believe is appropriate to cover estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of our loan portfolio. Arriving at the allowance involves a high degree of management judgment and results in a range of estimated losses. We regularly evaluate the adequacy of the allowance through our internal risk rating system, independent credit review, and regulatory agency examinations to assess the quality of the loan portfolio and identify problem loans. The evaluation process also includes our analysis of current economic conditions, composition of the loan portfolio, past due and nonaccrual loans, concentrations of credit, lending policies and procedures, and historical loan loss experience. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on, among other factors, changes in economic conditions in our markets. In addition, regulatory agencies, as an integral part of their examination process, periodically review our allowances for losses on loans. These agencies may require management to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these and other factors, it is possible that the allowances for losses on loans may change. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

The allowance for loan losses on non-acquired loans consists of general and specific reserves. The general reserves are determined by applying loss percentages to the portfolio that are based on the PD/LGD approach to calculating the historical loss rate for each call report code and risk grade. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal and external credit reviews and results from external bank regulatory examinations are included in this evaluation. These adjustments are applied to the non-acquired loan portfolio when estimating the level of reserve required. The specific reserves are determined on a loan-by-loan basis based on management's evaluation of our exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. These are loans classified by management as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Loans that are determined to be impaired are provided a specific reserve, if necessary, and are excluded from the calculation of the general reserves.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

In determining the acquisition date fair value of purchased loans, and in subsequent accounting, Southern generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date reduce previously recorded allowance for loan losses and any remaining portion are reclassified from the nonaccretable difference to accretable yield and recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Management analyzes the acquired loan pools and loans not accounted for in pools using various assessments of risk to determine an expected loss. The expected loss is derived based upon a loss given default based upon the collateral type and/or detailed review by loan officers and the probability of default that is determined based upon historical data at the loan level. Trends are reviewed in terms of accrual status, past due status, and weighted-average grade of the loans within each of the accounting pools. In addition, the relationship between the change in the unpaid principal balance and change in the mark is assessed to correlate the directional consistency of the expected loss for each pool.

An aggregated analysis of changes in allowance for loan losses is as follows:

	Non-acquired Loans	Acquired Loans	Total
Balance at December 31, 2019	$ 20,088	$ 1,337	$ 21,425
Loans charged-off	(1,027)	(174)	(1,201)
Recoveries of loans previously charged off	642	169	811
Net charge-offs	(385)	(5)	(390)
Provision for loan losses	7,839	1,276	9,115
Balance at December 31, 2020	27,542	2,608	30,150
Loans charged-off	(983)	(7)	(990)
Recoveries of loans previously charged off	670	294	964
Net (charge-offs) recoveries	(313)	287	(26)
Provision (recovery) for loan losses	220	(1,035)	(815)
Balance at December 31, 2021	$ 27,449	$ 1,860	$ 29,309

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for non-acquired loans:

	As of and for the Year Ended December 31, 2020											
Allowances for loan losses:	Commercial Construction and Land Development	Agricultural	Commercial Mortgage	Commercial and Industrial	Paycheck Protection Program	Commercial Other	Residential Mortgage	Revolving Mortgage (HELOCS)	Non-Commercial Construction and Land Development	Consumer	Demand Overdrafts	Total
December 31, 2019	$ 1,024	$ 2,567	$ 7,880	$ 2,223	$ -	$ 153	$ 3,541	$ 1,538	$ 386	$ 461	$ 315	$ 20,088
Charge offs	(29)	(8)	(426)	(33)	-	-	(44)	(121)	-	(92)	(274)	(1,027)
Recoveries	100	19	211	24	-	-	137	40	-	38	73	642
Provision charged to operating expense	300	481	3,714	387	-	(1)	2,033	569	192	156	8	7,839
December 31, 2020	1,395	3,059	11,379	2,601	-	152	5,667	2,026	578	563	122	27,542
Allowance for loans and leases individually evaluated for impairment	-	71	11	-	-	-	-	-	-	-	-	82
Allowance for loans and leases collectively evaluated for impairment	$ 1,395	$ 2,988	$ 11,368	$ 2,601	$ -	$ 152	$ 5,667	$ 2,026	$ 578	$ 563	$ 122	$ 27,460
Loans and leases:												
Ending balance:	$ 94,162	$ 214,230	$ 823,048	$ 182,784	$ 236,328	$ 14,374	$ 407,003	$ 137,895	$ 40,808	$ 26,582	$ 220	$ 2,177,434
Ending balance: individually evaluated for impairment	753	1,231	2,324	-	-	-	1,601	-	-	-	-	5,909
Ending balance: collectively evaluated for impairment	$ 93,409	$ 212,999	$ 820,724	$ 182,784	$ 236,328	$ 14,374	$ 405,402	$ 137,895	$ 40,808	$ 26,582	$ 220	$ 2,171,525

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

	As of and for the Year Ended December 31, 2021											
Allowances for loan losses:	Commercial Construction and Land Development	Agricultural	Commercial Mortgage	Commercial and Industrial	Paycheck Protection Program	Commercial Other	Residential Mortgage	Revolving Mortgage (HELOCS)	Non-Commercial Construction and Land Development	Consumer	Demand Overdrafts	Total
December 31, 2020	$ 1,395	$ 3,059	$ 11,379	$ 2,601	$ -	$ 152	$ 5,667	$ 2,026	$ 578	$ 563	$ 122	$ 27,542
Charge offs	(39)	(66)	(2)	(444)	-	-	(55)	(26)	-	(85)	(266)	(983)
Recoveries	8	18	245	16	-	-	165	94	-	35	89	670
Provision charged to operating expense	(44)	(402)	(50)	355	-	38	325	(270)	68	(40)	240	220
December 31, 2021	1,320	2,609	11,572	2,528	-	190	6,102	1,824	646	473	185	27,449
Allowance for loans and leases individually evaluated for impairment	-	-	7	-	-	-	-	-	-	-	-	7
Allowance for loans and leases collectively evaluated for impairment	$ 1,320	$ 2,609	$ 11,565	$ 2,528	$ -	$ 190	$ 6,102	$ 1,824	$ 646	$ 473	$ 185	$ 27,442
Loans and leases:												
Ending balance:	$ 110,373	$ 221,896	$ 988,172	$ 204,240	$ 42,861	$ 28,829	$ 519,277	$ 148,370	$ 56,403	$ 25,541	$ 272	$ 2,346,234
Ending balance: individually evaluated for impairment	737	1,208	1,678	491	-	-	573	-	-	-	-	4,687
Ending balance: collectively evaluated for impairment	$ 109,636	$ 220,688	$ 986,494	$ 203,749	$ 42,861	$ 28,829	$ 518,704	$ 148,370	$ 56,403	$ 25,541	$ 272	$ 2,341,547

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired loans:

Allowances for loan losses:	Commercial Performing	Consumer Performing	Consumer Non-Performing	Construction and Development Performing	Construction and Development Non-Performing	Consumer Real Estate Performing	Consumer Real Estate Non-Performing	Commercial Real Estate Performing ST Amortizing
December 31, 2019	$ 89	$ -	$ 556	$ -	$ -	$ -	$ -	$ -
Charge offs	(85)	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision charged to operating expense	(4)	-	(7)	-	-	-	-	-
December 31, 2020	-	-	549	-	-	-	-	-
Allowance for loans and leases individually evaluated for impairment	-	-	-	-	-	-	-	-
Allowance for loans and leases collectively evaluated for impairment	$ -	$ -	$ 549	$ -	$ -	$ -	$ -	$ -
Loan and lease balances:								
Ending balance	$ 10	$ 153	$ 659	$ 795	$ 829	$ 4,641	$ 3,046	$ 721
Ending balance individually evaluated for impairment	-	-	-	-	-	-	-	-
Ending balance collectively evaluated for impairment	$ 10	$ 153	$ 659	$ 795	$ 829	$ 4,641	$ 3,046	$ 721
December 31, 2020	$ -	$ -	$ 549	$ -	$ -	$ -	$ -	$ -
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision charged to operating expense	-	-	(4)	-	-	-	-	-
December 31, 2021	-	-	545	-	-	-	-	-
Allowance for loans and leases individually evaluated for impairment	-	-	-	-	-	-	-	-
Allowance for loans and leases collectively evaluated for impairment	$ -	$ -	$ 545	$ -	$ -	$ -	$ -	$ -
Loan and lease balances:								
Ending balance	$ 9	$ 76	$ 574	$ 692	$ 495	$ 2,509	$ 1,825	$ 687
Ending balance individually evaluated for impairment	-	-	-	-	-	-	-	-
Ending balance collectively evaluated for impairment	$ 9	$ 76	$ 574	$ 692	$ 495	$ 2,509	$ 1,825	$ 687

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

Allowances for loan losses:	Commercial Real Estate Performing LT Amortizing	Commercial Real Estate Non-Performing LT Amortizing	Loans Individually Accounted For Under FASB ASC Topic 310-30	FASB ASC Topic 310-20 Loans	Total
December 31, 2019	$ -	$ -	$ 46	$ 646	$ 1,337
Charge offs	-	-	(50)	(39)	(174)
Recoveries	-	-	-	169	169
Provision charged to operating expense	-	708	564	15	1,276
December 31, 2020	-	708	560	791	2,608
Allowance for loans and leases individually evaluated for impairment	-	-	560	-	560
Allowance for loans and leases collectively evaluated for impairment	$ -	$ 708	$ -	$ 791	$ 2,048
Loan and lease balances:					
Ending balance	$ 2,805	$ 12,097	$ 5,858	$ 90,581	$ 122,195
Ending balance individually evaluated for impairment	-	-	5,858	116	5,974
Ending balance collectively evaluated for impairment	$ 2,805	$ 12,097	$ -	$ 90,465	$ 116,221
December 31, 2020	$ -	$ 708	$ 560	$ 791	$ 2,608
Charge offs	-	-	(6)	(1)	(7)
Recoveries	-	-	-	294	294
Provision charged to operating expense	-	-	(449)	(582)	(1,035)
December 31, 2021	-	708	105	502	1,860
Allowance for loans and leases individually evaluated for impairment	-	-	105	-	105
Allowance for loans and leases collectively evaluated for impairment	$ -	$ 708	$ -	$ 502	$ 1,755
Loan and lease balances:					
Ending balance	$ 2,317	$ 11,936	$ 4,745	$ 67,450	$ 93,315
Ending balance individually evaluated for impairment	-	-	4,745	-	4,745
Ending balance collectively evaluated for impairment	$ 2,317	$ 11,936	$ -	$ 67,450	$ 88,570

Note 3. Loans and Allowance for Loan Losses (Continued)

Loans are closely monitored by management for changes in quality. This monitoring includes assessing the appropriateness of the credit quality indicator in relation to the risk of the loan. Southern utilizes a risk rating matrix to assign a risk rating to each of its loans. A description of the general characteristics of risk ratings is as follows:

- Superior - This grade includes loans to borrowers with excellent credit quality. These borrowers have exceptionally high net worth and cash flows to service existing debt and most have a significant or long term deposit relationship with Southern. If secured, the collateral for these loans is readily marketable and consists of savings accounts, life insurance assignments, etc.

- Above average - This grade includes loans to borrowers of adequate credit quality, sufficient net worth and cash flows to service existing debt. Borrowers in this grade have an existing long term deposit relationship with Southern and have made a reasonable investment in the loan. If secured, collateral for these loans is reasonably marketable such as listed stocks and bonds.

- Average - This grade includes loans to borrowers of acceptable credit quality and risk. Such borrowers have maintained an existing deposit relationship with Southern, but not for the time periods of those included in the above grades of average and superior. These borrowers also have sufficient net worth and cash flows to service existing debt, but not to the level of those included in grades above average and superior. There has been reasonable investment in the loan by the borrower.

- Below average - This grade includes loans to borrowers with credit history that reflects delinquencies with justifiable explanation or no credit history. Typically these borrowers do not have a deposit relationship with Southern and/or have made an insignificant investment in the loan. Included in this grade are loans to borrowers with marginal cash flows and net worth or who reside outside of the trade area. Also, loans for which repayment is dependent upon sales in unproven or unstable markets fall into this grade.

- Special mention - This grade is for loans which are "especially mentioned" in accordance with regulatory guidelines. This grade includes loans on management's "watchlist". This grade includes loans for which repayment terms exceed policy or with no significant principal reduction in the past 12 months, are in an industry that is deteriorating, or that repayment is based upon the sale of collateral, guarantors, or government guarantees. Also included are real estate under construction for speculative purposes and the borrower does not have a long history of sales. This grade is intended to be temporary and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation.

- Substandard - This grade includes loans on management's "watchlist". 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. These loans are characterized by the distinct possibility that Southern will sustain some loss if the deficiency is not corrected.

- Doubtful - Loans classified as "doubtful" have all the weaknesses inherent in those classified as "substandard" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

- Loss - Loans 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 affected in the future. Included in this category are loans that are covered under loss share agreements with the FDIC which have been partial charge-offs based on the terms of the loss share agreements.

- Ungradable - This represents loans that are HELOC and other consumer type loans with relatively small balances for which risk ratings are not assigned.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

The following presents the credit risk profile by risk grade for non-acquired loans:

	As of December 31, 2021								
	Superior	Above average	Average	Below average	Special mention	Substandard	Doubtful	Loss	Total
Commercial:									
Construction and land development	$ -	$ -	$ 90,029	$ 19,125	$ 1,034	$ 185	$ -	$ -	$ 110,373
Agricultural	-	-	173,595	46,268	439	1,594	-	-	221,896
Commercial mortgage	403	5,596	810,106	165,187	5,136	1,744	-	-	988,172
Commercial and industrial	2	116	146,009	56,671	725	717	-	-	204,240
Payroll Protection Program	-	-	42,861	-	-	-	-	-	42,861
Other	-	-	28,829	-	-	-	-	-	28,829
Non-commercial:									
Residential mortgage	-	3	481,169	34,946	1,484	1,675	-	-	519,277
Revolving mortgage (HELOCS)	-	1,185	137,874	8,525	121	665	-	-	148,370
Construction and land development	-	-	53,576	2,707	-	120	-	-	56,403
Consumer	-	125	23,164	2,126	48	78	-	-	25,541
Demand overdrafts	-	-	272	-	-	-	-	-	272
Total non-acquired loans	$ 405	$ 7,025	$ 1,987,484	$ 335,555	$ 8,987	$ 6,778	$ -	$ -	$ 2,346,234

	As of December 31, 2020								
	Superior	Above average	Average	Below average	Special mention	Substandard	Doubtful	Loss	Total
Commercial:									
Construction and land development	$ -	$ -	$ 71,894	$ 21,660	$ 412	$ 196	$ -	$ -	$ 94,162
Agricultural	-	-	164,264	46,731	1,458	1,777	-	-	214,230
Commercial mortgage	427	3,514	645,132	166,153	5,397	2,425	-	-	823,048
Commercial and industrial	2	165	114,216	66,298	1,952	151	-	-	182,784
Paycheck Protection Program	-	211	209,380	25,447	931	359	-	-	236,328
Other	-	-	14,374	-	-	-	-	-	14,374
Non-commercial:									
Residential mortgage	-	10	367,038	34,313	2,132	3,510	-	-	407,003
Revolving mortgage (HELOCS)	-	361	127,478	9,266	159	631	-	-	137,895
Construction and land development	-	-	37,303	3,377	-	128	-	-	40,808
Consumer	-	184	24,180	2,102	69	47	-	-	26,582
Demand overdrafts	-	-	-	220	-	-	-	-	220
Total non-acquired loans	$ 429	$ 4,445	$ 1,775,259	$ 375,567	$ 12,510	$ 9,224	$ -	$ -	$ 2,177,434

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

The following table presents the credit risk profile by risk grade of acquired loans, net of the related discount.

	As of December 31, 2021									
	Superior	Above average	Average	Below average	Special mention	Substandard	Doubtful	Loss	Ungradable	Total
FASB ASC Topic 310-30 acquired loans:										
Commercial performing	$ -	$ -	$ 9	$ -	$ -	$ -	$ -	$ -	$ -	$ 9
Consumer performing	-	-	76	-	-	-	-	-	-	76
Consumer non-performing	-	-	-	101	320	153	-	-	-	574
Construction and development performing	-	-	-	553	-	139	-	-	-	692
Construction and development non-performing	-	-	-	245	-	250	-	-	-	495
Consumer real estate performing	-	-	105	1,796	185	423	-	-	-	2,509
Consumer real estate non-performing	-	-	479	171	245	930	-	-	-	1,825
Commercial real estate performing ST amortizating	-	-	109	578	-	-	-	-	-	687
Commercial real estate performing LT amortizating	-	-	433	1,450	434	-	-	-	-	2,317
Commercial real estate non-performing LT amortizating	-	-	338	6,572	197	4,829	-	-	-	11,936
Loans individually accounted for under FASB ASC Topic 310-30	-	-	1,178	697	14	2,856	-	-	-	4,745
FASB ASC Topic 310-20 acquired loans	-	4	55,802	9,736	1,463	445	-	-	-	67,450
Total acquired loans	$ -	$ 4	$ 58,529	$ 21,899	$ 2,858	$ 10,025	$ -	$ -	$ -	$ 93,315

	As of December 31, 2020									
	Superior	Above average	Average	Below average	Special mention	Substandard	Doubtful	Loss	Ungradable	Total
FASB ASC Topic 310-30 acquired loans:										
Commercial performing	$ -	$ -	$ 10	$ -	$ -	$ -	$ -	$ -	$ -	$ 10
Consumer performing	-	-	153	-	-	-	-	-	-	153
Consumer non-performing	-	-	-	104	337	218	-	-	-	659
Construction and development performing	-	-	-	571	-	224	-	-	-	795
Construction and development non-performing	-	-	141	327	-	361	-	-	-	829
Consumer real estate performing	-	-	216	3,224	609	592	-	-	-	4,641
Consumer real estate non-performing	-	-	1,084	191	325	1,446	-	-	-	3,046
Commercial real estate performing ST amortizating	-	-	113	608	-	-	-	-	-	721
Commercial real estate performing LT amortizating	-	-	576	1,756	473	-	-	-	-	2,805
Commercial real estate non-performing LT amortizating	-	-	304	6,963	197	4,633	-	-	-	12,097
Loans individually accounted for under FASB ASC Topic 310-30	-	-	1,212	1,366	1,221	2,059	-	-	-	5,858
FASB ASC Topic 310-20 acquired loans	-	11	73,961	13,969	2,136	504	-	-	-	90,581
Total acquired loans	$ -	$ 11	$ 77,770	$ 29,079	$ 5,298	$ 10,037	$ -	$ -	$ -	$ 122,195

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

The risk grading of acquired loans is determined utilizing a loan's contractual balance, while the amount recorded in the financial statements and reflected above is the carrying value.

The following is a summary of information pertaining to impaired non-acquired and acquired loans accounted for under FASB ASC Topic 310-10:

	For the year ended December 31, 2021				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Non-Acquired:					
Commercial:					
Construction and land development	$ 737	$ 737	$ -	$ 737	$ -
Agricultural	1,410	1,208	-	1,208	-
Commercial mortgage	2,024	1,414	264	1,678	7
Commercial and industrial	776	491	-	491	-
Non-commercial:					
Residential mortgage	631	573	-	573	-
Total non-acquired loans	5,578	4,423	264	4,687	7
Acquired:					
FASB ASC Topic 310-20 acquired loans	-	-	-	-	-
Total acquired loans	-	-	-	-	-
Total impaired loans	$ 5,578	$ 4,423	$ 264	$ 4,687	$ 7

	For the year ended December 31, 2020				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Non-Acquired:					
Commercial:					
Construction and land development	$ 753	$ 753	$ -	$ 753	$ -
Agricultural	1,373	986	245	1,231	71
Commercial mortgage	2,944	2,016	308	2,324	11
Commercial and industrial	-	-	-	-	-
Non-commercial:					
Residential mortgage	1,666	1,601	-	1,601	-
Total non-acquired loans	6,736	5,356	553	5,909	82
Acquired:					
FASB ASC Topic 310-20 acquired loans	149	116	-	116	-
Total acquired loans	149	116	-	116	-
Total impaired loans	$ 6,885	$ 5,472	$ 553	$ 6,025	$ 82

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

The following table summarizes the average investment in impaired loans, non-acquired and acquired loans accounted for under FASB ASC Topic 310-10, and interest income recognized on these loans:

	Years Ended December 31, 2021		2020	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Non-Acquired:				
Commercial:				
Construction and land development	$ 746	$ 38	$ 760	$ 31
Agricultural	1,180	2	1,399	39
Commercial mortgage	1,986	27	3,050	45
Commercial and industrial	98	5	71	-
Non-commercial:				
Residential mortgage	1,168	29	1,214	15
Total non-acquired loans	5,178	101	6,494	130
Acquired:				
FASB ASC Topic 310-20 acquired loans	45	-	135	-
Total acquired loans	45	-	135	-
Total impaired loans	$ 5,223	$ 101	$ 6,629	$ 130

The amount of foregone interest on non-acquired and acquired loans accounted for under FASB ASC Topic 310-10 at December 31, 2021 and 2020 was not material for the periods presented.

The following is a summary of information pertaining to non-acquired loans and acquired loans accounted for under FASB ASC Topic 310-10 that are on non-accrual, including restructured loans:

	December 31, 2021	2020
Non-Acquired:		
Commercial:		
Agricultural	$ 1,208	$ 1,231
Commercial mortgage	1,158	1,759
Commercial and industrial	491	-
Non-commercial:		
Residential mortgage	573	1,351
Total non-acquired loans	3,430	4,341
Acquired:		
FASB ASC Topic 310-20 acquired loans	-	116
Total acquired loans	-	116
Total non-accrual loans	$ 3,430	$ 4,457

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

An aging analysis of past due loans, segregated by class for non-acquired loans, was as follows:

	As of December 31, 2021						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	Recorded Investment Greater Than 90 Days and Accruing
Commercial:							
Construction and land development	$ -	$ -	$ -	$ -	$ 110,373	$ 110,373	$ -
Agriculture	282	-	320	602	221,294	221,896	-
Commercial mortgage	628	-	146	774	987,398	988,172	-
Commercial and industrial	198	-	-	198	204,042	204,240	-
Paycheck Protection Program	-	-	-	-	42,861	42,861	-
Other	-	-	-	-	28,829	28,829	-
Non-commercial:							
Residential mortgage	955	87	170	1,212	518,065	519,277	-
Revolving mortgage (HELOCS)	39	-	-	39	148,331	148,370	-
Construction and land development	8	-	5	13	56,390	56,403	-
Consumer	26	7	34	67	25,474	25,541	-
Demand overdrafts	-	-	-	-	272	272	-
Total non-acquired loans	$ 2,136	$ 94	$ 675	$ 2,905	$ 2,343,329	$ 2,346,234	$ -

	As of December 31, 2020						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	Recorded Investment Greater Than 90 Days and Accruing
Commercial:							
Construction and land development	$ -	$ -	$ -	$ -	$ 94,162	$ 94,162	$ -
Agriculture	9	-	277	286	213,944	214,230	-
Commercial mortgage	287	530	504	1,321	821,727	823,048	-
Commercial and industrial	181	7	25	213	182,571	182,784	-
Paycheck Protection Program	-	-	-	-	236,328	236,328	-
Other	-	-	-	-	14,374	14,374	-
Non-commercial:							
Residential mortgage	5,155	856	390	6,401	400,602	407,003	-
Revolving mortgage (HELOCS)	152	-	7	159	137,736	137,895	-
Construction and land development	45	-	-	45	40,763	40,808	-
Consumer	41	2	-	43	26,539	26,582	-
Demand overdrafts	-	-	-	-	220	220	-
Total non-acquired loans	$ 5,870	$ 1,395	$ 1,203	$ 8,468	$ 2,168,966	$ 2,177,434	$ -

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

An aging analysis of past due loans, segregated by class for acquired loans, was as follows:

	As of December 31, 2021					
	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Past Due	Current	Total
FASB ASC Topic 310-30 acquired loans:						
Commercial performing	$ -	$ -	$ -	$ -	$ 9	$ 9
Consumer performing	-	-	-	-	76	76
Consumer non-performing	-	-	-	-	574	574
Construction and development performing	-	-	-	-	692	692
Construction and development non-performing	-	-	-	-	495	495
Consumer real estate performing	105	12	-	117	2,392	2,509
Consumer real estate non-performing	51	44	-	95	1,730	1,825
Commercial real estate performing ST amortizing	-	-	-	-	687	687
Commercial real estate performing LT amortizing	-	-	-	-	2,317	2,317
Commercial real estate non-performing LT amortizing	-	-	1,135	1,135	10,801	11,936
Loans individually accounted for under FASB ASC Topic 310-30	-	-	-	-	4,745	4,745
Total FASB ASC Topic 310-30 acquired loans	156	56	1,135	1,347	24,518	25,865
FASB ASC Topic 310-20 acquired loans	16	-	177	193	67,257	67,450
Total acquired loans	$ 172	$ 56	$ 1,312	$ 1,540	$ 91,775	$ 93,315

	As of December 31, 2020					
	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Past Due	Current	Total
FASB ASC Topic 310-30 acquired loans:						
Commercial performing	$ -	$ -	$ -	$ -	$ 10	$ 10
Consumer performing	-	-	-	-	153	153
Consumer non-performing	-	164	-	164	495	659
Construction and development performing	-	-	-	-	795	795
Construction and development non-performing	-	-	-	-	829	829
Consumer real estate performing	122	-	31	153	4,488	4,641
Consumer real estate non-performing	233	-	-	233	2,813	3,046
Commercial real estate performing ST amortizing	-	-	-	-	721	721
Commercial real estate performing LT amortizing	-	501	77	578	2,227	2,805
Commercial real estate non-performing LT amortizing	-	-	-	-	12,097	12,097
Loans individually accounted for under FASB ASC Topic 310-30	188	-	846	1,034	4,824	5,858
Total FASB ASC Topic 310-30 acquired loans	543	665	954	2,162	29,452	31,614
FASB ASC Topic 310-20 acquired loans	164	-	80	244	90,337	90,581
Total acquired loans	$ 707	$ 665	$ 1,034	$ 2,406	$119,789	$122,195

In the course of resolving delinquent loans, Southern may choose to restructure the contractual terms of certain loans. A TDR is a restructuring of a loan in which a concession is granted to a borrower experiencing financial difficulty. A loan is accounted for as a TDR if Southern, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise grant. A TDR typically involves a modification of terms such as a reduction of the interest rate below the current market rate for a loan with similar risk characteristics or the waiving of certain financial loan covenants without corresponding offsetting compensation or additional support. BancShares measures the impairment loss of a TDR using the methodology for individually impaired loans. In accordance with FASB ASC Topic 310-30, a loan is not considered a TDR at the date of acquisition but may be classified as such if a modification is made subsequent to the acquisition.

(Dollars in Thousands for Tabular Presentations)

Note 3. Loans and Allowance for Loan Losses (Continued)

The following table presents a breakdown of the types of concessions made by loan class for the non-acquired loans that were modified as TDR's during 2021 and 2020. For the twelve month period ended December 31, 2021 and 2020, the recorded investment in TDR's prior to modification was not materially impacted by the modification. Commitments to lend additional funds to TDR borrowers at December 31, 2021 and 2020 were not material.

	Years Ended December 31,					
	2021			2020		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Extended payment terms:						
Commercial:						
Commercial mortgage	-	$ -	$ -	3	$ 984	$ 476
Non-commercial:						
Residential mortgage	-	-	-	4	373	373
Total term modifications	-	$ -	$ -	7	$ 1,357	$ 849
Total restructured loans	-	$ -	$ -	7	$ 1,357	$ 849

Southern had $2.6 million and $3.5 million of non-acquired loans considered TDR's at December 31, 2021 and 2020, respectively. Included in TDR's are non-acquired loans totaling $964,000 and $1.4 million at December 31, 2021 and 2020, respectively, which were also classified as nonaccrual loans. These loans were modified to extend maturity dates or permit interest only terms for a defined period of time with no material effect on interest income recognition.

These TDRs are evaluated on an individual basis along with all other TDRs based on underlying collateral value if asset dependent or the present value of future cash flows. In the event that there is a shortfall in the value of the collateral securing these loans or the present value of future cash flows, the calculated impairment is reserved for in the allowance for loan losses.

No non-acquired loans were modified as TDRs during the 2021 or 2020 for which there was a payment default. A payment default is defined as a loan that is past due more than 30 days.

These TDRs are evaluated on an individual basis along with all other TDRs based on underlying collateral value. In the event that there is a shortfall in the value of the collateral securing these loans, the calculated impairment is included in the allowance for loan losses.

At December 31, 2021 and 2020, BancShares had $86,000 and $309,000, respectively, of foreclosed residential real estate property in OREO. The recorded investment in consumer mortgage loans collateralized by residential real estate property in the process of foreclosure totaled $96,000 and $548,000 at December 31, 2021 and December 31, 2020, respectively.

(Dollars in Thousands for Tabular Presentations)

Note 4. Premises and Equipment

The components of premises and equipment were as follows:

	December 31,	
	2021	2020
Land	$ 18,313	$ 18,269
Buildings and improvements	72,007	69,691
Furniture and equipment	26,432	24,640
Construction in progress	3,090	565
	119,842	113,165
Less: accumulated depreciation	(54,318)	(49,731)
Balance at the end of the year	$ 65,524	$ 63,434

Depreciation and amortization amounts of $4.9 million and $5.1 million in 2021 and 2020, respectively, are included in occupancy and furniture and equipment expenses. Construction in progress represents new facilities being built and other facilities currently undergoing renovations.

Premises and Equipment Lease Commitments

As of December 31, 2021 and 2020 the Company had operating lease right of use assets of $4.0 million and $5.7 million, respectively and operating lease liabilities of $4.2 million and $5.9 million, respectively. The Company maintains operating leases on land and buildings for some of the Southern's branch facilities. Most leases include renewal options, with renewal terms that management is reasonably certain to exercise extending up to 9 years. The exercise of renewal options is based on the judgment of management as to whether or not the renewal option is reasonably certain to be exercised. Factors in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to Southern if the option is not exercised. As allowed by the standard, leases with a term of 12 months or less are not recorded in the Consolidated Balance Sheets and instead are recognized in lease expense on a straight-line basis over the lease term.

Operating lease expense, included in Occupancy expense in the Consolidated Statements of Income and Other Comprehensive Income, totaled $857,000 and $989,000 during 2021 and 2020, respectively. Short-term leases of equipment, included in Furniture and equipment expense in the Consolidated Statements of Income and Other Comprehensive Income, totaled $6,000 and $6,000, while leases of facilities owned or subleases of facilities leased, in which Southern is the lessor, included in Other noninterest income in the Consolidated Statements of Income and Other Comprehensive Income, totaled $210,000 and $189,000 during 2021 and 2020, respectively. Lease payments under operating leases that were applied to the operating lease liability totaled $691,000 and $756,000 during 2021 and 2020, respectively.

The following table reconciles future undiscounted lease payments to the operating lease liability as of December 31, 2021.

Future operating lease payments for the year ending December 31:

2022	$ 942
2023	784
2024	787
2025	656
2026	446
Thereafter	1,393
Total undiscounted operating lease liabilities	5,008
Imputed interest	777
Total operating lease liabilites	$ 4,231
Weighted average lease term in years	6.89
Weighted average discount rate	2.86%

As of December 31, 2021 and 2020, Southern did not maintain any finance leases or leases with related parties, and the number and dollar amount of equipment leases and short-term leases were determined to be immaterial. As of December 31, 2021, Southern had no additional leases that have not yet commenced.

(Dollars in Thousands for Tabular Presentations)

Note 5. Income Taxes

Allocation of federal and state income taxes between current and deferred portions for the years ended December 31 is as follows:

	2021	2020
Current:		
Federal	$ 11,039	$ 9,436
State	1,180	1,066
Total	$ 12,219	$ 10,502
Deferred:		
Federal	$ 11,843	$ 839
State	(2,459)	107
Total	$ 9,384	$ 946
Total tax expense	$ 21,603	$ 11,448

A reconciliation of income tax expense computed at the statutory federal income tax rate of 21 percent to income tax expense included in net income is as follows:

	2021	2020
Tax at statutory federal rate	$ 24,181	$ 11,778
State income tax expense (benefit), net of federal benefit	(1,011)	927
Tax exempt income	(1,432)	(1,044)
Dividends received deduction	(74)	(83)
Other	(61)	(130)
Total	$ 21,603	$ 11,448

The components of the net deferred tax liability, included in Other liabilities, are as follows:

	December 31,	
	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 6,305	$ 6,456
Pension liability	16	2,216
Deferred compensation	823	817
Unrealized losses on available for sale securities	841	-
Operating lease liabilities	959	1,289
Other	714	1,101
Total deferred tax assets	9,658	11,879
Deferred tax liabilities:		
Depreciation	(1,255)	(1,593)
Intangibles	(1,573)	(1,731)
Pension funding commitment	(3,855)	(4,623)
Unrealized gains on marketable equity securities	(34,628)	(25,249)
Unrealized gains on available for sale securities	-	(5,514)
FDIC acquisition	(1,310)	(290)
Operating lease right of use assets	(915)	(1,246)
Other	(955)	(1,236)
Total deferred tax liabilities	(44,491)	(41,482)
Net deferred tax liability	$ (34,833)	$ (29,603)

(Dollars in Thousands for Tabular Presentations)

Note 5. Income Taxes (Continued)

In November 2021, North Carolina adopted a graduated reduction in its corporate income tax rate. Beginning in 2025 the corporate tax rates will be reduced from 2.50% in 2021 to 0% in years subsequent to December 31, 2029. Accordingly, the Company's deferred tax assets and liabilities were re-measured to reflect the reduction in the future North Carolina corporate income tax rate based on when the estimated deferred tax assets and liabilities will reverse. This resulted in a $3.0 million decrease in income tax expense and net deferred tax liabilities for the year ended December 31, 2021. The re-measurement of deferred tax assets and liabilities related to accumulated other comprehensive income were immaterial at December 31, 2021. There was no impact on the consolidated financial statements for the year ended December 31, 2020.

BancShares has invested in Qualified Affordable Housing Projects in the amount of $7.4 million and $6.4 million at December 31, 2021 and 2020, respectively. The investment balance net of amortized tax benefits is $5.2 million and $4.8 million at December 31, 2021 and 2020, respectively and is shown in the Consolidated Balance Sheets in Other assets. BancShares also has commitments, which are shown in Other liabilities in the Consolidated Balance Sheets, to provide additional capital calls in the amount of $2.0 million and $2.3 million at December 31, 2021 and 2020, respectively. It is anticipated that these additional commitment amounts will be paid within the next four years.

Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in BancShares' consolidated financial statements. BancShares has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2021. Interest and penalties related to income tax assessments, if any, are reflected in income tax expense in the Consolidated Statements of Income and Comprehensive Income. Fiscal years ending on or after December 31, 2018 remain subject to examination by federal and state tax authorities.

Note 6. Deposits

Deposits at December 31 are summarized as follows:

	2021	2020
Demand	$ 1,386,132	$ 1,178,736
Time	278,326	299,673
Money market accounts	1,171,002	1,022,956
Checking with interest	787,656	579,793
Savings	296,067	234,642
Total deposits	$ 3,919,183	$ 3,315,800

Total time deposits with a denomination of $250,000 or more were $81.5 million and $83.1 million at December 31, 2021 and 2020, respectively.

At December 31, 2021, the scheduled maturities of all time deposits were:

2022	$ 197,028
2023	49,042
2024	4,503
2025	2,403
2026	4,874
Thereafter	20,476
Total time deposits	$ 278,326

(Dollars in Thousands for Tabular Presentations)

Note 7. Short and Long-Term Borrowings

Short-term Borrowings

Short-term borrowings at December 31 were:

	2021	2020
Repurchase agreements	$ 63,670	$ 44,203
Notes payable to a commercial bank	-	11,060
Total short-term borrowings	$ 63,670	$ 55,263

For the years ended December 31, 2021 and 2020, average short-term borrowings outstanding totaled $59.1 million and $57.3 million, respectively, with weighted average rates of 0.26% and 0.51% as of December 31, 2021 and 2020, respectively.

Southern utilizes securities sold under agreements to repurchase to facilitate the needs of our customers. Repurchase agreements are transactions whereby Souhern offers to sell to a counterparty an undivided interest in an eligible security at an agreed upon purchase price, and which obligates Southern to repurchase the security on an agreed upon date at an agreed upon repurchase price plus interest at an agreed upon rate. Securities sold under agreements to repurchase are recorded at the amount of cash received in connection with the transaction and are reflected as Short-term borrowings in the Consolidated Balance Sheets.

Southern monitors collateral levels on a continuous basis and maintain records of each transaction specifically describing the applicable security and the counterparty's fractional interest in that security, and segregates the security from its general assets in accordance with regulations governing custodial holdings of securities. The primary risk with Southern's repurchase agreements is market risk associated with the investments securing the transactions, as Southern may be required to provide additional collateral based on fair value changes of the underlying investments. Securities pledged as collateral under repurchase agreements are maintained with Southern's safekeeping agents.

At December 31, 2021 and 2020, investment securities with a carrying value of $82.4 million and $71.5 million, respectively were pledged for repurchase agreements. The securities collateralizing the repurchase agreements have been delivered to a third party custodian for safekeeping. In addition, loans and Federal Home Loan Bank stock totaling $837.1 million and $692.4 million are pledged as collateral for potential notes payable to the Federal Home Loan Bank at December 31, 2021 and 2020, respectively.

The remaining contractual maturity of the securities sold under agreements to repurchase by class of collateral pledged included in short-term borrowings as of December 31, 2021 and 2020 is as follows:

	Overnight and Continuous	
	2021	2020
U.S. Treasuries and government-sponsored entities debt	$ 46,595	$ 19,842
Obligations of states and political subdivisions	8,591	-
Government-sponsored mortgage-backed securities	27,173	51,648
Total	$ 82,359	$ 71,490

Long-term Borrowings

Long-term borrowings at December 31 were:

	2021	2020
Junior subordinated debentures	$ -	$ 23,711
Subordinated notes	80,000	-
Senior notes	10,000	-
Unamortized issuance costs	(1,126)	-
Total long-term borrowings	$ 88,874	$ 23,711

(Dollars in Thousands for Tabular Presentations)

Note 7. Short and Long-Term Borrowings (Continued)

Long-term Borrowings (Continued)

The $23.7 million junior subordinated debentures payable to Southern Capital Trust II (the "Trust"), qualified as Tier 1 Capital for BancShares, bore interest at 6.95% and had a scheduled maturity of 2035. The Trust was a grantor trust established by BancShares for the purpose of issuing trust preferred securities. The obligations of BancShares with respect to the issuance of the capital securities constitute a full and unconditional guarantee by BancShares of the Trusts' obligations with respect to the capital securities. BancShares may, at any time, redeem the junior subordinated debentures long-term borrowings in whole or in part. The Trust is not consolidated with BancShares. Accordingly, BancShares does not report the securities issued by Southern Capital Trust II as liabilities, and instead reports as liabilities the junior subordinated debentures issued by BancShares and held by the Trust. However, BancShares has fully and unconditionally guaranteed the repayment of the trust preferred securities. These trust preferred securities qualified as Tier 1 capital for regulatory capital requirements of BancShares. BancShares redeemed the junior subordinated debentures on September 15, 2021.

On June 23 2021, BancShares completed its private placement of $80 million aggregate principal amount of its 3.125% Fixed-to-Floating Rate Subordinated Notes due June 30, 2031 and redeemable at the option of BancShares starting with the interest payment due June 30, 2026. Redemption is subject to obtaining the prior approval of the Federal Reserve to the extent such approval is then required under the rules of the Federal Reserve, or earlier upon the occurrence of certain events. After the initial 5 year fixed rate period the note will revert to the three month Secured Overnight Financing Rate ("SOFR") plus 241 basis points.

Also on June 23, 2021, BancShares completed its private placement of $10 million aggregate principal amount of its 2.625% Fixed-Rate Senior Notes due June 30, 2026 to an affiliated institution.

Total long-term borrowing averaged $63.1 million and $100.9 million for 2021 and 2020, respectively and the average cost was 4.28% and 2.14% for 2021 and 2020, respectively.

Note 8. Retirement Plans

Southern has a noncontributory, defined benefit pension plan which covers a substantial number of full-time employees. Southern discontinued offering benefits under the defined benefit plan to employees hired after June 30, 2012. Employees hired who met eligibility requirements on or before June 30, 2012 were allowed the option of continued participation in the defined benefit plan and the existing 401(k) plan or enrollment in an enhanced 401(k) plan, discussed further below. Employees who elected to enroll in the enhanced plan discontinued the accrual of additional years of service under the defined benefit plan. Under the plan, retirement benefits are based on years of service and average earnings. The plan's assets consist primarily of investments in listed common stocks and fixed income securities. It is Southern's policy to determine the service cost and projected benefit obligation using the Projected Unit Credit Cost method.

The following sets forth pertinent information regarding the projected benefit obligation of the pension plan for the periods indicated:

	2021	2020
Projected benefit obligation, beginning of year	$ 94,936	$ 84,855
Service cost	2,278	1,959
Interest cost	2,627	2,882
Actuarial (gain) loss	(2,372)	8,291
Benefits paid	(3,519)	(3,051)
Projected benefit obligation, end of year	$ 93,950	$ 94,936

(Dollars in Thousands for Tabular Presentations)

Note 8. Retirement Plans (Continued)

The accumulated benefit obligation for the pension plan at the end of 2021 and 2020 was $82.4 million and $82.7 million, respectively. Southern uses a measurement date of December 31 for its pension plan.

The weighted average assumptions used to determine benefit obligations, at the end of the year were as follows:

	2021	2020
Discount rate	3.00%	2.70%
Rate of compensation increase	4.00%	4.00%

The change in pension plan assets is as follows:

	2021	2020
Fair value of plan assets, beginning of year	$ 105,554	$ 94,880
Actual return on plan assets	10,030	13,725
Benefits paid	(3,519)	(3,051)
Fair value of plan assets, end of year	$ 112,065	$ 105,554

Employer contributions and benefits paid in the above table include only those amounts contributed directly to, or paid directly from, plan assets.

	2021	2020
Funded status, end of year		
Fair value of plan assets	$ 112,065	$ 105,554
Projected benefit obligation	(93,950)	(94,936)
Funded status	18,115	10,618
Amounts not yet recognized:		
Unrecognized net loss	-	-
Net amount recognized	$ 18,115	$ 10,618

	2021	2020
Amounts recognized in the statement of financial position consist of:		
Noncurrent asset	$ 18,115	$ 10,618
Noncurrent liability	$ -	$ -
Amounts recognized in accumulated other comprehensive income, excluding income taxes, consist of:		
Net actuarial loss	$ 66	$ 9,779
Prior service cost	-	-
Accumulated other comprehensive income	$ 66	$ 9,779

The following table discloses the components of periodic benefit cost related to the pension plan for the years ended December 31, 2021 and 2020:

	2021	2020
Service cost	$ 2,278	$ 1,959
Interest cost	2,627	2,882
Expected return on plan assets	(4,838)	(5,005)
Amortization of net actuarial loss	2,149	1,492
Net periodic benefit cost	$ 2,216	$ 1,328

(Dollars in Thousands for Tabular Presentations)

Note 8. Retirement Plans (Continued)

Investment decisions regarding the plan's assets seek to achieve a favorable annual return through a diversified portfolio that will provide needed capital appreciation and cash flow to allow both current and future benefit obligations to be paid. The target asset mix may change if the objectives for the plan's assets or risk tolerance change or if a major shift occurs in the expected long-term risk and reward characteristics of one or more asset classes.

The asset allocation for Southern's pension plan at the end of 2021 and 2020, and the target allocation for 2021, by asset category, is as follows:

Asset category	Target Allocation for 2022	Percentage of Plan Assets at December 31, 2021	2020
Cash and cash equivalents	1%	1%	1%
Equity securities	35%	34%	57%
Debt securities	64%	65%	42%
Total	100%	100%	100%

The expected long-term rate of return on the plan assets was 5.50% and 6.00% in 2021 and 2020, respectively. Southern's investment strategy calls for earning an adequate return on assets while not exposing the assets to unnecessary risk. The plan's assets are primarily invested in marketable, fixed rate U. S. Government and corporate securities and marketable equity securities. The plan's target allocation was changed slightly from the prior year increasing the exposure to debt securities and other satellite investments while decreasing the exposure to equity securities and cash and cash equivalents.

The fair values of pension plan assets at December 31, 2021 and 2020, by asset category are as follows:

Asset Category	Market Value as of December 31,	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Target Allocation	Actual % of Plan Assets
2021						
Cash and cash equivalents	$ 1,211	$ 1,211	$ -	$ -	1%	1%
Equity securities:					55%	34%
Individual equities	6,111	6,111	-	-		
Mutual funds	15,720	15,720	-	-		
Exchange traded funds	16,818	16,818	-	-		
Debt securities:					44%	65%
Bonds	72,205	57,078	15,127	-		
Total pension assets	$ 112,065	$ 96,938	$ 15,127	$ -	100%	100%
2020						
Cash and cash equivalents	$ 833	$ 833	$ -	$ -	1%	1%
Other investments	-	$ -	$ -	$ -	5%	0%
Equity securities:					57%	57%
Individual equities	9,159	9,159	-	-		
Mutual funds	24,572	24,572	-	-		
Exchange traded funds	26,177	26,177	-	-		
Debt securities:					37%	42%
Bonds	44,813	12,638	32,175	-		
Total pension assets	$ 105,554	$ 73,379	$ 32,175	$ -	100%	100%

(Dollars in Thousands for Tabular Presentations)

Note 8. Retirement Plans (Continued)

Following are estimated payments to pension plan participants in the indicated periods:

Employer Contributions	
2022 (expected) to plan trust	$ -
Expected Benefit Payments	
2022	$ 3,522
2023	3,674
2024	3,886
2025	4,079
2026	4,197
2027 - 2031	22,926

The weighted-average assumptions used to determine the net periodic benefit cost for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Discount rate	2.70%	3.40%
Rate of compensation increase	4.00%	4.00%
Expected return on plan assets	5.50%	6.00%

The discount rate above reflects the discount in effect at January 1 of the plan year. The estimated actuarial loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2022 is $967,000. There is no prior service cost expected to be amortized into the net periodic benefit cost in 2022.

Employees hired before July 1, 2012 are also eligible to participate in a 401(k) plan through deferral of portions of their salary. Based on the employee's contribution, BancShares will match up to 100% of the first 3% of the participant's contributions and 50% of the next 3%. In addition, BancShares also offers an enhanced 401(k) plan for certain employees. BancShares will match 100% of the first 6% of the participant's contributions. In addition, BancShares may make discretionary contributions. BancShares made participating contributions of $2.6 million and $2.3 million during 2021 and 2020, repectively.

Note 9. Regulatory Requirements and Restrictions

BancShares is subject to regulations with respect to certain risk-based capital ratios. These risk-based capital ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted based on the rules to reflect categorical credit risk. In addition to the risk-based capital ratios, the regulatory agencies have also established a leverage ratio for assessing capital adequacy. The leverage ratio is equal to Tier 1 capital divided by total consolidated on-balance sheet assets (minus amounts deducted from Tier 1 capital). The leverage ratio does not involve assigning risk weights to assets.

In July 2013, the Federal Reserve announced its approval of a final rule to implement the regulatory capital reforms developed by the Basel Committee on Banking Supervision ("Basel III"), among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rules became effective January 1, 2015, subject to a phase-in period for certain aspects of the new rules.

As applied to BancShares and Southern, the new rules include a new minimum ratio of common equity Tier 1 capital ("CET1") to risk-weighted assets of 4.5%. The new rules also raise the minimum required ratio of Tier 1 capital to risk-weighted assets from 4% to 6%. The minimum required leverage ratio under the new rules is 4%. The minimum required total capital to risk-weighted assets ratio remains at 8% under the new rules.

In order to avoid restrictions on capital distributions and discretionary bonus payments to executives, under the new rules a covered banking organization will also be required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of common equity Tier 1, and the buffer will apply to all three risk-based measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer was phased in annually over four years beginning January 1, 2016, at 0.625% of risk-weighted assets and increasing each subsequent year by an additional 0.625%. As fully phased in on January 1, 2019, the capital conservation buffer is 2.5% of risk-weighted assets.

Note 9. Regulatory Requirements and Restrictions (Continued)

Southern is also subject to the regulatory framework for prompt corrective action, which identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and is based on specified thresholds for each of the three risk-based regulatory capital ratios (CET1, Tier 1 capital and total capital) and for the leverage ratio.

The following table presents actual and required capital ratios as of December 31, 2021 and 2020 for BancShares and Southern under the Basel III capital rules. The minimum required capital amounts presented include the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

In April 2020, Southern began originating loans to qualified small businesses under the PPP administered by the SBA. Federal bank regulatory agencies have issued an interim final rule that permits banks to neutralize the regulatory capital effects of participating in the Paycheck Protection Program Lending Facility (the "PPP Facility") and clarify that PPP loans have a zero percent risk weight under applicable risk-based capital rules. Specifically, a bank may exclude all PPP loans pledged as collateral to the PPP Facility from its average total consolidated assets for the purposes of calculating its leverage ratio, while PPP loans that are not pledged as collateral to the PPP Facility will be included. Southern's PPP loans are included in the calculation of the leverage ratio as of December 31, 2021 and 2020 as Southern did not utilize the PPP Facility for funding purposes.

	Actual		Minimum for capital adequacy purposes		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2021:						
Common equity Tier 1 to risk-weighted assets:						
BancShares	$ 404,050	12.098%	$ 150,291	4.500%	$ 217,088	6.500%
Southern	365,101	12.266%	133,944	4.500%	193,474	6.500%
Tier 1 capital to risk-weighted assets						
BancShares	404,050	12.098%	200,388	6.000%	267,185	8.000%
Southern	365,101	12.266%	178,592	6.000%	238,122	8.000%
Total capital to risk-weighted assets						
BancShares	503,833	15.085%	267,197	8.000%	333,996	10.000%
Southern	394,410	13.251%	238,116	8.000%	297,645	10.000%
Tier 1 capital to average assets (leverage ratio):						
BancShares	404,050	8.978%	180,018	4.000%	225,022	5.000%
Southern	365,101	8.358%	174,731	4.000%	218,414	5.000%

	Actual		Minimum for capital adequacy purposes		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2020:						
Common equity Tier 1 to risk-weighted assets:						
BancShares	$ 333,961	11.802%	$ 127,333	4.500%	$ 183,926	6.500%
Southern	286,340	11.498%	112,067	4.500%	161,874	6.500%
Tier 1 capital to risk-weighted assets						
BancShares	357,669	12.640%	169,777	6.000%	226,369	8.000%
Southern	286,340	11.498%	149,422	6.000%	199,229	8.000%
Total capital to risk-weighted assets						
BancShares	386,111	13.645%	226,375	8.000%	282,969	10.000%
Southern	316,490	12.709%	199,229	8.000%	249,036	10.000%
Tier 1 capital to average assets (leverage ratio):						
BancShares	357,669	9.498%	150,637	4.000%	188,296	5.000%
Southern	286,340	7.766%	147,484	4.000%	184,355	5.000%

BancShares and Southern had capital conservation buffers of 6.10% and 5.25%, respectively, at December 31, 2020. These buffers exceed the 2.5% requirement, and therefore, result in no limit on distributions.

Note 9. Regulatory Requirements and Restrictions (Continued)

The primary source of funds for the dividends paid by BancShares to its shareholders is dividends received from its banking subsidiary. Southern is restricted as to dividend payout by state laws applicable to banks and may pay dividends only out of retained earnings. Should at any time its surplus be less than 50% of its paid-in capital stock, Southern may not declare a dividend until it has transferred from retained earnings to surplus 25% of its undivided profits or any lesser percentage that may be required to restore its surplus to an amount equal to 50% of its paid-in capital stock. Additionally, dividends paid by Southern may be limited by the need to retain sufficient earnings to satisfy minimum capital requirements imposed by the FDIC. Dividends on BancShares' common shares may be paid only after dividends on preferred series B and C shares have been paid. Common share dividends are based upon BancShares' profitability and are paid at the discretion of the Board of Directors.

Management does not expect any of the foregoing restrictions to materially limit its ability to pay dividends comparable to those paid in the past. At December 31, 2021, BancShares' investment in Southern was restricted to an amount equal to the level of regulatory capital that could be transferred from Southern without obtaining prior regulatory approval.

Note 10. Commitments, Contingencies and Concentration of Credit Risk

In the normal course of business there are various commitments and contingent liabilities outstanding, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. Southern is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and undisbursed advances on customer lines of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheets.

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

Commitments to extend credit and undisbursed advances on customer lines of 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 commitments expire without being drawn, the total commitment amounts do not necessarily represent future cash requirements. Southern evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Southern, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include trade accounts receivable, property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are commitments issued by Southern to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2021 is $6.0 million. At December 31, 2021, BancShares considered this amount to be immaterial and has recorded no liability for the current carrying amount of the obligation to perform as a guarantor and no liability is considered necessary. Substantially all standby letters of credit are secured by real estate and/or guaranteed by third parties in the event BancShares had to advance funds to fulfill the guarantee.

Outstanding commitments to lend at December 31, 2021 and December 31, 2020 were $727.1 million and $635.1 million and include undisbursed advances on customer lines of credit of $229.5 million and $195.4 million, respectively. Outstanding standby letters of credit and commitments to lend at December 31, 2021 generally expire within one year, whereas commitments associated with undisbursed advances on customer lines of credit at December 31, 2021 generally expire within one to five years.

Non-recourse commitments to sell loans amounted to $26.5 million and $32.5 million at December 31, 2021 and 2020, respectively. BancShares utilized investor commitments to protect its mortgage loans held for sale from interest rate risk from the time of origination to the time of sale. These commitments are accounted for at fair market value. Unfunded residential mortgage loan commitments for loans to be sold are also accounted for at fair market value. These fair market value adjustments were insignificant as of and for the years ended December 31, 2021 and 2020.

Southern is also committed to leases for banking facilities. See Note 4 – Premises and Equipment for lease commitments at December 31, 2021.

(Dollars in Thousands for Tabular Presentations)

Note 10. Commitments, Contingencies and Concentration of Credit Risk (Continued)

BancShares does not have any special purpose entities or other similar forms of off-balance sheet financing arrangements.

Southern grants agribusiness, commercial and consumer loans to customers primarily in eastern North Carolina and southeastern Virginia.

BancShares is also involved in various legal actions arising in the normal course of business. Management is of the opinion that the outcome of such actions will not have a material adverse effect on the consolidated financial position of BancShares.

Note 11. Parent Company Financial Statements

Presented below are the Condensed Balance Sheets (parent company only) of Southern BancShares (N.C.), Inc. as of December 31, 2021 and 2020 and Condensed Statements of Income and Cash Flows for the years then ended.

CONDENSED BALANCE SHEETS

	December 31, 2021	December 31, 2020
ASSETS		
Cash	$ 27,319	$ 5,780
Investment in marketable equity securities	160,621	111,517
Investment securities available for sale, at fair value	8,028	8,204
Other assets	2,511	3,627
Investment in subsidiaries	387,159	323,694
Total assets	$ 585,638	$ 452,822
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued liabilites	$ 29,826	$ 21,736
Notes payable	88,874	37,921
Total liabilities	118,700	59,657
Shareholders' equity	466,938	393,165
Total liabilities and shareholders' equity	$ 585,638	$ 452,822

CONDENSED STATEMENTS OF INCOME

	Year Ended December 31, 2021	Year Ended December 31, 2020
Interest and dividend income	$ 1,243	$ 1,016
Dividends from bank subsidiary	5,550	27,140
Marketable equity securites gains	46,188	10,124
Gain on sale of investment securities	17	-
Total income	52,998	38,280
Interest expense	2,832	1,801
Other expense	448	326
Total expense	3,280	2,127
Income before income tax	49,718	36,153
Income tax expense	8,690	1,078
Net income before equity in undistributed earnings of subsidiaries	41,028	35,075
Equity in undistributed income of subsidiaries	52,518	9,561
Net income	$ 93,546	$ 44,636

(Dollars in Thousands for Tabular Presentations)

Note 11. Parent Company Financial Statements (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2021	Year Ended December 31, 2020
OPERATING ACTIVITIES:		
Net income	$ 93,546	$ 44,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(52,518)	(9,561)
Gain on marketable equity securities	(46,188)	(10,124)
Gain on sale of investment securities available for sale	(17)	-
Amorization of debt issuance costs	59	-
Decrease (increase) in other assets	1,116	(956)
Increase in accrued liabilities	8,094	2,276
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,092	26,271
INVESTING ACTIVITIES:		
Purchases of marketable equity securities	(2,916)	(7,193)
Purchases of investment securities available for sale	-	(8,155)
Proceeds from sale of investment securities available for sale	173	100
Investment in subsidiary	(25,815)	-
Other	711	-
NET CASH USED BY INVESTING ACTIVITIES	(27,847)	(15,248)
FINANCING ACTIVITIES:		
Proceeds from borrowed money	88,815	11,810
Payoff of borrowed funds	(37,921)	-
Dividends paid	(1,866)	(1,775)
Purchase and retirement or redemption of stock	(3,734)	(23,088)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	45,294	(13,053)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,539	(2,030)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	5,780	7,810
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	$ 27,319	$ 5,780
SUPPLEMENTAL DISCLOSURES OF CASH PAID DURING THE YEAR FOR:		
Interest	$ 2,825	$ 1,801

Note 12. Fair Value of Financial Instruments

BancShares utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value estimates are made by management at specific points in time based on relevant information about the financial instrument and the market. These estimates do not reflect any premium or discount that could result from offering for sale at one time BancShares' entire holdings of a particular financial instrument nor are potential taxes and other expenses that would be incurred in an actual sale considered. Because no market exists for a significant portion of BancShares' financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions and/or the methodology used could significantly affect the estimates disclosed. Similarly, the fair values disclosed could vary significantly from amounts realized in actual transactions.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, BancShares has premises and equipment which are not considered financial instruments. Accordingly, the value of these assets has not been incorporated into the fair value estimates. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

BancShares reports fair value on a recurring basis for certain financial instruments, most notably for available-for-sale investment securities and certain derivative instruments. BancShares may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value which was below cost at the end of the period. Assets subject to nonrecurring use of fair value measurements could include impaired loans, loans held for sale, goodwill, and OREO.

BancShares groups financial assets and financial liabilities 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. These levels are:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party services for similar or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or brokered traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Marketable equity securities are measured at fair value using observable closing prices. The valuation also considers the amount of market activity by examining the trade volume of each security. Equity securities are classified as Level 1 since they are traded in an active market.

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, or U.S. Treasury and agency mortgage-backed securities issued by government sponsored entities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government-sponsored entities, obligations of states and political subdivisions and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets given that there is an absence of observable inputs for these and similar securities in the debt markets. For these securities, a present value approach that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs provides representative fair values, and therefore, has been used rather than a market valuation approach. This income valuation approach requires numerous steps in determining fair value. These steps include estimating credit quality of the collateral, generating asset defaults, forecasting cash flows for underlying collateral, and determining losses given default assumptions.

(Dollars in Thousands for Tabular Presentations)

Note 12. Fair Value of Financial Instruments (Continued)

BancShares is allowed to make an irrevocable election to measure certain financial instruments at fair value. The changes in fair value from one reporting period to the next period must be reported in the income statement with additional disclosures to identify the effect on net income. BancShares continued to account for securities available-for-sale at fair value as reported in prior years. BancShares has no derivative activity. Securities available-for-sale are reported on a recurring basis.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Fair Value Measurements at December 31:

	Market Value	Quoted Prices in Active Markets for Identical (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2021				
Marketable equity securities	$ 188,420	$ 188,420	$ -	$ -
Investment securities available for sale:				
U.S. Treasuries and government sponsored entities debt	$ 458,217	$ 458,217	$ -	$ -
Corporate debt securities	11,577	-	11,513	64
Obligations of states and political subdivisions	284,833	-	284,833	-
Government-sponsored mortgage-backed securities	858,665	-	858,665	-
Total	$ 1,613,292	$ 458,217	$ 1,155,011	$ 64

	Market Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2020				
Marketable equity securities	$ 130,755	$ 130,755	$ -	$ -
Investment securities available for sale:				
U.S. Treasuries and government sponsored entities debt	$ 218,378	$ 218,378	$ -	$ -
Corporate debt securities	11,239	-	11,133	106
Obligations of states and political subdivisions	173,246	-	173,246	-
Government-sponsored mortgage-backed securities	573,753	-	573,753	-
Total	$ 976,616	$ 218,378	$ 758,132	$ 106

(Dollars in Thousands for Tabular Presentations)

Note 12. Fair Value of Financial Instruments (Continued)

Changes in Level 3 Fair Value Measurements

For those investment securities available-for-sale with fair values that are determined by reliance on significant unobservable inputs, the following table identifies the factors causing the change in fair values for the years ended December 31, 2021 and 2020:

Description	Investment Securities Available-For-Sale With Fair Values Based on Significant Unobservable Inputs
Ending balance, December 31, 2019	$ 250
Total losses realized or unrealized:	
Included in other comprehensive income	(144)
Ending balance, December 31, 2020	106
Total losses realized or unrealized:	
Included in other comprehensive income	(2)
Additions	-
Maturies and calls, net	(40)
Ending balance, December 31, 2021	$ 64

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

As previously discussed, loans are considered impaired when it is determined to be probable that all amounts due under the contractual terms of the loan will not be collected when due. Loans considered individually impaired are evaluated and a specific allowance is established, if required, based on the most appropriate of the three measurement methods: present value of expected future cash flows, fair value of collateral, or the observable market price of a loan method. A specific allowance is required if the fair value of the expected repayments or the collateral is less than the recorded investment in the loan. At December 31, 2021 $264,000 of impaired loans required a specific allowance of $7,000 and an additional $2.5 million of impaired loans had partial charge-offs for a total of $2.8 million of impaired loans measured at fair value. At December 31, 2020, $553,000 of impaired loans required a specific allowance of $82,000 and $1.1 million of impaired loans had partial charge-offs for a total of $1.6 million of impaired loans measured at fair value. The methods used to determine the fair value of these loans were considered Level 3.

OREO is measured and reported at fair value using Level 3 inputs for valuations based on non-observable criteria. At December 31, 2021 and 2020, OREO totaled $86,000 and $442,000, respectively all of which was valued using Level 3 inputs.

At December 31, 2021 and 2020, BancShares had certain equity securities without a readily determinable market value, which were measured using the measurement alternative. Under the measurement alternative, these investments will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. During the years ending December 31, 2021 and 2020, certain equity securities without a readily determinable market value had observable prices changes in orderly transactions, and as a result, the carrying value of these investments was adjusted. As a result, these investments are valued using Level 2 inputs.

At December 31, 2021 and December 31, 2020, BancShares had certain impaired loans and OREO that are measured at fair value on a nonrecurring basis. The significant unobservable input used in the fair value measurement of BancShares' impaired loans and OREO range between 6 - 15% discount from appraisals for expected liquidation and sales costs.

(Dollars in Thousands for Tabular Presentations)

Note 12. Fair Value of Financial Instruments (Continued)

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis (Continued)

The tables below present the balances of assets and liabilities measured at fair value on a nonrecurring basis.

	Market Value	(Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2021				
Equity securities without a readily determinable market value	$ 2,463	$ -	$ 2,463	$ -
Impaired loans	2,838	-	-	2,838
OREO	86	-	-	86
2020				
Equity securities without a readily determinable market value	$ 2,463	$ -	$ 2,463	$ -
Impaired loans	1,588	-	-	1,588
OREO	442	-	-	442

Certain assets are carried at fair value on a nonrecurring basis. Loans held for sale are carried at the lower of aggregate cost or fair value and are therefore carried at fair value only when fair value is less than the asset cost. The values of loans held for sale are based on prices observed for similar pools of loans. There have been no fair value adjustments recorded for loans held for sale at December 31, 2021 and 2020. No financial liabilities were carried at fair value on a nonrecurring basis as of December 31, 2021 or December 31, 2020.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and due from banks, Interest–bearing deposits with banks, Certificates of deposit with banks, Accrued interest receivable, Short-term borrowings, and Accrued interest payable - The carrying amounts for cash and due from banks, interest-bearing deposits with banks, certificates of deposits with banks, accrued interest receivable, short-term borrowings, and accrued interest payable are equal to their fair values due to the short-term nature of these financial instruments. These items are considered Level 1.

Marketable equity securities - Equity securities are measured at fair value using observable closing prices, and therefore are classified as Level 1.

Investment securities available for sale - Fair values of investment securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and as a result are classified as Level 2. Certain asset-backed securities in less liquid markets with no observable inputs or similar securities in the debt markets are valued using a present value approach that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. These securities are considered Level 3.

Loans held for sale - Fair value for loans held for sale is generally based on market prices for loans with similar characteristics or external valuations. Loans held for sale are classified as Level 2.

Loans - Fair value of loans is an estimate of exit price. Exit price is estimated based on a discounted future cash flow analysis using estimated credit losses expected to be incurred over the remaining life of the loans and current interest rates offered on loans with similar terms and credit quality. The inputs used in the fair value measurements for loans and leases are considered Level 3 inputs.

Stock in Federal Home Loan Bank of Atlanta - The carrying amount for Federal Home Loan Bank of Atlanta stock is equal to the fair value due to the redemption provisions of the stock and no ready available market for such stock. Federal Home Loan Bank of Atlanta stock is considered Level 1.

Deposits **-** The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at year end. The fair value of certificates of deposit is estimated by discounting the future cash flows using the current rates paid for similar deposits. Deposits are considered Level 2.

(Dollars in Thousands for Tabular Presentations)

Note 12. Fair Value of Financial Instruments (Continued)

Fair Value of Financial Instruments (Continued)

Long-term borrowings - The fair value of long-term borrowings reflects discounting future cash flows using the current interest rates for similar maturities. Long-term borrowings are considered Level 2.

Commitments - Southern's commitments to extend credit have no carrying value and are generally at variable rates and/or have relatively short terms to expiration. Accordingly, these financial instruments are deemed to have no material fair value.

The estimated fair values of BancShares' financial instruments at December 31 are as follows:

	2021		2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 35,106	$ 35,106	$ 18,760	$ 18,760
Interest-bearing deposits with banks	138,469	138,469	237,114	237,114
Certificates of deposits with banks	11,946	11,946	17,043	17,043
Marketable equity securities	188,420	188,420	130,755	130,755
Investment securities available-for-sale	1,613,292	1,613,292	976,616	976,616
Loans held for sale	15,126	15,126	18,101	18,101
Loans, net of allowance	2,410,240	2,400,068	2,269,479	2,268,501
Stock in Federal Home Loan Bank of Atlanta	1,855	1,855	2,633	2,633
Accrued interest receivable	12,034	12,034	12,213	12,213
Financial liabilities:				
Deposits	$ 3,919,183	$ 3,918,139	$ 3,315,800	$ 3,313,805
Short-term borrowings	63,670	63,670	55,263	55,263
Long-term borrowings	88,874	88,311	23,711	29,137
Accrued interest payable	155	155	315	315

Note 13. Related Parties

First Citizens BancShares, Inc. has an executive officer who is also a significant shareholder and director of BancShares. At December 31, 2021 the officer beneficially owned 8,094 shares, or 10.2%, of BancShares' outstanding common stock and 2,000 shares, or 0.76%, of BancShares' outstanding Series B preferred stock. Another director who is related to the aforementioned director beneficially owns 6,881 shares, or 8.67%, of BancShares' outstanding common stock. In addition, a limited liability company owned by the same two directors plus other family members owned the Series F preferred stock.

BancShares has entered into various service contracts with First Citizens BancShares, Inc. and its subsidiary, First-Citizens Bank and Trust Company (collectively "First Citizens"). The following table lists the various charges paid to and income received from First Citizens during the years ended December 31:

	2021	2020
Income from credit cards	$ 171	$ 157
Trustee for employee benefit plans	$ 481	$ 475

BancShares also has a correspondent relationship with First Citizens. Correspondent account balances with First Citizens included in Cash and due from banks totaled $237,000 and $222,000 at December 31, 2021 and 2020, respectively. In addition, BancShares had sold to First Citizens loan participations of $3.1 million and $3.6 million as of December 31, 2021 and 2020, respectively.

Note 13. Related Parties (Continued)

BancShares also owns stock and debt securities in First Citizens as follows:

	2021			2020		
	Number of shares	Amortized Cost	Fair Value	Number of shares	Amortized Cost	Fair Value
	($ in thousands)					
First Citizens						
Class A	191,963	$ 15,322	$ 159,299	191,963	$ 15,322	$ 110,239
Class B	22,619	532	16,648	22,619	532	11,762
Preferred	198,945	4,480	5,202	198,945	4,480	5,379
Total equity securites	413,527	20,334	181,149	413,527	20,334	127,380
Investment securities available for sale at fair value		7,900	8,028		7,900	8,204
Total First Citizens securities	413,527	$ 28,234	$ 189,177	413,527	$ 28,234	$ 135,584

BancShares is also related through common ownership with Fidelity BancShares (N.C.), Inc., ("Fidelity") in that the aforementioned significant shareholder of BancShares and certain of their related parties are also significant shareholders of Fidelity. At December 31, 2021 and 2020 BancShares had $8.5 million and $9.4 million, respectively in loan participations sold to Fidelity. Fidelity has also contracted with BancShares to service, on Fidelity's behalf, $6,000 and $15,000 of Fidelity's mortgage loans at December 31, 2021 and 2020, respectively. Also, as discussed further in Note 7, Fidelity purchased $10 million of senior notes issued by BancShares.

Note 14. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) included the following as of December 31:

	2021			2020		
	Accumulated other comprehensive loss	Deferred tax benefit	Accumulated other comprehensive loss net of tax	Accumulated other comprehensive income (loss)	Deferred tax benefit (expense)	Accumulated other comprehensive income (loss) net of tax
Unrealized gains on investment securities available for sale	$ (3,716)	$ 841	$ (2,875)	$ 24,324	$ (5,514)	$ 18,810
Defined benefit pension plan	(66)	16	(50)	(9,779)	2,216	(7,563)
Total	$ (3,782)	$ 857	$ (2,925)	$ 14,545	$ (3,298)	$ 11,247

	Unrealized gains and losses on available-for-sale securities	Defined benefit pension plan	Total
Balance at January 1, 2020	$ 7,542	$ (9,053)	$ (1,511)
Other comprehensive income (loss) before reclassifications	13,623	332	13,955
Amounts reclassified from accumulated other comprehensive income (loss)	(2,355)	1,158	(1,197)
Net current period other comprehensive income (loss)	11,268	1,490	12,758
Balance at December 31, 2020	18,810	(7,563)	11,247
Other comprehensive income (loss) before reclassifications	(21,287)	5,849	(15,438)
Amounts reclassified from accumulated other comprehensive income (loss)	(398)	1,664	1,266
Net current period other comprehensive income (loss)	(21,685)	7,513	(14,172)
Balance at December 31, 2021	$ (2,875)	$ (50)	$ (2,925)

(Dollars in Thousands for Tabular Presentations)

Note 14. Accumulated Other Comprehensive Income (Loss) (Continued)

The following table represents the amounts reclassified from Accumulated other comprehensive income and the line items affected in the statement where net income is presented for the twelve months ended December 31, 2021 and 2020:

	Year ended December 31, 2021	
Details about accumulated other comprehensive income	Amount reclassified from accumulated other comprehensive income	Affected line item in the statement where net income is presented
Unrealized gains and losses on available-for-sale debt securities	$ (514)	Investment securities gains, net
	116	Income taxes
	$ (398)	Net income
Amortization of defined benefit plan actuarial losses	$ 2,149	Other noninterest expense
	(485)	Income taxes
	$ 1,664	Net income
Total reclassifications for the period	$ 1,266	

	Year ended December 31, 2020	
Details about accumulated other comprehensive income	Amount reclassified from accumulated other comprehensive income	Affected line item in the statement where net income is presented
Unrealized gains and losses on available-for-sale securities	$ (3,045)	Investment securities gains, net
	690	Income taxes
	$ (2,355)	Net income
Amortization of defined benefit plan Actuarial losses	$ 1,492	Other noninterest expense
	(334)	Income taxes
	$ 1,158	Net income
Total reclassifications for the period	$ (1,197)	

Note 15. Subsequent Events

Management has evaluated subsequent events through March 21, 2022, the date the consolidated statements were available to be issued and there have been no material subsequent events.