2020 ANNUAL REPORT

BANKFIRST CAPITAL

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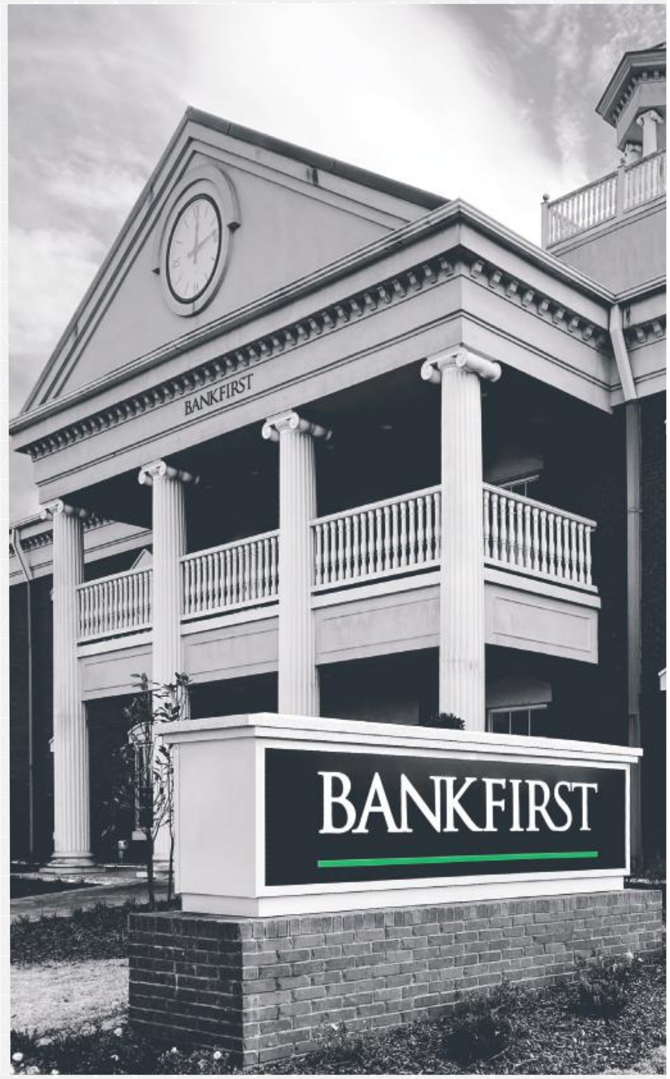


BANKFIRST CAPITAL

BFCC TRADED ON OTCQX

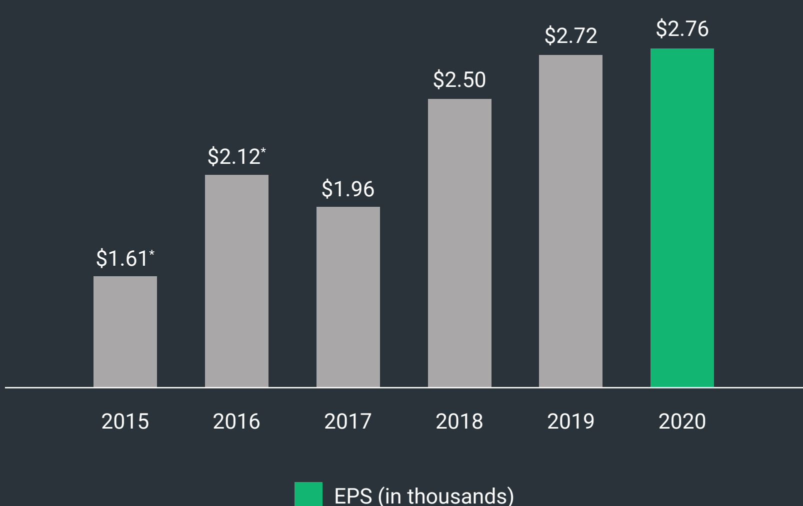
BFCC Stock Information

as of 12/31/2020

Stock Price	$19.75
Market Cap	$104.1 million
P/E (FY20)	7.16
Price/Book	0.97 ×
52 Week Range	$15.00–$24.50
2020 Dividend	$0.50
Dividend Yield	2.53%
Shares Outstanding	5,270,323

Earnings Per Share

Earnings per share (EPS) **INCREASED TO $2.76** in 2020.



* After adjustment for stock split in 2017

FINANCIAL HIGHLIGHTS

$1.727 BILLION

in assets

8TH

Moved up in ranking from 9th to 8th largest Mississippi based bank.

↑ 22%

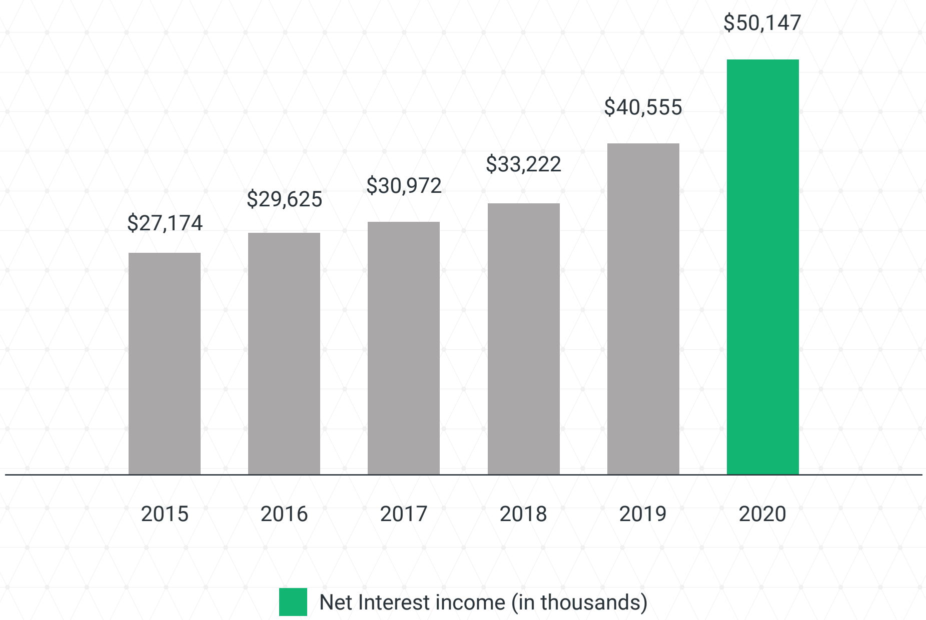
Revenue increased by 22% compared to 2019.

* Net of Paycheck Protection Program fees

FINANCIAL HIGHLIGHTS

RECORD REVENUE IN 2020

Experienced **RECORD NET INTEREST INCOME** with a **24% INCREASE** in net interest income to $50.1 million in 2020 compared to $40.6 million in 2019.



Deposits

Compared to 2019

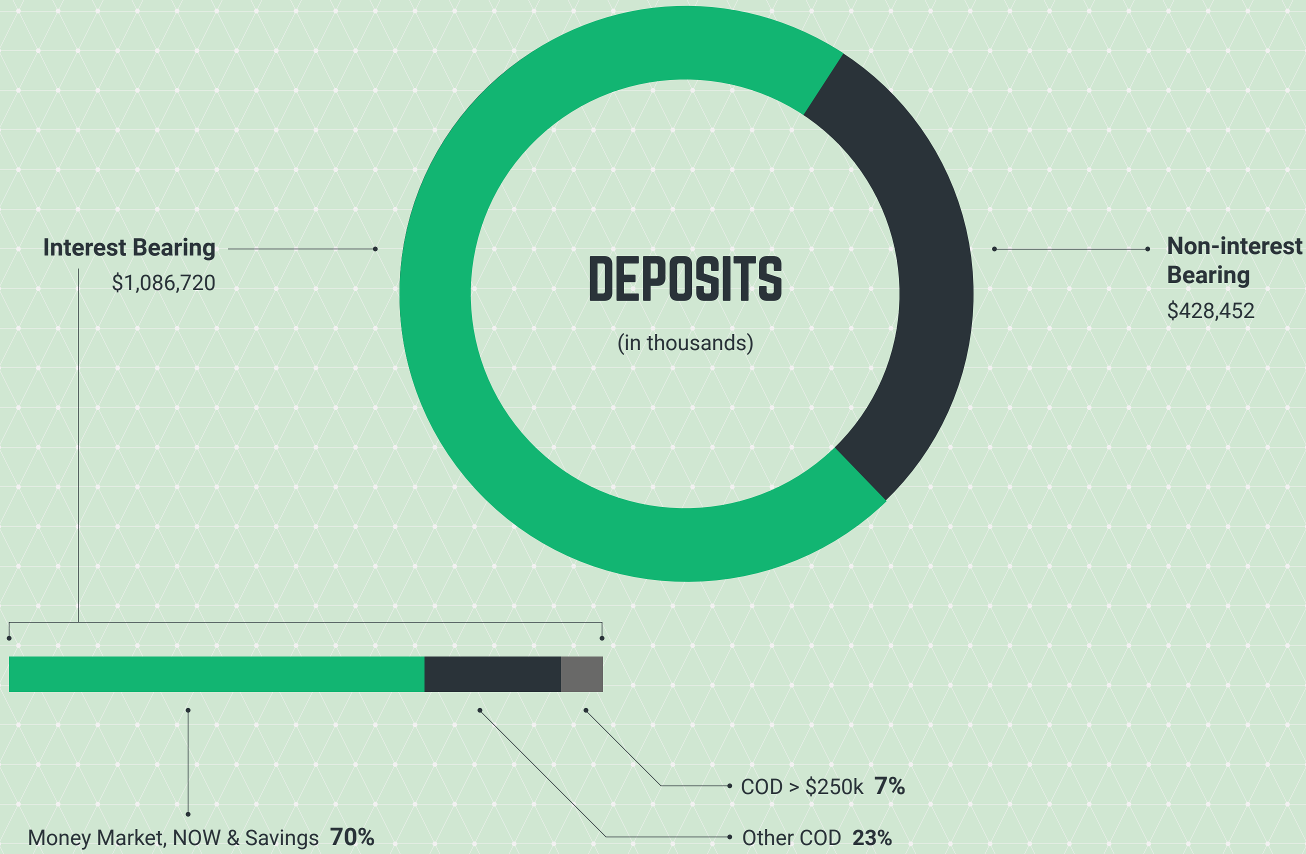
↑ 37%

Loans

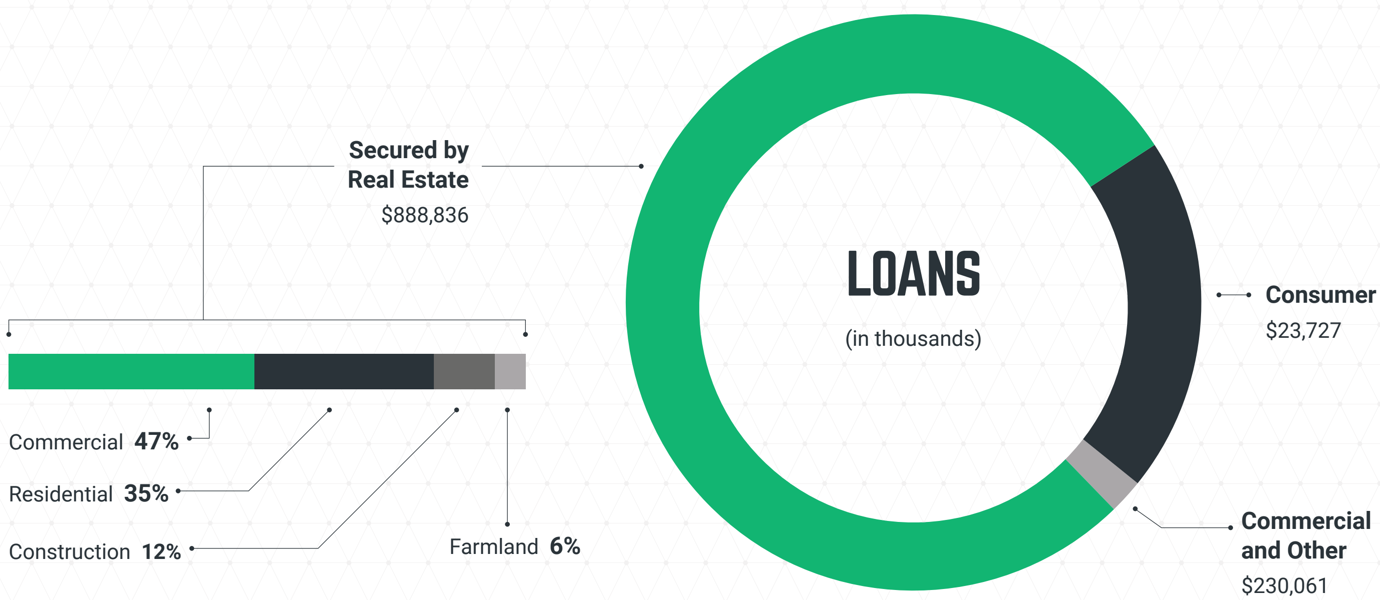
Compared to 2019

↑ 17%

* Net of Paycheck Protection Program loans



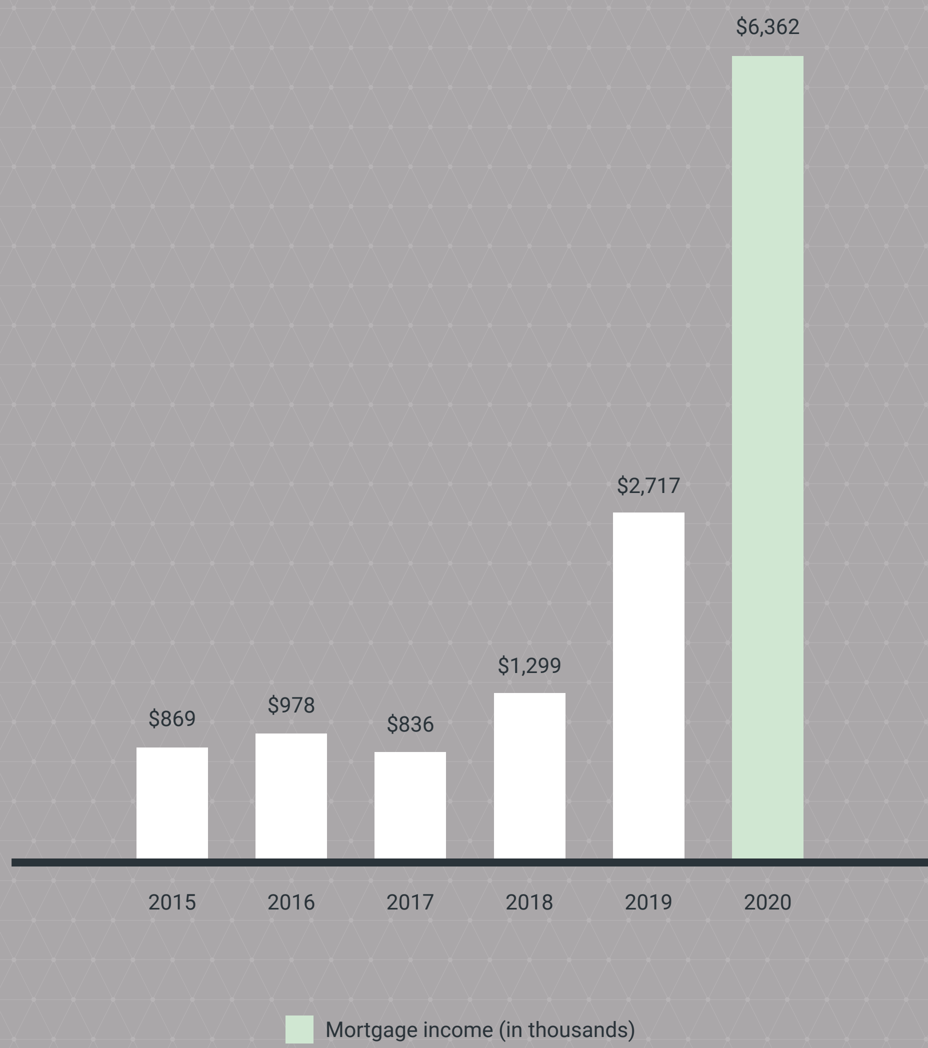
DEPOSITS
(in thousands)
Interest Bearing
$1,086,720
Non-interest Bearing
$428,452
COD > $250k 7%
Other COD 23%
Money Market, NOW & Savings 70%



LOANS
(in thousands)
Secured by Real Estate
$888,836
Consumer
$23,727
Commercial and Other
$230,061
Commercial 47%
Residential 35%
Construction 12%
Farmland 6%

RECORD YEAR IN MORTGAGE

Experienced **RECORD YEAR IN MORTGAGE** with record volume and a **134% INCREASE** in gains on sales of loans to $6.4 million in 2020 compared to $2.7 million in 2019.



LEADERSHIP

The leadership team has significant years of experience in the financial services industry and the Board of Directors and Advisory Boards compliment management through their diverse expertise and extensive knowledge of the communities we serve.

MANAGEMENT TEAM

Moak Griffin
President & CEO

Luke Yeatman
Chief Financial Officer

Gray Flora
Chief Investment Officer

Jim McAlexander
Chief Retail & Operations Officer

Marcus Mallory
Chief Banking Officer

Lee Seago
Chief Risk Officer

Ron Allen
Chief Credit Officer

Heyward Gould
Alabama Regional President

Greg Moore
Mississippi Regional President

Johnny Ray
Jackson Regional President

BOARD OF DIRECTORS

David Barge[1]
Macon, MS

Haley Fisackerly
Jackson, MS

Bill Freeman
Newton, MS

Moak Griffin
Columbus, MS

Joe Hollis
Columbus, MS

Frank Hopper
West Point, MS

Eddie Mauck
Columbus, MS

Rickey McCreless
Haleyville, AL

Phillip McGuire
Macon, MS

Melinda Pilkinton
Columbus, MS

Gregory Rader
Columbus, MS

James R. Shearer
Starkville, MS

George Sherman
Starkville, MS

Camille Young
Jackson, MS

William Walker
Haleyville, AL

Bret Whiteside
Haleyville, AL

1 Chairman of the Board

To Our Shareholders

2020…A year to remember. In fact, it's a year we will never forget. A year unlike any other in our lifetime. We are living in a global pandemic. A first for all of us, but not the first for this institution we now call BankFirst.

Our institution, only three decades into existence at the time, withstood the test of the 1918 influenza pandemic followed by the Great Depression and would live on to stand strong 102 years later during this most recent disease.

COVID-19 has disrupted lives. Distance learning, telecommuting through Zoom, donning face masks, social distancing are all evidence that we all are living in a radically changed world. Many even feel alone and afraid. Front line workers have become our heroes, sickness is now our enemy, and only the most fortunate have avoided losing someone they love to this virus.

Through it all, we remained focused on the same goal we've had since our founding…to consistently meet and frequently exceed the expectations of our stakeholders.

Early in 2020—before the world temporarily locked down—we put into motion a plan to acquire Traders & Farmers Bank in northern Alabama. Despite the setbacks caused by Covid, BankFirst successfully acquired Traders & Farmers and finalized the conversion in December 2020, expanding our footprint by nine locations into seven new communities. Now the 8th largest Mississippi-based bank, BankFirst is positioned more evenly across Mississippi and Alabama with about half of our locations in each state.

Perhaps the most rewarding part of 2020 was providing loans to sustain small business payrolls using our "preferred lender" status through the SBA's Paycheck Protection Program. This helped small businesses stay afloat and sustained their payrolls so their employees could continue to get paid while remaining home to help flatten the curve during the various lockdowns.

The bank continued to defy the odds in 2020 when we converted our newly opened Hattiesburg loan production office to a full service (de novo) branch. We also opened a de novo loan production office in Brookhaven which reaches yet another new community.

Our progress is reflected in the numbers. As you review the information in this report, you may be surprised to learn that we still had record highs in almost every measurable category.

Despite the hardships of 2020, BankFirst thrived. We're an institution that has withstood difficult years in the past and will continue to in the future. Whatever 2021 may bring, BankFirst is committed to being there and doing our part in helping our communities thrive.

Sincerely,

Moak Griffin
President & CEO

David Barge
Board Chairman

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
BankFirst Capital Corporation
Columbus, Mississippi

We have audited the accompanying consolidated financial statements of BankFirst Capital Corporation and its Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Tuscaloosa, AL 35405
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Fax: 205.759.1018

Board of Directors and Stockholders
BankFirst Capital Corporation

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BankFirst Capital Corporation and its Subsidiary as of December 31, 2020 and 2019, 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.

Report on Internal Control over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, BankFirst Capital Corporation and its Subsidiary's internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2021, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

T.E. Lott & Company

Columbus, Mississippi
March 2, 2021

BankFirst Capital Corporation

Consolidated Balance Sheets

December 31, 2020 and 2019

(In Thousands, Except Per Share Data)

	2020	2019
Assets		
Cash and due from banks	$ 37,208	$ 34,757
Interest bearing bank balances	83,324	27,281
Federal funds sold	8,408	-
Available-for-sale securities	329,409	217,647
Loans	1,142,624	904,440
Allowance for loan losses	(16,496)	(9,418)
Loans, net of allowance for loan losses	1,126,128	895,022
Premises and equipment	42,414	33,342
Interest receivable	8,978	4,881
Goodwill	34,564	19,408
Other intangible assets	4,535	4,476
Other	51,668	43,799
Total assets	$ 1,726,636	$ 1,280,613
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 1,515,172	$ 1,109,791
Notes payable	28,605	15,750
Subordinated debentures	26,095	28,564
Interest payable	1,123	1,392
Other	8,645	10,101
Total liabilities	1,579,640	1,165,598
Stockholders' Equity		
Common stock, $0.30 par value, 15,000,000 shares authorized, 5,270,323 and 4,489,414 shares issued and outstanding	1,581	1,347
Additional paid-in capital	60,113	42,729
Retained earnings	80,523	69,676
Accumulated other comprehensive income	4,779	1,263
Total stockholders' equity	146,996	115,015
Total liabilities and stockholders' equity	$ 1,726,636	$ 1,280,613

BankFirst Capital Corporation

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019

(In Thousands, Except Per Share Data)

	2020	2019
Interest Income		
Interest and fees on loans	$ 53,226	$ 45,531
Taxable securities	4,578	4,146
Tax-exempt securities	1,429	798
Federal funds sold	290	780
Interest bearing bank balances	64	107
Total interest income	59,587	51,362
Interest Expense		
Deposits	7,255	8,555
Short-term borrowings	1	1
Federal Home Loan Bank advances	327	682
Other borrowings	1,857	1,569
Total interest expense	9,440	10,807
Net Interest Income	50,147	40,555
Provision for Loan Losses	8,117	1,577
Net Interest Income After Provision for Loan Losses	42,030	38,978
Noninterest Income		
Service charges on deposit accounts	5,823	5,660
Mortgage income	6,362	2,717
Interchange income	3,300	2,550
Net realized gains on available-for-sale securities	3,615	430
Other	2,883	2,809
Total noninterest income	21,983	14,166
Noninterest Expense		
Salaries and employee benefits	27,366	20,782
Net occupancy expenses	2,727	2,151
Equipment and data processing expenses	4,229	3,846
Other	13,535	11,016
Total noninterest expense	47,857	37,795
Income Before Income Taxes	16,156	15,349
Provision for Income Taxes	2,674	3,534
Net Income	$ 13,482	$ 11,815
Basic Earnings Per Common Share	$ 2.76	$ 2.72

BankFirst Capital Corporation

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2020 and 2019

(In Thousands, Except Per Share Data)

	2020	2019
Net Income	$ 13,482	$ 11,815
Other Comprehensive Income		
Available-for-sale securities		
Net unrealized gains, net of taxes of ($2,071) and ($756)	6,229	2,418
Less: reclassification adjustment for net realized (gains) included in net income, net of taxes of $902 and $102	(2,713)	(328)
Total other comprehensive income	3,516	2,090
Comprehensive Income	$ 16,998	$ 13,905

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2019

(In Thousands, Except Per Share Data)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balance, January 1, 2019	3,932,845	$ 1,181	$ 29,905	$ 60,104	$ (827)	$ 90,363
Net income	-	-	-	11,815	-	11,815
Other comprehensive income	-	-	-	-	2,090	2,090
Restricted stock plan	35,000	10	(10)	-	-	-
Stock based compensation	-	-	380	-	-	380
Common stock issued	523,480	157	12,502	-	-	12,659
Common stock redeemed	(1,911)	(1)	(48)	-	-	(49)
Dividends on common stock ($.50) per share)	-	-	-	(2,243)	-	(2,243)
Balance, December 31, 2019	4,489,414	$ 1,347	$ 42,729	$ 69,676	$ 1,263	$ 115,015

BankFirst Capital Corporation

Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2020

(In Thousands, Except Per Share Data)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balance, January 1, 2020	4,489,414	$ 1,347	$ 42,729	$ 69,676	$ 1,263	$ 115,015
Net income	-	-	-	13,482	-	13,482
Other comprehensive income	-	-	-	-	3,516	3,516
Restricted stock plan	36,300	10	(10)	-	-	-
Stock based compensation	-	-	489	-	-	489
Common stock issued in acquisition	749,955	225	17,025	-	-	17,250
Common stock redeemed	(5,346)	(1)	(120)	-	-	(121)
Dividends on common stock ($.50 per share)	-	-	-	(2,635)	-	(2,635)
Balance, December 31, 2020	5,270,323	$ 1,581	$ 60,113	$ 80,523	$ 4,779	$ 146,996

BankFirst Capital Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2020 and 2019

(In Thousands, Except Per Share Data)

	2020	2019
Operating Activities		
Net income	$ 13,482	$ 11,815
Items not requiring (providing) cash		
Provision for loan losses	8,117	1,577
Depreciation	1,586	1,158
Net amortization on securities	2,496	1,316
Net amortization on intangible assets	607	489
Net accretion of purchase accounting adjustments	(853)	(723)
Net realized gains on sales of available-for-sale securities	(3,615)	(430)
Stock-based compensation expense	489	380
Deferred income taxes	(603)	243
Changes in		
Interest receivable	(2,795)	(350)
Interest payable	(695)	546
Other	(2,311)	(830)
Net cash provided by operating activities	15,905	15,191
Investing Activities		
Purchases of available-for-sale securities	(179,397)	(124,052)
Proceeds from maturities of available-for-sale securities	186,924	42,704
Proceeds from the sales of available-for-sale securities	74,882	44,535
Net changes to premises and equipment	1,062	(3,043)
Net (increase) decrease in		
Interest bearing bank balances	(55,308)	16,192
Federal funds sold	240	3,150
Loans	(81,344)	38,828
Investment in life insurance	(277)	-
Federal Reserve Bank and Federal Home Loan Bank stock transactions	313	355
Proceeds from the sale of foreclosed assets held for sale	324	205
Payment for acquisition, net of cash acquired	(24,287)	(42,209)
Net cash used in investing activities	(76,868)	(23,335)

BankFirst Capital Corporation

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2020 and 2019

(In Thousands, Except Per Share Data)

	2020	2019
Financing Activities		
Net increase (decrease) in		
Noninterest bearing deposits	$ 65,836	$ 22,372
Money market, NOW and savings accounts	70,313	5,810
Certificates of deposit	(60,549)	(2,561)
Insured cash sweep deposits	(19,785)	(1,033)
Repayment of Federal Home Loan Bank advances	-	(20,700)
Proceeds from notes payable	14,500	-
Repayment of notes payable	(1,645)	(1,000)
Subordinated debentures issued	-	14,700
Subordinated debenture redeemed	(2,500)	(2,500)
Common stock issued	-	12,659
Common stock redeemed	(121)	(49)
Dividends paid on common stock	(2,635)	(2,243)
Net cash provided by financing activities	63,414	25,455
Change in Cash and Due From Banks	2,451	17,311
Cash and Due From Banks, Beginning of Year	34,757	17,446
Cash and Due From Banks, End of Year	$ 37,208	$ 34,757
Supplemental Cash Flows Information		
Interest paid	$ 10,520	$ 10,261
Income taxes paid	4,639	4,005
Foreclosed assets acquired in settlement of loans	758	-
Common stock issued in acquisition	17,250	-

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

Nature of Operations

BankFirst Capital Corporation (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, BankFirst Financial Services (the Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in east central and central Mississippi and northwest and west Alabama. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. As discussed in Note 9, the Company owns 100% of the common trust securities of various statutory trusts. The trusts are VIEs for which the Company is not the primary beneficiary and, accordingly, the trusts have not been consolidated into the Company's consolidated financial statements.

Use of Estimates

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 assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, other-than-temporary impairment and fair values of financial instruments.

Cash Equivalents

The Company has defined cash equivalents as those amounts included in the consolidated balance sheets caption "cash and due from banks."

The Company had deposits with correspondent banks that exceeded federally insured limits by $1,682 at December 31, 2020.

Interest Bearing Bank Balances

Interest bearing bank balances mature within one year and are carried at cost.

Securities

Available-for-sale debt securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, the Company recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in accumulated other comprehensive income (loss).

The Company’s consolidated statements of income reflect the full impairment (that is, the difference between the security’s amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The Company has not recognized any impairment losses in earnings during the years ended December 31, 2020 or 2019.

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, less any impairment, and are reported in other assets on the consolidated balance sheets.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral less estimated cost to sell, if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	15 - 50 years
Furniture, fixtures and equipment	3 - 10 years

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2020 or 2019.

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a purchase business combination is not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. A qualitative assessment is performed on an annual basis to determine whether it is considered more likely than not the fair value is less than the carrying amount, including goodwill. If it is determined that it is more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment.

Intangible Assets

Intangible assets with finite lives are amortized over their estimated useful lives. The Company's core deposit intangibles acquired in business combinations are being amortized on the straight-line basis over a period of 10 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Federal Reserve Bank and Federal Home Loan Bank Stock

Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) stock are required investments for institutions that are members of the FRB and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost, classified as a restricted security, and periodically evaluated for impairment. Both cash and stock dividends are reported as income.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in income or expense from foreclosed assets.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when, or as, the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are fixed. The Company has made no significant judgments in applying the revenue guidance prescribed in Topic 606 that affect the determination of the amount and timing of revenue from contracts with customers.

Stock-based Compensation Plans

The Company has a share-based employee compensation plan which is described more fully in Note 17. Compensation cost is recognized for restricted stock awards to employees based on the fair value of these awards at the grant date and is recognized over the required service period, generally defined as the vesting period.

Transfers of Financial Assets

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

Income Taxes

The two components of income tax expense are current and deferred income tax expense. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company and the Bank file consolidated U.S. federal, Alabama, and Mississippi income tax returns. With a few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2017.

Earnings Per Common Share

Earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Earnings and dividends per share are restated for all stock splits through the date of issuance of the financial statements.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains (losses) on available-for-sale debt securities.

Accounting Policies Recently Adopted

ASU 2018-13 "*Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*", Issued in August 2018, the standard removes certain disclosures required by Topic 820 related to transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements; and, for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU modifies certain disclosures required by Topic 820 related to disclosure of transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities for nonpublic entities; the requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly for investments in certain entities that calculate net asset value; and clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The ASU adds certain disclosure requirements related to changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of insignificant unobservable inputs used to develop Level 3 fair value measurements.

For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update became effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

Pending Accounting Pronouncements

ASU 2016-13 "*Financial Instruments - Credit Losses (Topic 326)*" Update No. 2016-13. Issued in June 2016, this update is intended to provide financial statement users with more decision - useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this update are effective for fiscal years beginning after December 15, 2022. The Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

ASU 2017-04 "*Intangibles- Goodwill and Other" (Topic 350): Simplifying the Test for Goodwill Impairment*". Issued in January 2017, this update is intended to amend existing guidance to simplify subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to 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. For public business entities, which are not SEC filers, the amendments in this update are effective for fiscal years beginning after December 15, 2020. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2019-12 "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*". Issued in December 2019, this update simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this Update are effective for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2020, with early adopting permitted. The Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

ASU 2020-04, "*Reference Rate Reform (Topic 848: Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" Issued in March 2020, the update provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the LIBOR or other interbank offered rate on financial reporting. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The main provisions include: a change in a contract's reference interest rate would be accounted for as a continuation of that contract rather than as the creation of a new one for contracts, including loans, debt, leases, and other arrangements, that meet specific criteria and when updating its hedging strategies in response to reference rate reform, an entity would be allowed to preserve its hedge accounting.

The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued. Because the guidance is meant to help entities through the transition period, it will be in effect for a limited time and will not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, for which an entity has elected certain optional expedients that are retained through the end of the hedging relationship. The amendments in this ASU are effective March 12, 2020 through December 31, 2022. ASU 2020-04 permits relief solely for reference rate reform actions and permits different elections over the effective date for legacy and new activity. The Bancorp believes the adoption of this guidance on activities subsequent to December 31, 2020 through December 31, 2022 will not have a material impact on the consolidated financial statements.

Guidance on Non-TDR Loan Modification due to COVID-19: On March 22, 2020, a statement was issued by our banking regulators and titled the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" (the "Interagency Statement") that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act that passed on March 27, 2020, further 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. Section 541 of the Consolidated Appropriation Act of 2021 extends this relief to the earlier of January 1, 2022 or 60 days after the national emergency termination date. The Interagency Statement was subsequently revised in April 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations. In accordance with such guidance, the Company is offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These include short term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. See Note 3 for further information on non-TDR loan modifications.

Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 consolidated financial statement presentation. These reclassifications had no effect on net income.

Subsequent Events

Subsequent events have been evaluated through March 2, 2021, the date of the Independent Auditors' Report, which is the date the consolidated financial statements were available to be issued.

(In Thousands, Except Per Share Data)

Note 2: Available-for-sale Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows. Mortgage-backed securities consist of residential and commercial mortgage-backed securities issued by U.S. government-sponsored enterprises (GSEs).

	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
December 31, 2020				
U.S. GSEs	$ 35,678	$ 301	$ 196	$ 35,783
Commercial mortgage-backed securities	8,335	361	-	8,696
Residential mortgage-backed securities	167,853	2,969	344	170,478
Tax-exempt state and political subdivisions	51,607	1,593	23	53,177
Taxable state and political subdivisions	52,236	1,655	27	53,864
Corporate debt securities	3,391	74	4	3,461
Collateralized debt obligations	3,941	9	-	3,950
	$ 323,041	$ 6,962	$ 594	$ 329,409
December 31, 2019				
U.S. Treasury	$ 7,478	$ 38	$ -	$ 7,516
U.S. GSEs	28,121	86	264	27,943
Commercial mortgage-backed securities	20,029	162	89	20,102
Residential mortgage-backed securities	104,699	1,056	404	105,351
Tax-exempt state and political subdivisions	24,992	949	21	25,920
Taxable state and political subdivisions	30,395	279	413	30,261
Corporate debt securities	250	-	-	250
Collateralized debt obligations	-	304	-	304
	$ 215,964	$ 2,874	$ 1,191	$ 217,647

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $151,825 at December 31, 2020, and $109,785 at December 31, 2019.

Gross gains of $3,648 and $650 and gross losses of $33 and $220 resulting from sales of available-for-sale securities were realized for 2020 and 2019.

(In Thousands, Except Per Share Data)

The amortized cost and fair value of available-for-sale securities at December 31, 2020, 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.

	Amortized Cost	Fair Value
Within one year	$ 2,076	$ 2,087
One to five years	9,691	9,920
Five to ten years	44,181	44,800
After ten years	90,905	93,428
	146,853	150,235
Mortgage-backed securities	176,188	179,174
	$ 323,041	$ 329,409

The following table shows the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019. These unrealized losses on the Company's investments were caused by interest rate increases. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2020:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
U.S. GSEs	$ 4,614	$ 35	$ 13,670	$ 161	$ 18,284	$ 196
Mortgage-backed securities						
Residential	61,810	319	1,881	25	63,691	344
State and political						
Tax-exempt	6,210	23	-	-	6,210	23
Taxable	4,282	27	-	-	4,282	27
Corporate debt securities	496	4	-	-	496	4
	$ 77,412	$ 408	$ 15,551	$ 186	$ 92,963	$ 594
December 31, 2019						
U.S. GSEs	$ 11,419	$ 101	$ 7,593	$ 163	$ 19,012	$ 264
Mortgage-backed securities						
Commercial	9,846	89	-	-	9,846	89
Residential	39,845	305	9,403	99	49,248	404
State and political						
Tax-exempt	2,634	20	253	1	2,887	21
Taxable	12,272	413	-	-	12,272	413
	$ 76,016	$ 928	$ 17,249	$ 263	$ 93,265	$ 1,191

(In Thousands, Except Per Share Data)

Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31 include:

	2020	2019
Secured by real estate		
Construction	$ 105,038	$ 79,799
Farmland	49,036	52,221
Residential real estate	311,630	205,071
Commercial real estate	423,132	411,179
Consumer	23,727	13,090
Commercial and other	230,061	143,080
	1,142,624	904,440
Allowance for loan losses	(16,496)	(9,418)
Loans, net	$ 1,126,128	$ 895,022

Activity in the allowance for loan losses based on loan class was as follows:

	Beginning Balance	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance
Year Ended December 31, 2020					
Secured by real estate					
Construction	$ 1,028	$ (147)	$ 4	$ 396	$ 1,281
Farmland	257	(19)	1	201	440
Residential real estate	1,339	(430)	147	2,234	3,290
Commercial real estate	2,103	(2)	6	2,222	4,329
Consumer	391	(625)	228	900	894
Commercial and other	1,549	(209)	7	1,218	2,565
Unallocated	2,751	-	-	946	3,697
	$ 9,418	$ (1,432)	$ 393	$ 8,117	$ 16,496
Year Ended December 31, 2019					
Secured by real estate					
Construction	$ 1,480	$ (465)	$ 25	$ (12)	$ 1,028
Farmland	222	-	-	35	257
Residential real estate	1,151	(165)	20	333	1,339
Commercial real estate	1,763	(61)	11	390	2,103
Consumer	296	(553)	179	469	391
Commercial and other	1,381	(168)	718	(382)	1,549
Unallocated	2,007	-	-	744	2,751
	$ 8,300	$ (1,412)	$ 953	$ 1,577	$ 9,418

(In Thousands, Except Per Share Data)

The following tables present the balance in the allowance for loan losses based on loan class and impairment method at December 31:

	December 31, 2020 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment			December 31, 2019 Allowance for Loan Losses Allocated to Loans Evaluated for Impairment		
	Individually	**Collectively**	**Total**	**Individually**	**Collectively**	**Total**
Secured by real estate						
Construction	$ -	$ 1,281	$ 1,281	$ 427	$ 601	$ 1,028
Farmland	-	440	440	-	257	257
Residential real estate	293	2,997	3,290	311	1,028	1,339
Commercial real estate	419	3,910	4,329	68	2,035	2,103
Consumer	2	892	894	11	380	391
Commercial and other	345	2,220	2,565	830	719	1,549
Unallocated	-	3,697	3,697	-	2,751	2,751
	$ 1,059	$ 15,437	$ 16,496	$ 1,647	$ 7,771	$ 9,418

The following table presents the recorded investment in loans individually and collectively evaluated for impairment by loan class:

	December 31, 2020 Loans Evaluated for Impairment			December 31, 2019 Loans Evaluated for Impairment		
	Individually	**Collectively**	**Total**	**Individually**	**Collectively**	**Total**
Secured by real estate						
Construction	$ 5,168	$ 99,870	$ 105,038	$ 5,253	$ 74,546	$ 79,799
Farmland	-	49,036	49,036	-	52,221	52,221
Residential real estate	1,559	310,071	311,630	1,413	203,658	205,071
Commercial real estate	5,461	417,671	423,132	5,490	405,689	411,179
Consumer	2	23,725	23,727	11	13,079	13,090
Commercial and other	2,456	227,605	230,061	2,819	140,261	143,080
	$ 14,646	$ 1,127,978	$ 1,142,624	$ 14,986	$ 889,454	$ 904,440

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Construction Real Estate: Construction loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Farmland: Loans secured by farmland are generally made for the purpose of acquiring land devoted to crop production, cattle or poultry, the growth and management of timber or the operation of a similar type of business on the secured property. Sources of repayment for these loans generally include income generated from operations of a business on the property, rental income or sales of the property. Credit risk in these loans may be impacted by crop and commodity prices, the creditworthiness of a borrower, changes in economic conditions which might affect underlying property values and the local economies in the Company's market areas.

Residential Real Estate: The residential real estate loan portfolio consists of residential loans for single and multifamily properties. Residential loans are generally secured by owner occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Commercial and other: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line-of-credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

The Company utilizes a risk grading system to assign a grade to each of its loans when originated. This grade is updated as factors related to quality of a loan change. A description of the current risk grades follows.

Virtually No Risk (1): Credits in this category are virtually risk-free and generally include the following attributes: repayment program is well-defined and achievable; repayment sources are numerous, and no material documentation deficiencies or exceptions exist. These loans will generally be secured by deposits in the bank or by government securities.

Minimal Credit Risk (2): Credits in this category are within guidelines and where the borrowers have documented significant overall financial strength. These loans have excellent sources of repayment, with no significant identifiable risk of collection, and conform in all respects to policy, guidelines, underwriting standards, and regulatory requirements.

Satisfactory Credit Risk (3): These loans exhibit satisfactory credit risk and have excellent sources of repayment, with no significant identifiable risk of collection. Current financial information on all borrowers and guarantors has been obtained and analyzed, and overall business operating trends are either stable or improving. These loans conform to bank policy and regulatory requirements with minimal credit or collateral exceptions that do not represent repayment risk.

(In Thousands, Except Per Share Data)

Marginal Credit Risk (4): These loans have adequate sources of repayment with little identifiable repayment risk. These loans conform to bank policy and regulatory requirements with minimal credit or collateral exceptions that do not represent repayment risk. For existing loans, current financial information on all borrowers and guarantors has been obtained and analyzed, and overall business operating trends are stable with any declines considered minor and temporary.

Weak Pass (5): These loans show signs of weakness in either adequate sources of repayment or collateral but have demonstrated mitigating factors that minimize the risk of delinquency or loss have adequate sources of repayment with little identifiable repayment risk. Although the combination and/or severity of identified exceptions is greater for this risk grade, the exceptions may be properly mitigated by other documented factors that offset any additional risks.

Watch (6): These loans are currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Company's position at some future date. The weakness or issue could include a policy, credit or collateral exception. These loans may be impacted by economic conditions, that develop subsequent to the loan origination, that don't jeopardize liquidation of the debt but do substantially increase the level of risk.

Substandard (7): These loans are inadequately protected by the current sound net worth or paying capacity of the obligor or pledged collateral. Substandard loans will generally be dependent upon collateral for repayment. These loans have well-defined weaknesses jeopardizing orderly liquidation. Substandard loans may or may not be impaired.

Doubtful (8): These are loans with weaknesses inherent in the substandard classification and where collection in full is highly questionable based on currently existing facts. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful loans will have some recognizable impairment.

The Company evaluates the risk grading system and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either in 2020.

The following table details the amount of loans by loan grade and loan class:

	Grades (1 - 5)	Watch (6)	Substandard (7)	Doubtful (8)	Total Loans
December 31, 2020					
Secured by real estate					
Construction	$ 100,530	$ 67	$ 4,441	$ -	$ 105,038
Farmland	47,432	1,287	317	-	49,036
Residential real estate	299,310	5,926	6,394	-	311,630
Commercial real estate	414,616	1,727	6,789	-	423,132
Consumer	23,283	297	147	-	23,727
Commercial and other	225,416	2,035	2,610	-	230,061
	$ 1,110,587	$ 11,339	$ 20,698	$ -	$ 1,142,624

(In Thousands, Except Per Share Data)

	Grades (1 - 5)	Watch (6)	Substandard (7)	Doubtful (8)	Total Loans
December 31, 2019					
Secured by real estate					
Construction	$ 74,767	$ 46	$ 4,986	$ -	$ 79,799
Farmland	50,770	1,123	328	-	52,221
Residential real estate	194,226	5,516	5,329	-	205,071
Commercial real estate	402,307	2,081	6,791	-	411,179
Consumer	13,006	12	72	-	13,090
Commercial and other	138,360	1,392	3,328	-	143,080
	$ 873,436	$ 10,170	$ 20,834	$ -	$ 904,440

The following tables present the loan portfolio aging analysis of the recorded investment in loans by loan class:

	Accruing Loans Past Due			Total		
	30 - 89 Days	90 Days or More	Non-accrual	Past Due and Nonaccrual	Current Loans	Total Loans
December 31, 2020						
Secured by real estate						
Construction	$ 11	$ -	$ 4,414	$ 4,425	$ 100,613	$ 105,038
Farmland	27	-	114	141	48,895	49,036
Residential real estate	1,786	20	2,072	3,878	307,752	311,630
Commercial real estate	8	-	1,536	1,544	421,588	423,132
Consumer	228	10	80	318	23,409	23,727
Commercial and other	324	-	1,806	2,130	227,931	230,061
	$ 2,384	$ 30	$ 10,022	$ 12,436	$ 1,130,188	$ 1,142,624
December 31, 2019						
Secured by real estate						
Construction	$ 649	$ -	$ 4,677	$ 5,326	$ 74,473	$ 79,799
Farmland	104	-	254	358	51,863	52,221
Residential real estate	1,848	357	1,817	4,022	201,049	205,071
Commercial real estate	263	-	860	1,123	410,056	411,179
Consumer	73	9	32	114	12,976	13,090
Commercial and other	151	-	2,099	2,250	140,830	143,080
	$ 3,088	$ 366	$ 9,739	$ 13,193	$ 891,247	$ 904,440

(In Thousands, Except Per Share Data)

Impaired loans include nonperforming loans and loans modified in troubled debt restructurings, if applicable. The following table presents loans evaluated for impairment by loan class.

		Recorded Loan Balance				Average
	Unpaid Principal Balance	With No Specific Allowance	With a Specific Allowance	Total	Specific Allowance	Recorded Loan Balance
December 31, 2020						
Secured by real estate						
Construction	$ 5,168	$ 5,168	$ -	$ 5,168	$ -	$ 5,211
Residential real estate	1,559	631	928	1,559	293	1,486
Commercial real estate	5,461	4,069	1,392	5,461	419	5,475
Consumer	2	-	2	2	2	7
Commercial and other	2,456	809	1,647	2,456	345	2,638
	$ 14,646	$ 10,677	$ 3,969	$ 14,646	$ 1,059	$ 14,817
December 31, 2019						
Secured by real estate						
Construction	$ 6,838	$ 1,127	$ 4,126	$ 5,253	$ 427	$ 4,880
Residential real estate	1,413	464	949	1,413	311	826
Commercial real estate	5,490	4,933	557	5,490	68	3,656
Consumer	11	-	11	11	11	20
Commercial and other	3,212	-	2,819	2,819	830	2,739
	$ 16,964	$ 6,524	$ 8,462	$ 14,986	$ 1,647	$ 12,121

The Company recognized interest income of $350 in 2020 and $465 in 2019 on loans evaluated for impairment that had specific allowances.

The restructuring of a loan is considered a "troubled debt restructuring" (TDR) if both (1) the borrower is experiencing financial difficulties and (2) the creditor has granted a concession. Concessions may include interest rate reductions below market interest rates compared to debt with similar characteristics, principal forgiveness, restructuring amortization of the debt and other actions to minimize potential losses.

At December 31, 2020 and 2019, the Company held a total $6,980 and $6,269 of loans modified in troubled debt restructurings, principally commercial real estate loans. The Company modified the terms of 11 loans in 2020 with a recorded investment of $1,446 as of December 31, 2020. The Company modified the terms of one loan in 2019 with a recorded investment of $2,002 as of December 31, 2019. These modifications did not increase the allowance for loan losses. There were no additional loans modified in troubled debt restructurings during 2020 and 2019.

The Company allocated $428 and $427 of specific allowance for these loans as of December 31, 2020 and 2019. The Company had not committed to lend additional funds to any of these borrowers as of December 31, 2020 and 2019.

(In Thousands, Except Per Share Data)

Additionally, the Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act. As of December 31, 2020, these modifications are as follows:

	Loan Balance	Modified to Interest Only Payments	Loans Modified to Payment Deferral	Total Loans Modified	Percentage of Loans Modified
Secured by real estate					
Construction	$ 105,038	$ -	$ -	$ -	0.00%
Farmland	49,036	-	-	-	0.00%
Residential real estate	311,630	-	-	-	0.00%
Commercial real estate	423,132	20,737	2,432	23,169	5.48%
Consumer	23,727	-	4	4	0.02%
Commercial and other	230,061	-	15	15	0.01%
Total Loans	$ 1,142,624	$ 20,737	$ 2,451	$ 23,188	2.03%

The Company has purchased loans, for which there was at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows:

	2020	2019
Commercial	$ 2,960	$ 418
Consumer	1,039	-
Carrying amount, net of allowance $1,642 and $217	$ 3,999	$ 418

For those purchased credit impaired loans disclosed above, the Company increased the allowance for loan losses by $1,425 and $217 during 2020 and 2019. No allowances for loan losses were reversed during 2020 and 2019.

(In Thousands, Except Per Share Data)

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, follow.

	2020	2019
Land	$ 8,156	$ 9,905
Buildings and improvements	39,459	29,755
Furniture, fixtures and equipment	9,895	7,203
	57,510	46,863
Less accumulated depreciation	(15,096)	(13,521)
Net premises and equipment	$ 42,414	$ 33,342

Note 5: Other Intangible Assets

The carrying basis and accumulated amortization of recognized core deposit intangible assets follow:

	2020			2019		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Beginning balance	$ 5,738	$ (1,262)	$ 4,476	$ 2,321	$ (773)	$ 1,548
Additions	666	-	666	3,417	-	3,417
Amortization expense	-	(607)	(607)	-	(489)	(489)
Ending balance	$ 6,404	$ (1,869)	$ 4,535	$ 5,738	$ (1,262)	$ 4,476

Estimated amortization expense for each of the following five years, based on current intangible assets, is as follows:

2021	$ 640
2022	640
2023	640
2024	640
2025	563
	$ 3,123

(In Thousands, Except Per Share Data)

Note 6: Other Assets

A summary of other assets at December 31 follows:

	2020	2019
Cash surrender value of life insurance	$ 41,151	$ 33,633
Foreclosed assets held for sale, net	1,343	289
Federal Reserve Bank stock	1,568	1,551
Federal Home Loan Bank stock	2,142	2,119
Deferred income taxes	547	2,187
Other	4,917	4,020
	$ 51,668	$ 43,799

Note 7: Deposits

Categories of deposits at December 31 follow:

	2020	2019
Noninterest bearing deposits	$ 428,452	$ 246,630
Interest bearing deposits		
Money market, NOW and savings accounts	762,899	572,615
Certificates of deposit of $250 thousand or more	79,633	75,577
Other certificates of deposit	244,188	195,184
Insured cash sweep deposits	-	19,785
Total interest bearing deposits	1,086,720	863,161
Total deposits	$ 1,515,172	$ 1,109,791

At December 31, 2020, the scheduled maturities of certificates of deposit follow:

2021	$ 187,673
2022	75,544
2023	29,058
2024	20,438
2025	11,108
	$ 323,821

(In Thousands, Except Per Share Data)

Note 8: Notes Payable

Categories of notes payable at December 31 follow:

	2020	2019
Bank's FHLB advances	$ 10,000	$ 10,000
Note payable to a bank, bearing interest at a fixed rate of 3.56%, until maturity at August 27, 2022. This note requires monthly principal payments of $83, plus accrued interest.	4,750	5,750
Note payable to a bank, bearing interest at a fixed rate of 3.03%, until maturity at September 4, 2025. This note requires monthly principal payments of $117 plus accrued interest.	6,668	-
Note payable to a bank, bearing interest at a fixed rate of 3.02%, until maturity at June 29, 2027. This note requires monthly principal payments of $63 plus accrued interest.	7,187	-
	$ 28,605	$ 15,750

The Company has advances from FHLB, which are collateralized by a blanket lien on first mortgage and other qualifying loans. The Company may not prepay certain of these single payment advances without paying a prepayment penalty. Certain of these single payment advances are subject to quarterly calls until maturity by FHLB. The following is a summary of these advances at December 31:

	2020	2019
Single payment advances maturing after 12 months		
Balance	$ 10,000	$ 10,000
Range of fixed interest rates	3.23% - 3.26%	3.12% - 3.26%
Range of maturities	2021 - 2023	2021-2023

The Company has entered into a credit agreement (the Agreement) with a commercial bank consisting of a $10,000 revolving line of credit. This line of credit and term loans are secured by 53,264 shares of the Bank's common stock.

The Company's line of credit requires monthly interest payments and bears interest at 30-day LIBOR plus 2.50%, which was 2.64% and 4.26% at December 31, 2020 and 2019. There were no amounts borrowed under the line of credit at December 31, 2020 and 2019.

(In Thousands, Except Per Share Data)

	FHLB Advances	Company's Term Loans
2021	$ 5,000	$ 3,150
2022	-	5,900
2023	5,000	2,150
2024	-	2,150
2025	-	1,818
Thereafter	-	3,437
	$ 10,000	$ 18,605

Note 9: Subordinated Debentures

The following is a summary of subordinated debentures at December 31:

	2020	2019
Subordinated promissory notes	$ -	$ 2,500
Subordinated debentures	14,754	14,723
Subordinated debentures payable to statutory trusts	11,341	11,341
	$ 26,095	$ 28,564

Subordinated Promissory Notes

The Company offered subordinated promissory notes to a limited number of individuals and financial institutions, each of whom was exempted under applicable securities laws. Each series of these notes matures on July 15 of the respective series year. These notes pay interest on a semiannual basis. The subordinated promissory notes were paid off in 2020.

(In Thousands, Except Per Share Data)

Subordinated Debentures

The Company issued $15,000 subordinated debentures to two institutional lenders on April 1, 2019. Net proceeds received by the Company from these debentures amounted to $14,700. These debentures bear interest, payable semi-annually at a rate of 6.375%. These debentures mature on April 1, 2029, and the principal may be repaid by the Company in whole or in part, beginning on April 1, 2024.

The following is a summary of subordinated debentures payable to institutional lenders at December 31:

	2020	2019
Principal balance	$ 15,000	$ 15,000
Unamortized debt issuance costs	(246)	(277)
	$ 14,754	$ 14,723

Subordinated Debentures Payable to Statutory Trusts

The Company owns the outstanding common stock of business trusts that have issued preferred capital securities to third parties. These preferred capital securities qualify as Tier I capital for the Company, subject to regulatory rules and limits. These trusts used the proceeds from the issuance of the common stock and the preferred capital securities to purchase debentures issued by the Company. These debentures are these trusts' only assets, and quarterly interest payments on these debentures are the sole source of cash for these trusts to pay quarterly distributions on the common stock and preferred capital securities. The Company has fully and unconditionally guaranteed the trusts' obligation with respect to the preferred capital securities.

Although the Company has not elected to do so, the Company has the right to defer the payment of interest on the subordinated debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on the subordinated debentures are deferred, the distributions on the preferred capital securities are also deferred. Interest on the subordinated debentures and distributions on the preferred capital securities are cumulative.

The Company has the right to redeem the debentures prior to maturity. Upon redemption of the subordinated debentures payable to a statutory trust, the trust will also liquidate its common stock and preferred capital securities. The subordinated debentures payable to Trust II have been eligible for redemption by the Company since September 15, 2008. The subordinated debentures payable to Trust III have been eligible for redemption by the Company since December 15, 2010.

(In Thousands, Except Per Share Data)

The following is a summary of debentures payable to statutory trusts as of December 31, 2020 and 2019. Interest rates adjust quarterly for the debentures whose rates are indexed with LIBOR.

	Year of Maturity	Interest Rate	2020	2019
BankFirst Capital Statutory Trust II	2033	3-month LIBOR, plus 2.95% 3.20% (2020) and 4.85% (2019)	$ 3,093	$ 3,093
BankFirst Capital Statutory Trust III	2035	3-month LIBOR, plus 1.45% 1.70% (2020) and 3.34% (2019)	3,093	3,093
First National Bancshares of Central Alabama Statutory Trust I	2036	3-month LIBOR, plus 1.60% 1.85% (2020) and 3.49% (2019)	5,155	5,155
			$ 11,341	$ 11,341

Note 10: Other Expenses

A summary of other expenses at December 31 follows:

	2020	2019
Advertising and promotions	$ 1,431	$ 1,294
Amortization of intangible assets	607	489
Directors' fees and expenses	576	328
Legal and professional expenses	2,263	1,562
Interchange expense	3,075	1,169
Supplies	622	536
Expenses on foreclosed assets held for sale	138	96
Other	4,823	5,542
	$ 13,535	$ 11,016

(In Thousands, Except Per Share Data)

Note 11: Income Taxes

The provision (credit) for income taxes includes these components:

	2020	2019
Taxes currently payable	$ 3,277	$ 3,291
Deferred income taxes	(603)	243
	$ 2,674	$ 3,534

A reconciliation of income tax expense at the statutory rate of 21% to the Company's actual income tax expense is shown below:

	2020	2019
Computed at the statutory rate	$ 3,393	$ 3,223
Increase (decrease) resulting from		
Tax-exempt interest	(267)	(139)
Life insurance income	(225)	(142)
State income taxes	235	448
Other	(462)	144
	$ 2,674	$ 3,534

(In Thousands, Except Per Share Data)

The tax effects of temporary differences related to deferred taxes shown at December 31 follow:

	2020	2019
Deferred tax assets		
Allowance for loan losses	$ 2,963	$ 2,070
Foreclosed assets held for sale	1,072	68
Stock based compensation	234	186
Deferred compensation	1,495	1,343
Accrued expenses	200	207
Purchase accounting adjustments	-	396
Income tax credits	1,047	1,004
Net operating loss	-	301
Other	192	161
	7,203	5,736
Deferred tax liabilities		
Depreciation and amortization	(3,817)	(2,070)
Prepaid expenses	(131)	(93)
Purchase accounting adjustments	(46)	-
Goodwill and other intangible assets	(979)	(884)
Unrealized gains on available-for-sale securities	(1,589)	(420)
Other	(94)	(82)
	(6,656)	(3,549)
Net deferred tax asset	$ 547	$ 2,187

Management believes it is more likely than not that all the deferred tax assets will be realized. The Company's net deferred tax assets are included in other assets in the consolidated balance sheets.

(In Thousands, Except Per Share Data)

Note 12: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity follow:

	Unrealized Gains (Losses) on Available-for-sale Securities		
	Amount	**Tax Effect**	**Net of Tax**
Balance, January 1, 2019	$ (1,061)	$ 234	$ (827)
Included in comprehensive income			
Net unrealized gains on available-for-sale securities	2,744	(654)	2,090
Other comprehensive income	2,744	(654)	2,090
Balance, December 31, 2019	1,683	(420)	1,263
Included in comprehensive income			
Net unrealized gains on available-for-sale securities	4,685	(1,169)	3,516
Other comprehensive income	4,685	(1,169)	3,516
Balance, December 31, 2020	$ 6,368	$ (1,589)	$ 4,779

Note 13: Stockholders' Equity

The Company issued 523,480 shares of common stock on April 1, 2019 through a private placement offering (the 2019 offering). The offering was made solely to "accredited investors" as defined in Rule 501(a) promulgated by the Securities and Exchange Commission. The majority of the shares in the offering were issued to current shareholders, employees, and investors in our local markets.

Note 14: Regulatory Matters

The Bank may be required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. At December 31, 2020, no such reserve was required.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

(In Thousands, Except Per Share Data)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I risk based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following table presents actual and required capital ratios as of December 31, 2020 and 2019, for the Bank under the capital regulatory rules then in effect:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2020						
Common equity tier I	147,411	13.1%	50,720	4.5%	73,263	6.5%
Tier I capital (to risk-weighted assets)	147,411	13.1%	67,627	6.0%	90,170	8.0%
Total capital (to risk-weighted assets)	161,530	14.3%	90,170	8.0%	112,712	10.0%
Tier I capital (to average assets)	147,411	8.9%	66,055	4.0%	82,569	5.0%
December 31, 2019						
Common equity tier I	124,102	13.0%	43,020	4.5%	62,140	6.5%
Tier I capital (to risk-weighted assets)	124,102	13.0%	57,360	6.0%	76,480	8.0%
Total capital (to risk-weighted assets)	133,520	14.0%	76,480	8.0%	95,600	10.0%
Tier I capital (to average assets)	124,102	10.0%	49,620	4.0%	62,025	5.0%

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to its stockholders and for other cash needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the Bank. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items, and, as a result, capital adequacy considerations could further limit the availability of dividends from the Bank. These restrictions are not anticipated to have a material effect on the ability of the Bank to pay dividends to the Company.

(In Thousands, Except Per Share Data)

Note 15: Related Party Transactions

The Company had loans outstanding to executive officers, directors, significant stockholders and their affiliates (related parties) at December 31, 2020 and 2019. In addition to these loans, the Company has commitments to extend credit to these related parties which amounted to $1,775 and $1,487 at 2020 and 2019. The following is a summary of activity in related party loans:

	2020	2019
Balance, beginning of year	$ 2,574	$ 1,831
Advances	725	826
Change in composition of related parties	-	-
Repayments	(2,553)	(83)
Balance, end of year	$ 746	$ 2,574

Deposits from related parties held by the Company totaled $43,592 and $55,303 at December 31, 2020 and 2019.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Note 16: Employee Benefits

401(k) Plan

The Company has a 401(k) plan covering substantially all full time employees of the Company and the Bank. Participants may make contributions to the plan in accordance with applicable regulations and the plan's provisions. The Company makes discretionary matching contributions and additional employer contributions at the discretion of the Board of Directors. The Company contributed $638 and $544 to the plan in 2020 and 2019.

Split-dollar Life Insurance Arrangements

For endorsement split-dollar life insurance arrangements, an employer must recognize the liability for future benefits based on the substantive agreement with the employee. The total accrued liability amounted to $665 and $655 at December 31, 2020 and 2019, and is included in other liabilities in the consolidated balance sheets.

Deferred Compensation Plan

The Company has deferred retirement arrangements for the benefit of certain directors, which generally provide for the payment of monthly benefits to participants at age 70 for a specified period of years. The Company is accruing the present value of the projected benefits to the date of retirement of the respective participants using a discount rate range of 3.75% - 5.50%. The deferred compensation liability is included in other liabilities in the consolidated balance sheets.

(In Thousands, Except Per Share Data)

The following is a summary of the deferred compensation liability:

	2020	2019
Beginning balance	$ 4,865	$ 2,967
Acquisition	1,073	1,828
Expense accrued	779	426
Payments	(354)	(356)
Ending balance	$ 6,363	$ 4,865

Note 17: Stock-based Compensation

The Company has a restricted stock plan providing for the issuance common shares to certain officers. Restricted shares that have not vested are included in the Company's outstanding shares. Compensation expense is recognized over the respective vesting periods of the stock grants based on the fair value of the stock at the grant date. In addition, restricted shares become fully vested in the event of death of a participant or upon a change in control. Participants are entitled to receive dividends as compensation and to vote the restricted shares that have not vested. Restricted shares that have not vested may not be transferred by the participants.

Of the outstanding non-vested shares at December 31, 73,400 shares vest at 10% per year from their respective grant dates and 26,700 shares vest at the end of a three years from their respective grant dates. The following is a summary of changes in the Company's non-vested shares for 2020:

	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of year	80,500	$ 21.85
Granted	36,300	26.14
Vested	(15,000)	20.07
Forfeited	(800)	22.33
Nonvested, end of year	101,000	$ 23.67

The Company recognized compensation expense of $489 and $380 related to these restricted shares during 2020 and 2019. The total fair value of shares vested in 2020 was $345. At December 31, 2020, there was $1,525 of total unrecognized compensation cost related to non-vested shares.

Note 18: Earnings Per Common Share

Earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation.

Earnings per common share were computed as follows:

	2020	2019
Net income available to common stockholders	$ 13,482	$ 11,815
Weighted-average common shares outstanding	4,880,813	4,349,797
Earnings per common share	$ 2.76	$ 2.72

Note 19: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

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

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

(In Thousands, Except Per Share Data)

Recurring Measurements

The following table presents the fair value measurement of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at 2020 and 2019:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2020				
Available-for-sale securities				
U.S. GSEs	$ 35,783	$ -	$ 35,783	$ -
Mortgage-backed securities	179,174	-	179,174	-
State and political subdivisions	107,041	-	107,041	-
Corporate debt securities	3,461	-	3,461	-
Collateralized debt obligations	3,950	-	3,950	-
	$ 329,409	$ -	$ 329,409	$ -
December 31, 2019				
Available-for-sale securities				
U.S. Treasury	$ 7,516	$ 7,516	$ -	$ -
U.S. GSEs	27,943	-	27,943	-
Mortgage-backed securities	125,453	-	125,453	-
State and political subdivisions	56,181	-	56,181	-
Corporate debt securities	250	-	250	-
Collateralized debt obligations	304	-	304	-
	$ 217,647	$ 7,516	$ 210,131	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2020 or 2019.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include the remainder of the Company's available-for-sale securities. For these securities the Company obtains fair value measurements from an independent pricing service that considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, valuation matrices, credit information and the bond's terms and conditions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities.

(In Thousands, Except Per Share Data)

Nonrecurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2020				
Impaired loans (collateral dependent), net of allowance for loan losses	$ 2,910	$ -	$ -	$ 2,910
Foreclosed assets held for sale	1,343	-	-	1,343
December 31, 2019				
Impaired loans (collateral dependent), net of allowance for loan losses	$ 7,085	$ -	$ -	$ 7,085
Foreclosed assets held for sale	289	-	-	289

Following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2020 and 2019.

Impaired Loans (Collateral Dependent)

The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral dependent impaired loans are classified within Level 3 of the fair value hierarchy.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value is determined on the basis of appraisals and evaluations. The Company's foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals are obtained when the real estate is acquired and subsequently as deemed necessary by management. Appraisers are selected from the list of approved appraisers maintained by management.

Another unobservable input used in the fair value measurement of collateral for collateral dependent impaired loans and foreclosed assets held for sale relates to the discounting criteria used to consider lack of marketability and estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results. During 2020 and 2019, collateral discounts ranged from 0% to 100%, with an average discount of approximately 20% per property.

(In Thousands, Except Per Share Data)

Fair Value of Financial Instruments

The following table presents carrying amounts and estimated fair values of financial instruments not carried at fair value at December 31, 2020 and 2019.

	December 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 2 Inputs:				
Cash and due from banks	$ 37,208	$ 37,208	$ 34,757	$ 34,757
Interest bearing bank balances	83,324	83,324	27,281	27,281
Interest receivable	8,978	8,978	4,881	4,881
FRB stock	1,568	1,568	1,551	1,551
FHLB stock	2,142	2,142	2,119	2,119
Level 3 Inputs:				
Loans, net	1,126,128	1,144,217	895,022	886,168
Financial liabilities				
Level 2 Inputs:				
Deposits	1,515,172	1,516,192	1,109,791	1,110,811
Notes payable	28,605	27,892	15,750	36,816
Subordinated debentures	26,095	27,075	28,564	28,564
Interest payable	1,123	1,123	1,392	1,392

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on either a recurring basis or non-recurring basis. In cases where quoted market prices are not available, fair values are generally based on estimates using present value techniques. The Company's premise in present value techniques is to represent the fair values on a basis of replacement value of the existing instrument given observed market rates on the measurement date. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates for those assets or liabilities cannot be necessarily substantiated by comparison to independent markets and, in many cases, may not be realizable in immediate settlement of the instruments. The estimated fair value of financial instruments with immediate and shorter-term maturities (generally 90 days or less) is assumed to be the same as the recorded book value. All nonfinancial instruments, by definition, have been excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The methodology and significant assumptions used in estimating the fair values presented above are as follows:

Cash and Due from Banks, Interest Bearing Bank Balances, Federal Funds Sold, FRB Stock, FHLB Stock, Interest Receivable and Interest Payable

The carrying amount approximates fair value.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Company would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity and the structure and term of the loans along with local economic and market conditions. Loans with similar characteristics were aggregated for purposes of the calculations. This process for estimating the fair value of net loans does not represent an exit price under FASB ASC Topic 820 and such an exit price could potentially produce a different fair value estimate at December 31, 2020 and 2019.

Deposits

Deposits include demand deposits, money market, NOW and savings accounts. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Notes Payable and Subordinated Debentures

The fair values of the Company's FHLB advances and subordinated debentures are based on the discounted value of contractual cash flows using current rates for debt with similar terms and remaining maturities for discounting purposes. The carrying amount of subordinated debentures approximates fair value, since the majority of these instruments have variable interest rates.

Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses and loan concentrations are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. In management's opinion, the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Note 21: Commitments and Credit Risk

The Company's loan portfolio includes commercial, agricultural and real estate loans to borrowers primarily in its market areas in Mississippi and Alabama. Although the Company has a diversified loan portfolio, the Company has concentrations of credit risks related to the real estate market, the agricultural economy and general economic conditions in the Company's market area. Categories of loans are disclosed in Note 3.

As disclosed in Note 3, at December 31, 2020, the Company held $423,132 in loans collateralized by commercial real estate and $105,038 in loans collateralized by construction real estate primarily in the Company's geographic area.

Commitments to Originate Loans

Commitments to originate loans 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 a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Credit card arrangements represent the amount that preapproved credit limits exceed actual balances. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

The Company had total outstanding standby letters of credit of approximately $1,115 and $3,068, had, unused lines of credit to residential borrowers of approximately $28,187 and $18,341, had credit card arrangements of approximately $11,674 and $10,221, and other unused lines of credit and commitments to originate loans of approximately $191,040 and $164,955, at December 31, 2020 and 2019.

(In Thousands, Except Per Share Data)

Note 22: Business Combination

On July 1, 2020, the Company acquired 100% of the outstanding common shares of Traders & Farmers Bancshares, Inc. (T&F) for $28,638 cash and 749,955 shares of Company common stock. Pursuant to this transaction T&F's 100% owned banking subsidiary, Traders & Farmers Bank was merged into the Bank. The primary reasons for the acquisition were to realize cost synergies and to expand the Company's footprint by acquiring a financial institution with operations in North Alabama. T&F's results of operations were included in the Company's results beginning July 1, 2020. Acquisition related costs of $1,358 are included in other noninterest expense in the Company's 2020 Consolidated Statement of Income.

In connection with the acquisition, the Company recorded $15,156 in goodwill, none which will be deductible for tax purposes. The Company also recorded $666 of core deposit intangibles which will be amortized over 10 years for financial statement purposes, but is not deductible for income tax purposes. The following table summarizes the amounts of assets acquired and liabilities assumed at the acquisition date.

Fair Value of Consideration Transferred:	
Cash	$ 28,638
Stock	17,250
Total fair value of consideration transferred	45,888
Identifiable assets:	
Cash and due from banks	4,351
Interest bearing bank balances	735
Federal funds sold	8,648
Available-for-sale securities	188,367
Loans	158,199
Premises and equipment	11,720
Foreclosed assets held for sale	801
Core deposit intangible	666
Other assets	10,993
Total assets	384,480
Identifiable liabilities:	
Deposits	349,980
Other liabilities	3,768
Total liabilities	353,748
Identifiable net assets acquired	30,732
Goodwill resulting from acquisition	$ 15,156

The Company acquired a loan portfolio with gross amounts receivable of $158,680 and an estimated fair value of $158,199. This fair value premium of $1,568 represents adjustments to market interest rates and liquidity adjustments net of the expected credit losses which includes a credit mark discount of $2,050.

(In Thousands, Except Per Share Data)

On April 1, 2019, the Company acquired 100% of the outstanding common shares of FNB Bancshares of Central Alabama, Inc. (FNB) for $47,350 cash. Pursuant to this transaction, FNB's 100% owned banking subsidiary, FNB Bank of Central Alabama (FNB Bank) was merged into the Bank. The primary reasons for the acquisition were to realize cost synergies and to expand the Company's footprint by acquiring a financial institution with banking operations in Tuscaloosa, Alabama and in the Alabama county adjacent to the Company's headquarters in Mississippi. FNB's results of operations were included in the Company's results beginning April 1, 2019. Acquisition related costs of $1,090 are included in other noninterest expense in the Company's 2019 Consolidated Statement of Income.

In connection with the acquisition, the Company recorded $16,923 in goodwill, none of which will be deductible for income tax purposes. The Company also recorded $3,417 of core deposit intangibles which will be amortized over 10 years for financial statement purposes, but is not deductible for income tax purposes. The following table summarizes the amounts of assets acquired and liabilities assumed at the acquisition date:

Fair Value of Consideration Transferred:	
Cash	$ 47,350
Identifiable assets:	
Cash and due from banks	5,141
Interest bearing bank balances	30,692
Federal funds sold	3,150
Available-for-sale securities	55,639
Loans	176,184
Premises and equipment	10,109
Foreclosed assets held for sale	25
Core deposit intangible	3,417
Other assets	10,296
Total assets	294,653
Identifiable liabilities:	
Deposits	256,587
Subordinated debentures payable to statutory trust	5,155
Other liabilities	2,484
Total liabilities	264,226
Identifiable net assets acquired	30,427
Goodwill resulting from acquisition	$ 16,923

The Company acquired a loan portfolio with gross amounts receivable of $178,220 and an estimated fair value of $176,184. This fair value discount of $2,036 represents expected credit losses, adjustments to market interest rates and liquidity adjustments and includes a credit mark discount of $1,470.

(In Thousands, Except Per Share Data)

Note 23: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company.

Condensed Balance Sheets

	December 31, 2020	December 31, 2019
Assets		
Cash	$ 589	$ 313
Investment in subsidiary	190,198	148,280
Investment in statutory trusts	341	341
Other assets	870	739
Total assets	$ 191,998	$ 149,673
Liabilities		
Subordinated debentures	$ 26,095	$ 28,564
Notes payable	18,606	5,750
Other liabilities	301	344
Total liabilities	45,002	34,658
Stockholders' Equity	146,996	115,015
Total liabilities and stockholders' equity	$ 191,998	$ 149,673

(In Thousands, Except Per Share Data)

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31, 2020	2019
Income		
Other income	$ 9	$ 13
Total income	9	13
Expenses		
Interest expense	1,762	1,569
Other	1,130	1,343
Total expenses	2,892	2,912
Loss Before Income Tax and Equity in Net Income of Subsidiary	(2,883)	(2,899)
Income Tax Benefit	840	702
Loss Before Equity in Net Income of Subsidiary	(2,043)	(2,197)
Equity in Net Income of Subsidiary	15,525	14,012
Net Income	13,482	11,815
Other Comprehensive Income (Loss)	3,516	2,090
Comprehensive Income	$ 16,998	$ 13,905

(In Thousands, Except Per Share Data)

Condensed Statements of Cash Flows

	Years Ended December 31, 2020	Years Ended December 31, 2019
Operating Activities		
Net income	$ 13,482	$ 11,815
Items not requiring (providing) cash		
Equity in net income of subsidiary	(15,525)	(14,012)
Other, net	(142)	(30)
Net cash provided by (used in) operating activities	(2,185)	(2,227)
Investing Activities		
Dividends received from subsidiary	23,500	27,400
Cash used in acquisition, net of cash acquired	(28,638)	(47,157)
Net cash provided by (used in) investing activities	(5,138)	(19,757)
Financing Activities		
Subordinated debentures issued	-	14,700
Subordinated debentures redeemed	(2,500)	(2,500)
Proceeds from notes payable	14,500	-
Repayment of notes payable	(1,645)	(1,000)
Common stock issued	-	12,659
Common stock redeemed	(121)	(49)
Dividends paid on common stock	(2,635)	(2,243)
Net cash provided by (used in) financing activities	7,599	21,567
Change in Cash	276	(417)
Cash, Beginning of Year	313	730
Cash, End of Year	$ 589	$ 313

Corporate Offices

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(662) 328-2345
bankfirstfs.com

Stock Listing

BankFirst Capital Corporation is listed on the OTCQX® Best Market under the symbol "BFCC."

Transfer Agent & Registrar

Shareholders who wish to change the name, address, or ownership of stock, report lost stock certificates, inquire about the Dividend Reinvestment Plan or consolidate stock accounts should contact:

Issuer Direct
One Glenwood Ave, Suite 101
Raleigh, NC 27603
transfer@issuerdirect.com

2021 Annual Meeting of Shareholders

Thursday, April 22, 2021
6:30 p.m. CST

BANKFIRST CAPITAL

BFCC TRADED ON OTCQX