

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-39914

Affinity Bancshares, Inc.

(Exact Name of Registrant as Specified in its Charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

3175 Highway 278, Covington, Georgia

(Address of principal executive offices)

82-1147778

(I.R.S. Employer
Identification Number)

30014

(Zip code)

(770) 786-7088

(Registrant's telephone number including area code)

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

Title of each class	Trading Symbols	Name of exchange on which registered
Common Stock, par value \$0.01 per share	AFBI	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock of \$14.85 as of June 30, 2022, was \$83.7 million.

As of March 20, 2023 there were 6,596,910 shares outstanding of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2023 Annual Meeting of Stockholders. (Part III)

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PART I

ITEM 1. Business

Forward Looking Statements

This annual report contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “assume,” “plan,” “seek,” “expect,” “will,” “may,” “should,” “indicate,” “would,” “contemplate,” “continue,” “potential,” “target” and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Accordingly, you should not place undue reliance on such statements. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this annual report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding and to continue to fund our operations;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;
- competition among depository and other financial institutions, including with respect to our ability to charge overdraft fees;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of financial instruments or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees, capital requirements and insurance premiums;
- monetary and fiscal policies of the U. S. Government, including policies of the U. S. Treasury and the Board of Governors of the Federal Reserve Bank (the "Federal Reserve Board");
- changes in tax laws;
- the effects of any Federal government shutdown;
- changes in the quality or composition of our loan or investment portfolios;

- technological changes that may be more difficult or expensive than expected;
- failure or breaches of information technology security systems;
- the inability of third-party providers to perform as expected;
- a failure or breach of our operational or security systems or infrastructure, including cyberattacks;
- our ability to manage market risk, credit risk and operational risk in the current economic environment;
- our ability to introduce new products and services, enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate into our operations any assets, liabilities, customers, systems and management personnel we have acquired or may acquire and our ability to realize related revenue synergies and cost savings within expected time frames, and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- the ability of the U. S. Government to remain open, function properly and manage federal debt limits;
- our compensation expense associated with equity allocated or awarded to our employees;
- the effects of climate change and societal, investor and governmental responses to climate change;
- the effects of social and governance change and societal and investor sentiment and governmental responses to social and governance matters;
- the effects of domestic and international hostilities, including terrorism;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own; and
- the effects of any pandemic disease, natural disaster, war, act of terrorism, accident, or similar action or event.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Affinity Bancshares, Inc.

Affinity Bancshares, Inc. (“Affinity Bancshares”) is a Maryland corporation that was incorporated in September 2020 to be the successor corporation to Community First Bancshares, Inc., a federal corporation, upon completion of the second-step mutual-to-stock conversion (the “Conversion”) of Community First Bancshares, MHC, the top tier mutual holding company of Community First Bancshares, Inc. Community First Bancshares, Inc. was the former mid-tier holding company for Affinity Bank (formerly named Newton Federal Bank). Prior to completion of the Conversion, approximately 54% of the shares of common stock of Community First Bancshares, Inc. were owned by Community First Bancshares, MHC. In conjunction with the Conversion, Community First Bancshares, Inc. was merged into Affinity Bancshares, Inc. (and ceased to exist) and Affinity Bancshares, Inc. became its successor holding company for Affinity Bank.

On January 20, 2021, Affinity Bancshares, Inc. completed the Conversion. Affinity Bancshares, Inc. raised gross proceeds of \$37.1 million by selling a total of 3,701,509 shares of common stock at \$10.00 per share in the second-step stock offering. Affinity Bancshares, Inc. utilized \$3.0 million of the proceeds to fund an addition to its Employee Stock Ownership Plan (“ESOP”) loan for the acquisition of additional shares at \$10.00 per share. Expenses incurred related to the offering were \$1.7 million, and were recorded against offering proceeds. The Company invested \$16.3 million of the net proceeds it received from the sale into Affinity Bank’s operations and has retained the remaining amount for general corporate purposes. Concurrent with the completion of the stock

offering, each share of Community First Bancshares, Inc. common stock owned by public stockholders (stockholders other than Community First Bancshares, MHC) was exchanged for 0.90686 shares of Company common stock.

Affinity Bancshares, Inc. conducts its operations primarily through its wholly owned subsidiary, Affinity Bank, a federally chartered savings bank. Affinity Bancshares, Inc. manages its operations as one unit, and thus does not have separate operating segments. At December 31, 2022, Affinity Bancshares, Inc. had total assets of \$791.3 million, loans of \$636.9 million, deposits of \$657.2 million, and stockholders' equity of \$117.1 million.

The executive offices of Affinity Bancshares, Inc. are located at 3175 Highway 278, Covington, Georgia 30014, and its telephone number is (770) 786-7088. Affinity Bancshares, Inc. is subject to comprehensive regulation and examination by the Federal Reserve Board.

Affinity Bank

Affinity Bank is a federally chartered stock savings bank headquartered in Covington, Georgia. Affinity Bank changed its name from Newton Federal Bank in connection with the Conversion. Newton Federal Bank was originally chartered in 1928 as a Georgia-chartered mutual building and loan association under the name Newton County Building and Loan Association, and we continue to operate under the name "Newton Federal Bank, a Division of Affinity Bank" in Newton Federal Bank's legacy market area.

Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations, in commercial real estate loans, commercial and industrial loans and residential real estate loans and, to a lesser extent, construction and land loans and consumer loans. We also invest in securities, which have historically consisted primarily of mortgage-backed securities and obligations issued by U.S. government sponsored enterprises and Federal Home Loan Bank stock. We offer a variety of deposit accounts, including checking accounts, savings accounts and certificate of deposit accounts. In addition, we gather deposits nationwide through our virtual bank, FitnessBank, which accepts deposits and provides higher interest rates based on customers meeting certain fitness goals. We have also used Federal Home Loan Bank borrowings to fund our operations.

Affinity Bank is subject to comprehensive regulation and examination by the Office of the Comptroller of the Currency. Affinity Bank is a member of the Federal Home Loan Bank system. We use three website addresses: www.myaffinitybank.com, www.newtonfederal.com, and FitnessBank.fit. Information on our websites is not considered a part of this report.

Market Area

We conduct our operations from our main office and one additional branch office in Covington, Georgia, which is located in Newton County, Georgia, and one branch office in Atlanta, Georgia, which is located in Cobb County, as well as a commercial loan production office located in Alpharetta, Georgia, which is in Fulton County. Our indirect automobile lending division, Affinity Bank Dealer Select (formerly "Community First Auto"), operates from an office in Monroe, Georgia. In addition, we gather deposits nationwide through our virtual bank, FitnessBank.

We believe that we have developed products and services that will meet the financial needs of our current and future customer base, and we continually plan to enhance our products and services to meet the changing needs of customers. Marketing strategies focus on the strength of our knowledge of local consumer and small business markets, our understanding of the dental practice market and indirect automobile lending, as well as expanding relationships with current customers and reaching out to develop new, profitable business relationships.

Competition

We face competition within our local market area both in making loans and attracting deposits. Our market area has a concentration of financial institutions that include large money center and regional banks, community banks and credit unions. We also face competition from savings institutions, mortgage banking firms, consumer finance companies and credit unions and, with respect to deposits, from money market funds, brokerage firms, mutual funds and insurance companies. As of June 30, 2022 (the most recent date for which data is available), our market share of deposits represented 22.17% of Federal Deposit Insurance Corporation-insured deposits in Newton County and 1.28% in Cobb County, ranking us first and 13th, respectively, in market share of deposits out of eight institutions operating in Newton County and 24 institutions operating in Cobb County.

Lending Activities

General. Our historical lending activity consists of originating commercial real estate loans, commercial and industrial loans and residential real estate loans and, to a lesser extent, construction and land loans and consumer loans. We have a specialized expertise in lending to dentists and dental practices, since 2002, with loans to the dental industry totaling \$185.1 million, or 28.6% of

our loan portfolio, as of December 31, 2022. Of this amount, 66% consisted of commercial business loans and 33% consisted of commercial real estate loans, with the remaining amount being unsecured loans.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated. In addition to the loans included in the table below, at December 31, 2022, we had no loans held for sale, no loans in process, \$877,000 of deferred loan fees, and \$2.8 million in indirect auto dealer reserve costs.

	At December 31,			
	2022		2021	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial (secured by real estate - owner occupied)	\$ 162,989	25.22%	\$ 158,662	27.15%
Commercial (secured by real estate - non-owner occupied)	135,720	21.00%	104,042	17.81%
Commercial and industrial	147,775	22.87%	170,718	29.21%
Construction, land and acquisition & development	37,158	5.75%	16,317	2.79%
Residential mortgage 1-4 family	51,324	7.94%	63,065	10.79%
Consumer installment	111,268	17.22%	71,580	12.25%
Total	<u>646,234</u>	<u>100.00%</u>	<u>584,384</u>	<u>100.00%</u>
Less:				
Allowance for losses	(9,325)		(8,559)	
Total loans, net	<u>\$ 636,909</u>		<u>\$ 575,825</u>	

Contractual Maturities. The following table sets forth the contractual maturities of our total loan portfolio at December 31, 2022. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. The table presents contractual maturities and does not reflect repricing or the effect of prepayments. Actual maturities may differ.

December 31, 2022	Due in one year or less	After one through five years	After five through 15 years	After 15 years	Total
Amounts due in:					
Commercial (secured by real estate - owner occupied)	\$ 9,371	\$ 51,143	\$ 92,423	\$ 10,052	\$ 162,989
Commercial (secured by real estate - non-owner occupied)	6,730	47,132	71,911	9,947	135,720
Commercial and industrial	5,630	26,625	113,804	1,716	147,775
Construction, land and acquisition & development	30,980	5,568	610	—	37,158
Residential mortgage	796	4,099	21,865	24,564	51,324
Consumer installment	721	53,216	57,331	—	111,268
	<u>\$ 54,228</u>	<u>\$ 187,783</u>	<u>\$ 357,944</u>	<u>\$ 46,279</u>	<u>\$ 646,234</u>

The following table sets forth our fixed and adjustable-rate loans at December 31, 2022 that are contractually due after December 31, 2022.

	Due After December 31, 2022		
	Fixed	Adjustable	Total
	(In thousands)		
Commercial (secured by real estate - owner occupied)	\$ 155,686	\$ 7,303	\$ 162,989
Commercial (secured by real estate - non-owner occupied)	111,752	23,968	135,720
Commercial and industrial	138,468	9,307	147,775
Construction, land and acquisition & development	7,750	29,408	37,158
Residential mortgage 1-4 family	41,228	10,096	51,324
Consumer installment	110,501	767	111,268
Total loans	<u>\$ 565,385</u>	<u>\$ 80,849</u>	<u>\$ 646,234</u>

Commercial and Industrial Loans. We make commercial and industrial loans, primarily in our market area, to a variety of professionals, sole proprietorships and small businesses, including dental loans, which are originated throughout the Southeastern United States. These loans are generally secured by business assets, and we may support this collateral with junior liens on real property. At December 31, 2022, commercial and industrial loans were \$147.8 million, or 22.87% of our gross loans. As part of our

relationship driven focus, we encourage our commercial borrowers to maintain their primary deposit accounts with us, which enhances our interest rate spread and net interest margin.

Commercial lending products include term loans and revolving lines of credit. Commercial loans and lines of credit are made with either adjustable or fixed rates of interest. Adjustable rates and fixed rates are based on the prime rate as published in The Wall Street Journal, plus a margin. We are focusing our efforts on experienced, growing small- to medium-sized, privately-held companies with solid historical and projected cash flows that operate in our market areas.

When making commercial and industrial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities and global cash flows of the borrower and other guarantors, the projected cash flows of the business and the value of the collateral, accounts receivable, inventory and equipment. Depending on the collateral used to secure the loans, commercial and industrial loans are made in amounts of up to 80% of the value of the collateral securing the loan.

Our commercial business loans to dental professionals totaled \$185.1 million at December 31, 2022. The significant majority of these loans are secured by practice assets with the goodwill of each practice providing the value for lending. We consider numerous factors when underwriting dental loans, including transactional risk related to the selling doctor in a practice purchase, if applicable, procedures performed, insurance taken and the good standing of the dentist by state boards. We lend across all dental specialties: general, cosmetic, orthodontist, endodontist, periodontist, pediatric, and oral surgery. The majority of our dental loans are originated to professionals and practices located in the State of Georgia, with the remainder originated through the adjoining states. We target dental practice loans with principal balances between \$250,000 and \$750,000, although we will originate dental practice loans with principal balances in excess of \$750,000. Most of our dental loans are to solo practitioners or small practices with two professionals. We remain knowledgeable of trends in the dental industry through regular contact with our borrowers as well as through our participation in dental managers associations and our dental advisory board.

Our largest commercial and industrial loan at December 31, 2022 totaled \$2.5 million, was originated in 2016 and is secured by accounts receivable. At December 31, 2022, this loan was performing in accordance with its terms.

Commercial Real Estate Loans. Our commercial real estate loans (which includes owner occupied and non-owner occupied loans) are secured primarily by dental/medical professional properties, church campuses and other small businesses. At December 31, 2022, we had \$298.7 million in commercial real estate loans, representing 46.2% of our total loan portfolio. At that date, \$163.0 million, or 25.2% of our commercial real estate loans, were secured by owner-occupied properties. This amount included \$61.4 million of dental loans, \$19.3 million of church loans and \$4.5 million of multi-family residential real estate loans.

Most of our commercial real estate loans are balloon loans with a five-year initial term and a 20-year amortization period. The maximum loan-to-value ratio of our commercial real estate loans is generally 80%. All of our commercial real estate loans are subject to our underwriting procedures and guidelines. At December 31, 2022, our largest commercial real estate loan totaled \$7.5 million and is secured by a well-established, anchored, retail shopping center. At December 31, 2022, this loan was performing in accordance with its terms.

We consider several factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower, including credit history, profitability, and expertise, as well as the value and condition of the property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service). Most of our commercial real estate loans are appraised by outside independent appraisers approved by the board of directors, although we are only required to obtain independent appraisals on commercial real estate loans in amounts of \$500,000 or greater. Personal guarantees are generally obtained from the principals of commercial real estate borrowers.

Residential Mortgage Loans. At December 31, 2022, we had \$51.3 million of loans secured by one- to four-family real estate, representing 7.9% of our total loan portfolio. We currently originate adjustable-rate and fixed-rate one- to four-family residential real estate loans, although our ability to originate adjustable-rate residential mortgage loans is significantly limited in the current interest rate environment. We historically originated fixed-rate one- to four-family residential real estate loans with balloon terms, but recently began originating adjustable-rate one- to four-family residential real estate loans. At December 31, 2022, \$10.1 million, or 14.4%, of our one- to four-family residential real estate loans were adjustable-rate loans.

Our one- to four-family residential real estate loans are generally underwritten to internal guidelines, although we generally follow the documentation practices of Fannie Mae guidelines. We generally originate one- to four-family residential real estate loans

in amounts up to \$150,000, although we will originate loans above this amount. The significant majority of our one- to four-family residential real estate loans are secured by properties located in our primary market area.

We generally limit the loan-to-value ratios of our one- to four-family residential mortgage loans to 89.9% of the purchase price or appraised value, whichever is lower.

We currently offer one- to four-family residential real estate loans with terms of up to 15 years. Our adjustable-rate one- to four-family residential real estate loans have a five or seven year initial fixed rate.

We do not offer “interest only” mortgage loans on permanent one- to four-family residential real estate loans (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as “Option ARM” loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. We do not currently offer “subprime loans” on one- to four-family residential real estate loans (i.e., generally loans to borrowers with credit scores less than 620).

Construction and Land Loans. We make construction loans, primarily to individuals for the construction of their primary residences and to contractors and builders of single-family homes. We also make a limited amount of land loans to complement our construction lending activities, as such loans are generally secured by lots that will be used for residential development. Land loans also include loans secured by land purchased for investment purposes. At December 31, 2022, our residential construction loans totaled \$37.2 million, representing 5.75% of our total loan portfolio, and included \$1.6 million of land loans. At December 31, 2022 there were no single-family construction loans to individuals and \$29.4 million were to contractors and builders. In addition, we had \$6.2 million of commercial construction and development loans as of December 31, 2022, which included \$3.9 million of commercial development and land loans.

While we may originate loans to contractors and builders whether or not the collateral property underlying the loan is under contract for sale, we consider each project carefully in light of current residential real estate market conditions. We actively monitor the number of unsold homes in our construction loan portfolio and local housing markets to attempt to maintain an appropriate balance between home sales and new loan originations. We generally will limit the maximum number of speculative units (units that are not pre-sold) approved for each builder. We have attempted to diversify the risk associated with speculative construction lending by doing business with experienced small and mid-sized builders within our market area.

We also originate construction loans for commercial development projects, including retail buildings, houses of worship, small industrial projects, hotels and office buildings. Most of our construction loans are interest-only loans that provide for the payment of interest during the construction phase, which is usually up to 12 months. At the end of the construction phase, the loan may convert to a permanent mortgage loan or the loan may be paid in full.

Construction loans generally can be made with a maximum loan-to-value ratio of 75% of the estimated appraised market value upon completion of the project. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We also generally require inspections of the property before disbursements of funds during the term of the construction loan.

At December 31, 2022, our largest construction and land loan was for \$4.2 million, of which \$697,000 was outstanding. This loan was originated in 2022 to construct a new convenience store and is secured by land and improvements. This loan was performing according to its terms at December 31, 2022.

Consumer Loans. We offer a limited range of consumer loans, principally to customers residing in our primary market area with other relationships with us and with acceptable credit ratings. Our consumer loans generally consist of indirect loans on new and used automobiles, loans secured by deposit accounts and unsecured personal loans. At December 31, 2022, consumer and other loans were \$111.3 million, or 17.22% of gross loans.

In 2018, we established our indirect automobile lending division, Affinity Bank Dealer Select (“ABDS”, and formerly named Community First Auto), which currently operates from an office in Monroe, Georgia. This division has an experienced manager and sales team to operate this line of business. At December 31, 2022, we had \$108.5 million in indirect automobile loans, and our internal policies limit such loans to 200% of capital and 25% of our loan portfolio.

ABDS purchases retail installment sales contracts from dealerships in the states of Alabama, Georgia, Florida, Tennessee, North Carolina, South Carolina, Kentucky and Virginia. A dealership submits credit applications to ABDS for consideration. ABDS fully underwrites each loan for creditworthiness, vehicle valuation, debt ratios and the consumer’s stability. ABDS underwrites each loan to ensure all credit policy guidelines are followed. Applications that are approved and counter-offered are submitted to ABDS for verification and funding.

All dealerships that submit retail installment contracts to ABDS sign a separate retail dealer agreement that makes representations and warranties to ABDS with respect to our security interest and the accuracy and validity of all information provided during the credit application and contract process. Borrowers are responsible for carrying full coverage insurance during the life of the loan, but ABDS has a blanket Vendor Single Interest policy in place to cover all loans in case of lapse of coverage, skip or confiscation.

Loan Underwriting Risks

Commercial Real Estate Loans. Loans secured by commercial real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential real estate loans. The primary concern in commercial real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers and loan guarantors to provide quarterly, semi-annual or annual financial statements, depending on the size of the loan, on commercial real estate loans. In reaching a decision on whether to make a commercial real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have an aggregate debt service ratio, including the guarantor's cash flows and the borrower's other projects, of at least 1.20x. An environmental phase one report is obtained when the possibility exists that hazardous materials may have existed on the site, or the site may have been impacted by adjoining properties that handled hazardous materials.

If we foreclose on a commercial real estate loan, the marketing and liquidation period to convert the real estate asset to cash can be lengthy with substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability. Depending on the individual circumstances, initial charge-offs and subsequent losses on commercial real estate loans can be unpredictable and substantial.

Commercial and Industrial Loans. Unlike residential real estate loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial and industrial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business and the collateral securing these loans may fluctuate in value. Our commercial and industrial loans are originated primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. With respect to dental practice loans, the goodwill of a practice provides the value for lending. Most often, collateral for commercial and industrial loans consists of accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself.

Construction and Land Loans. Our construction loans are based upon estimates of costs and values associated with the completed project. Underwriting is focused on the borrowers' financial strength, credit history and demonstrated ability to produce a quality product and effectively market and manage their operations.

Construction lending involves additional risks when compared with permanent lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. In addition, generally during the term of a construction loan, interest may be funded by the borrower or disbursed from an interest reserve set aside from the construction loan budget. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If the appraised value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss.

Balloon Loans. Although balloon mortgage loans may reduce to an extent our vulnerability to changes in market interest rates because they reprice at the end of the term, the ability of the borrower to renew or repay the loan and the marketability of the underlying collateral may be adversely affected if real estate values decline prior to the expiration of the term of the loan or in a rising interest rate environment.

Adjustable-Rate Loans. While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate loans, an increased monthly payment required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying collateral also may be adversely affected in a high interest rate environment.

Consumer Loans. Consumer loans may entail greater risk than residential real estate loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and a small remaining deficiency often does not warrant further substantial collection efforts against the borrower. Consumer loan collections depend on the borrower's continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Indirect automobile loans are inherently risky as they are often secured by assets that may be difficult to locate and can depreciate rapidly. In some cases, repossessed collateral for a defaulted automobile loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency may not warrant further substantial collection efforts against the borrower. Automobile loan collections depend on the borrower's continuing financial stability, and therefore, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Additional risk elements associated with indirect lending include the limited personal contact with the borrower as a result of indirect lending through non-bank channels, namely automobile dealers.

Originations, Purchases and Sales of Loans

Lending activities are conducted by our salaried loan personnel operating at our main and branch office locations and our loan production office. All loans originated by us are underwritten pursuant to our policies and procedures. We originate fixed-rate loans and adjustable-rate loans. Our ability to originate fixed-rate loans or adjustable-rate loans depends on relative customer demand for such loans, which is affected by current and expected future levels of market interest rates. We originate real estate and other loans through our loan officers, marketing efforts, our customer base, walk-in customers and referrals from real estate brokers, builders and attorneys.

We sometimes purchase whole loans from third parties to supplement our loan production. These loans generally consist of loans to health care professionals and loans secured by manufactured housing. At December 31, 2022, we had \$3.0 million of whole loans that we purchased. The majority of our purchased loans are to borrowers who are not located in our primary market area.

In addition, from time to time, we may purchase or sell participation interests in loans. We underwrite our participation interest in the loan that we are purchasing according to our own underwriting criteria and procedures. At December 31, 2022, we had \$1.9 million of committed funds for loan participation interests that we purchased, and at that date, we had \$13.7 million of loans for which we had sold participation interests.

We do not originate significant amounts of loans for sale, but we occasionally sell loans, primarily to generate fee income. We currently broker loan sales through Quicken Loans and receive fees related to such sales. For the year ended December 31, 2022, we received \$129,000 in fee income. At December 31, 2022, we had no loans held for sale.

Loan Approval Procedures and Authority

Pursuant to federal law, the aggregate amount of loans that Affinity Bank is permitted to make to any one borrower or a group of related borrowers is generally limited to 15% of Affinity Bank's unimpaired capital and surplus. At December 31, 2022, based on the 15% limitation, Affinity Bank's loans-to-one-borrower limit was approximately \$14.5 million. On the same date, Affinity Bank had no borrowers with outstanding balances in excess of this amount. At December 31, 2022, our largest loan relationship with one borrower was for \$12.7 million, of which was \$4.8 million was funded, which was for one-to-four residential construction, and the underlying loans were performing in accordance with their terms on that date.

Our lending is subject to written underwriting standards and origination procedures. Decisions on loan applications are made on the basis of detailed applications submitted by the prospective borrower, credit histories that we obtain, and property valuations (consistent with our appraisal policy) prepared by outside independent licensed appraisers approved by our board of directors as well as internal evaluations, where permitted by regulations. The loan applications are designed primarily to determine the borrower's ability to repay the requested loan, and the more significant items on the application are verified through use of credit reports, bank statements and tax returns.

All loan approval amounts are based on the aggregate loans (total credit exposure), including total balances of outstanding loans and the proposed loan to the individual borrower and any related entity. Our Chief Executive Officer and our Chief Credit Officer each has individual authorization to approve loans up to \$1.0 million, and, combined, can approve loans up to \$3.5 million. Two Senior Credit Managers and the President can approve loans up to \$500,000 each, or any two of these individuals can approve loans up to \$1.0 million combined. No individual loan officer has approval authority in excess of \$300,000 individually, and such authority cannot be combined with other officers. Loans in excess of \$3.5 million require the approval of our full board of directors.

Generally, we require title insurance or abstracts on our mortgage loans as well as fire and extended coverage casualty insurance in amounts at least equal to the principal amount of the loan or the value of improvements on the property, depending on the type of loan.

Delinquencies and Asset Quality

Delinquency Procedures. When a loan payment becomes 15 days past due, we contact the customer by mailing a late notice, and loan officers may contact their customers. If a loan payment becomes 30 days past due, we mail an additional late notice and a loan-specific letter written by a collection representative, and we also place telephone calls to the borrower. These loan collection efforts continue until a loan becomes 90 days past due, at which point we would refer the loan for foreclosure proceedings unless management determines that it is in the best interest of Affinity Bank to work further with the borrower to arrange a workout plan. The foreclosure process would begin when a loan becomes 120 days delinquent. From time to time we may accept deeds in lieu of foreclosure.

Loans Past Due and Non-Performing Assets. Loans are reviewed on a regular basis. Management determines that a loan is impaired or non-performing when it is probable at least a portion of the loan will not be collected in accordance with the original terms due to a deterioration in the financial condition of the borrower or the value of the underlying collateral if the loan is collateral dependent. When a loan is determined to be impaired, the measurement of the loan in the allowance for loan losses is based on present value of expected future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Non-accrual loans are loans for which collectability is questionable and, therefore, interest on such loans will no longer be recognized on an accrual basis. All loans that become 90 days or more delinquent are placed on non-accrual status unless the loan is well secured and in the process of collection. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received on a cash basis or cost recovery method.

When we acquire real estate as a result of foreclosure, the real estate is classified as real estate owned. The real estate owned is recorded at the lower of carrying amount or fair value, less estimated costs to sell. Soon after acquisition, we order a new appraisal to determine the current market value of the property. Any excess of the recorded value of the loan satisfied over the market value of the property is charged against the allowance for loan losses, or, if the existing allowance is inadequate, charged to expense of the current period. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

A loan is classified as a troubled debt restructuring if, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession to the borrower that we would not otherwise consider. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date and possibly a partial forgiveness of the principal amount due. Interest income on restructured loans is accrued after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six consecutive months.

Delinquent Loans. The following tables set forth our loan delinquencies, by type and amount at the dates indicated. We had no PPP loans delinquent at December 31, 2022 and 2021.

	At December 31,					
	2022			2021		
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due
(In thousands)						
Commercial (secured by real estate - owner occupied)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial (secured by real estate - non-owner occupied)	—	—	—	—	—	—
Commercial and industrial	—	—	—	338	—	—
Commercial, land and acquisition & development	85	—	—	—	—	—
Residential mortgage	2,341	533	249	3,547	1,148	—
Consumer installment	571	59	—	271	25	—
Total	<u>\$ 2,997</u>	<u>\$ 592</u>	<u>\$ 249</u>	<u>\$ 4,156</u>	<u>\$ 1,173</u>	<u>\$ —</u>

Non-Performing Assets. The following table sets forth information regarding our non-performing assets. Non-accrual loans include non-accruing troubled debt restructurings of \$0 and \$241,000 at December 31, 2022 and 2021, respectively.

	At December 31,	
	2022	2021
(Dollars in thousands)		
Non-accrual loans:		
Commercial (secured by real estate - owner occupied)	\$ 85	\$ —
Commercial (secured by real estate - non-owner occupied)	3,312	3,200
Commercial and industrial	3	813
Construction, land and acquisition & development	—	—
Residential mortgage 1-4 family	3,185	2,873
Consumer installment	135	125
Total non-accrual loans	<u>6,720</u>	<u>7,011</u>
Accruing loans past due 90 days or more	249	—
Commercial (secured by real estate - owner occupied)	—	—
Commercial (secured by real estate - non-owner occupied)	2,901	3,538
Commercial and industrial	—	—
Construction, land and acquisition & development	—	—
Residential mortgage 1-4 family	—	—
Consumer installment	—	—
Total real estate owned	<u>2,901</u>	<u>3,538</u>
Total non-performing assets	<u>\$ 9,870</u>	<u>\$ 10,549</u>
Total accruing troubled debt restructured loans	\$ 341	\$ 1,056
Total non-performing loans to total loans	1.04%	1.42%
Total non-performing assets to total assets	1.25%	1.34%

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the Office of the Comptroller of the Currency to be of lesser quality, as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as “special mention” by our management.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover probable accrued losses. General allowances represent loss allowances which have been established to cover probable accrued losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as “loss,” it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific loss allowances.

In connection with the filing of our periodic reports with the Office of the Comptroller of the Currency and in accordance with our classification of assets policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations.

On the basis of this review of our assets, our classified and special mention assets at the dates indicated were as follows:

	At December 31,	
	2022	2021
	(In thousands)	
Substandard assets	\$ 6,667	\$ 8,398
Doubtful assets	—	—
Loss assets	—	—
Total classified assets	\$ 6,667	\$ 8,398
Special mention assets	\$ 2,739	\$ 3,054

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management’s judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management’s evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management’s estimate of probable credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by full and partial charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Management’s periodic evaluation of the adequacy of the allowance is based on various factors, including, but not limited to, management’s ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses.

As an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review our allowance for loan losses, and as a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in the process for establishing the allowance for loan losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management.

The following table sets forth activity in our allowance for loan losses for the periods indicated. We have not provided for loan losses on Paycheck Protection Program loans due to the government guarantee associated with such loans.

	Years Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Allowance at beginning of period	\$ 8,559	\$ 6,361
Provision for loan losses	704	1,075
Charge offs:		
Commercial (secured by real estate - owner occupied)	\$ —	\$ —
Commercial (secured by real estate - non-owner occupied)	—	—
Commercial and industrial	(26)	(234)
Construction, land and acquisition & development	—	—
Residential mortgage 1-4 family	—	—
Consumer installment	(123)	(76)
Total charge-offs	(149)	(310)
Recoveries:		
Commercial (secured by real estate - owner occupied)	123	1,307
Commercial (secured by real estate - non-owner occupied)	—	—
Commercial and industrial	21	37
Construction, land and acquisition & development	—	—
Residential mortgage 1-4 family	39	73
Consumer installment	28	16
Total recoveries	211	1,433
Net (charge-offs) recoveries	62	1,123
Allowance at end of period	\$ 9,325	\$ 8,559
Allowance to non-performing loans	138.75%	122.08%
Allowance to total loans outstanding at the end of the period	1.44%	1.74%
Net (charge-offs) recoveries to average loans outstanding during the period	0.01%	0.19%

The following table sets forth information with respect to charge-offs and recoveries by loan category.

	For the Year Ended December 31,					
	2022			2021		
	Average Balance	Net (Recoveries) / Charge-offs	% of Net (Recoveries) / Charge-offs to Average Balance	Average Balance	Net (Recoveries) / Charge-offs	% of Net (Recoveries) / Charge-offs to Average Balance
Commercial (secured by real estate - owner occupied)	\$ 157,482	\$ (123)	(0.08)%	\$ 122,955	\$ (1,307)	(1.06)%
Commercial (secured by real estate - non-owner occupied)	131,136	—	—	102,385	—	—
Commercial and industrial	156,682	5	0.00%	225,207	197	0.09%
Construction, land and acquisition & development	31,842	—	—	15,023	—	—
Residential mortgage	55,416	(39)	(0.07)%	73,391	(73)	(0.10)%
Consumer installment	91,853	95	0.10%	57,599	60	0.10%
Total gross loans	624,411	\$ 62	0.01%	596,560	\$ (1,123)	(0.19)%
Deferred loan fees, net	1,048			958		
Total loans outstanding at end of year	\$ 623,363		0.01%	\$ 595,602		(0.19)%

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category and the percent of the allowance in each category to the total allocated allowance at the dates indicated. The allowance for

loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,					
	2022			2021		
Allowance for Loan Losses	Percent of Allowance in Each Category to Total Allowance	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Allowance in Each Category to Total Allowance	Percent of Loans in Each Category to Total Loans	
(Dollars in thousands)						
Commercial (secured by real estate - owner occupied)	\$ 2,403	25.89%	25.22%	\$ 2,701	31.57%	27.15%
Commercial (secured by real estate - non-owner occupied)	2,079	22.40%	21.00%	1,980	23.14%	17.81%
Commercial and industrial loans	2,292	24.70%	22.87%	2,242	26.21%	29.21%
Construction and land	487	5.25%	5.75%	162	1.89%	2.79%
One- to four-family residential	345	3.72%	7.94%	\$ 502	5.87%	10.79%
Consumer loans	1,675	18.04%	17.22%	969	11.32%	12.25%
Total allocated allowance	9,281	100.00%	100.00%	8,556	100.00%	100.00%
Unallocated	44			3		
Total	\$ 9,325			\$ 8,559		

Investment Activities

General. The goals of our investment policy are to provide liquidity, meet pledging requirements, generate a reasonable rate of return, and minimize risk. Subject to loan demand and our interest rate risk analysis, we will increase the balance of our investment securities portfolio when we have excess liquidity. We have invested a substantial portion of the proceeds of the offering in short-term and other investments, including U.S. government securities.

Our investment policy was adopted by the board of directors and is reviewed annually by the board of directors. All investment decisions are made by our Asset/Liability Management Committee, consisting of our President and Chief Executive Officer, the Chairman of the Board, another member of the board of directors, and other members of senior management. The Chief Financial Officer provides an investment schedule detailing the investment portfolio, which is reviewed at least monthly by the board of directors.

Our current investment policy permits, with certain limitations, investments in: U.S. Treasury securities; securities issued by the U.S. government and its agencies or government sponsored enterprises including mortgage-backed securities and collateralized mortgage obligations issued by Fannie Mae, Ginnie Mae and Freddie Mac; corporate and municipal bonds; certificates of deposit in other financial institutions; federal funds and money market funds.

At December 31, 2022, our investment portfolio consisted of U.S. Treasury securities, securities and obligations issued by U.S. government-sponsored enterprises and the Federal Home Loan Bank of Atlanta, municipal securities and corporate securities. At December 31, 2022, we owned \$832,000 of Federal Home Loan Bank of Atlanta stock. As a member of Federal Home Loan Bank of Atlanta, we are required to purchase stock in the Federal Home Loan Bank of Atlanta, which stock is carried at cost and classified as restricted equity securities. In addition, at December 31, 2022, we owned \$250,000 of First National Bankers Bank stock. We purchased the stock of First National Bankers Bank in connection with a \$5.0 million loan from First National Bankers Bank to Community First Bancshares, Inc., which was repaid in January 2021. The table below presents the maturity schedule at December 31, 2022 for available-for-sale securities.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
U.S. Treasury securities	\$ 977	4.77%	\$ —	—	\$ 5,107	1.49%	\$ —	—	\$ 6,084	\$ 5,308	2.02%
Municipal securities – tax exempt	—	—	—	—	—	—	533	2.02%	533	437	2.02%
Municipal securities – taxable	—	—	—	—	1,278	2.59%	1,251	2.28%	2,529	2,044	2.44%
U.S. Government sponsored enterprises	—	—	—	—	2,022	1.62%	9,815	2.46%	11,837	8,338	2.32%
Government agency mortgage-backed securities	17	2.98%	3,376	2.71%	11,982	2.07%	5,180	2.01%	20,555	17,502	2.16%
Corporate securities	—	—	3,055	6.31%	10,016	4.23%	500	7.75%	13,571	12,571	4.82%
Total	\$ 994	4.74%	\$ 6,431	4.42%	\$ 30,405	2.68%	\$ 17,279	2.45%	\$ 55,109	\$ 46,200	2.85%

Following is a maturity schedule at December 31, 2022 for held-to-maturities securities.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
U.S. Treasury securities	\$ —	—	\$ 998	4.48%	\$ —	—	\$ —	—	\$ 998	\$ 998	4.48%
Government agency mortgage-backed securities	—	—	—	—	—	—	837	3.46%	837	824	3.46%
Corporate securities	—	—	13,901	6.03%	10,791	6.22%	—	—	24,692	24,429	6.12%
Total	\$ —	—	\$ 14,899	5.93%	\$ 10,791	6.22%	\$ 837	3.46%	\$ 26,527	\$ 26,251	5.97%

Sources of Funds

General. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also may use borrowings to supplement cash flow needs, lengthen the maturities of liabilities for interest rate risk purposes and to manage the cost of funds. In addition, we receive funds from scheduled loan payments, investment maturities, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. Our deposits are generated primarily from our primary market area. We also generate deposits nationwide through our virtual bank, FitnessBank, which accepts deposits and provides higher interest rates based on customers meeting certain fitness goals. We offer a selection of deposit accounts, including savings accounts, checking accounts, certificates of deposit and individual retirement accounts. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. We have the authority to accept brokered deposits and had \$34.9 million in brokered CDs as of December 31, 2022. We also offer a Kasasa (rewards) deposit program, which promotes free checking accounts with either attractive interest rates or cash-back rewards.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. We rely upon personalized customer service, long-standing relationships with customers, and the favorable image of Affinity Bank in the community to attract and retain deposits. We also seek to obtain deposits from our commercial loan customers.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts offered allows us to be competitive in obtaining funds and

responding to changes in consumer demand. Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions.

The following table sets forth the distribution of total deposits by account type at the dates indicated.

	At December 31,					
	2022			2021		
	Amount	Percent	Average Rate	Amount	Percent	Average Rate
	(Dollars in thousands)					
Non-interest-bearing checking	\$ 190,297	28.96%	—	\$ 193,940	31.65%	—
Interest-bearing checking	91,167	13.87%	0.18%	89,384	14.59%	0.21%
Money market accounts	148,097	22.54%	0.49%	145,969	23.82%	0.35%
Savings accounts	101,622	15.46%	0.96%	86,745	14.15%	0.43%
Certificates of deposit	125,989	19.17%	1.48%	96,758	15.79%	1.47%
Total	<u>\$ 657,172</u>	<u>100.00%</u>	<u>0.57%</u>	<u>\$ 612,796</u>	<u>100.00%</u>	<u>0.41%</u>

As of December 31, 2022, the aggregate amount of all our certificates of deposit in amounts greater than or equal to \$250,000 was approximately \$26.4 million. The following table sets forth the maturity of these certificates as of December 31, 2022.

	At December 31, 2022
	(In thousands)
Maturity Period:	
Three months or less	\$ 2,263
Over three through six months	989
Over six through twelve months	10,934
Over twelve months	12,202
Total	<u>\$ 26,388</u>

At December 31, 2022 and 2021, we had \$308.4 million and \$317.7 million deposits in excess of \$250,000, respectively, which is the federal deposit insurance limit. At December 31, 2022 and 2021, there was \$168.2 million and \$173.4 million, respectively uninsured. The uninsured amounts are estimated based on the methodologies and assumptions used for the Bank's regulatory reporting requirements. As of March 21, 2023, uninsured deposits totaled approximately \$78.0 million.

Borrowings. As of December 31, 2022, we had \$81.8 million available on our line of credit with the Federal Home Loan Bank of Atlanta. The balances outstanding in FHLB advances were \$10.0 million and \$49.0 million at December 31, 2022 and 2021, respectively. The weighted average rate was 4.23% and 1.36% at December 31, 2022 and 2021, respectively.

In addition to the Federal Home Loan Bank of Atlanta line of credit, we have three unsecured federal funds lines of credit, in the amounts of \$20.0 million, \$7.5 million and \$5.0 million. At December 31, 2022, \$25,000 was outstanding on one of these lines of credit. Besides this, no amount was outstanding at December 31, 2021, or during the years ended December 31, 2022 or 2021, except for amounts required for annual testing.

Subsidiary Activities

Affinity Bancshares, Inc. has no subsidiaries other than Affinity Bank.

Personnel

As of December 31, 2022, we had 89 full-time employees and three part-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have good working relations with our employees.

Taxation

Affinity Bancshares Inc. and Affinity Bank are subject to federal and state income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal and state taxation is intended only to

summarize material income tax matters and is not a comprehensive description of the tax rules applicable to Affinity Bancshares, Inc. and Affinity Bank.

Our federal and state tax returns have not been audited for the past five years.

Federal Taxation

Method of Accounting. Affinity Bancshares, Inc. and Affinity Bank currently report income and expenses on the accrual method of accounting and use a tax year ending December 31 for filing their federal income tax returns. Affinity Bancshares, Inc. and Affinity Bank file a consolidated federal income tax return. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for income taxes on bad debt reserves by savings institutions. For taxable years beginning after 1995, Affinity Bank has been subject to the same bad debt reserve rules as commercial banks. It currently utilizes the specific charge-off method under Section 582(a) of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”).

Alternative Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, less an exemption amount, referred to as “alternative minimum taxable income.” The alternative minimum tax is payable to the extent tax computed this way exceeds tax computed by applying the regular tax rates to regular taxable income. Net operating losses can, in general, offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Tax Cuts and Jobs Act repealed the alternative minimum tax for income generated after January 1, 2018. At December 31, 2022 and 2021, Affinity Bancshares, Inc. had no minimum tax credit carryovers.

Net Operating Loss Carryovers. As a result of the Tax Cuts and Jobs Act generally, a financial institution may carry net operating losses forward indefinitely. At December 31, 2022 and 2021, Affinity Bancshares, Inc. had no federal net operating loss carryforwards.

Capital Loss Carryovers. A corporation cannot recognize capital losses in excess of capital gains generated. Generally, a financial institution may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the year to which it is carried and is used to offset any capital gains. Any loss remaining after the five-year carryover period is not deductible. At December 31, 2022 and 2021, Affinity Bancshares, Inc. had no capital loss carryovers.

Corporate Dividends. Affinity Bancshares, Inc. may generally exclude from its income 100% of dividends received from Affinity Bank as a member of the same affiliated group of corporations.

State Taxation

Affinity Bank is treated as a financial institution under Georgia state income tax law. The state of Georgia subjects financial institutions to all state and local taxes in the same manner and to the same extent as other business corporations in Georgia. Additionally, depository financial institutions are subject to local business license taxes and a special occupation tax.

Consolidated Group Return. Georgia is not a unitary business state. Affiliated corporations that file a consolidated federal income tax return must file separate income tax returns unless they have prior approval or have been requested to file a consolidated return by the Commissioner of the Georgia Department of Revenue. For state income tax purposes, Affinity Bancshares, Inc. and Affinity Bank file a consolidated federal income tax return.

Net Operating Loss Carryovers. Generally, Georgia law conforms to federal law and a financial institution may carry back Georgia net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2022 and 2021, Affinity Bank had no Georgia net operating loss carryforwards.

Bank Tax Credit. All financial depository institutions that conduct business or own property in Georgia are required to file a Georgia Financial Institutions Business Occupation Tax based on Georgia gross receipts. Any local license tax and state occupation tax paid a depository financial institution is credited dollar for dollar against any state corporate income tax liability of such institution for the tax year during which any such tax is paid. Any unused credits may be carried forward for five years. All bank tax credits were utilized in 2021, so there are no bank tax credits remaining at December 31, 2022 and 2021.

Maryland State Taxation. As a Maryland business corporation, Affinity Bancshares is required to file an annual report with and pay franchise taxes to the State of Maryland.

SUPERVISION AND REGULATION

General

As a federal savings bank, Affinity Bank is subject to examination and regulation by the Office of the Comptroller of the Currency, and is also subject to examination by the Federal Deposit Insurance Corporation. The federal system of regulation and supervision establishes a comprehensive framework of activities in which Affinity Bank may engage and is intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation's Deposit Insurance Fund. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance fund and depositors, and not for the protection of security holders. Affinity Bank also is a member of and owns stock in the Federal Home Loan Bank of Atlanta, which is one of the 11 regional banks in the Federal Home Loan Bank System.

Under this system of regulation, the regulatory authorities have extensive discretion in connection with their supervisory, enforcement, rulemaking and examination activities and policies, including rules or policies that: establish minimum capital levels; restrict the timing and amount of dividend payments; govern the classification of assets; determine the adequacy of loan loss reserves for regulatory purposes; and establish the timing and amounts of assessments and fees. Moreover, as part of their examination authority, the banking regulators assign numerical ratings to banks and savings institutions relating to capital, asset quality, management, liquidity, earnings and other factors. These ratings are inherently subjective and the receipt of a less than satisfactory rating in one or more categories may result in enforcement action by the banking regulators against a financial institution. A less than satisfactory rating may also prevent a financial institution, such as Affinity Bank or its holding company, from obtaining necessary regulatory approvals to access the capital markets, pay dividends, acquire other financial institutions or establish new branches.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

As a savings and loan holding company, Affinity Bancshares, Inc. is required to comply with the rules and regulations of the Federal Reserve Board. It is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board. Affinity Bancshares, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Securities and Exchange Commission or Congress, could have a material adverse impact on the operations and financial performance of Affinity Bancshares, Inc. and Affinity Bank.

Set forth below is a brief description of material regulatory requirements that are or will be applicable to Affinity Bank and Affinity Bancshares, Inc. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Affinity Bank and Affinity Bancshares, Inc.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners' Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, Affinity Bank may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. The Dodd-Frank Act authorized, for the first time, the payment of interest on commercial checking accounts. Affinity Bank may also establish, subject to specified investment limits, service corporation subsidiaries that may engage in certain activities not otherwise permissible for Affinity Bank, including real estate investment and securities and insurance brokerage. Federal savings banks are also subject to a "Qualified Thrift Lender Test," or "QTL Test," which generally requires that a specified percentage of overall assets be residential mortgages and related investments. However, these limitations do not apply to Affinity Bank, as described below.

The Office of the Comptroller of the Currency has issued a final rule, pursuant to a provision of the Economic Growth Regulatory Relief and Consumer Protection Act ("EGRRCPA"), that permits a federal savings bank with total consolidated assets of \$20 billion or less as of December 31, 2017 to elect to exercise national bank powers without converting to a national bank charter. Affinity Bank exercised the "covered savings association election" effective May 1, 2020.

The effect of the “covered savings association” election is that a federal savings bank generally has the same rights and privileges as a national bank that has its main office in the same location as the home office of the covered savings association. The covered bank association is also subject to the same duties, restrictions, liabilities and limitations applicable to a national bank. A covered bank association retains its federal savings bank charter and continues to be subject to the corporate governance laws and regulations applicable to such banks, including as to its bylaws, board of directors and stockholders, capital distributions and mergers.

A covered savings association may make loans to its customers without regard to the lending restrictions applicable to federal savings banks, such as the percentage of capital or assets limits on various types of loans and the QTL Test. However, federal savings banks that have made such an election are subject to the narrower authority of national banks in certain areas such as branching and subsidiary activities in certain respects. A covered savings bank may generally not retain any assets, subsidiaries or activities not permitted for national banks.

Applicable regulations authorize a federal bank that has exercised the covered savings bank election to terminate the election and thereby again operate as a federal savings bank that has not made a covered savings bank election. Affinity Bank has no current plans to terminate its election.

Capital Requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets ratio of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio.

In determining the amount of risk-weighted assets for calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk-weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders’ equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain non-cumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution’s capital adequacy, the Office of the Comptroller of the Currency takes into consideration not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements.

The federal banking agencies, including the Office of the Comptroller of the Currency, have established a “community bank leverage ratio” of between 8% and 10% for institutions with assets of less than \$10 billion. Institutions with capital complying with the ratio and otherwise meeting the specified requirements and electing the alternative framework are considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. The community bank leverage ratio was established at 9% Tier 1 capital to total average assets, effective January 1, 2020. A qualifying institution may opt in and out of the community bank leverage ratio framework on its quarterly call report.

Affinity Bank did not opt in to the community bank leverage ratio framework.

At December 31, 2022 and 2021, Affinity Bank’s capital exceeded all applicable requirements.

Loans-to-One Borrower. Generally, a federal savings bank, including a covered savings association, may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the excess is secured by readily marketable collateral, which generally does not include real estate. At December 31, 2022 and 2021, Affinity Bank was in compliance with the loans-to-one borrower limitations.

Capital Distributions. Federal regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the savings bank’s capital account. A federal savings bank must file an application with the Office of the Comptroller of the Currency for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings association’s net income for that year to date plus the savings association’s retained net income for the preceding two years;
- the savings bank would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or
- the savings banks is not eligible for expedited treatment of its filings, generally due to an unsatisfactory CAMELS rating or being subject to a cease and desist order or formal written agreement that requires action to improve the institution’s financial condition.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a savings and loan holding company, such as Affinity Bank, must still file a notice with the Federal Reserve Board at least 30 days before the board of directors declares a dividend or approves a capital distribution.

A notice or application related to a capital distribution may be disapproved if:

- the federal savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act generally provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement. A federal savings bank also may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with its conversion to stock form.

Community Reinvestment Act and Fair Lending Laws. All insured depository institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. The Office of the Comptroller of the Currency is required to assess the federal savings bank’s record of compliance with the Community Reinvestment Act. A savings bank’s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of the Comptroller of the Currency, as well as other federal regulatory agencies and the Department of Justice. In May 2022, the Office of the Comptroller of the Currency, the Federal Reserve Board and Federal Deposit Insurance Corporation released a notice of proposed rulemaking to strengthen and modernize the Community Reinvestment Act regulations and framework.

The Community Reinvestment Act requires all institutions insured by the Federal Deposit Insurance Corporation to publicly disclose their rating. Affinity Bank received a “satisfactory” Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. An insured depository institution’s authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls, or is under common control with, an insured depository institution such as Affinity Bank. Affinity Bancshares will be an affiliate of Affinity Bank because of its control of Affinity Bank. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, federal regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

Affinity Bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Affinity Bank's capital.

In addition, extensions of credit in excess of certain limits must be approved by Affinity Bank's board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The Office of the Comptroller of the Currency has primary enforcement responsibility over federal savings banks and has authority to bring enforcement action against all "institution-affiliated parties," including directors, officers, stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on a federal savings bank. Formal enforcement action by the Office of the Comptroller of the Currency may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. The maximum penalties that can be assessed are generally based on the type and severity of the violation, unsafe and unsound practice or other action, and are adjusted annually for inflation. The Federal Deposit Insurance Corporation also has the authority to terminate deposit insurance or recommend to the Office of the Comptroller of the Currency that enforcement action be taken with respect to a particular federal savings bank. If such action is not taken, the Federal Deposit Insurance Corporation has authority to take the action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Branching. A federal savings bank that has elected covered savings bank status is subject to the laws and regulations governing the establishment of branches by national banks. Generally, intrastate and interstate branching is authorized to the extent that the law of the state involved authorizes branching for banks that it charters. Such authority is subject to Office of the Comptroller of the Currency approval for new branches.

Prompt Corrective Action. Federal law requires, among other things, that federal bank regulators take "prompt corrective action" with respect to institutions that do not meet minimum capital requirements. For this purpose, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under applicable regulations, an institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on the payment of

dividends, and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. An undercapitalized bank's compliance with a capital restoration plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5.0% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional restrictions, including a regulatory order to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, ceasing receipt of deposits from correspondent banks, dismissal of directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

The previously referenced final rule establishing an elective "community bank leverage ratio" regulatory capital framework provides that a qualifying institution whose capital exceeds the community bank leverage ratio and opts to use that framework will be considered "well-capitalized" for purposes of prompt corrective action.

At December 31, 2022 and 2021, Affinity Bank met the criteria for being considered "well capitalized."

Insurance of Deposit Accounts. The Deposit Insurance Fund of the Federal Deposit Insurance Corporation insures deposits at Federal Deposit Insurance Corporation-insured financial institutions such as Affinity Bank, generally up to a maximum of \$250,000 per separately insured depositor. The Federal Deposit Insurance Corporation charges insured depository institutions premiums to maintain the Deposit Insurance Fund.

Under the Federal Deposit Insurance Corporation's risk-based assessment system, institutions deemed less risky of failure pay lower assessments. Assessments for institutions of less than \$10 billion of assets are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of an institution's failure within three years. The current assessment range (inclusive of possible adjustments) for insured institutions of less than \$10 billion of total assets is between 2.5 and 32 basis points.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Affinity Bank. We cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation. We do not know of any practice, condition or violation that may lead to termination of our deposit insurance.

Privacy Regulations. Federal regulations generally require that Affinity Bank disclose its privacy policy, including identifying with whom it shares a customer's "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition, Affinity Bank is required to provide its customers with the ability to "opt-out" of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. Affinity Bank currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

USA PATRIOT Act. Affinity Bank is subject to the USA PATRIOT Act, which gives federal agencies additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. The USA PATRIOT Act contains provisions intended to encourage information sharing among bank regulatory agencies and law enforcement bodies and imposes affirmative obligations on financial institutions, such as enhanced recordkeeping and customer identification requirements.

Prohibitions Against Tying Arrangements. Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the

condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Other Regulations

Interest and other charges collected or contracted for by Affinity Bank are subject to state usury laws and federal laws concerning interest rates. Affinity Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Affinity Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- The USA PATRIOT Act, which requires savings banks to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and
- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

Affinity Bancshares is a unitary savings and loan holding company subject to regulation and supervision by the Federal Reserve Board. The Federal Reserve Board has enforcement authority over Affinity Bancshares and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a risk to Affinity Bank.

The business activities of savings and loan holding companies are generally limited to those activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Federal Reserve Board, and certain additional activities authorized by Federal Reserve Board regulations, unless the holding company has elected “financial holding company” status. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. Affinity Bancshares has not elected financial holding company status. Federal law generally prohibits the acquisition of more than 5% of a class of voting stock of a company engaged in impermissible activities.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or savings and loan holding company without prior written approval of the Federal Reserve Board, and from acquiring or retaining control of any depository institution not insured by the Federal Deposit Insurance Corporation. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider such factors as the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on and the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors. A savings and loan holding company may not acquire a savings institution in another state and hold the target institution as a separate subsidiary unless it is a supervisory acquisition or the law of the state in which the target is located authorizes such acquisitions by out-of-state companies.

Savings and loan holding companies with less than \$3 billion in consolidated assets are exempt from consolidated regulatory capital requirements, unless the Federal Reserve Board determines otherwise in particular cases.

The Federal Reserve Board has promulgated regulations implementing the “source of strength” doctrine that require holding companies, including savings and loan holding companies, to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The Federal Reserve Board has issued supervisory policies regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company’s net income for the past four quarters, net of capital distributions previously paid over that period, is insufficient to fully fund the dividend or the company’s overall rate of earnings retention is inconsistent with the company’s capital needs and overall financial condition. The guidance also provides for prior consultation with supervisory staff for material increases in the amount of a company’s common stock dividend. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also states that a holding company should inform the Federal Reserve Board supervisory staff before redeeming or repurchasing common stock or perpetual preferred stock, to provide opportunity for supervisory review and possible objection, if the holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, at the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of Affinity Bancshares to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Change in Control Regulations

Under the Change in Bank Control Act, no person may acquire control of a savings and loan holding company, such as Affinity Bancshares, unless the FRB has been given 60 days prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under the Change in Bank Control Act, means ownership, control of or the power to vote 25% or more of any class of voting stock. Acquisition of more than 10% of any class of a savings and loan holding company’s voting stock constitutes a rebuttable determination of control under the regulations under certain circumstances including where, as is the case with Affinity Bancshares, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

Federal Securities Laws

Affinity Bancshares, Inc. common stock is registered with the Securities and Exchange Commission. Affinity Bancshares, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock issued in Affinity Bancshares, Inc.'s public offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not affiliates of Affinity Bancshares, Inc. may be resold without registration. Shares purchased by an affiliate of Affinity Bancshares, Inc. are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Affinity Bancshares, Inc. meets the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of Affinity Bancshares, Inc. that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of Affinity Bancshares, Inc., or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, Affinity Bancshares, Inc. may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

ITEM 1A. Risk Factors

Not applicable, as Affinity Bancshares, Inc. is a "smaller reporting company."

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

As of December 31, 2022, the net book value of our office properties was \$2.0 million, and the net book value of our furniture, fixtures and equipment was \$2.3 million. Our properties include our main office and branch office in Covington and leased offices in Atlanta, Alpharetta, and Monroe. We believe that current facilities are adequate to meet our present and foreseeable needs, subject to possible future expansion.

ITEM 3. Legal Proceedings

Periodically, we are involved in claims and lawsuits, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Capital Market under the symbol “AFBI.” As of March 20, 2023 we had 327 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 6,596,910 shares of common stock outstanding.

The payment and amount of any dividend payments will be subject to statutory and regulatory limitations, and will depend upon a number of factors, including the following: regulatory capital requirements; our financial condition and results of operations; our other uses of funds for the long-term value of stockholders; tax considerations; the Federal Reserve Board’s current regulations restricting the waiver of dividends by mutual holding companies; and general economic conditions.

The Federal Reserve Board has issued a policy statement providing that dividends should be paid only out of current earnings and only if our prospective rate of earnings retention is consistent with our capital needs, asset quality and overall financial condition. Regulatory guidance also provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the holding company’s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the holding company’s overall rate or earnings retention is inconsistent with its capital needs and overall financial condition. In addition, Affinity Bank’s ability to pay dividends will be limited if it does not have the capital conservation buffer required by the new capital rules, which may limit our ability to pay dividends to stockholders. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in the future. Special cash dividends, stock dividends or returns of capital, to the extent permitted by regulations and policies of the Federal Reserve Board and the Office of the Comptroller of the Currency, may be paid in addition to, or in lieu of, regular cash dividends.

There were no sales of unregistered securities during the quarter ended December 31, 2022.

Shares of the Company's common stock totaling 372,315 were repurchased during the year ended December 31, 2022 as outlined below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased Under Plans or Programs (1)
January 1, 2022 through January 31, 2022	—	\$ —	—	343,632
February 1, 2022 through February 28, 2022	—	—	—	343,632
March 1, 2022 through March 31, 2022	253,779	15.53	253,779	89,853
April 1, 2022 through April 30, 2022	30,232	15.54	30,232	59,621
May 1, 2022 through May 31, 2022	14,331	15.01	14,331	45,290
June 1, 2022 through June 30, 2022	10,260	14.75	10,260	35,030
July 1, 2022 through July 31, 2022	—	—	—	35,030
August 1, 2022 through August 31, 2022	35,030	14.63	35,030	—
September 1, 2022 through September 30, 2022	—	—	—	—
October 1, 2022 through October 31, 2022	—	—	—	—
November 1, 2022 through November 30, 2022	3,872	14.61	3,872	328,125
December 1, 2022 through December 31, 2022	24,811	14.45	24,811	303,314
	<u>372,315</u>	<u>\$ 15.32</u>	<u>372,315</u>	<u>303,314</u>

ITEM 6. [Reserved]

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the consolidated financial statements, which appear elsewhere in this annual report. You should read the information in this section in conjunction with the other business and financial information provided in this annual report.

Overview

Total assets increased \$3.2 million, or 0.4%, to \$791.3 million at December 31, 2022 from \$788.1 million at December 31, 2021. The increase was due primarily to increases in net loans (\$61.1 million, or 10.6%) and investment securities held to maturity (\$26.5 million, or 100%), partially offset by a decrease in cash and cash equivalents of \$85.5 million, or 76.5%.

Net income decreased \$439,000, or 5.8%, to \$7.1 million for the year ended December 31, 2022, compared to \$7.6 million for the year ended December 31, 2021. An increase in non-interest expenses as well as decreases in interest income and non-interest income were partially offset by decreases in interest expense, the provision for loan losses and income tax expense. Interest income decreased \$319,000, or 1.0%, to \$32.1 million for the year ended December 31, 2022 from \$32.5 million for the year ended December 31, 2021. The decrease was due to a \$1.4 million, or 4.6%, decrease in interest income on loans, which included a decrease of \$5.5 million of interest and fee income on PPP loans. Interest expense decreased \$798,000, or 25.1%, to \$2.4 million for the year ended December 31, 2022 compared to \$3.2 million for the year ended December 31, 2021, due to a decrease in interest expense on Federal Home Loan Bank advances and other borrowings. Noninterest expenses increased \$1.2 million, or 5.5%, to \$22.1 million for the year ended December 31, 2022, from \$21.0 million for the year ended December 31, 2021.

Summary of Significant Accounting Policies

The discussion and analysis of the financial condition and results of operations are based on our consolidated financial statements, which are prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of these consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be significant accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an “emerging growth company” we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We determined to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represent our significant accounting policies:

Allowance for Loan Losses. The allowance for loan losses is a reserve for estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the loan portfolio. Actual credit losses, net of recoveries, are deducted from the allowance for loan losses. Loans are charged off when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses. A provision for loan losses, which is a charge against earnings, is recorded to bring the allowance for loan losses to a level that, in management’s judgment, is adequate to absorb probable losses in the loan portfolio. Management’s evaluation process used to determine the appropriateness of the allowance for loan losses is subject to the use of estimates, assumptions, and judgment. The evaluation process involves gathering and interpreting many qualitative and quantitative factors which could affect probable credit losses. Because interpretation and analysis involves judgment, current economic or business conditions can change, and future events are inherently difficult to predict, the anticipated amount of estimated loan losses and therefore the appropriateness of the allowance for loan losses could change significantly.

The allocation methodology applied by Affinity Bank is designed to assess the appropriateness of the allowance for loan losses and includes allocations for specifically identified impaired loans and loss factor allocations for all remaining loans, with a component primarily based on historical loss rates and a component primarily based on other qualitative factors. The methodology includes evaluation and consideration of several factors, such as, but not limited to, management’s ongoing review and grading of

loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or circumstances underlying the collectability of loans. Because each of the criteria used is subject to change, the allocation of the allowance for loan losses is made for analytical purposes and is not necessarily indicative of the trend of future loan losses in any particular loan category. The total allowance is available to absorb losses from any segment of the loan portfolio. Management believes the allowance for loan losses was appropriate at December 31, 2022 and 2021. The allowance analysis is reviewed by the board of directors on a quarterly basis in compliance with regulatory requirements. In addition, various regulatory agencies periodically review the allowance for loan losses. As a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for loan losses as the process is the responsibility of Affinity Bank and any increase or decrease in the allowance is the responsibility of management.

Income Taxes. The assessment of income tax assets and liabilities involves the use of estimates, assumptions, interpretation, and judgment concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the results of operations and reported earnings.

The Company files a consolidated federal and a state income tax return. Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax law rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income tax expense. Valuation allowances are established when it is more likely than not that a portion of the full amount of the deferred tax asset will not be realized. In assessing the ability to realize deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. The Company may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the consolidated financial statements. Penalties related to unrecognized tax benefits are classified as income tax expense.

Comparison of Financial Condition at December 31, 2022 and December 31, 2021

Total assets increased \$3.2 million, or 0.4%, to \$791.3 million at December 31, 2022 from \$788.1 million at December 31, 2021. The increase was due primarily to increases in net loans (\$61.1 million, or 10.6%) and investment securities held to maturity (\$26.5 million, or 100%), partially offset by a decrease in cash and cash equivalents of \$85.5 million, or 76.5%.

Cash and cash equivalents decreased \$85.5 million, or 76.5%, to \$26.3 million at December 31, 2022 from \$111.8 million at December 31, 2021, as excess liquidity was utilized to pay off Federal Home Loan Bank advances and fund loan growth.

Loans increased \$61.1 million, or 10.6%, to \$636.9 million at December 31, 2022 from \$575.8 million at December 31, 2021, including Paycheck Protection Program (PPP) loans of \$5,000 and \$17.9 million at December 31, 2022 and 2021 respectively. Non-owner occupied commercial real estate loans increased \$31.7 million, or 30.4%, to \$135.7 million at December 31, 2022 from \$104.0 million at December 31, 2021, and consumer loans increased \$39.7 million, or 55.4%, to \$111.3 million at December 31, 2022 from \$71.6 million at December 31, 2021. The increase in consumer loans resulted from our continued growth in our indirect automobile loans. In addition, construction loans increased \$20.8 million to \$37.2 million at December 31, 2022 from \$16.3 million at December 31, 2021, as we have been successful with our strategic initiative to increase construction lending to continue to diversify our loan portfolio. We experienced a decrease in commercial and industrial loans of \$22.9 million, or 13.4%, to \$147.8 million at December 31, 2022 from \$170.7 million at December 31, 2021, as a result of forgiveness of PPP loans by SBA. One- to four-family residential real estate loans decreased \$11.7 million, or 18.6%, to \$51.3 million at December 31, 2022 from \$63.1 million at December 31, 2021, as mortgage loans were refinanced at lower rates than we offered during the early part of the year. Our January 2020 acquisition of ABB Financial and Affinity Bank shifted the composition of the loan portfolio towards increased commercial and industrial lending and commercial real estate lending, and away from one- to four-family mortgage lending.

Securities held-to-maturity increased to \$26.5 million at December 31, 2022, from \$0 at December 31, 2021, as we began to classify new purchases as held-to-maturity and utilized a portion of our excess liquidity to invest in securities in an effort to increase yield. Securities available-for-sale remained relatively flat, totaling \$46.2 million at December 31, 2022 and \$48.6 million at December 31, 2021.

Total deposits increased \$44.4 million, or 7.2%, to \$657.2 million at December 31, 2022 from \$612.8 million at December 31, 2021. Certificates of deposit increased \$29.2 million, or 30.2%, to \$126.0 million at December 31, 2022 from \$96.8 million at December 31, 2021. We believe that customers have shifted deposits to longer-term instruments as market interest rates have increased. In addition, savings accounts increased \$14.9 million, or 17.2%, to \$101.6 million at December 31, 2022 from \$86.7 million at December 31, 2021, as a result of increases in all of our markets but most particularly from an increase in Fitness Bank savings accounts of \$7.9 million as we continue to grow our online account products. The loan-to-deposit ratio at December 31, 2022 was 96.9%, as compared to 94.0% at December 31, 2021.

We had \$10.0 million of Federal Home Loan Bank advances and \$25,000 in Federal Funds Purchased at December 31, 2022, compared to \$49.0 million of Federal Home Loan Bank advances at December 31, 2021. Borrowings were decreased during the year ended December 31, 2022 as we repaid acquired Federal Home Loan Bank borrowings, recognizing \$1.0 million in accretion from the fair value adjustments on acquired advances. Prepayment penalties in the amount of \$647,000 were also recognized with the repayment of these acquired advances for the year ended December 31, 2022 .

Stockholders' equity decreased \$3.9 million or 3.2%, to \$117.1 million at December 31, 2022 from \$121.0 million at December 31, 2021. We experienced \$6.3 million in accumulated other comprehensive loss related to our investment portfolio due to increasing interest rates. We also experienced a decrease in additional paid in capital from the repurchase of 372,315 shares of our common stock totaling \$5.7 million with an average price per share of \$15.32. These decreases were offset by net income of \$7.1 million for the year ended December 31, 2022 .

Average Balance Sheets

The following tables set forth average balance sheets, average yields and costs, and certain other information for the years indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are monthly average balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense. Interest on loans includes the following fees: PPP loan fees of \$243,000 and \$5.0 million for the years ending December 31, 2022 and 2021, respectively; loan origination fees of \$1.4 million and \$1.0 million for the years ending December 31, 2022 and 2021, respectively; net accretion of purchased loan marks of \$587,000 and \$437,000 for the years ending December 31, 2022 and 2021, respectively; prepayment penalties of \$0 and \$79,000 for the years ending December 31, 2022 and 2021, respectively; and indirect auto fees of \$279,000 and \$228,000 for the years ending December 31, 2022 and 2021, respectively.

For the Year Ended December 31,

	2022			2021		
	Average Outstanding Balance	Interest	Average Yield/Rate	Average Outstanding Balance	Interest	Average Yield/Rate
(Dollars in thousands)						
Interest-earning assets:						
Loans	\$ 624,908	\$ 30,045	4.81%	\$ 588,976	\$ 31,484	5.35%
Investment securities held-to-maturity	2,220	130	5.86%	—	—	—
Investment securities available-for-sale	45,594	1,150	2.52%	35,109	709	2.02%
Interest-earning deposits and federal funds	45,674	771	1.69%	98,554	180	0.18%
Other investments	1,027	38	3.70%	2,324	80	3.43%
Total interest-earning assets	719,423	32,134	4.47%	724,963	32,453	4.48%
Non-interest-earning assets	51,397			63,373		
Total assets	<u>\$ 770,820</u>			<u>\$ 788,336</u>		
Interest-bearing liabilities:						
Interest-bearing checking accounts	\$ 96,892	\$ 176	0.18%	\$ 88,852	\$ 185	0.21%
Money market accounts	154,237	752	0.49%	133,835	469	0.35%
Savings accounts	89,015	856	0.96%	93,113	403	0.43%
Certificates of deposit	97,948	1,449	1.48%	110,742	1,623	1.47%
Total interest-bearing deposits	438,092	3,233	0.74%	426,542	2,680	0.63%
FHLB advances and other borrowings	9,887	(854)	(8.64)%	44,811	497	1.11%
Total interest-bearing liabilities	447,979	2,379	0.53%	471,353	3,177	0.67%
Non-interest-bearing liabilities	204,842			200,756		
Total liabilities	652,821			672,109		
Total stockholders' equity	117,999			116,227		
Total liabilities and stockholders' equity	<u>\$ 770,820</u>			<u>\$ 788,336</u>		
Net interest rate spread			3.94%			3.81%
Net interest income		<u>\$ 29,755</u>			<u>\$ 29,276</u>	
Net interest-earning assets	<u>\$ 271,444</u>			<u>\$ 253,610</u>		
Net interest margin			4.14%			4.04%

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been

allocated proportionately based on the changes due to rate and the changes due to volume. No out-of-period item adjustments have been included in the following table.

	Year Ended December 31, 2022 vs. 2021		
	Increase (Decrease) Due to		Total
	Volume (In thousands)	Rate	Increase (Decrease)
Interest-earning assets:			
Loans	\$ 4,829	\$ (6,268)	\$ (1,439)
Investment securities held-to-maturity	123	7	130
Investment securities available-for-sale	432	9	441
Interest-earning deposits and federal funds	(774)	1,365	591
Other investments	(48)	6	(42)
Total interest-earning assets	<u>4,562</u>	<u>(4,881)</u>	<u>(319)</u>
Interest-bearing liabilities:			
Interest-bearing checking accounts	42	(51)	(9)
Market rate checking accounts	280	3	283
Savings accounts	(438)	891	453
Certificates of deposit	(201)	28	(174)
Total interest-bearing deposits	<u>(317)</u>	<u>871</u>	<u>553</u>
FHLB advances	(1,314)	(36)	(1,351)
Total interest-bearing liabilities	<u>(1,631)</u>	<u>835</u>	<u>(798)</u>
Change in net interest income	<u>\$ 6,193</u>	<u>\$ (5,716)</u>	<u>\$ 479</u>

Comparison of Operating Results for the Years Ended December 31, 2022 and 2021

General. Net income decreased \$439,000, or 5.8%, to \$7.1 million for the year ended December 31, 2022, compared to \$7.6 million for the year ended December 31, 2021. An increase in non-interest expenses as well as decreases in interest income and non-interest income were partially offset by decreases in interest expense, the provision for loan losses and income tax expense.

Interest Income. Interest income decreased \$319,000, or 1.0%, to \$32.1 million for the year ended December 31, 2022 from \$32.5 million for the year ended December 31, 2021. Our average yield on loans decreased 54 basis points to 4.81% for the year ended December 31, 2022 from 5.35% for the year ended December 31, 2021. The decrease in interest income on loans and associated yield was a result of a decrease of \$5.5 million of interest and fee income on PPP loans. Our average balance of loans increased \$35.9 million, or 6.1%, to \$624.9 million for the year ended December 31, 2022 from \$589.0 million for the year ended December 31, 2021, as we continued to acquire talent to assist with our strategic initiatives to both increase and diversify the loan portfolio.

Interest income on securities available for sale increased \$441,000 to \$1.2 million for the year ended December 31, 2022 from \$709,000 for the year ended December 31, 2021. Our average balance of securities increased \$12.7 million, or 36.2%, to \$47.8 million for the year ended December 31, 2022 from \$35.1 million for the year ended December 31, 2021, due to our using excess cash from PPP loan repayments and cash previously held in interest-bearing deposit accounts to invest in securities to increase the yield of our interest-earning assets. The average rate earned on securities available for sale and held to maturity increased 66 basis points during 2022, to 2.68% from 2.02%.

Interest income on interest-earning deposits and federal funds increased \$591,000 to \$771,000 for the year ended December 31, 2022 from \$180,000 for the year ended December 31, 2021. The increase in interest income on interest-earning deposits was due to a 151 basis point increase in yield, while the average balance of interest-earning deposits decreased \$52.9 million, or 53.7%, to \$45.7 million for the year ended December 31, 2022 from \$98.6 million for the year ended December 31, 2021, as excess funds have been deployed into securities and loans.

Interest Expense. Interest expense decreased \$798,000, or 25.1%, to \$2.4 million for the year ended December 31, 2022 compared to \$3.2 million for the year ended December 31, 2021, due to a decrease in interest expense on Federal Home Loan Bank advances and other borrowings. Interest expense on borrowings decreased to \$(854,000) for the year ended December 31, 2022 compared to \$497,000 for the year ended December 31, 2021, as we repaid acquired Federal Home Loan Bank borrowings, recognizing \$1.0 million in accretion from the fair value adjustments on acquired advances. Prepayment penalties in the amount of \$647,000 were also recognized with the repayment of these acquired advances for the year ended December 31, 2022.

Interest expense on deposits increased \$553,000, or 20.6%, to \$3.2 million for the year ended December 31, 2022 from \$2.7 million for the year ended December 31, 2021. We recorded increases in interest expense on savings accounts (\$453,000, or \$112.4%) and money market accounts (\$283,000, or 60.3%), as increases in market interest rates increased the rates we paid on these types of deposits by 53 basis points to 0.96%, and 14 basis points to 0.49%, respectively. In addition, the average balance of money market accounts increased \$20.4 million, or 15.2%, to \$154.2 million for the year ended December 31, 2022 compared to \$133.8 million for the year ended December 31, 2021, as a result of an increase in the average balance of money market accounts in our Atlanta office of \$15.6 million. Interest expense on certificates of deposit decreased by \$174,000, or 10.7%, to \$1.4 million for the year ended December 31, 2022 from \$1.6 million for the year ended December 31, 2021. The decrease in expense on certificates of deposit was the result of a \$12.8 million, or 11.6%, decrease in the average balance of certificates of deposit to \$97.9 million for the year ended December 31, 2022 from \$110.7 million for the year ended December 31, 2021. The average rate we paid on certificates of deposit remained relatively flat between the years.

Net Interest Income. Net interest income before provision for loan losses increased by \$479,000, or 1.6%, to \$29.8 million for the year ended December 31, 2022 from \$29.3 million for the year ended December 31, 2021. Our average net interest-earning assets increased by \$17.8 million, or 7.0%, to \$271.4 million for the year ended December 31, 2022 from \$253.6 million for the year ended December 31, 2021, while our net interest rate spread increased by 13 basis points to 3.94% for the year ended December 31, 2022 from 3.81% for the year ended December 31, 2021, reflecting a 14 basis point decrease in the average rate paid on interest-bearing liabilities. Our net interest margin was 4.14% for the year ended December 31, 2022 compared to 4.04% for the year ended December 31, 2021.

Provision for Loan Losses. Provisions for loan losses are charged to operations to establish an allowance for loan losses at a level necessary to absorb known and inherent losses in our loan portfolio that are both probable and reasonably estimable at the date of the consolidated financial statements. In evaluating the level of the allowance for loan losses, management analyzes several qualitative loan portfolio risk factors including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. See "—Summary of Significant Accounting Policies" for additional information.

After an evaluation of these factors, we recorded a provision for loan losses of \$704,000 for the year ended December 31, 2022, compared to \$1.1 million for the year ended December 31, 2021. Our allowance for loan losses was \$9.3 million at December 31, 2022 compared to \$8.6 million at December 31, 2021. The allowance for loan losses to total loans was 1.44% at December 31, 2022 compared to 1.46% at December 31, 2021, while the allowance for loan losses to non-performing loans was 138.8% at December 31, 2022 compared to 122.08% at December 31, 2021. We had charge-offs of \$149,000 and recoveries of \$211,000 during the year ended December 31, 2022. To the best of our knowledge, we have recorded all loan losses that are both probable and reasonable to estimate at December 31, 2022. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to our loan portfolio, could result in material increases in our provision for loan losses. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, will periodically review our allowance for loan losses, and as a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for loan losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management.

We adopted a new accounting standard, referred to as Current Expected Credit Loss ("CECL"), effective January 1, 2023. CECL requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for loan losses. This will change our current method of recording allowances for loan losses that are probable, which may require us to increase our allowance for loan losses and to increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses.

Noninterest Income. Noninterest income decreased \$276,000, or 10.3%, to \$2.4 million for the year ended December 31, 2022 from \$2.7 million for the year ended December 31, 2021. The decrease resulted primarily from a decrease in other noninterest income of \$381,000, or 32.5%, to \$791,000 for the year ended December 31, 2022 from \$1.2 million for the year ended December 31, 2021, as 2021 included a gain on the sale of other real estate and BOLI income from a death benefit. This decrease was partially

offset by the increase in service charges on deposit accounts of \$105,000, to \$1.6 million for the year ended December 31, 2022 from \$1.5 million for the year ended December 31, 2021.

Noninterest Expenses. Noninterest expenses information is as follows.

	Year Ended December 31,		Change	
	2022	2021	Amount	Percent
	(Dollars in thousands)			
Salaries and employee benefits	\$ 12,221	\$ 10,663	\$ 1,558	14.6%
Occupancy	2,523	2,935	(412)	(14.1)%
Advertising	476	339	137	40.3%
Data processing	1,947	1,975	(28)	(1.4)%
Write-down of premises and equipment	—	1,176	(1,176)	(100.0)%
FHLB prepayment penalties	647	—	647	100.0%
Other	4,312	3,880	432	11.1%
Total noninterest expenses	<u>\$ 22,126</u>	<u>\$ 20,968</u>	<u>\$ 1,158</u>	5.5%

Noninterest expenses increased \$1.2 million, or 5.5%, to \$22.1 million for the year ended December 31, 2022, from \$21.0 million for the year ended December 31, 2021. The increase in salaries and employee benefits was due to our strategic initiative to attract and retain talent. We recognized prepayment penalties on Federal Home Loan Bank advances during 2022 as described above. These increases were offset by a decrease in the writedown of premises and equipment and in occupancy expense, related primarily to cost savings from facilities consolidation during 2021.

Income Tax Expense. We recorded income tax expense of \$2.2 million and \$2.3 million for the years ended December 31, 2022 and 2021. The decrease in income tax expense was due to decreased income before income taxes in 2022.

Management of Market Risk

General. Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Asset/Liability Management Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors. We currently utilize a third-party modeling program, prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk:

- limiting our reliance on non-core/wholesale funding sources;
- growing our volume of transaction deposit accounts;
- increasing our investment securities portfolio, with an average maturity of less than 15 years;
- diversifying our loan portfolio by adding more commercial-related loans, which typically have shorter maturities and/or balloon payments; and
- continuing to price our one- to four-family residential real estate loan products in a way that encourages borrowers to select our adjustable rate loans as opposed to longer-term, fixed-rate loans.

By following these strategies, we believe that we are better positioned to react to increases and decreases in market interest rates.

We do not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

Net Interest Income. We analyze our sensitivity to changes in interest rates through a net interest income model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a 12-month period. We then calculate what the net interest income would be for the same period under the assumptions that the United States Treasury yield curve increases or decreases instantaneously by 200 and 400 basis point increments, with changes in interest rates representing immediate and permanent, parallel shifts in the yield curve. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the “Change in Interest Rates” column below.

The table below sets forth, as of December 31, 2022, the calculation of the estimated changes in our net interest income that would result from the designated immediate changes in the United States Treasury yield curve.

Change in Interest Rates (basis points) (1)	Net Interest Income Year 1 Forecast (Dollars in thousands)	Year 1 Change from Level
+400	\$ 28,910	(5.07)%
+200	29,739	(2.34)%
Level	30,453	—
-200	29,496	(3.14)%
-400	26,840	(11.86)%

(1) Assumes an immediate uniform change in interest rates at all maturities.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net interest income and net economic value tables presented assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net interest income and NEV tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and NEV and will differ from actual results. Furthermore, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. In the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table.

Interest rate risk calculations also may not reflect the fair values of financial instruments. For example, decreases in market interest rates can increase the fair values of our loans, deposits and borrowings.

Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, proceeds from the sale of loans, and proceeds from maturities of securities. We also have the ability to borrow from the Federal Home Loan Bank of Atlanta. At December 31, 2022, we had a \$81.8 million line of credit with the Federal Home Loan Bank of Atlanta with \$10.0 million in borrowings and a \$12.5 million letter of credit outstanding which is used to collateralize public deposits. In addition, at December 31, 2022, we had a \$5.0 million unsecured federal funds line of credit, a \$7.5 million unsecured federal funds line of credit and a \$20.0 million unsecured federal funds line of credit. Only \$25,000 was outstanding on these lines of credit at December 31, 2022. We also have a line of \$75 million with the Federal Reserve Bank of Atlanta Discount Window secured by \$111.6 million in loans. No amount was outstanding on the Discount Window at December 31, 2022.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including interest-bearing demand deposits. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities was \$7.6 million and \$11.9 million for the years ended December 31, 2022 and 2021, respectively. Net cash used in investing activities was \$93.7 million and \$9.6 million for the years ended December 31, 2022 and 2021, respectively. Net cash used in investing activities typically consists primarily of disbursements for loan originations and purchases of investment securities, offset by principal collections on loans, proceeds from the sale of securities and proceeds from maturing securities and paydowns on securities. Net cash provided by financing activities, which consists primarily of activity in deposit accounts and proceeds from or repayments of borrowings, was \$701,000 for the year ended December 31, 2022, compared to net cash used in financing activities of \$68.7 million for the year ended December 31, 2021.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

At December 31, 2022, we exceeded all of our regulatory capital requirements, and we were categorized as well capitalized at December 31, 2022 and 2021. Management is not aware of any conditions or events since the most recent notification that would change our category.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At December 31, 2022, we had outstanding commitments to originate loans of \$90.3 million. We anticipate that we will have sufficient funds available to meet our current lending commitments. Time deposits that are scheduled to mature in less than one year from December 31, 2022 totaled \$43.8 million. Management expects that a substantial portion of the maturing time deposits will be renewed. However, if a substantial portion of these deposits is not retained, we may utilize Federal Home Loan Bank advances or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Future Accounting Pronouncements

Please refer to Note 1 to the financial statements included as Item 8 in this Annual Report for a description of future accounting pronouncements that may affect our financial condition and results of operations.

Impact of Inflation and Changing Price

The financial statements and related data presented herein have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

For information regarding market risk, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations".

ITEM 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Affinity Bancshares, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Affinity Bancshares, Inc. and subsidiary (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows for the years then ended and the related notes to the consolidated financial statements (the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Estimate of allowance for loan losses – reserves related to loans collectively evaluated for impairment

As described in Notes 1 and 3 to the financial statements, the Company’s allowance for loan losses (“ALL”) totaled \$9,235,000 relating to loans collectively evaluated for impairment (general reserve). The Company estimated the general reserve using the historical loss method which utilizes historical loss rates of pools of loans with similar risk characteristics applied to the respective loan pool balances. These amounts are then adjusted for certain qualitative factors related to current economic and general conditions currently observed by management.

We identified the estimate of the general reserve portion of the ALL as a critical audit matter because auditing this portion of the ALL required significant auditor judgment and involved significant estimation uncertainty requiring industry knowledge and experience.

The primary audit procedures we performed to address this critical audit matter included:

- We tested the completeness and accuracy of the data used by management to calculate historical loss rates.
- We tested the completeness and accuracy of the data used by management in determining qualitative factor adjustments, including the reasonable and supportable factors, by agreeing them to internal and external information.
- We analyzed the qualitative factors in comparison to historical periods to evaluate the directional consistency in relation to the Company's loan portfolio and local economy.

/s/ Wipfli LLP

We have served as the Company's auditor since 2004.

Atlanta, Georgia
March 23, 2023

AFFINITY BANCSHARES, INC.

Consolidated Balance Sheets

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
	<u>(In thousands except share amounts)</u>	
<u>Assets</u>		
Cash and due from banks	\$ 2,928	\$ 16,239
Interest-earning deposits in other depository institutions	23,396	95,537
Cash and cash equivalents	26,324	111,776
Investment securities available-for-sale	46,200	48,557
Investment securities held-to-maturity (estimated fair value of \$26,251)	26,527	—
Other investments	1,082	2,476
Loans, net	636,909	575,825
Other real estate owned	2,901	3,538
Premises and equipment, net	4,257	3,783
Bank owned life insurance	15,724	15,377
Intangible assets	18,558	18,749
Other assets	12,801	8,007
Total assets	<u>\$ 791,283</u>	<u>\$ 788,088</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Non-interest-bearing checking	\$ 190,297	\$ 193,940
Interest-bearing checking	91,167	89,384
Money market accounts	148,097	145,969
Savings accounts	101,622	86,745
Certificates of deposit	125,989	96,758
Total deposits	657,172	612,796
Federal Home Loan Bank advances and other borrowings	10,025	48,988
Accrued interest payable and other liabilities	6,983	5,336
Total liabilities	674,180	667,120
Stockholders' equity:		
Common stock (par value \$0.01 per share, 40,000,000 shares authorized; 6,605,384 issued and outstanding at December 31, 2022 and 6,872,634 issued and outstanding at December 31, 2021)	66	69
Preferred stock (10,000,000 shares authorized, no shares outstanding)	—	—
Additional paid in capital	63,130	68,038
Unearned ESOP shares	(4,795)	(5,004)
Retained earnings	65,357	58,223
Accumulated other comprehensive loss	(6,655)	(358)
Total stockholders' equity	117,103	120,968
Total liabilities and stockholders' equity	<u>\$ 791,283</u>	<u>\$ 788,088</u>

See accompanying notes to consolidated financial statements.

AFFINITY BANCSHARES, INC.
Consolidated Statements of Income

	Year Ended December 31,	
	2022	2021
(In thousands except per share amounts)		
Interest income:		
Loans, including fees	\$ 30,045	\$ 31,484
Investment securities	1,318	789
Interest-earning deposits	771	180
Total interest income	<u>32,134</u>	<u>32,453</u>
Interest expense:		
Deposits	3,233	2,680
FHLB advances and other borrowings	(854)	497
Total interest expense	<u>2,379</u>	<u>3,177</u>
Net interest income before provision for loan losses	<u>29,755</u>	<u>29,276</u>
Provision for loan losses	704	1,075
Net interest income after provision for loan losses	<u>29,051</u>	<u>28,201</u>
Noninterest income:		
Service charges on deposit accounts	1,611	1,506
Other	791	1,172
Total noninterest income	<u>2,402</u>	<u>2,678</u>
Noninterest expenses:		
Salaries and employee benefits	12,221	10,663
Occupancy	2,523	2,935
Advertising	476	339
Data processing	1,947	1,975
Write-down of premises and equipment	—	1,176
FHLB prepayment penalties	647	—
Other	4,312	3,880
Total noninterest expenses	<u>22,126</u>	<u>20,968</u>
Income before income taxes	<u>9,327</u>	<u>9,911</u>
Income tax expense	2,193	2,338
Net income	<u>\$ 7,134</u>	<u>\$ 7,573</u>
Weighted average common shares outstanding		
Basic	6,669,389	6,911,576
Diluted	6,761,771	6,969,402
Basic earnings per share	\$ 1.07	\$ 1.10
Diluted earnings per share	\$ 1.06	\$ 1.09

See accompanying notes to consolidated financial statements.

AFFINITY BANCSHARES, INC.
Consolidated Statements of Comprehensive Income

	Year Ended December 31,	
	2022	2021
	(In thousands)	
Net income	\$ 7,134	\$ 7,573
Other comprehensive loss:		
Net unrealized loss on available-for-sale securities, net of taxes of \$(2,132) and \$(176)	(6,297)	(517)
Total other comprehensive loss	(6,297)	(517)
Total comprehensive income	\$ 837	\$ 7,056

See accompanying notes to consolidated financial statements.

AFFINITY BANCSHARES, INC.

Consolidated Statements of Changes in Stockholders' Equity

Twelve Months Ended December 31, 2022 and 2021

	Common Stock (1)	Additional Paid In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	(In thousands)						
Beginning balance December 31, 2020	\$ 69	\$ 33,628	\$ (1,268)	\$ (2,453)	\$ 50,650	\$ 159	\$ 80,785
ESOP loan payment and release of ESOP shares	—	(141)	—	410	—	—	269
Stock-based compensation expense	—	410	—	—	—	—	410
Change in unrealized loss on investment securities available-for-sale, net of tax	—	—	—	—	—	(517)	(517)
Corporate reorganization							
Issuance of common stock (less stock offering expenses of \$1,699)	—	32,448	—	—	—	—	32,448
Issuance of shares and loan to ESOP	—	2,961	—	(2,961)	—	—	—
Treasury stock retired	—	(1,268)	1,268	—	—	—	—
Net income	—	—	—	—	7,573	—	7,573
Ending balance December 31, 2021	<u>\$ 69</u>	<u>\$ 68,038</u>	<u>\$ —</u>	<u>\$ (5,004)</u>	<u>\$ 58,223</u>	<u>\$ (358)</u>	<u>\$ 120,968</u>
ESOP loan payment and release of ESOP shares	\$ —	\$ 104	\$ —	\$ 209	\$ —	\$ —	\$ 313
Issuance of restricted stock awards	1	77	—	—	—	—	78
Stock-based compensation expense	—	616	—	—	—	—	616
Change in unrealized loss on investment securities available-for-sale, net of tax	—	—	—	—	—	(6,297)	(6,297)
Common stock repurchase	(4)	(5,705)	—	—	—	—	(5,709)
Net income	—	—	—	—	7,134	—	7,134
Ending balance December 31, 2022	<u>\$ 66</u>	<u>\$ 63,130</u>	<u>\$ —</u>	<u>\$ (4,795)</u>	<u>\$ 65,357</u>	<u>\$ (6,655)</u>	<u>\$ 117,103</u>

(1) Amounts related to periods prior to the date of Conversion (January 20, 2021) have been restated to give the retroactive recognition to the exchange ratio applied in the Conversion (0.90686).

See accompanying notes to consolidated financial statements.

AFFINITY BANCSHARES, INC.
Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2022	2021
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 7,134	\$ 7,573
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and (accretion) amortization	338	674
Stock-based compensation expense	694	410
Deferred income tax expense (benefit)	280	(227)
Provision for loan losses	704	1,075
ESOP expense	313	269
Net loss (gain) on sale and writedown of other real estate owned	105	(127)
Increase in cash surrender value of bank owned life insurance	(347)	(366)
Loss on writedown of premises and equipment	—	1,176
Change in:		
Accrued interest receivable and other assets	(716)	2,757
Accrued interest payable and other liabilities	(936)	(1,363)
Net cash provided by operating activities	<u>7,569</u>	<u>11,851</u>
Cash flows from investing activities:		
Purchases of investment securities held-to-maturity	(26,525)	—
Purchases of investment securities available-for-sale	(10,143)	(29,381)
Purchases of premises and equipment	(1,394)	(830)
Proceeds from paydowns of investment securities available-for-sale	3,905	3,958
Proceeds from maturity of investment securities held-to-maturity	2	—
Purchases of other investments	(1,563)	(1,413)
Proceeds from sales of other investments	2,957	533
Proceeds from bank owned life insurance death claim	—	300
Net change in loans	(61,493)	15,791
Proceeds from sales of other real estate owned	532	1,419
Net cash used in investing activities	<u>(93,722)</u>	<u>(9,623)</u>
Cash flows from financing activities:		
Net change in deposits	44,385	(25,340)
Stock repurchase	(5,709)	—
Proceeds from FHLB advances	105,000	35,000
Repayment of FHLB advances	(143,000)	(5,000)
Proceeds from federal funds purchased	25	—
Repayment of PPPLF borrowings	—	(100,813)
Repayment of holding company loan	—	(5,000)
Proceeds from stock offering	—	37,108
Stock offering expenses	—	(1,699)
Funding of ESOP	—	(2,961)
Net cash provided by (used in) financing activities	<u>701</u>	<u>(68,705)</u>
Net change in cash and cash equivalents	(85,452)	(66,477)
Cash and cash equivalents at beginning of period	111,776	178,253
Cash and cash equivalents at end of period	<u>\$ 26,324</u>	<u>\$ 111,776</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 2,149	\$ 2,516
Cash paid for interest	3,096	3,385
Lease liability arising from obtaining right-of-use asset	3,031	—
Bank property transferred to other real estate owned	—	3,538
Change in unrealized loss on investment securities available-for-sale, net of tax	(6,297)	(517)

See accompanying notes to consolidated financial statements.

AFFINITY BANCSHARES, INC.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Nature of Operations

Affinity Bancshares, Inc. (the “Company”) is a savings and loan holding company headquartered in Covington, Georgia. The Company has one operating subsidiary, Affinity Bank (the “Bank”, and formerly named “Newton Federal Bank”), a federally chartered savings bank, conducting banking activities in Newton County, Georgia and surrounding counties and in Cobb and Fulton County, Georgia and surrounding counties, and originating dental practice loans and indirect automobile loans throughout the Southeastern United States. The Bank offers such customary banking services as consumer and commercial checking accounts, savings accounts, certificates of deposit, mortgage, commercial and consumer loans, including indirect automobile loans, money transfers and a variety of other banking services.

The Company was incorporated in September 2020 to be the successor corporation to Community First Bancshares, Inc., a federal corporation, upon completion of the second-step mutual-to-stock conversion (the “Conversion”) of Community First Bancshares, MHC, the top tier mutual holding company of Community First Bancshares, Inc. Community First Bancshares, Inc. was the former mid-tier holding company for the Bank. Prior to completion of the Conversion, approximately 54% of the shares of common stock of Community First Bancshares, Inc. were owned by Community First Bancshares, MHC. In conjunction with the Conversion, Community First Bancshares, Inc. was merged into Affinity Bancshares, Inc. (and ceased to exist) and Affinity Bancshares, Inc. became its successor holding company for Newton Federal Bank.

On January 20, 2021, the Company completed the Conversion. References to the Company include Community First Bancshares, Inc. where indicated by the context.

Basis of Presentation

The accounting principles followed by the Company and the methods of applying these standards and principles conform with accounting principles generally accepted in the United States of America (“GAAP”) and with general practices within the banking industry. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans, and valuation allowances associated with deferred tax assets, the recognition of which are based on future taxable income.

Impaired loans and foreclosed real estate properties are carried at fair value less estimated selling costs, the determination of which requires significant assumptions, estimates and judgments. Fair values for foreclosed real estate properties and impaired loans collateralized by real estate are principally based on independent appraised values. Fair value is defined by GAAP as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. GAAP further defines an orderly transaction as a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets. An orderly transaction is not a forced transaction like a forced liquidation or distressed sale.

Basic and diluted earnings per share for 2022 was \$1.07 and \$1.06, respectively. The net earnings for this period was \$7,134,000 and the weighted average common shares outstanding were 6,669,389 for basic and 6,761,771 for diluted. Basic and diluted earnings per share for the year ended December 31, 2021 was \$1.10 and \$1.09, respectively. The net earnings for this period was \$7,573,000 and the weighted average common shares outstanding were 6,911,576 for basic and 6,969,402 for diluted.

Adopted Accounting Pronouncements

The Company recently adopted the following Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB). In February 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842). ASU 2016-02 provides certain targeted improvements to align lessor accounting with the lessee accounting model. It requires lessees to recognize the assets and liabilities on their balance

AFFINITY BANCSHARES, INC.

Notes to Consolidated Financial Statements

sheet for the rights and obligations created by most leases and continue to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information on the amount, timing and uncertainty of cash flows arising from leases. Adoption of the leasing standard resulted in the recognition of an operating right-of-use asset and operating lease liability of approximately \$2.7 million as of January 1, 2022. The prior year was not restated and continues to be presented under the previous accounting standards. Disclosures about the Company's leasing activities are presented in Note 5: Leases.

New Accounting Pronouncements

Accounting Standards Update 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), is intended to provide financial statement users with more decision-useful information related to expected credit losses on financial instruments and other commitments to extend credit by replacing the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Additionally, the amendments of ASU 2016-13 require that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down. The Company selected a third-party vendor to provide allowance for loan loss software as well as advisory services in developing a new methodology that would be compliant with ASU 2016-13. The Company adopted this ASU on January 1, 2023, and recorded a one time entry to retained earnings of \$437,000, net of tax, primarily related to credit losses for unfunded commitments.

In March 2020, the FASB issued ASU No. 2020-04, Reference Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"). This ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. It provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The updated guidance was originally effective for all entities from March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU 2022-06 which deferred the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. The Company has been diligent in responding to reference rate reform and does not anticipate a significant impact to its financial statements as a result.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This ASU provides guidance on eliminating the requirement for classification of and disclosures around troubled debt restructurings. The purpose of this guidance is to eliminate unnecessary and overly-complex disclosures of loans that are already incorporated into the allowance for credit losses and related disclosures. This ASU further requires the disclosure of current-period gross charge-offs by year of origination. The updated guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, for all entities which have implemented ASU 2016-13. The Company has historically had very few credit relationships classified as troubled debt restructurings, and as such does not anticipate that the elimination of accounting for and disclosure of these types of credit relationships will have a significant impact to its financial statements upon implementation of ASU 2016-13 beginning with the first quarter of 2023.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks and interest-earning deposits in other depository institutions.

Investment Securities

The Company classifies its investment securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities for which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale.

Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Transfers of securities between categories are recorded at fair value at the date of transfer.

Management evaluates investment securities for other-than-temporary impairment on an annual basis. A decline in the market value of any held-to-maturity investment below cost that is deemed other-than-temporary is charged to earnings for

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Notes to Consolidated Financial Statements

the decline in value deemed to be credit related. The decline in value attributed to non-credit related factors is recognized in other comprehensive income and a new cost basis in the security is established.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses for securities classified as held-to-maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Other Investments

The Federal Home Loan Bank (“FHLB”) stock is an investment that does not have a readily determinable fair value and is carried at cost. The Company is required to hold the FHLB stock as a member of the FHLB and transfer of the stock is substantially restricted.

The First National Bankers Bank (“FNBB”) stock is an investment that does not have a readily determinable fair value and is carried at cost. The Company acquired the stock when it borrowed funds at the holding company from FNBB.

Loans, Loan Fees and Interest Income on Loans

Loans are stated at the principal amount outstanding, net of the allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower’s financial condition is such that collection of interest is doubtful. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged to interest income on loans. Generally, payments on nonaccrual loans are applied first to principal. Interest income is recorded after principal has been satisfied and as payments are received.

Loan fees, net of certain origination costs, are deferred and amortized over the lives of the respective loans as an adjustment to the yield.

A loan is impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or at the loan’s observable market price, or at the fair value of the collateral of the loan if the loan is collateral dependent. Estimated impairment losses for collateral dependent loans are set up as specific reserves. Interest income on impaired loans is recognized using the cash-basis method of accounting during the time the loans are impaired.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance represents an amount, which in management’s judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible. Management considers the following when assessing risk in the Company’s loan portfolio segments:

Commercial (secured by real estate): Commercial real estate loans are dependent on the industries tied to these loans. Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, small retail shopping facilities and various special purpose properties, including hotels and restaurants. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

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Commercial and industrial: Commercial and industrial loans are primarily for working capital, physical asset expansion, asset acquisition loans and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flows sufficiency to service debt and are periodically updated during the life of the loan.

Construction, land and acquisition and development: Construction, land and acquisition and development loans are secured by vacant land and/or property that are in the process of improvement, including (a) land development preparatory to erecting vertical improvements or (b) the onsite construction of industrial, commercial, residential, or farm buildings. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that necessary approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs.

Residential mortgage 1-4 family: Residential real estate loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt at the time of origination.

Consumer installment: Consumer and other loans may take the form of automobile loans, installment loans, demand loans, or single payment loans and are extended to individuals for household, family, and other personal expenditures. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores.

Management's judgment in determining the adequacy of the allowance is based on evaluations of the probability of collection of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality, and review of specific problem loans. Management uses an external independent loan reviewer to challenge and corroborate its loan grading and to provide additional analysis in determining the adequacy of the allowance for loan losses and necessary provisions to the allowance.

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses, and as a result of these reviews the Bank may have to adjust or make additions to the allowance for loan losses as a part of management's ongoing evaluation of its adequacy.

Other Real Estate Owned

Other real estate owned includes real estate acquired through foreclosure. Each other real estate property is initially recorded at its fair value less estimated costs to sell and is subsequently carried at fair value less estimated costs to sell. All foreclosed properties are actively marketed for sale. Fair value is principally based on independent appraisals performed by local credentialed appraisers. Any excess of the carrying value of the related loan over the fair value of the real estate at the date of foreclosure is charged against the allowance for loan losses. Properties in other real estate are re-evaluated annually. Any expense incurred in connection with holding such real estate or resulting from any write-downs in value subsequent to foreclosure is included in noninterest expense. When the other real estate property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in earnings for the period. The cost of maintenance and repairs that do not improve or extend the useful life of the respective asset is charged to

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earnings as incurred, whereas significant renewals and improvements are capitalized. The range of estimated useful lives for premises and equipment are as follows:

Equipment and furniture	3 - 10 years
Buildings	40 years
Automobile	5 years

Leases

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The discount rate used is the implicit rate in the lease contract, if it is readily determinable, or the Company's incremental borrowing rate. The implicit rates of our leases are not readily determinable and accordingly, the Company uses the incremental borrowing rate based on the information available at the commencement date for all leases. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

The ROU asset for operating leases is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. For operating leases with lease payments that fluctuate over the lease term, the total lease costs are recognized on a straight-line basis over the lease term.

For all underlying classes of assets, the Company has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with

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Notes to Consolidated Financial Statements

lease costs included in short-term lease expense. The Company recognizes short-term lease cost on a straight-line basis over the lease term.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives and members of management. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other changes or other amounts due that are probable at settlement.

Intangible Assets

Intangible assets attributable to the value of core deposits are stated at cost less accumulated amortization. Intangible assets are amortized on a straight-line basis over the estimated lives of the assets. The excess of purchase price over fair value of net assets acquired (goodwill) is not amortized.

The Company evaluates whether goodwill and other intangible assets may be impaired at least annually and whenever events or changes in circumstances indicate it is more likely than not the fair value of the reporting unit or asset is less than its carrying amount.

Income Taxes

The Company uses the liability method of accounting for income taxes, which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Additionally, this method requires the recognition of future tax benefits, such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company's assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realization of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

The Company currently evaluates income tax positions judged to be uncertain. A loss contingency reserve is accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred, and the amount of such loss can be reasonably estimated.

Stock Compensation Plans

Stock compensation awards are measured at the grant date based on the fair value of the awards and are recognized as compensation expense over the service period, which is also the vesting period.

Other Comprehensive Income

Other comprehensive income is shown on the consolidated statements of comprehensive income. Accumulated other

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comprehensive loss consists of unrealized loss on securities available-for-sale, net of tax, and is shown on the consolidated statements of changes in stockholders' equity.

Revenue Recognition

The core revenue recognition principle requires the Company to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration to which the Company expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The guidance includes a five-step model to apply to revenue recognition, consisting of the following: (1) identify the contract with a customer; (2) identify the performance obligation(s) within the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) within the contract; and (5) recognize revenue when (or as) the performance obligation(s) are/is satisfied.

The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed, charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying revenue recognition that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The following significant revenue-generating transactions are within the scope of ASC 606, which are presented in the consolidated statements of income as components of noninterest income:

Service charges on deposit accounts: The deposit contract obligates the Company to serve as a custodian of the customer's deposited funds and is generally terminable at will by either party. The contract permits the customer to access the funds on deposit and request additional services for which the Company earns a fee, including NSF and analysis charges, related to the deposit account. Income for deposit accounts is recognized over the statement cycle period (typically on a monthly basis) or at the time the service is provided, if additional services are requested.

Small Business Administration (SBA) loan fees: Origination fees on SBA loans are recognized into income up to the amount of the cost of making the loan as is done with other loans. The remainder is deferred and taken into income over the life of the loan. A portion of proceeds from the sale of SBA loans is taken into income while the remainder is deferred over the life of the loan.

ATM fee income: A contract between the Company, as a card-issuing bank, and its customers whereby the Company receives a transaction fee from the merchant's bank whenever a customer uses a debit or credit card to make a purchase. These fees are earned as the service is provided (i.e., when the customer uses a debit or ATM card).

Other noninterest income: Other noninterest income includes several items, such as wire transfer income, check cashing fees, the increase in cash surrender value of life insurance and safe deposit box rental fees. This income is generally recognized at the time the service is provided and/or the income is earned.

Reclassification

Certain amounts, previously reported, have been reclassified to state all periods on a comparable basis and had no effect on stockholders' equity or net income.

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(2) Investment Securities

Investment securities available-for-sale at December 31, 2022 and 2021 are as follows: (in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022				
U.S. Treasury securities	\$ 6,084	\$ —	\$ (776)	\$ 5,308
Municipal securities - tax exempt	533	—	(96)	437
Municipal securities - taxable	2,529	—	(485)	2,044
U. S. Government sponsored enterprises	11,837	—	(3,499)	8,338
Government agency mortgage-backed securities	20,555	—	(3,053)	17,502
Corporate securities	13,571	5	(1,005)	12,571
Total	<u>\$ 55,109</u>	<u>\$ 5</u>	<u>\$ (8,914)</u>	<u>\$ 46,200</u>
December 31, 2021				
U.S. Treasury securities	\$ 5,068	\$ 5	\$ (23)	\$ 5,050
Municipal securities - tax exempt	540	—	(4)	536
Municipal securities - taxable	796	—	(6)	790
U. S. Government sponsored enterprises	11,837	—	(295)	11,542
Government agency mortgage-backed securities	21,371	200	(232)	21,339
Corporate securities	9,425	20	(145)	9,300
Total	<u>\$ 49,037</u>	<u>\$ 225</u>	<u>\$ (705)</u>	<u>\$ 48,557</u>

Investment securities held -to-maturity at December 31, 2022 are as follows: (in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022				
U.S. Treasury securities	\$ 998	\$ —	\$ —	\$ 998
Government agency mortgage-backed securities	837	—	(13)	824
Corporate securities	24,692	4	(267)	24,429
Total	<u>\$ 26,527</u>	<u>\$ 4</u>	<u>\$ (280)</u>	<u>\$ 26,251</u>

There were no held-to-maturity securities at December 31, 2021.

There were 31 securities in an unrealized loss position totaling \$808,000 as of December 31, 2022 for less than 12 months. There were 36 securities in an unrealized loss position totaling \$8.1 million greater than 12 months as of December 31, 2022. The unrealized losses on the debt securities arose due to changing interest rates and market conditions and are considered to be temporary because of acceptable investment grades and are reviewed regularly. Five of the securities are U.S. Treasury bonds that are direct obligations of the U.S. Government. Four of the securities are U.S. agency bonds that have the implied backing of the U.S. government. Thirty-seven securities are mortgage-backed securities of U.S. Government sponsored agencies that have the implied backing of the U.S. Government and two securities are mortgage-backed securities of a U.S. government agency. Four securities are municipal securities for which a credit analysis is performed annually and no credit problems have been identified. Fifteen are trust preferred securities or subordinated debentures of banks where the Bank performs a credit review quarterly and such reviews have raised no concerns. The Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost basis which may be at maturity.

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There were nine held-to-maturity securities in an unrealized loss position totaling \$280,000 as of December 31, 2022 for less than 12 months. There were no held-to-maturity securities in an unrealized loss position greater than 12 months as of December 31, 2022. The unrealized losses on the debt securities arose due to changing interest rates and market conditions and are considered to be temporary because of acceptable investment grades and are reviewed regularly. One security is a mortgage-backed security of a U.S. Government sponsored agency that has the implied backing of the U.S. Government. Eight are subordinated debentures of banks where the Bank performs a credit review quarterly and such reviews have raised no concerns. The Company intends to hold these securities to maturity at which time recovery of their amortized cost basis is expected to be received.

The amortized cost and estimated fair value of investment securities available-for-sale and held to maturity at December 31, 2022, by contractual maturity, are shown below. Maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties. (in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within 1 year	\$ 977	\$ 977	\$ —	\$ —
Greater than 1 to 5 years	3,055	3,027	14,899	14,739
Greater than 5 to 10 years	18,424	16,096	10,791	10,688
Greater than 10 years	12,098	8,598	—	—
	34,554	28,698	25,690	25,427
Government agency mortgage-backed securities	20,555	17,502	837	824
Total	\$ 55,109	\$ 46,200	\$ 26,527	\$ 26,251

There were no sales of investment securities available-for-sale in 2022 or 2021.

Available-for-sale securities with a carrying value of approximately \$4.7 million and \$2.8 million were pledged to secure public deposits at December 31, 2022 and 2021, respectively.

(3) Loans and Allowance for Loan Losses

Major classifications of loans, by collateral code, at December 31, 2022 and 2021 are summarized as follows: (in thousands)

	December 31, 2022	December 31, 2021
Commercial (secured by real estate - owner occupied)	\$ 162,989	\$ 158,662
Commercial (secured by real estate - non-owner occupied)	135,720	104,042
Commercial and industrial (*)	147,775	170,718
Construction, land and acquisition & development	37,158	16,317
Residential mortgage 1-4 family	51,324	63,065
Consumer installment	111,268	71,580
Total	646,234	584,384
Less allowance for loan losses	(9,325)	(8,559)
Total loans, net	\$ 636,909	\$ 575,825

* Includes \$5,000 and \$17.9 million in PPP loans as of December 31, 2022 and 2021

The Bank grants loans and extensions of credit to individuals and a variety of firms and corporations located primarily in the Atlanta, Georgia Metropolitan Statistical Area. A substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market. The Bank has a specialized expertise in lending to dentists and dental practices, with dental practice loans totaling \$185.1 million, or 28.6%, and \$179.8 million, or 30.6% of our loan portfolio, as of December 31, 2022 and 2021, respectively. The majority of these loans are commercial and industrial credits for practice acquisitions and equipment financing with the remainder being owner-occupied real estate.

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 and 2021: (in thousands)

December 31, 2022	Commercial (Secured by Real Estate - Owner Occupied)	Commercial (Secured by Real Estate - Non- Owner Occupied)	Commercial and Industrial	Construction, Land and Acquisition & Development	Residential Mortgage	Consumer Installment	Unallocated	Total
Allowance for loan losses:								
Beginning balance	\$ 2,701	\$ 1,980	\$ 2,242	\$ 162	\$ 502	\$ 969	\$ 3	\$ 8,559
Provision	(421)	99	55	325	(196)	801	41	704
Charge-offs	—	—	(26)	—	—	(123)	—	(149)
Recoveries	123	—	21	—	39	28	—	211
Ending balance	<u>\$ 2,403</u>	<u>\$ 2,079</u>	<u>\$ 2,292</u>	<u>\$ 487</u>	<u>\$ 345</u>	<u>\$ 1,675</u>	<u>\$ 44</u>	<u>\$ 9,325</u>
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$ 85	\$ 1	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ 90
Collectively evaluated for impairment	2,318	2,078	2,292	487	341	1,675	44	9,235
Total ending allowance	<u>\$ 2,403</u>	<u>\$ 2,079</u>	<u>\$ 2,292</u>	<u>\$ 487</u>	<u>\$ 345</u>	<u>\$ 1,675</u>	<u>\$ 44</u>	<u>\$ 9,325</u>
Loans:								
Individually evaluated for impairment	\$ 85	\$ 3,265	\$ —	\$ —	\$ 2,399	\$ —	\$ —	\$ 5,749
Collectively evaluated for impairment	162,904	132,455	147,775	37,158	48,925	111,268	—	640,485
Total loans	<u>\$ 162,989</u>	<u>\$ 135,720</u>	<u>\$ 147,775</u>	<u>\$ 37,158</u>	<u>\$ 51,324</u>	<u>\$ 111,268</u>	<u>\$ —</u>	<u>\$ 646,234</u>
December 31, 2021								
Allowance for loan losses:								
Beginning balance	\$ 1,913	\$ 1,171	\$ 1,320	\$ 224	\$ 970	\$ 719	\$ 44	\$ 6,361
Provision	(519)	809	1,119	(62)	(541)	310	(41)	1,075
Charge-offs	—	—	(234)	—	—	(76)	—	(310)
Recoveries	1,307	—	37	—	73	16	—	1,433
Ending balance	<u>\$ 2,701</u>	<u>\$ 1,980</u>	<u>\$ 2,242</u>	<u>\$ 162</u>	<u>\$ 502</u>	<u>\$ 969</u>	<u>\$ 3</u>	<u>\$ 8,559</u>
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$ —	\$ 1	\$ 1	\$ —	\$ 5	\$ —	\$ —	\$ 7
Collectively evaluated for impairment	2,701	1,979	2,241	162	497	969	3	8,552
Total ending allowance	<u>\$ 2,701</u>	<u>\$ 1,980</u>	<u>\$ 2,242</u>	<u>\$ 162</u>	<u>\$ 502</u>	<u>\$ 969</u>	<u>\$ 3</u>	<u>\$ 8,559</u>
Loans:								
Individually evaluated for impairment	\$ 95	\$ 3,387	\$ 753	\$ —	\$ 2,992	\$ 1	\$ —	\$ 7,228
Collectively evaluated for impairment	158,567	100,655	169,965	16,317	60,073	71,579	—	577,156
Total loans	<u>\$ 158,662</u>	<u>\$ 104,042</u>	<u>\$ 170,718</u>	<u>\$ 16,317</u>	<u>\$ 63,065</u>	<u>\$ 71,580</u>	<u>\$ —</u>	<u>\$ 584,384</u>

The Bank individually evaluates all loans for impairment that are on nonaccrual status or are rated substandard (as described below). Additionally, all troubled debt restructurings are evaluated for impairment. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due according to the contractual terms of the loan will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is

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collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

Impaired loans at December 31, 2022 and 2021 were as follows: (in thousands)

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Allocated Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial (secured by real estate - owner occupied)	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial (secured by real estate - non-owner occupied)	3,089	3,089	—	3,145	—
Commercial and industrial	—	—	—	—	—
Construction, land and acquisition & development	—	—	—	—	—
Residential mortgage	1,526	1,526	—	1,596	5
Consumer installment	—	—	—	—	—
	<u>4,615</u>	<u>4,615</u>	<u>—</u>	<u>4,741</u>	<u>5</u>
With an allowance recorded:					
Commercial (secured by real estate - owner occupied)	85	85	85	90	4
Commercial (secured by real estate - non-owner occupied)	176	176	1	182	8
Commercial and industrial	—	—	—	—	—
Construction, land and acquisition & development	—	—	—	—	—
Residential mortgage	873	873	4	907	22
Consumer installment	—	—	—	—	—
	<u>1,134</u>	<u>1,134</u>	<u>90</u>	<u>1,179</u>	<u>34</u>
Total impaired loans	<u>\$ 5,749</u>	<u>\$ 5,749</u>	<u>\$ 90</u>	<u>\$ 5,920</u>	<u>\$ 39</u>
December 31, 2021					
With no related allowance recorded:					
Commercial (secured by real estate - owner occupied)	\$ 95	\$ 95	\$ —	\$ 100	\$ 6
Commercial (secured by real estate - non-owner occupied)	3,199	3,199	—	3,177	45
Commercial and industrial	388	421	—	458	—
Construction, land and acquisition & development	—	—	—	—	—
Residential mortgage	2,052	2,052	—	2,110	31
Consumer installment	1	1	—	3	—
	<u>5,735</u>	<u>5,768</u>	<u>—</u>	<u>5,848</u>	<u>82</u>
With an allowance recorded:					
Commercial (secured by real estate - owner occupied)	—	—	—	—	—
Commercial (secured by real estate - non-owner occupied)	188	189	1	192	12
Commercial and industrial	365	365	1	379	—
Construction, land and acquisition & development	—	—	—	—	—
Residential mortgage	940	941	5	960	60
Consumer installment	—	—	—	—	—
	<u>1,493</u>	<u>1,495</u>	<u>7</u>	<u>1,531</u>	<u>72</u>
Total impaired loans	<u>\$ 7,228</u>	<u>\$ 7,263</u>	<u>\$ 7</u>	<u>\$ 7,379</u>	<u>\$ 154</u>

The following table presents the aging of the recorded investment in past due loans, as well as the recorded investment in nonaccrual loans, as of December 31, 2022 and 2021 by class of loans: (in thousands)

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December 31, 2022	30 -59 Days Past Due	60- 89 Days Past Due	90 Days or Greater Past Due	Total Accruing Loans Past Due	Nonaccrual	Current	Total
Commercial (secured by real estate - owner occupied)	\$ —	\$ —	\$ —	\$ —	\$ 85	\$ 162,904	\$ 162,989
Commercial (secured by real estate - non-owner occupied)	—	—	—	—	3,312	132,408	135,720
Commercial and industrial	—	—	—	—	3	147,772	147,775
Construction, land and acquisition & development	85	—	—	85	—	37,073	37,158
Residential mortgage	2,341	533	249	3,123	3,185	45,016	51,324
Consumer installment	571	59	—	630	135	110,503	111,268
Total	\$ 2,997	\$ 592	\$ 249	\$ 3,838	\$ 6,720	\$ 635,676	\$ 646,234
December 31, 2021							
Commercial (secured by real estate - owner occupied)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 158,662	\$ 158,662
Commercial (secured by real estate - non-owner occupied)	—	—	—	—	3,200	100,842	104,042
Commercial and industrial	338	—	—	338	813	169,567	170,718
Construction, land and acquisition & development	—	—	—	—	—	16,317	16,317
Residential mortgage	3,547	1,148	—	4,695	2,873	55,497	63,065
Consumer installment	271	25	—	296	125	71,159	71,580
Total	\$ 4,156	\$ 1,173	\$ —	\$ 5,329	\$ 7,011	\$ 572,044	\$ 584,384

There was one residential mortgage loan with a balance of \$249,000 that was past due over 90 days and still accruing interest as of December 31, 2022. This loan subsequently paid off in January 2023. There were no loans past due over 90 days and still accruing interest as of December 31, 2021.

The table below presents information on troubled debt restructurings including the number of loan contracts restructured and the pre- and post-modification recorded investment that have occurred during the years ended December 31, 2022 and 2021. Also included in the table are the number of contracts and the recorded investment for those trouble debt restructurings that have subsequently defaulted during the years ended December 31, 2022 and 2021: (in thousands)

December 31, 2022	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Troubled Debt Restructurings that have Subsequently Defaulted	
				Number of Contracts	Recorded Investment
Residential mortgage	—	\$ —	\$ —	—	\$ —
December 31, 2021					
Residential mortgage	1	\$ 71	\$ 71	—	\$ —

The Bank allocated an allowance for loan losses of approximately \$90,000 and \$6,000 to customers whose loan terms had been modified in troubled debt restructurings as of December 31, 2022 and 2021.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Bank uses the following definitions for its risk ratings:

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Special Mention. Loans have potential weaknesses that may, if not corrected, weaken or inadequately protect the Bank's credit position at some future date. Weaknesses are generally the result of deviation from prudent lending practices, such as over advances on collateral. Credits in this category should, within a 12 month period, move to Pass if improved or drop to Substandard if poor trends continue.

Substandard. Inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans have a well-defined weakness or weaknesses such as primary source of repayment is gone or severely impaired or cash flow is insufficient to reduce debt. There is a distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans have weaknesses of those classified Substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable. The likelihood of a loss on an asset or portion of an asset classified Doubtful is high.

Loss. Loans considered uncollectible and of such little value that the continuance as a Bank asset is not warranted. This does not mean that the loan has no recovery or salvage value, but rather the asset should be charged off even though partial recovery may be possible in the future.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans. As of December 31, 2022 and 2021, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows: (in thousands)

December 31, 2022	Pass	Special Mention	Substandard	Doubtful/ Loss	Total
Commercial (secured by real estate - owner occupied)	\$ 162,541	\$ 362	\$ 86	\$ —	\$ 162,989
Commercial (secured by real estate - non-owner occupied)	130,115	2,293	3,312	—	135,720
Commercial and industrial	147,772	—	3	—	147,775
Construction, land and acquisition & development	37,158	—	—	—	37,158
Residential mortgage	48,193	—	3,131	—	51,324
Consumer installment	111,049	84	135	—	111,268
Total	<u>\$ 636,828</u>	<u>\$ 2,739</u>	<u>\$ 6,667</u>	<u>\$ —</u>	<u>\$ 646,234</u>

December 31, 2021	Pass	Special Mention	Substandard	Doubtful/ Loss	Total
Commercial (secured by real estate - owner occupied)	\$ 158,272	\$ 390	\$ —	\$ —	\$ 158,662
Commercial (secured by real estate - non-owner occupied)	98,269	2,352	3,421	—	104,042
Commercial and industrial	169,866	—	852	—	170,718
Construction, land and acquisition & development	16,005	312	—	—	16,317
Residential mortgage	59,080	—	3,985	—	63,065
Consumer installment	71,440	—	140	—	71,580
Total	<u>\$ 572,932</u>	<u>\$ 3,054</u>	<u>\$ 8,398</u>	<u>\$ —</u>	<u>\$ 584,384</u>

(4) Premises and Equipment

Premises and equipment at year ended December 31, 2022 and 2021 are summarized as follows: (in thousands)

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	December 31, 2022	December 31, 2021
Land	\$ 373	\$ 373
Buildings	4,336	4,280
Leasehold improvements	912	535
Equipment and furniture	3,663	2,755
Construction in process	286	291
Automobile	66	66
	<u>9,636</u>	<u>8,300</u>
Less: Accumulated depreciation	5,379	4,517
	<u>\$ 4,257</u>	<u>\$ 3,783</u>

Depreciation expense was approximately \$905,000 and \$950,000 for the years ended December 31, 2022 and 2021, respectively.

(5) Intangible Assets

The core deposit premium intangible asset had a gross carrying amount of \$1.9 million and accumulated amortization of \$574,000 at December 31, 2022. The core deposit premium intangible asset had a gross carrying amount of \$1.9 million and accumulated amortization of \$383,000 at December 31, 2021. Aggregate amortization expense for the years ended was \$191,000 during 2022 and 2021.

The following table shows the estimated future amortization of the core deposit premium intangible asset for the next five years (in thousands). The projections of amortization expense are based on existing asset balances as of December 31, 2022.

Years ending December 31,		
2023	\$	191
2024		191
2025		191
2026		191
2027		191
Thereafter		384
Total	<u>\$</u>	<u>1,339</u>

Goodwill acquired through acquisition was \$17.2 million at December 31, 2022 and 2021. The Company tested for impairment during the year and determined there was no impairment of goodwill during 2022 and 2021. No impairment loss was recognized during 2022 and 2021.

(6) Leases

Substantially all of the leases in which the Company is the lessee are comprised of real estate for branches and office space with terms extending through 2027. All of our leases are classified as operating leases, and therefore, were previously not recognized on the Company's consolidated balance sheet. With the adoption of Topic 842, operating lease arrangements are required to be recognized on the consolidated balance sheet as a right-of-use ("ROU") asset and a corresponding lease liability. The following table represents the consolidated balance sheet classification of the Company's ROU assets and liabilities.

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	<u>Classification</u>	<u>December 31, 2022</u>
Assets		
Operating lease right-of-use assets	Other assets	\$ 2,216
Liabilities		
Operating lease liabilities	Other liabilities	2,697

The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the consolidated balance sheet.

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2022, the rate for the remaining lease term as of January 1, 2022 was used.

For the year ended December 31, 2022, operating lease cost was \$531,000. As of December 31, 2022, the weighted average remaining lease term was 4.54 years and the weighted average discount rate was 1.88%. The following table represents the future maturities of the Company's operating lease liabilities and other lease information.

(dollars in thousands) Years ending December 31,	<u>Lease Liability</u>
2023	\$ 586
2024	610
2025	627
2026	645
2027	351
Total lease payments	2,819
Less: interest	122
Present value of lease liabilities	<u>\$ 2,697</u>

Supplemental Lease Information:	<u>December 31, 2022</u>
Cash paid for amounts included in the measurement of lease liabilities:	(dollars in thousands)
Operating cash flows from operating leases (cash payments)	\$ 427
Operating lease right-of-use assets obtained in exchange for leases entered into during the period	285

The Company's leasing information for the year ended December 31, 2021, is presented under FASB ASC 840, Leases.

Total rent expense for leased property approximated \$663,000 for the year ended December 31, 2021.

(7) Deposits

At December 31, 2022, contractual maturities of certificate of deposits are summarized as follows: (in thousands).

Years ending December 31,	
2023	\$ 43,763
2024	19,239
2025	47,363
2026	4,912
2027	5,987
Thereafter	4,725
Total	<u>\$ 125,989</u>

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The aggregate amounts of certificates of deposit of \$250,000 or more, the standard FDIC deposit insurance coverage limit per depositor, were approximately \$26.4 million and \$22.6 million at December 31, 2022 and 2021, respectively. Due to the FDIC insurance coverage rules and limits for a depositor's specific group of deposit accounts, it is important to note not all deposits in excess of \$250,000 are uninsured.

Brokered CDs total \$34.9 million at December 31, 2022 and had a weighted average rate of 4.50% and a weighted average maturity of 34 months. There were no brokered CDs at December 31, 2021.

(8) Borrowings

At December 31, 2022 and 2021, the Bank had a line of credit totaling \$81.8 million and \$44.7 million, respectively, from the FHLB, which is reviewed annually by the FHLB. The following advance was outstanding at December 31, 2022: \$10.0 million fixed rate advance, borrowed December 30, 2022, maturing January 30, 2023 at a rate of 4.23%.

At December 31, 2021 there were six advances outstanding: \$8.0 million convertible rate advance with a call feature on May 23, 2022, borrowed May 23, 2019, maturing May 23, 2029 at a rate of 2.40%; \$5.0 million convertible rate advance with a call feature on November 29, 2022, borrowed November 29, 2019, maturing October 25, 2029 at a rate of 2.66%; \$5.0 million convertible rate advance with a call feature on March 17, 2022, borrowed December 16, 2019, maturing December 17, 2029 at a rate of 2.37%; \$10.0 million fixed rate advance, borrowed January 21, 2021, maturing January 21, 2026 at a rate of 0.68%; \$10.0 million fixed rate advance, borrowed March 8, 2021, maturing March 8, 2024 at a rate of 0.54%; and \$10.0 million fixed rate advance, borrowed May 2, 2021, maturing May 2, 2025 at a rate of 0.76%. These advances had a fair value adjustment of \$1.0 million. All of these advances were repaid in January 2022, and we were able to accrete to income the remaining \$1.0 million fair value adjustment associated with these acquired advances. The Bank also paid \$647,000 in prepayment penalties on these borrowings.

At December 31, 2022 and 2021, the FHLB advances were collateralized by certain loans which totaled approximately \$384.4 million and \$343.6 million at December 31, 2022 and 2021, respectively, and by the Company's investment in FHLB stock which totaled approximately \$832,000 and \$2.2 million at December 31, 2022 and 2021, respectively.

The Company had one FHLB letter of credit of \$12.5 million and \$8.0 million, used to collateralize public deposits, outstanding at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021 the Bank had unsecured federal funds lines of credit of \$32.5 million, for which \$25,000 was outstanding. The Bank also has a line of \$75.0 million and \$62.0 million with the Federal Reserve Bank of Atlanta Discount Window secured by \$111.6 million and \$115.2 million in loans as of December 31, 2022 and 2021, respectively. No amount was outstanding on the Discount Window as of December 31, 2022 or 2021.

(9) Income Taxes

The components of income tax expense for the years ended December 31, 2022 and 2021 are as follows: (in thousands)

	Year Ended	Year Ended
	December 31, 2022	December 31, 2021
Current	\$ 1,913	\$ 2,565
Deferred expense (benefit)	280	(227)
	\$ 2,193	\$ 2,338

The difference between income tax expense and the amount computed by applying the statutory federal income tax rate to income before taxes for the years ended December 31, 2022 and 2021 is as follows (in thousands):

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	Year Ended December 31, 2022	Year Ended December 31, 2021
Statutory Federal tax rate	21%	21%
Pretax income at statutory rate	\$ 1,959	\$ 2,082
State income tax, net of federal benefit	257	265
Cash surrender value of life insurance	(73)	(117)
Permanent adjustments	13	41
Other	37	67
Actual tax expense 23.6% and 24.0%, respectively	<u>\$ 2,193</u>	<u>\$ 2,338</u>

The following summarizes the sources and expected tax consequences of future deductions or income for income tax purposes which comprised the net deferred taxes at December 31, 2022 and 2021: (in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Deferred income tax assets:		
Allowance for loan losses	\$ 2,382	\$ 2,195
Deferred compensation	682	775
Net operating losses	1,686	1,849
Unrealized loss on investment securities available-for-sale	2,254	122
Fair value adjustments	180	522
Right-of -use liability	689	—
Other	205	182
Total deferred income tax assets	<u>8,078</u>	<u>5,645</u>
Deferred income tax liabilities:		
Core deposit intangible	342	391
Premises and equipment	492	498
Right-of -use asset	649	—
Other	110	123
Total deferred income tax liabilities	<u>1,593</u>	<u>1,012</u>
Net deferred income tax asset	<u>\$ 6,485</u>	<u>\$ 4,633</u>

The Company establishes a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2022 and 2021, the Company believes that it will have sufficient earnings to realize its deferred tax asset and has not provided an allowance.

The Company is subject to federal income tax and income tax of state taxing authorities. The Company's federal and state income tax returns for the years ended December 31, 2021, 2020 and 2019 are open to audit under the statutes of limitations.

Prior to January 1, 1996, the Bank was permitted under the Internal Revenue Code (the "Code") a special bad debt deduction related to additions to tax bad debt reserves established for the purpose of absorbing losses. The provisions of the Code permitted the Bank to deduct from taxable income an allowance for bad debts based on the greater of a percentage of taxable income before such deduction or actual loss experience. Retained earnings at December 31, 2022 includes approximately \$3.6 million for which no deferred Federal income tax liability has been recognized. The amounts represent an allocation of income for bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses would create income for tax purposes only, which would be subject to the then current corporate income tax rate.

In 1996, legislation was passed which eliminated the percentage of taxable income bad debt deduction for thrift institutions for tax years beginning after December 31, 1995. This legislation also requires a thrift to generally recapture the excess of its current tax reserves over its 1987 base year reserves whereas the base year reserves are frozen from taxation. No additional financial statement tax expense resulted from this legislation as the Bank had previously provided deferred taxes on this recaptured amount.

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(10) Employee Stock Ownership Plan

The Company sponsors an employee stock ownership plan (“ESOP”) that covers all employees who meet certain service requirements. The Company makes annual contributions to the ESOP in amounts as defined by the plan document. These contributions are used to pay debt service and purchase additional shares. Certain ESOP shares are pledged as collateral for debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid in the year.

In 2017, the ESOP borrowed \$3.0 million payable to the Company for the purpose of purchasing shares of the Company’s common stock. A total of 295,499 shares were purchased with the loan proceeds as part of the Company’s initial stock offering. In January 2021, the ESOP borrowed \$3.0 million payable to the Company for the purpose of purchasing additional shares of the Company’s common stock. A total of 225,721 shares were purchased with the loan proceeds as part of the Company’s stock offering. The balance of the note payable of the ESOP was \$5.3 million and \$5.4 million at December 31, 2022 and 2021, respectively. Because the source of the loan payments are contributions received by the ESOP from the Company, the related notes receivable is shown as a reduction of stockholders’ equity. As of December 31, 2022 and 2021, 80,000 shares and 59,000 shares have been released, respectively.

(11) Benefit Plans

The Company has a profit sharing plan to provide retirement benefits for all employees. Contributions have been paid in the past to a trust fund annually by the Company in an amount determined by the Board of Directors. No contributions were made to the plan for the plan years ended December 31, 2022 and 2021 as the Board of Directors adopted an incentive program and paid cash bonuses rather than having contributions made to the profit sharing plan.

In 2014, the Company added a 401(k) feature to the profit sharing plan that covers substantially all employees. Under the terms of the feature, the Company may make matching contributions to the plan and the employees can contribute up to the maximum amounts allowed by IRS guidelines. The contribution expense related to the 401(k) feature totaled \$183,000 and \$161,000 for the plan years ended December 31, 2022 and 2021, respectively.

The Company sponsors a deferred compensation plan for directors. Under this plan, participating directors may defer their Board fees and receive the deferred amounts plus interest upon completion of their time as a director or at their election. The cumulative deferred contributions for the directors in the plan and earnings thereon at December 31, 2022 and 2021 totaled approximately \$2.0 million and \$2.4 million, respectively. These amounts are included in other liabilities in the accompanying consolidated balance sheets. No contributions have been made to the plan since 2015 as the plan was frozen as of June 30, 2015.

The Company has a supplemental executive retirement plan (SERP) for one of its executives. This normal retirement benefit consists of a monthly benefit payment equal to the amount that is paid from the annuity contract designated under the SERP. The normal retirement benefit will commence on the first day of the second month following the date of the executive’s separation from service, payable monthly and continuing for the executive’s lifetime. The monthly benefit equals \$8,333. If the executive dies after benefit payments have commenced but before receiving a total of 180 monthly payments, the Company shall pay to the executive’s beneficiary the greater of (i) the account balance or (ii) the present value of the remaining payments to satisfy a total of 180 monthly payments. Such death benefit shall be payable in a lump sum no later than 60 days from the date of death. If the executive dies after receiving 180 or more benefit payments, the SERP will terminate and no additional payments will be made. The accrued liability for the plan at December 31, 2022 and 2021 was approximately \$480,000 and \$459,000, respectively and is recorded in other liabilities. The related expense for the plan was approximately \$21,000 and \$20,000 in 2022 and 2021, respectively. The earnings from the increase in the value of the annuity for the years ending December 31, 2022 and 2021 was approximately \$0 and \$4,000, respectively, net of related expenses. The carrying value of the annuity was approximately \$956,000 for the years ended December 31, 2022 and 2021 and is recorded in other assets.

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(12) Stock-Based Compensation Plans

The Company may grant stock options and restricted stock under its stock-based compensation plans to certain officers, employees and directors. These plans are administered by a committee of the Board of Directors. In 2018, with subsequent shareholder approval, the 2018 Equity Incentive Plan was approved up to 133,987 share of common stock and up to 334,970 stock options. Amounts related to periods prior to the date of the Conversion (January 20, 2021) have been restated to give the retroactive recognition to the exchange ratio applied in the Conversion (0.90686-to-one).

In May 2022, shareholders approved the Company's 2022 Equity Incentive Plan, which authorizes the issuance of up to 148,060 shares of common stock pursuant to restricted stock grants and up to 370,150 shares of common stock pursuant to the exercise of options.

A Black-Scholes model is utilized to estimate the fair value of stock option grants, while the market price of the Company's stock at the date of grant is used to estimate the fair value of restricted stock awards. The weighted average assumptions used in the Black-Scholes model for valuing stock option grants during 2022 were as follows: dividend yield of 0%, expected volatility of 32.12%, risk-free interest rate of 2.84%, expected average life of 7.32, and weighted average per share fair value of options of \$6.04. The weighted average assumptions used during 2021 were as follows: dividend yield of 0%, expected volatility of 36.62%, risk-free interest rate of 1.04%, expected average life of 7.50, and weighted average per share fair value of options of \$5.34.

Stock options of 221,500 shares with a weighted average exercise price of \$14.86 were granted during the year ended December 31, 2022. Restricted stock of 114,000 shares at a weighted average grant date fair value of \$14.85 were also granted during the year ended December 31, 2022.

A summary of the Company's stock option activity is summarized below.

<u>Stock Options</u>	<u>Option Shares Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life (Years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding - December 31, 2020	321,516	\$ 9.77	8.60	\$ 203
Granted	13,454	13.09		
Exercise of stock options	—	—		
Forfeited	—	—		
Outstanding - December 31, 2021	<u>334,970</u>	<u>\$ 9.90</u>	<u>7.80</u>	<u>\$ 676</u>
Exercisable - December 31, 2021	<u>102,489</u>	<u>\$ 10.28</u>	<u>7.57</u>	<u>\$ 274</u>
Granted	221,500	\$ 14.86		
Exercise of stock options *	(20,097)	11.14		
Forfeited	(51,854)	11.64		
Outstanding - December 31, 2022	<u>484,519</u>	<u>\$ 12.28</u>	<u>8.45</u>	<u>\$ 1,522</u>
Exercisable - December 31, 2022	<u>149,372</u>	<u>\$ 10.00</u>	<u>6.70</u>	<u>\$ 741</u>

* The terms of the stock option agreements permit having a number of shares of stock withheld, the fair market value of which as of the date of exercise is sufficient to satisfy the exercise price and/or tax withholding requirements. All 2022 exercises of stock options were exercised in this manner.

Intrinsic value represents the amount by which the fair market value of the underlying stock exceeds the exercise price of the stock options. A summary of the Company's restricted stock activity is summarized below.

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Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Shares Outstanding
Outstanding - December 31, 2020	\$ 8.63	120,123
Vested	—	(26,787)
Outstanding - December 31, 2021	<u>\$ 8.63</u>	<u>93,336</u>
Granted	\$ 14.85	114,000
Vested*	8.90	(26,787)
Forfeited	11.14	(11,045)
Outstanding - December 31, 2022	<u>\$ 11.97</u>	<u>169,504</u>

* The terms of the restricted stock agreements permit the surrender of shares of the Company upon vesting in order to satisfy applicable tax withholding requirements at the minimum statutory withholding rate, and accordingly, 3,070 shares were surrendered during the year ended December 31, 2022.

The Company recognized approximately \$742,000 and \$410,000 of stock-based compensation expense (included in salary and employee benefits on the consolidated statements of income) during 2022 and 2021, respectively, associated with its common stock awards granted to directors and officers. This expense is net of approximately \$48,000 and \$34,000 during the years ended December 31, 2022 and 2021 for shares surrendered to satisfy applicable tax withholding requirements.

As of December 31, 2022, there was approximately \$3.3 million of unrecognized compensation cost related to equity award grants. The cost is expected to be recognized over the remaining vesting period of approximately 2.93 years.

(13) Regulatory Matters

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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Total and Tier I Capital to Risk-Weighted Assets and of Tier I Capital to Average Assets. Management believes, as of December 31, 2022 and 2021, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2022 and 2021, the most recent notification from the OCC 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 common equity Tier 1 risk-based, total risk-based, Tier I risk-based and Tier I leverage ratios as set forth below. There are no conditions or events since that notification that management believes have changed the Bank's category.

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The Bank's actual capital amounts and ratios for December 31, 2022 and 2021 are presented in the table below (in thousands).

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:						
Common Equity Tier 1 (to Risk Weighted Assets)	\$ 87,397	11.86%	\$ 33,170	4.50%	\$ 47,913	6.50%
Total Capital (to Risk Weighted Assets)	96,612	13.11%	58,970	8.00%	73,712	10.00%
Tier I Capital (to Risk Weighted Assets)	87,397	11.86%	44,227	6.00%	58,970	8.00%
Tier I Capital (to Average Assets)	87,397	10.97%	31,865	4.00%	39,832	5.00%

As of December 31, 2021:						
Common Equity Tier 1 (to Risk Weighted Assets)	\$ 83,662	13.47%	\$ 27,960	4.50%	\$ 40,386	6.50%
Total Capital (to Risk Weighted Assets)	91,438	14.75%	49,706	8.00%	62,133	10.00%
Tier I Capital (to Risk Weighted Assets)	83,662	13.47%	37,280	6.00%	49,706	8.00%
Tier I Capital (to Average Assets)	83,662	10.77%	31,070	4.00%	38,837	5.00%

(14) Related Party Transactions

The Company conducts transactions with its directors and executive officers, including companies in which they have beneficial interest, in the normal course of business. It is the policy of the Company that loan transactions with directors and executive officers be made on substantially the same terms as those prevailing at the time for comparable loans to other persons. The following is a summary of activity for related party loans: (in thousands).

	For Year Ended December 31, 2022	For Year Ended December 31, 2021
Beginning balance	\$ 327	\$ 927
Change in directors	(257)	—
Loans advanced	434	3
Repayments	(88)	(603)
Ending balance	<u>\$ 416</u>	<u>\$ 327</u>

The aggregate amount of deposits from directors and executive officers and their affiliates amounted to approximately \$6.1 million and \$2.4 million at December 31, 2022 and 2021, respectively.

(15) Commitments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments could include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

In most cases, the Bank requires collateral or other security to support financial instruments with credit risk.

	December 31, 2022	December 31, 2021
Financial instruments whose contract amounts represent credit risk: (in thousands)		
Commitments to extend credit	\$ 90,297	\$ 69,826
Letters of credit	8	26

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Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit, or personal property.

(16) Fair Value Measurements and Disclosures

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. From time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or write-downs of individual assets. Additionally, the Company is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Cash and Cash Equivalents

The carrying value of cash and cash equivalents is a reasonable estimate of fair value.

Investment Securities Available-for-Sale

Available-for-sale securities are recorded at market value. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Bank Owned Life Insurance

The carrying value of bank owned life insurance approximates fair value.

AFFINITY BANCSHARES, INC.
Notes to Consolidated Financial Statements

Other Investments

The carrying value of other investments includes FHLB Stock and FNBB stock and approximates fair value.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific reserve is established within the allowance for loan losses. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with GAAP. The fair value of impaired loans is estimated using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with GAAP, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is used or an appraisal is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3. For disclosure purposes, the fair value of fixed rate loans which are not considered impaired 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. For unimpaired variable rate loans, the carrying amount is a reasonable estimate of fair value for disclosure purposes.

Other Real Estate Owned

Other real estate properties are adjusted to fair value upon transfer of the loans to other real estate. Subsequently, other real estate assets are carried at fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Bank records the other real estate as nonrecurring Level 2. When an appraised value is used or an appraisal is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the other real estate asset as nonrecurring Level 3.

Deposits

The fair value of savings accounts, interest-bearing checking accounts, noninterest-bearing checking accounts and market rate checking accounts is the amount payable on demand at the reporting date, while the fair value of fixed maturity certificate of deposits is estimated by discounting the future cash flows using current rates at which comparable certificates would be issued.

FHLB Advances and Other Borrowings

Federal Home Loan Bank advances are carried at cost and the fair value is obtained from the Federal Home Loan Bank of Atlanta. Federal Funds Purchased are carried at cost and because they are overnight funds, the carrying value is a reasonable estimate of fair value.

Assets Recorded at Fair Value on a Recurring Basis

The Company's only assets recorded at fair value on a recurring basis are available-for-sale securities that had a fair value of \$46.2 million and \$48.6 million at December 31, 2022 and 2021, respectively. They are classified as Level 2.

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or market that were recognized at fair

AFFINITY BANCSHARES, INC.

Notes to Consolidated Financial Statements

value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of December 31, 2022 and 2021 (in thousands).

December 31, 2022	Level 1	Level 2	Level 3	Total
Other real estate owned	\$ —	\$ —	\$ 2,901	\$ 2,901
Impaired loans	—	—	5,659	5,659
Total assets at fair value	\$ —	\$ —	\$ 8,560	\$ 8,560

December 31, 2021	Level 1	Level 2	Level 3	Total
Other real estate owned	\$ —	\$ —	\$ 3,538	\$ 3,538
Impaired loans	—	—	7,221	7,221
Total assets at fair value	\$ —	\$ —	\$ 10,759	\$ 10,759

The carrying amounts and estimated fair values (in thousands) of the Company's financial instruments at December 31, 2022 and 2021 are as follows:

	December 31, 2022		December 31, 2021	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 26,324	\$ 26,324	\$ 111,776	\$ 111,776
Investment securities				
available-for-sale	46,200	46,200	48,557	48,557
held-to-maturity	26,527	26,251	—	—
Other investments	1,082	1,082	2,476	2,476
Loans, net	636,909	611,687	575,825	581,541
Bank owned life insurance	15,724	15,724	15,377	15,377
Financial liabilities:				
Deposits	657,172	653,577	612,796	603,039
FHLB advances and other borrowings	10,025	10,025	48,988	48,197

Limitations

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

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

(17) Condensed Parent Company Only Financial Information

A condensed summary of Affinity Bancshares, Inc.'s financial information is shown.

AFFINITY BANCSHARES, INC.
Notes to Consolidated Financial Statements

Parent Only Condensed Balance Sheets

	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
<u>Assets</u>		
Cash in bank subsidiary	\$ 10,233	\$ 11,222
Investment in subsidiary, at underlying equity	100,314	103,188
Loan receivable - ESOP	5,292	5,446
Other assets	1,374	1,279
Total assets	<u>\$ 117,213</u>	<u>\$ 121,135</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities :		
Other liabilities	\$ 110	\$ 167
Total liabilities	110	167
Stockholders' equity:		
Total stockholders' equity	117,103	120,968
Total liabilities and stockholders' equity	<u>\$ 117,213</u>	<u>\$ 121,135</u>

AFFINITY BANCSHARES, INC.

Notes to Consolidated Financial Statements

Parent Only Condensed Statements of Income

	Year Ended December 31, 2022	Year Ended December 31, 2021
Interest income:		
Income on ESOP loan	\$ 177	\$ 177
Total interest income	177	177
Interest expense:		
Interest expense on borrowings	—	10
Total interest expense	—	10
Net interest income	177	167
Noninterest expenses:		
Other noninterest expense	555	537
Loss before income taxes	(378)	(370)
Income tax benefit	95	227
Loss before equity in undistributed earnings of Bank	(283)	(143)
Equity in undistributed earnings of Bank	7,417	7,716
Net income	<u>\$ 7,134</u>	<u>\$ 7,573</u>

Parent Only Condensed Statements of Cash Flows

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash flows from operating activities:		
Net income	\$ 7,134	\$ 7,573
Adjustments to reconcile net income to net cash used in operating activities		
Equity in undistributed earnings of Bank	(7,417)	(7,716)
Other	(328)	(311)
Net cash used in operating activities	(611)	(454)
Cash flows from investing activities:		
Payments from ESOP loan	331	131
Capital injection into the Bank	—	(16,267)
Net cash provided by (used in) investing activities	331	(16,136)
Cash flows from financing activities:		
Proceeds from stock offering	—	37,108
Stock offering expenses	—	(1,699)
Funding of ESOP	—	(2,961)
Stock Repurchase	(5,709)	—
Repay other borrowings	—	(5,000)
Dividend from Bank	5,000	—
Net cash (used in) provided by financing activities	(709)	27,448
Net change in cash and cash equivalents	(989)	10,858
Cash and cash equivalents at beginning of period	11,222	364
Cash and cash equivalents at end of period	<u>\$ 10,233</u>	<u>\$ 11,222</u>

(18) Subsequent Event

On March 12, 2023, in response to liquidity concerns in the United States banking system, the Federal Reserve and U.S. Department of Treasury, along with banking regulators, collaboratively approved certain actions with a stated intention to reduce stress across the financial system, support financial stability and minimize any impact on business, households, taxpayers, and the

AFFINITY BANCSHARES, INC.

Notes to Consolidated Financial Statements

broader economy. Among other actions, the Federal Reserve Board created a new Bank Term Funding Program (BTFP) to make additional funding available to eligible depository institutions, to help assure institutions can meet the needs of their depositors. Eligible institutions may obtain liquidity against a wide range of collateral. BTFP advances can be requested through at least March 11, 2024. Through the date the financial statements were available to be issued, the Company has not requested funding through the BTFP. During first quarter 2023, to further enhance liquidity, the Company obtained brokered deposits totaling \$85.6 million with an average life of three years and an average interest rate of 5.07%.

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the principal executive officer and principal financial officer, assessed the effectiveness of the Company's internal control over financial reporting As of December 31, 2022, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework (2013)." Based on such assessment, management believes that, As of December 31, 2022, the Company's internal control over financial reporting is effective, based on those criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. As the Company is a non-accelerated filer, management's report is not subject to attestation by the Company's registered public accounting firm pursuant to provisions of the Dodd-Frank Act that permit the Company to provide only the management's report in this annual report.

There were no changes made in our internal controls during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections

Not applicable.

ITEM 10. Directors, Executive Officers and Corporate Governance

Affinity Bancshares, Inc. has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer or controller or persons performing similar functions. A copy of the Code is available on Affinity Bancshares, Inc.'s website at www.newtonfederal.com under "About Us – Investor Relations – Governance – Governance Documents."

The information contained under the sections captioned "Proposal I – Election of Directors" in the Company's definitive Proxy Statement for the 2023 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

ITEM 11. Executive Compensation

The information contained under the section captioned "Proposal I – Election of Directors – Executive Compensation" in the definitive Proxy Statement is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Securities Authorized for Issuance under Stock-Based Compensation Plans

Set forth below is information as of December 31, 2022 with respect to compensation plans (other than our Employee Stock Ownership Plan) under which Company equity securities are authorized for issuance. Other than our Employee Stock Ownership Plan, we do not have any equity compensation plans that were not approved by our stockholders. Equity compensation plans approved by stockholders consist of the Affinity Bankshares, Inc. 2018 Equity Incentive Plan and Affinity Bankshares, Inc. 2022 Equity Incentive Plan.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price outstanding options, warrants and rights	Number of securities remaining available for future issuance under stock-based compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	484,519	\$12.28	230,227
Equity compensation plans not approved by security holders	0	N/A	0
Total	484,519	\$12.28	230,227

(b) Security Ownership of Certain Beneficial Owners

The information required by this item is incorporated herein by reference to the section captioned "Voting Securities and Principal Holders" in the Proxy Statement.

(c) Security Ownership of Management

The information required by this item is incorporated herein by reference to the section captioned "Voting Securities and Principal Holders" in the Proxy Statement.

- (d) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the sections captioned “Proposal I – Election of Directors – Transactions with Certain Related Persons,” “– Board Independence” and “– Meetings and Committees of the Board of Directors” of the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned “Proposal II – Ratification of Appointment of Independent Registered Public Accounting Firm” of the Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

- 3.1 Articles of Incorporation of Affinity Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 of Affinity Bancshares, Inc. (File No. 333-248745), initially filed with the Securities and Exchange Commission on September 11, 2020)
- 3.2 Bylaws of Affinity Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 of Affinity Bancshares, Inc. (File No. 333-248745), initially filed with the Securities and Exchange Commission on September 11, 2020)
- 4.1 Form of Common Stock Certificate of Affinity Bancshares, Inc. (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 of Affinity Bancshares, Inc. (File No. 333-248745), initially filed with the Securities and Exchange Commission on September 11, 2020)
- 4.2 Description of Affinity Bancshares, Inc. Securities (incorporated by reference to Exhibit 4.2 to the annual report on 10-K (File No. 001-39914) filed with the Securities and Exchange Commission on April 1, 2021)
- 10.1 Directors Deferred Compensation Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 of Community First Bancshares, Inc. (File No. 333-215041), initially filed with the Securities and Exchange Commission on December 12, 2016) †
- 10.2 Community First Bancshares, Inc. 2018 Equity Incentive Plan (incorporated by reference to Appendix A to the Proxy Statement for the Annual Meeting of Stockholders of Community First Bancshares, Inc. (File No. 001-38074), filed with the Securities and Exchange Commission on July 18, 2018)†
- 10.3 [Intentionally omitted]
- 10.4 [Intentionally omitted]
- 10.5 Employment Agreement by and among Community First Bancshares, Inc., Newton Federal Bank and Edward J. Cooney (incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K of Community First Bancshares, Inc. (File No. 001-38074), filed with the Securities and Exchange Commission on March 30, 2020)†
- 10.6 Supplemental Executive Retirement Plan, dated January 2, 2019, between Affinity Bank and Edward J. Cooney (incorporated by reference to Exhibit 10.10 to the Annual Report on Form 10-K of Community First Bancshares, Inc. (File No. 001-38074), filed with the Securities and Exchange Commission on March 30, 2020)†
- 10.7 [Intentionally omitted]
- 10.8 Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 of Community First Bancshares, Inc. (File No. 333-227212), initially filed with the Securities and Exchange Commission on September 6, 2018)†

- 10.9 Form of Incentive Stock Option Award Agreement (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-8 of Community First Bancshares, Inc. (File No. 333-227212), initially filed with the Securities and Exchange Commission on September 6, 2018)[†]
- 10.10 [Intentionally omitted]
- 10.11 Form of Addendum to Non-Qualified Stock Option Award Agreement[†] (incorporated by reference to Exhibit 10.11 to the annual report on 10-K (File No. 001-39914) filed with the Securities and Exchange Commission on April 1, 2021)
- 10.12 Form of Addendum to Incentive Stock Option Award Agreement[†] (incorporated by reference to Exhibit 10.12 to the annual report on 10-K (File No. 001-39914) filed with the Securities and Exchange Commission on April 1, 2021)
- 10.13 Form of Addendum to Restricted Stock Award Agreement[†] (incorporated by reference to Exhibit 10.13 to the annual report on 10-K (File No. 001-39914) filed with the Securities and Exchange Commission on April 1, 2021)
- 10.14 Amendment No. 1 to Community First Bancshares, Inc. 2018 Equity Incentive Plan[†] (incorporated by reference to Exhibit 10.14 to the annual report on 10-K (File No. 001-39914) filed with the Securities and Exchange Commission on April 1, 2021)
- 10.15 Employment Agreement with Clark Nelson (incorporated by reference to Exhibit 10.15 to the annual report on 10-K (File No. 001-39914) filed with the Securities and Exchange Commission on March 18, 2022)
- 10.16 Employment Agreement with Elizabeth Glazka (incorporated by reference to Exhibit 10.16 to the annual report on 10-K (File No. 001-39914) filed with the Securities and Exchange Commission on March 18, 2022)
- 10.17 Employment Agreement, dated as of May 24, 2021, by and among Affinity Bancshares, Inc., Affinity Bank and Brandi Pajot (incorporated by reference to Exhibit 10.1 to the current report on 8-K (File No. 001-39914) filed with the Securities and Exchange Commission on August 3, 2022)
- 10.18 Amendment 1 to Employment Agreement, dated as of August 2, 2022, by and among Affinity Bancshares, Inc., Affinity Bank and Brandi Pajot (incorporated by reference to Exhibit 10.2 to the current report on 8-K (File No. 001-39914) filed with the Securities and Exchange Commission on August 3, 2022)
- 10.19 Affinity Bancshares, Inc. 2022 Equity Incentive Plan (incorporated by reference to Appendix A to the proxy statement for the Annual Meeting of Stockholders filed with the SEC on April 18, 2022 (File No. 001-39914))
- 21 Subsidiaries of Registrant
- 23 Consent of Wipfli LLP (U.S. PCAOB Auditor Firm ID 344)
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Company's Annual Report on Form 10-K, formatted in inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements

[†] Management contract or compensation plan or arrangement.

ITEM 16. Form 10-K Summary

Not applicable

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AFFINITY BANCSHARES, INC.

Date: March 23, 2023

By: /s/ Edward J. Cooney
Edward J. Cooney
Chief Executive Officer and Director
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Edward J. Cooney</u> Edward J. Cooney	Chief Executive Officer and Director (Principal Executive Officer)	March 23, 2023
<u>/s/ Brandi Pajot</u> Brandi Pajot	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 23, 2023
<u>/s/ William D. Fortson, Jr.</u> William D. Fortson, Jr.	Chairman of the Board	March 23, 2023
<u>/s/ Marshall L. Ginn</u> Marshall L. Ginn	Director	March 23, 2023
<u>/s/ Bob W. Richardson</u> Bob W. Richardson	Director	March 23, 2023
<u>/s/ Howard G. Roberts</u> Howard G. Roberts	Director	March 23, 2023
<u>/s/ Mark J. Ross</u> Mark J. Ross	Director	March 23, 2023
<u>/s/ Edward P. Stone</u> Edward P. Stone	Director	March 23, 2023
<u>/s/ Robin S. Reich</u> Robin S. Reich	Director	March 23, 2023

SUBSIDIARIES OF THE REGISTRANT

Name	State of Incorporation	Ownership Percentage
Affinity Bank	Federal	100%

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (No. 333-252401) on Form S-8 of Affinity Bancshares, Inc. of our report dated March 23, 2023, relating to the consolidated financial statements of Affinity Bancshares, Inc., appearing in this Annual Report on Form 10-K of Affinity Bancshares, Inc. for the year ended December 31, 2022.

/s/ Wipfli LLP

Atlanta, Georgia
March 23, 2023

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Edward J. Cooney, certify that:

1. I have reviewed this annual report on Form 10-K of Affinity Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2023

/s/ Edward J. Cooney
Edward J. Cooney
Chief Executive Officer

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Brandi Pajot, certify that:

1. I have reviewed this annual report on Form 10-K of Affinity Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2023

/s/ Brandi Pajot

Brandi Pajot

Senior Vice President and Chief Financial Officer

**Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Edward J. Cooney, Chief Executive Officer of Affinity Bancshares, Inc., (the “Company”) and Brandi Pajot, Senior Vice President and Chief Financial Officer of the Company, each certify in his or her capacity as an officer of the Company that they have reviewed the annual report on Form 10-K for the year ended December 31, 2022 (the “Report”) and that to the best of their knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: March 23, 2023

/s/ Edward J. Cooney
Edward J. Cooney
President and Chief Executive Officer

Date: March 23, 2023

/s/ Brandi Pajot
Brandi Pajot
Senior Vice President and Chief Financial
Officer

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

A signed original of this written statement required by Section 906 has been provided to Affinity Bancshares, Inc. and will be retained by Affinity Bancshares, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

