2020
ANNUAL REPORT

FIRST RELIANCE®
BANCSHARES

To Our Shareholders

In a year when -- quite literally -- there was no predicting what each day might bring, our organization was reliably solid ground on which our customers, associates and you, our shareholders, could stand. I am pleased and proud to report that 2020 delivered unprecedented financial performance as well as major strides forward on our strategic plan. The collective results highlighted in the coming pages represent unity of purpose and vision, achievements in vital focus areas and ongoing dedication to shareholder value.

The banking environment in the Carolinas saw significant disruptions in 2020. The two largest banks in South Carolina sold to out-of-state suitors and another merger of two large national banks continued with their integration plan. The foundation that we have laid over the last several years positioned our Company to take advantage of the new banking landscape. Several years ago, we made the decision to invest in a mortgage business line with skilled operators. We were hopeful that this investment could have the opportunity to shine during times of stress which played out in 2020. In the following pages, I would like to update you on the latest initiatives that we have begun to enhance your long-term investment in our Company. Despite the economic damage brought on by the pandemic, we remain as confident as ever that **"this is our time."**

Additionally, we reached new financial watermarks in 2020 including record net income, decreased nonperforming assets, and record volume and margin in our mortgage division. From this foundation, the Company seized the opportunity to fortify our balance sheet as reflected by increased capital, liquidity and loan-loss reserve ratios. Economic uncertainty, a shifting regulatory environment with the new administration in Washington, and ever-present and growing competition persist. Regardless, First Reliance Bank remains well-positioned to confront these challenges head-on in the pursuit of our growth, profitability and efficiency goals.

Our Markets

During 2020, building out our existing markets was the focus rather than geographic expansion. In 2020, we identified a site for a new downtown Columbia office, which we opened in January 2021. Additional hires were made in Charleston and Greenville. Growth in North Carolina continued at a robust rate. Work continued on an expanded, full-service location in Winston-Salem which we opened in June 2020, and we continued expanding our team at our Lake Norman branch as we grew in the market. Finally, our markets showed uncanny resilience in these turbulent times. Economic indicators show significantly less damage from the pandemic to our markets than national averages. Population growth has continued to accelerate, and housing prices have appreciated rapidly.

Financial Strength

Net Income

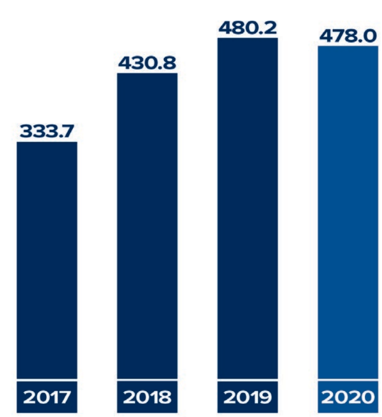
Net income for the year was $10.6 million, or $1.32 per diluted share, compared to $4.1 million, or $0.51 per diluted share, for the same period a year ago, representing an increase of 159.6%. Our ROAA and ROAE increased to 1.46% and 16.91%, respectively.

We took advantage of counter cyclical demand for mortgage volume post-recession in order to bolster net income. In 2020, mortgage volume increased to $672 million from $363 million in 2019. This was our single largest funding year in our company's history. More importantly, we helped over 3,000 families with their home financing needs including over 482 families finance their first homes.

First Reliance Bank was a participating lender in the Small Business Administration ("SBA") Payroll Protection Program ("PPP") created under the Coronavirus Aid, Relief, and Economic Security Act. In round one of PPP, the Company directly originated 186 PPP loans totaling $30.2 million. We were there for our customers and our communities to help navigate this unprecedented pandemic and we continue to help businesses through round two of PPP.

Loans and Asset Quality

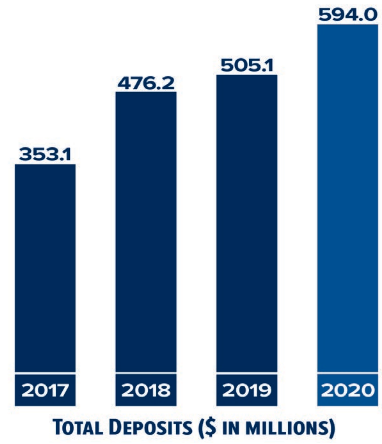
Based on the uncertainty imposed by the COVID-19 pandemic, management made a strategic decision to hold loan levels steady throughout the year. As such, gross loans receivable decreased slightly to $478.0 million at December 31, 2020. Asset quality remained strong during the year, with the ratio of nonperforming assets to total assets decreasing to 0.21% at December 31, 2020 from 0.28% at December 31, 2019.



TOTAL LOANS ($ IN MILLIONS)

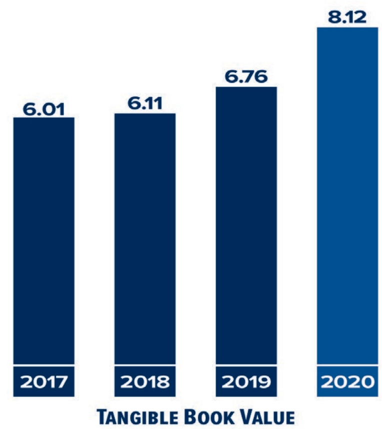
Deposit Growth

Total deposits increased by $88.9 million, or 17.6%, to $594 million at December 31, 2020 compared to December 31, 2019. Transaction accounts increased by $61.7 million, which helped lower our cost of deposits from 1.19% during 2019 to 0.60% during 2020.



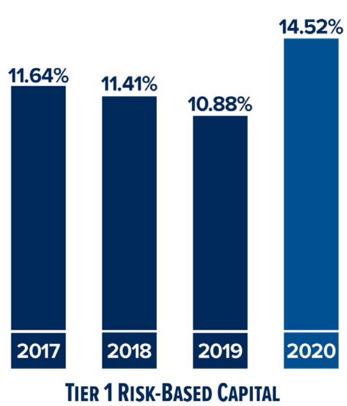
Tangible Book Value

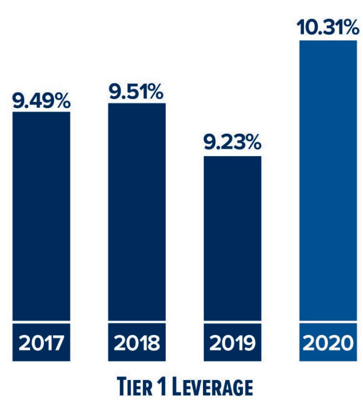
One of the best measures of our success in building value for our shareholders is tangible book value per share. During 2020, tangible book value per share grew by 20%, reaching $8.12 at December 31, 2020, a reflection of strong underlying performance in key business areas.



Capital

With record net income during the year, we were able to continue strengthening our capital position. Bank Tier 1 risk-based capital increased to 14.52% at December 31, 2020 compared to 10.88% at December 31, 2019. Bank Tier 1 leverage increased to 10.31% at December 31, 2020 compared to 9.23% at December 31, 2019.





Our People

Once again, our people lead the way. Perhaps our greatest asset, these 178 bank associates did not let the daily tumult of last year divert from their customer-first focus. Our internal culture and *esprit de corps* are stronger today than ever, a reflection of their respective talents and determination to meet customer needs and exceed expectations, no matter the obstacles.

During 2020, we undertook a broad, holistic effort to establish a roster of senior executives with depth, insight and capability that are unprecedented in our two decades of business.

Robert F. Dozier, Jr. took on dual roles of President of the holding company, First Reliance Bancshares Inc., and Chief Operating Officer (COO) of First Reliance Bank. We promoted Chuck Stuart to President of our First Reliance Mortgage division, named Robert Haile as Chief Financial Officer (CFO) and Elizabeth Bunn as Treasurer, and elevated Jeff Paolucci into the role of Chief Risk Officer (CRO). Brook Moore was promoted to Chief Credit Officer, succeeding Jack McElveen, who will remain in a credit leadership position with the bank.

In January of 2021, longtime banking industry executive F. Justin Strickland became President of First Reliance Bank with a primary focus on commercial lending. These additions helped build a robust leadership team dedicated to further positioning the Company for transformational growth.

Technology

In 2020, we took a major step in evolving our digital banking platform to exceed what is currently found in the community banking world. Driven by our commitment to make banking easier for our customers, we invested in a new software platform that will allow us to provide robust functionality and an improved user experience for our customer base. This new relationship with an industry leading digital banking platform will provide a solid foundation for future updates and additional capabilities.

Our new software platform will add needed functionality to the application – such as the ability to open accounts online and deliver online payment options. The user interface update will also provide a greatly improved customer experience online. As banking continues to shift into the online space, through this investment, First Reliance Bank is well-positioned for growth by offering a digital banking product that is superior to other community banks and competitive with national financial institutions. Our belief is that, by partnering our high touch, first-in-class customer service with a superior digital banking product, we will be a preferred choice for customers looking for a local financial institution with 21st century banking capabilities.

The Journey Ahead

As we Carolinians know all too well, big storms occasionally come through and reshape landscapes if not lives. All you can do is prepare as best you can, tie down the outdoor furniture and hope for the best.

After a year of unprecedented social shifts, there are unmistakable rays of sunshine emerging. And our organization is well prepared for what comes next. We are encouraged by solid financial results, strong performance in important business lines and a growing team of talented and dedicated associates. We have a detailed strategic plan to guide us for the next decade, built on pillars of a customer-centric culture, civic engagement and caring for each other – the principles that have guided us since the beginning. The future again looks bright.

Thank you for your continued support for our entire organization and me personally. You have my assurance that we will do everything in our power, every day, to continue to earn your trust.

Thank You and Best Regards,

F.R. "Rick" Saunders Jr.
Chief Executive Officer

First Reliance Bancshares, Inc. and Subsidiary

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2020 and 2019

Contents

Independent Auditor's Report

The Board of Directors and Shareholders
First Reliance Bancshares, Inc. and Subsidiary
Florence, South Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of First Reliance Bancshares, Inc. and its Subsidiary which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, "the financial statements").

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Reliance Bancshares, Inc. and its Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Columbia, South Carolina
March 23, 2021

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

As of December 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 5,521,448	$ 12,945,354
Interest-bearing deposits with other banks	93,167,467	27,395,329
Total cash and cash equivalents	98,688,915	40,340,683
Time deposits in other banks	255,638	253,911
Marketable equity securities	29,424	30,895
Securities available-for-sale	32,729,894	35,684,146
Securities held-to-maturity (fair value of $10,746,649 at December 31, 2019)	-	10,417,168
Nonmarketable equity securities	1,076,400	2,423,200
Total investment securities	33,835,718	48,555,409
Mortgage loans held for sale	35,641,877	27,901,419
Loans receivable	477,967,634	480,185,395
Less allowance for loan losses	(6,172,977)	(3,529,855)
Loans, net	471,794,657	476,655,540
Premises, furniture and equipment, net	18,490,548	20,420,506
Accrued interest receivable	1,545,861	1,473,581
Other real estate owned	164,295	347,552
Cash surrender value life insurance	18,101,821	17,692,385
Net deferred tax assets	3,452,005	6,579,640
Mortgage servicing rights	12,020,612	11,022,638
Core deposit intangibles	366,454	513,035
Goodwill	690,917	690,917
Right of use asset	5,360,111	5,669,144
Other assets	9,758,115	3,496,549
Total assets	$ 710,167,544	$ 661,612,909
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing transaction accounts	$ 167,274,049	$ 137,312,316
Interest-bearing transaction accounts	120,890,658	89,168,078
Savings	166,403,732	120,472,195
Time deposits $250,000 and over	34,103,856	36,317,110
Other time deposits	105,327,947	121,817,938
Total deposits	594,000,242	505,087,637
Securities sold under agreement to repurchase	5,522,872	14,637,332
Advances from Federal Home Loan Bank	10,000,000	43,300,000
Federal Funds Purchased	-	16,500,000
Subordinated debentures	10,486,998	4,965,214
Junior subordinated debentures	10,310,000	10,310,000
Accrued interest payable	255,722	416,302
Lease liability	5,433,137	5,701,327
Other liabilities	5,430,720	3,609,637
Total liabilities	641,439,691	604,527,449
Shareholders' Equity		
Preferred stock		
Series D non-cumulative preferred stock, no par value; 559 and 572 shares issued and outstanding at December 31, 2020 and 2019, respectively	559	572
Common stock, $0.01 par value; 20,000,000 shares authorized, 8,153,557 and 8,033,579 shares issued and outstanding at December 31, 2020 and 2019, respectively	81,536	80,336
Non voting common stock, $0.01 par value; 430,000 shares authorized, 410,499 shares issued and outstanding	4,105	4,105
Capital surplus	51,971,579	51,136,879
Treasury stock, at cost, 234,324 and 183,591 shares at December 31, 2020 and 2019, respectively	(1,679,952)	(1,283,469)
Nonvested restricted stock	(1,486,440)	(1,253,706)
Retained earnings	18,708,605	8,092,455
Accumulated other comprehensive income	1,127,861	308,288
Total shareholders' equity	68,727,853	57,085,460
Total liabilities and shareholders' equity	$ 710,167,544	$ 661,612,909

See Notes to Consolidated Financial Statements

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Operations
For the years ended December 31, 2020 and 2019

	2020	2019
Interest income:		
Loans, including fees	$ 26,776,516	$ 26,189,861
Investment securities:		
Taxable	920,042	1,197,956
Tax exempt	150,891	136,964
Other interest income	273,229	329,038
Total	28,120,678	27,853,819
Interest expense:		
Time deposits	1,948,972	4,071,602
Other deposits	425,442	562,913
FHLB advances	649,967	444,760
Subordinated debt	814,143	782,220
Other interest expense	31,285	95,542
Total	3,869,809	5,957,037
Net interest income	24,250,869	21,896,782
Provision for loan losses	2,908,000	983,803
Net interest income after provision for loan losses	21,342,869	20,912,979
Noninterest income:		
Mortgage banking income	19,524,103	5,593,441
Service charges on deposit accounts	1,309,797	1,681,812
Income from bank owned life insurance	409,436	386,073
(Loss) gain on sale of investment securities	(211,018)	23,834
Loss on disposal of fixed assets	(528,357)	-
Loss on extinguishment of debt	(287,199)	-
Other service charges, commissions, and fees	1,596,729	1,548,202
Other	396,976	469,603
Total	22,210,467	9,702,965
Noninterest expenses:		
Salaries and benefits	18,229,345	15,369,271
Occupancy	2,500,286	2,376,794
Furniture and equipment related expenses	2,310,197	1,821,523
Other	6,618,671	5,706,284
Total	29,658,499	25,273,872
Income before income taxes	13,894,837	5,342,072
Income tax expense	3,278,687	1,253,233
Net income	$ 10,616,150	$ 4,088,839
Average common shares outstanding, basic	7,919,406	7,937,617
Average common shares outstanding, diluted	8,037,601	8,062,486
Income per common share:		
Basic income per common share	$ 1.34	$ 0.52
Diluted income per common share	1.32	0.51

See Notes to Consolidated Financial Statements

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

	2020	2019
Net income	$ 10,616,150	$ 4,088,839
Other comprehensive income, net of tax:		
Securities available-for-sale		
Unrealized holding gains arising during the period	856,232	1,410,271
Reclassification adjustment for realized (gains) losses included in earnings	211,018	(37,245)
Income tax expense	(247,677)	(336,391)
Net of income taxes	819,573	1,036,635
Securities held-to-maturity		
Amortization of net unrealized gains		
capitalized on securities transferred from available-for-sale	-	(49,616)
Income tax benefit	-	13,157
Net of income taxes	-	(36,459)
Other comprehensive income	819,573	1,000,176
Comprehensive income	$ 11,435,723	$ 5,089,015

See Notes to Consolidated Financial Statements

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2020 and 2019

	Preferred Stock	Common Stock	Capital Surplus	Treasury Stock	Nonvested Restricted Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2018	581	84,127	50,904,763	(624,120)	(1,508,630)	4,003,616	(691,888)	52,168,449
Net income	-	-	-	-	-	4,088,839	-	4,088,839
Other comprehensive income, net of tax	-	-	-	-	-	-	1,000,176	1,000,176
Conversion of Preferred Stock - Series D to Common Stock	(9)	9	-	-	-	-	-	-
Net issuance of Common Stock	-	305	173,432	-	-	-	-	173,737
Net change in restricted stock	-	-	-	-	254,924	-	-	254,924
Stock based compensation	-	-	58,684	-	-	-	-	58,684
Purchase of Treasury Stock	-	-	-	(659,349)	-	-	-	(659,349)
Balance, December 31, 2019	572	84,441	51,136,879	(1,283,469)	(1,253,706)	8,092,455	308,288	57,085,460
Net income	-	-	-	-	-	10,616,150	-	10,616,150
Other comprehensive income, net of tax	-	-	-	-	-	-	819,573	819,573
Conversion of Preferred Stock - Series D to Common Stock	(13)	13	-	-	-	-	-	-
Net issuance of Common Stock	-	1,187	775,855	-	-	-	-	777,042
Net change in restricted stock	-	-	-	-	(232,734)	-	-	(232,734)
Stock based compensation	-	-	58,845	-	-	-	-	58,845
Purchase of Treasury Stock	-	-	-	(396,483)	-	-	-	(396,483)
Balance, December 31, 2020	$ 559	$ 85,641	$ 51,971,579	$ (1,679,952)	$ (1,486,440)	$ 18,708,605	$ 1,127,861	$68,727,853

See Notes to Consolidated Financial Statements

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income	$ 10,616,150	$ 4,088,839
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	2,908,000	983,803
Depreciation expense	811,654	814,612
Loss (gain) on change in fair value of marketable equity securities	1,471	(13,410)
Discount accretion and premium amortization on investment securities	75,516	60,105
Discount accretion on purchased loans	(284,393)	(277,741)
Loss on disposal of fixed assets	528,357	-
Net gain on sale of other real estate owned	(62,027)	(27,676)
Loss (gain) on sale of investment securities	211,018	(23,834)
Write down of other real estate owned	-	500
Originations of mortgages held for sale	(672,380,825)	(363,125,349)
Proceeds from sales of mortgages held for sale	684,164,470	353,530,732
Mortgage banking income	(19,524,103)	(5,593,441)
Proceeds from sale of Paycheck Protection Program loans	29,867,166	-
Loss on sale of Paycheck Protection Program loans	453,302	-
Core deposit intangible amortization	146,581	171,182
Loss on extinguishment of debt	287,199	-
Amortization of debt issuance costs	21,784	30,337
Deferred income taxes, net of allowance	2,851,747	1,020,697
Increase in cash surrender value of life insurance	(409,436)	(386,073)
Stock based compensation expense	58,845	58,684
Increase in mortgage servicing rights, net	(997,974)	(1,998,779)
Increase in accrued interest receivable	(72,280)	(155,477)
Increase in other assets	(5,924,322)	(175,949)
Decrease in accrued interest payable	(160,580)	(31,581)
Increase (decrease) in other liabilities	1,265,694	(988,862)
Net cash provided by (used in) operating activities	34,453,014	(12,038,681)
Cash flows from investing activities:		
Purchases of securities available-for-sale	(1,000,000)	(8,289,581)
Maturities of securities available-for-sale	10,758,505	5,842,664
Maturities of securities held-to-maturity	1,693,631	3,643,639
Proceeds on sales of securities available-for-sale	2,700,000	1,485,000
Proceeds from sale of marketable equity securities	-	150,666
Net (increase) decrease in nonmarketable equity securities	1,346,800	(1,029,700)
Net increase in time deposits in other banks	(1,727)	(908)
Net increase in loans receivable	(28,127,914)	(49,537,156)
Purchases of premises, furniture and equipment	(1,133,733)	(990,793)
Proceeds from disposal of premises, furniture and equipment	1,723,680	66,554
Proceeds from sale of other real estate owned	290,006	204,400
Net cash used in investing activities	(11,750,752)	(48,455,215)

See Notes to Consolidated Financial Statements

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from financing activities:		
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	107,615,850	39,698,865
Net decrease in certificates of deposit and other time deposits	(18,703,245)	(10,779,937)
Net (decrease) increase in advances from Federal Home Loan Bank	(33,300,000)	23,300,000
Net (decrease) increase in federal funds purchased	(16,500,000)	16,500,000
Net decrease in securities sold under agreements to repurchase	(9,114,460)	(2,215,649)
Issuance of subordinated debentures	5,500,000	-
Net proceeds from issuance of common stock	777,042	173,737
(Increase) decrease in nonvested restricted stock	(232,734)	254,924
Purchase of treasury stock	(396,483)	(659,349)
Net cash provided by financing activities	35,645,970	66,272,591
Net increase cash and cash equivalents	58,348,232	5,778,695
Cash and cash equivalents, beginning of year	40,340,683	34,561,988
Cash and cash equivalents, end of year	$ 98,688,915	$ 40,340,683
Cash paid during the year for:		
Income taxes	$ 348,416	$ (44,786)
Interest	4,030,389	5,988,618
Supplemental noncash investing and financing activities:		
Transfer from loans to other real estate owned	$ 44,722	$ 183,257
Transfer of securities held-to-maturity to securities available-for-sale	8,723,537	-
Net change in unrealized gains on investment securities	819,573	1,000,176
Initial recognition of right-of-use asset	-	6,192,913
Initial recognition of lease liability	-	6,192,913

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization:

First Reliance Bancshares, Inc. (the "Company") was incorporated under the laws of the State of South Carolina on April 12, 2001 to serve as a bank holding company for its subsidiary, First Reliance Bank (the "Bank"), and acquired all of the shares of the Bank on April 1, 2002 in a statutory share exchange. First Reliance Bank was incorporated on August 9, 1999 and commenced business on August 16, 1999. The principal business activity of the Bank is to provide banking services to domestic markets throughout South Carolina and North Carolina. The Bank is a South Carolina chartered commercial bank, and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions. In 2005, the Company formed First Reliance Capital Trust I (the "Trust") for the purpose of issuing trust preferred securities. In accordance with current accounting guidance, the Trust is not consolidated in these financial statements.

Management's estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, including valuation allowances for impaired loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and evaluating other-than-temporary-impairment of investment securities. In connection with the determination of the allowances for losses on loans and valuation of foreclosed real estate, management obtains independent appraisals in accordance with regulatory policy. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for losses on loans and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the allowances for losses on loans and foreclosed real estate may change materially in the near term.

Concentrations of credit risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily throughout South Carolina and North Carolina. At December 31, 2020 and 2019, the majority of the total loan portfolio was to borrowers from within these areas.

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of credit risk, continued:

The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to groups of borrowers or industries that would also be affected by sector-specific economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g., principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Management has determined that there is minimal concentration of credit risk associated with its lending policies or practices.

There are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e., balloon payment loans). These loans are underwritten and monitored to manage the associated risks and management believes that these particular practices do not subject the Company to unusual credit risk. The Company's investment portfolio consists principally of obligations of the United States and its agencies or its corporations and obligations of state and local governments. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Debt securities available-for-sale:

Debt securities available-for-sale are carried at amortized cost and adjusted to fair value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded as part of accumulated other comprehensive income in shareholders' equity, net of deferred income taxes. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security. The adjusted cost basis of investments available-for-sale is determined by specific identification and is used in computing the gain or loss upon sale. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest over the period to maturity.

Debt securities held-to-maturity:

Debt securities held-to-maturity are stated at cost, adjusted for amortization of premium and accretion of discount computed by the straight-line method. The Company has the ability and management has the intent to hold designated investment securities to maturity. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security.

Note 1. Summary of Significant Accounting Policies, Continued

Marketable equity securities:

Marketable equity securities are carried at fair value, with changes in fair value recorded through the consolidated statements of operations. Dividends received on marketable equity securities are included as a separate component of interest income.

Nonmarketable equity securities:

At December 31, 2020 and 2019, nonmarketable equity securities consist of the following:

	2020	2019
Federal Home Loan Bank stock	$ 1,018,300	$ 2,365,100
Community Bankers Bank stock	58,100	58,100
Total	$ 1,076,400	$ 2,423,200

Nonmarketable equity securities are carried at cost since there is no quoted market value and no ready market exists. Investment in the Federal Home Loan Bank of Atlanta (“FHLB”) is a condition to borrowing from that bank, and the stock is pledged to collateralize such borrowings. Dividends received on nonmarketable equity securities are included as a separate component of interest income.

Loans receivable:

Loans receivable are stated at their unpaid principal balance, net of charge offs. Interest income is computed using the simple interest method and is recorded in the period earned.

When serious doubt exists as to the collectability of a loan or when a loan becomes contractually 90 days past due as to principal or interest, interest income is discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest. When interest accruals are discontinued, income earned but not collected is reversed. Loans are removed from nonaccrual status when they become current as to both principal and interest, when concern no longer exists as to the collectability of the principal and interest, and after a sufficient history of satisfactory payment performance has been established.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as an adjustment of the related loan yields. Generally, these amounts are amortized over the contractual life of the related loans or commitments.

The Company identifies impaired loans through its normal internal loan review process. Loans on the Company’s problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether all outstanding principal and interest are expected to be collected. Loans are not considered impaired if a minimal payment delay occurs and all amounts due, including accrued interest at the contractual interest rate for the period of delay, are expected to be collected.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for loan losses:

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

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

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

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

In situations where, for economic or legal reasons related to a borrower’s financial difficulties, a concession to the borrower is granted that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring. The restructuring of a loan may include the transfer from the borrower to the Company of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan, modification of the loan terms, or a combination of the above.

Premises, furniture and equipment:

Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings of 40 years and for furniture and equipment of 5 to 10 years. Leasehold improvements are amortized over the term of the lease. The cost of assets sold or otherwise disposed of and the related allowance for depreciation is eliminated from the accounts and the resulting gains or losses are reflected in the consolidated statements of operations when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized based upon the Company's policy.

Note 1. Summary of Significant Accounting Policies, Continued

Other real estate owned:

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is carried at the lower of cost or the fair market value minus estimated costs to sell. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses to maintain such assets and subsequent changes in the valuation allowance are included in other noninterest expense along with gains and losses on disposal.

Cash surrender value of life insurance:

Cash surrender value of life insurance represents the cash value of policies on certain current and former officers and directors of the Company.

Residential mortgage loans held for sale:

Loans held for sale represent loans originated or acquired by the Company with the intent to sell. The Company has elected the lower of cost or market in accounting for residential mortgage loans held for sale. These loans are initially recorded and carried at lower of cost or market value, with any subsequent decreases in fair value recognized in mortgage banking income. Loan origination fees are recorded when earned.

The Company issues rate lock commitments to borrowers on prices quoted by secondary market investors. Derivatives related to these commitments are recorded as either assets or liabilities in the balance sheet and are measured at fair value. Changes in the fair value of the derivatives are reported in current income or other comprehensive income depending on the purpose for which the derivative is held. The Company does not currently engage in any activities that qualify for hedge accounting. Accordingly, changes in fair value of these derivative instruments are included in mortgage banking income in the consolidated statements of operations.

Mortgage servicing rights:

Mortgage servicing rights ("MSRs") represent the present value of the future net servicing fees from servicing mortgage loans. Servicing assets and servicing liabilities must be initially measured at fair value, if practicable. The Company's servicing assets are initially measured at fair value and are subsequently measured using either the fair value method or the amortization method, depending on the asset class, which has been determined to be vintage (or loan origination) year.

The methodology used to determine the fair value of MSRs is subjective and requires the development of a number of assumptions, including anticipated prepayments of loan principal. Fair value is determined by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates and other assumptions validated through comparison to trade information, industry surveys and with the use of independent third party appraisals. Risks inherent in the MSRs' valuation include higher than expected prepayment rates and/or delayed receipt of cash flows. The value of MSRs is significantly affected by mortgage interest rates available in the marketplace, which influence mortgage loan prepayment speeds. In general, during periods of declining interest rates, the value of mortgage servicing rights declines due to increasing prepayments attributable to increased mortgage refinance activity. Conversely, during periods of rising interest rates, the value of servicing rights generally increases due to reduced refinance activity.

Note 1. Summary of Significant Accounting Policies, Continued

Mortgage servicing rights, continued:

MSRs accounted for using the fair value method are carried at fair value with changes in fair value, changes due to paydowns and payoffs of underlying loans, and servicing fees (cost) recorded in "mortgage banking income" on the consolidated statements of operations.

For MSRs accounted for using the amortization method, the amortization is determined in proportion to, and over the period of, the estimated net servicing income and recorded in mortgage banking income on the consolidated statements of operations. These MSRs are evaluated quarterly for possible impairment. If the impairment evaluation indicates that the carrying amount of the servicing assets exceeds their fair value, the carrying amount is reduced by recording a charge to income in the amount of such excess and establishing a valuation reserve allowance. If impairment is determined to be other-than-temporary, a direct write-off of the carrying amount would be recorded. Beginning in 2020, the Company began accounting for new MSR vintage year classes using the amortization method.

Core deposit intangible:

As a result of a business combination, the Company may recognize an intangible asset representing the estimated value of core deposits assumed. The Company amortizes the intangible assets over their estimated useful lives. Core deposit intangibles are periodically reviewed for reasonableness and are evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable.

Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is not amortized but tested for impairment on an annual basis, or more often, if events or circumstances indicate there may be impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Authoritative guidance governing the testing of indefinite lived intangible assets for impairment allows the option to first assess Goodwill by utilizing qualitative factors in determining if it is more likely than not that carrying value exceeds fair value. If, through this analysis, it is determined that it is more likely than not that carrying value exceeds fair value, then the next step requires estimation of the fair value of the reporting unit by quantitative assessment. If the fair value of the reporting unit exceeds its carrying value, no further testing is required. An impairment charge is recognized if the carrying value of the reporting unit's goodwill exceeds its implied fair value. The Company has performed the annual impairment analysis as of December 31, 2020 and concluded no impairment exists.

Liabilities for representations and warranties:

The Company is exposed to certain liabilities under representations and warranties made to purchasers of mortgage loans and servicing rights that require indemnification or repurchase of loans. At the time it issues a guarantee, the Company assesses the need to recognize an initial liability for the fair value of obligations assumed under the guarantee.

Note 1. Summary of Significant Accounting Policies, Continued

Liabilities for representations and warranties, continued:

If determined to be necessary based on the nature of the guarantee, the Company will establish a contingency reserve for its liabilities under representations and warranties provided to purchasers of its mortgage loans and servicing rights. This reserve is maintained at a level considered appropriate by management to provide for known and inherent losses. The reserve is based upon a continuing review of past loss experience, estimates and assumptions of risk elements and future economic conditions. Additions to the reserve are recorded in other expenses.

Management's judgment about the adequacy of any reserve is based upon a number of assumptions about future events which it believes to be reasonable but which may or may not be accurate. There is no assurance that increases in the reserve will not be required in future periods. The Company may from time-to-time be required to repurchase mortgage loans previously sold to investors due to loan nonperformance. Based on management's analysis of current representations and guarantees, it was determined that a liability for potential indemnifications to other third-party purchasers was not necessary at December 31, 2020.

Revenue recognition:

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Service Charges on Deposit Accounts: The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Note 1. Summary of Significant Accounting Policies, Continued

Revenue recognition, continued:

Check Card Fee Income: Check card fee income represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

Gains/Losses on OREO Sales: Gains/losses on the sale of OREO are included in noninterest income and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Income taxes:

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled.

As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Interest and penalties related to income tax matters are recognized in income tax expense.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

Advertising expense:

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs were $245,155 and $200,187 for 2020 and 2019, respectively, and are recorded within other noninterest expense.

Retirement benefits:

A retirement savings plan is sponsored by the Company and provides retirement benefits to substantially all officers and employees who meet certain age and service requirements. The plan includes a "salary reduction" feature pursuant to Section 401(k) of the Internal Revenue Code. In 2004, the Company converted the 401(k) plan to a 404(c) plan. The 404(c) plan changes investment alternatives to include the Company's stock. Under the plan and present policies, participants are permitted to make contributions up to 15% of their annual compensation. At its discretion, the Company can make matching contributions up to 6% of the participants' compensation.

Note 1. Summary of Significant Accounting Policies, Continued

Retirement benefits, continued:

The Company charged $273,755 and $242,670 to salaries and benefits expense for the retirement savings plan in 2020 and 2019, respectively. In addition, the Company made elective contributions to the employee stock ownership plan during 2020 and 2019 totaling $261,056 and $154,384, respectively, which is recorded within salaries and benefits expense.

During 2006, the Board of Directors approved a supplemental retirement plan for the directors and certain officers. These benefits are not qualified under the Internal Revenue Code and they are not funded. For 2020 and 2019, the supplemental retirement expense was $182,791 and $169,881. The current accrued but unfunded amount is $2,222,703 and $2,054,855 at December 31, 2020 and 2019, respectively. However, certain funding is provided informally and indirectly by bank owned life insurance policies. The cash surrender value of the life insurance policies is recorded as a separate line item in the accompanying consolidated balance sheets at $18,101,821 and $17,692,385 at December 31, 2020 and 2019, respectively.

The Company has split-dollar life insurance arrangements with certain of its officers. At December 31, 2020 and 2019, the split-dollar liability relating to these arrangements totaled $388,026 and $365,200, respectively. For 2020 and 2019, the Company recognized net expenses of $22,826 and $21,482, respectively, related to these arrangements, which are recorded within salaries and benefits expense.

Stock-based compensation:

The Company can issue stock options, restricted stock, and other stock-based awards under various plans to directors, officers and other key employees. The Company accounts for stock compensation in accordance with Accounting Standards Codification ("ASC") Topics 718 and 505. Under those provisions, the Company has adopted a fair value-based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized on a straight-line basis over the service period, which is usually the vesting period, taking into account retirement eligibility. As a result, compensation expense relating to stock options and restricted stock is reflected in net income as part of "salaries and benefits" on the consolidated statements of operations.

Common stock owned by the employee stock ownership plan ("ESOP"):

All shares held by the ESOP are treated as outstanding for purposes of computing earnings per share. Purchases and redemptions of the Company's common stock by the ESOP are at estimated fair value as determined by market price of the shares. Dividends on shares held by the ESOP are charged to retained earnings. At December 31, 2020 and 2019, the ESOP owned 525,809 and 497,684 shares of the Company's common stock with an estimated value of $4,075,020 and $3,891,889, respectively. All of these shares were allocated to participants.

Note 1. Summary of Significant Accounting Policies, Continued

Income per common share:

Basic income per common share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and similar share-based compensation instruments and are determined using the treasury stock method (see Note 21).

Statements of cash flows:

For purposes of reporting cash flows in the consolidated financial statements, the Company considers certain highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods. Changes in the valuation account of securities available-for-sale, including the deferred tax effects, are considered noncash transactions for purposes of the statement of cash flows and are presented in detail in the notes to the consolidated financial statements.

Off-balance sheet financial instruments:

In the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the consolidated financial statements when they become payable by the customer.

Comprehensive income:

The Company reports comprehensive income in accordance with ASC 220, "*Comprehensive Income*." The standard requires that all items that are required to be reported under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other consolidated financial statements. The disclosure requirements have been included in the Company's consolidated statements of comprehensive income.

Business combinations and method of accounting for loans acquired:

The Company accounts for its acquisitions under Financial Accounting Standards Board ("FASB") ASC Topic 805, "*Business Combinations*," which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, "*Fair Value Measurements and Disclosures.*"

Note 1. Summary of Significant Accounting Policies, Continued

Business combinations and method of accounting for loans acquired, continued:

Purchased credit-impaired ("PCI") loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB Accounting Standards Codification Topic 310-30, "*Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality,*" formerly American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 03-3, "*Accounting for Certain Loans or Debt Securities Acquired in a Transfer*," and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be PCI loans. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. The Company considers expected prepayments and estimates the amount and timing of expected principal, interest and other cash flows for each loan or pool of loans meeting the criteria above, and determines the excess of the loan's scheduled contractual principal and contractual interest payments over all cash flows expected to be collected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan's or pool's cash flows expected to be collected over the fair value for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable difference). Subsequent to the acquisition date, increases in cash flows expected to be received in excess of the Company's initial estimates are reclassified from nonaccretable difference to accretable difference and are accreted into interest income on a level-yield basis over the remaining life of the loan. Decreases in cash flows expected to be collected are recognized as impairment through the provision for loan losses. Acquired non-PCI loans are recorded at their initial fair value and adjusted for subsequent advances, pay downs, amortization or accretion of any premium or discount on purchase, charge-offs and additional provisioning that may be required.

Recently issued accounting pronouncements:

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

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company will apply the amendments to the Accounting Standards Update ("ASU") through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is evaluating the impact of the ASU on the consolidated financial statements. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

In November 2018, the FASB issued guidance to amend the Financial Instruments—Credit Losses topic of the Accounting Standards Codification. The guidance aligns the implementation date of the topic for annual financial statements of nonpublic companies with the implementation date for their interim financial statements. The guidance also clarifies that receivables arising from operating leases are not within the scope of the topic, but rather, should be accounted for in accordance with the leases topic. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments will be effective for the Company for reporting periods beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL). The new effective dates will be fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of adoption of this guidance on its financial statements.

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments affect a variety of Topics in the Accounting Standards Codification. For entities that have not yet adopted the amendments in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. Early adoption is permitted in any interim period as long as an entity has adopted the amendments in ASU 2016-13. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2019, the FASB issued guidance to simplify accounting for income taxes by removing specific technical exceptions that often produce information investors have a hard time understanding. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2020, the FASB issued guidance to address accounting for the transition into and out of the equity method and measuring certain purchased options and forward contracts to acquire investments. The amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the CECL guidance issued in 2016. The effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in the financial instrument guidance. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2020, the FASB issued guidance to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2020, the FASB issued guidance to improve financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

In October 2020, the FASB issued guidance to clarify the FASB's intent that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of FASB ASC 310-20-35-33 for each reporting period. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Risks and uncertainties:

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies (regulatory risk). These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Note 1. Summary of Significant Accounting Policies, Continued

Risks and uncertainties, continued:

The 2019 novel coronavirus (COVID-19) has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates declined significantly. Such events also may adversely affect business and consumer confidence, generally, and the Company and its customers, and their respective suppliers, vendors and processors may be adversely affected. The full impact of COVID-19 is still uncertain and the effects of the COVID-19 outbreak may adversely affect the Company's financial condition and results of operations.

Reclassifications:

Certain captions and amounts in the 2019 consolidated financial statements were reclassified to conform with the 2020 presentation. The reclassifications did not have an impact on net income or shareholders' equity.

Note 2. Cash and Due From Banks

The Company is periodically required to maintain balances with the Federal Reserve computed as a percentage of deposits. At December 31, 2020, the Company was not required to maintain a reserve balance. At December 31, 2019, the reserve requirement was $7,158,000, net of vault cash and balances on deposit with the Federal Reserve.

Note 3. Investment Securities

The amortized cost and estimated fair values of securities available-for-sale were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
U.S. Government sponsored agencies	$ 9,408,643	$ 699,349	$ -	$ 10,107,992
Municipal securities	3,949,076	265,386	-	4,214,462
Mortgage-backed securities	15,869,711	554,839	-	16,424,550
Corporate bonds	2,000,000	18,757	35,867	1,982,890
Total	$ 31,227,430	$ 1,538,331	$ 35,867	$ 32,729,894

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
U.S. Government sponsored agencies	$ 10,734,597	$ 272,415	$ 68,328	$ 10,938,684
Municipal securities	1,383,917	80,748	-	1,464,665
Mortgage-backed securities	19,228,985	233,536	85,440	19,377,081
Corporate bonds	3,901,433	18,280	15,997	3,903,716
Total	$ 35,248,932	$ 604,979	$ 169,765	$ 35,684,146

Note 3. Investment Securities, Continued

At December 31, 2020 and 2019, the Company had marketable equity securities totaling $29,424 and $30,895, respectively.

During the year ended December 31, 2020, the Company transferred all securities classified as held-to-maturity to its available-for-sale portfolio. At the date of the transfer, these securities had a book value of $8,723,537.

The Company did not have any securities classified as held-to-maturity at December 31, 2020. The amortized cost and estimated fair values of securities held-to-maturity at December 31, 2019 were:

	Amortized	Gross Unrealized		
	Cost	Gains	Losses	Fair Value
U.S. Government sponsored agencies	$ 2,869,656	$ 66,033	$ -	$ 2,935,689
Mortgage-backed securities	4,997,336	93,564	2,558	5,088,342
Municipals	2,578,386	144,232	-	2,722,618
Total	$ 10,445,378	$ 303,829	$ 2,558	$ 10,746,649
Capitalization of net unrealized gains on securities transferred from available-for-sale	(28,210)			
Total	$ 10,417,168			

The following is a summary of maturities of securities available-for-sale as of December 31, 2020. The amortized cost and fair values are based on the contractual maturity dates. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty. Mortgage-backed securities are presented as a separate line as paydowns are expected to occur before contractual maturity dates.

	Debt Securities Available-for-Sale	
	Amortized Cost	Fair Value
Due after one year but within five years	$ 504,827	$ 524,864
Due after five years through ten years	2,561,443	2,583,708
Due after ten years	12,291,449	13,196,772
	15,357,719	16,305,344
Mortgage-backed securities	15,869,711	16,424,550
Total	$ 31,227,430	$ 32,729,894

Note 3. Investment Securities, Continued

The following tables show gross unrealized losses and fair value of securities available-for-sale and securities held-to-maturity, aggregated by investment category, and length of time that individual securities have been in a continuous realized loss position at December 31, 2020 and 2019.

	December 31, 2020		December 31, 2019	
Securities Available-for-Sale	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Less Than 12 Months				
Mortgage-backed securities	$ -	$ -	$ 440,380	$ 5,168
Corporate bonds	1,464,133	35,867	-	-
Total	1,464,133	35,867	440,380	5,168
12 Months or More				
U.S. Government sponsored agencies	-	-	5,514,542	68,328
Mortgage-backed securities	-	-	5,185,486	80,272
Corporate Bonds	-	-	2,885,436	15,997
Total	-	-	13,585,464	164,597
Total securities available-for-sale	$ 1,464,133	$ 35,867	$ 14,025,844	$ 169,765
Securities Held-to-Maturity				
Less Than 12 Months				
Mortgage-backed securities	$ -	$ -	$ 1,239,512	$ 2,558
Total	-	-	1,239,512	2,558
Total securities held-to-maturity	$ -	$ -	$ 1,239,512	$ 2,558

At December 31, 2020, two securities classified as available-for-sale were in a loss position as detailed in the preceding tables. The Company does not intend to sell these securities in the near future and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost. The Company believes that, based on industry analyst reports and credit ratings, the deterioration in value is attributable to changes in market interest rates and, therefore, these losses are not considered other-than-temporary.

During 2020, the Company sold securities with proceeds of $2,700,000 and gross losses of $211,018. During 2019, the Company sold securities with proceeds of $1,638,332 and gross gains of $23,834. During 2020 and 2019, the Company recognized gains (losses) of $(1,471) and $13,410, respectively, within the consolidated statement of operations related to the increase in fair value of marketable equity securities.

At December 31, 2020 and 2019, investment securities with a par value of $6,533,893 and $14,832,908 and a fair market value of $6,886,132 and $15,103,164, respectively, were pledged as collateral for securities under agreements to repurchase.

Note 4. Loans and Allowance for Loan Losses

Major classifications of loans receivable are summarized as follows at December 31:

	2020	2019
Real estate loans:		
Construction	$ 42,990,804	$ 41,246,207
Residential	122,569,568	129,087,825
Nonresidential	187,067,588	171,148,893
Total real estate loans	352,627,960	341,482,925
Commercial and industrial	57,513,324	58,439,799
Consumer and other	67,826,350	80,262,671
Total loans	$ 477,967,634	$ 480,185,395

The Company has pledged certain loans as collateral to secure its borrowings from the Federal Home Loan Bank which totaled $188,432,001 and $183,459,356 at December 31, 2020 and 2019, respectively.

Loans sold with limited recourse are 1-4 family residential mortgages originated by the Company and sold to various other financial institutions. These loans are sold with the agreement that a loan may be returned to the Company within 90 days of purchase, at any time in the event the Company fails to provide necessary documents related to the mortgages to the buyers, or if the Company makes false representations or warranties to the buyers. Loans sold under these agreements in 2020 and 2019 totaled $684,164,470 and $353,530,732, respectively. The Company uses the same credit policies in making loans held for sale as it does for on-balance-sheet instruments. Sales commitments are to sell loans at an agreed upon price and are generally funded within 60 days.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law, which established the Paycheck Protection Program (PPP). Under the program, the Small Business Administration (SBA) will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for paycheck and other permitted purposes in accordance with the requirements of the program. These loans carry a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. The loans are 100% guaranteed by the SBA and as long as the borrower submits its loan forgiveness application within ten months of completion of the covered period, the borrower is not required to make any payments until the forgiveness amount is remitted to the lender by the SBA. Institutions participating in the program received a processing fee ranging from 1% to 5% based on the size of the loan from the SBA.

The Company elected to participate in the PPP in order to provide assistance to customers during the pandemic, processing 186 loans for a total of $30.2 million and receiving SBA lender fee income of $1.1 million. Recognizing the operational risk and complexity associated with the PPP portfolio, management made the determination that it was in the best interests of both the Company and our borrowers to sell the PPP portfolio and allow an organization with the appropriate servicing infrastructure to service these loans. The loan sale also allowed the Company to focus on proactively monitoring and addressing credit risk brought on by the pandemic. The Company completed the sale of the PPP portfolio to The Loan Source Inc., together with its servicing partner, ACAP SME LLC, on August 28, 2020. At the time of sale, the Company immediately recognized the gross lender fee of $1.1 million in loan interest income and a loss on sale of $453 thousand in other noninterest expense within the consolidated statements of operations.

Note 4. Loans and Allowance for Loan Losses, Continued

The CARES Act also amended GAAP with respect to the modification of loans to borrowers affected by the COVID-19 pandemic. Among other criteria, this guidance provided that short-term loan modifications made on a good faith basis to borrowers who were current as defined under the CARES Act prior to any relief, are not TDRs. This includes short-term (e.g. six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. To qualify as an eligible loan under the CARES Act, a loan modification must be 1) related to COVID-19; 2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and 3) executed between March 1, 2020, and the earlier of a) 60 days after the date of termination of the national emergency by the President or b) December 31, 2020. On April 7, 2020, the federal banking regulators issued a revised interagency statement on loan modifications and the reporting for financial institutions working with customers affected by the COVID-19 pandemic (Interagency Statement). The Interagency Statement confirmed that COVID-19 related short-term loan modifications (e.g., payment deferrals of six months or less) provided to borrowers that were current (less than 30 days past due) at the time the relief was granted are not TDR loans. Borrowers that do not meet the criteria in the CARES Act or the Interagency Statement are assessed for TDR loan classification in accordance with the Company’s accounting policies. Beginning in March 2020, the Company provided payment accommodations to customers, consisting of payment extensions of up to 60 days to borrowers negatively impacted by COVID-19. During the year ended December 31, 2020, the Company processed principal deferments on approximately 800 loans. These loans had an aggregate remaining loan balance of $73.4 million as of December 31, 2020. These principal deferments represent 15% of the Company’s total loan portfolio as of December 31, 2020. Borrowers who were current prior to relief and not experiencing financial difficulty prior to COVID-19 were determined not to be considered TDRs. Of the loans that received payment accommodations, four remain in deferral as of December 31, 2020 with a balance of approximately $7.1 million.

The following is an analysis of the allowance for loan losses by class of loans for the years ended December 31, 2020 and 2019:

	December 31, 2020						
		Real Estate Loans			Total	Commercial	
	Total	Construction	Residential	Non-Residential	Real Estate Loans	and Industrial	Consumer and Other
Beginning balance	$ 3,529,855	$ 180,858	$ 696,519	$ 1,246,014	$ 2,123,391	$ 535,448	$ 871,016
Provisions	2,908,000	199,707	805,839	1,010,600	2,016,146	345,067	546,787
Recoveries	473,426	110,500	75,200	94,499	280,199	142,343	50,884
Charge-offs	(738,304)	-	(29,924)	-	(29,924)	(327,708)	(380,672)
Ending balance	$ 6,172,977	$ 491,065	$ 1,547,634	$ 2,351,113	$ 4,389,812	$ 695,150	$ 1,088,015

	December 31, 2019						
		Real Estate Loans			Total	Commercial	
	Total	Construction	Residential	Non-Residential	Real Estate Loans	and Industrial	Consumer and Other
Beginning balance	$ 2,788,188	$ 83,200	$ 1,049,913	$ 676,598	$ 1,809,711	$ 359,919	$ 618,558
Provisions	983,803	(20,826)	(413,291)	569,416	135,299	167,541	680,963
Recoveries	321,714	118,484	114,281	-	232,765	26,508	62,441
Charge-offs	(563,850)	-	(54,384)	-	(54,384)	(18,520)	(490,946)
Ending balance	$ 3,529,855	$ 180,858	$ 696,519	$ 1,246,014	$ 2,123,391	$ 535,448	$ 871,016

Note 4. Loans and Allowance for Loan Losses, Continued

The following is a summary of loans evaluated for impairment individually and collectively, by class, for the years ended December 31, 2020 and 2019:

December 31, 2020		Real Estate Loans					
	Total	Construction	Residential	Non-Residential	Total Real Estate Loans	Commercial and Industrial	Consumer and Other
Allowance							
Evaluated for impairment							
Individually	$ 96,485	$ -	$ -	$ -	$ -	$ 66,676	$ 29,809
Collectively	6,076,492	491,065	1,547,634	2,351,113	4,389,812	628,474	1,058,206
Allowance for loan losses	$ 6,172,977	$ 491,065	$ 1,547,634	$ 2,351,113	$ 4,389,812	$ 695,150	$ 1,088,015
Total Loans							
Evaluated for impairment							
Individually	$ 15,442,289	$ 2,958,255	$ 1,193,719	$ 1,406,832	$ 5,558,806	$ 9,566,582	$ 316,901
Collectively	462,525,345	40,032,549	121,375,849	185,660,756	347,069,154	47,946,742	67,509,449
Loans receivable	$ 477,967,634	$ 42,990,804	$ 122,569,568	$ 187,067,588	$ 352,627,960	$ 57,513,324	$ 67,826,350

December 31, 2019		Real Estate Loans					
	Total	Construction	Residential	Non-Residential	Total Real Estate Loans	Commercial and Industrial	Consumer and Other
Allowance							
Evaluated for impairment							
Individually	$ 27,273	$ -	$ -	$ 24,375	$ 24,375	$ 2,837	$ 61
Collectively	3,502,582	180,858	696,519	1,221,639	2,099,016	532,611	870,955
Allowance for loan losses	$ 3,529,855	$ 180,858	$ 696,519	$ 1,246,014	$ 2,123,391	$ 535,448	$ 871,016
Total Loans							
Evaluated for impairment							
Individually	$ 4,370,202	$ -	$ 2,478,331	$ 1,652,395	$ 4,130,726	$ 115,524	$ 123,952
Collectively	475,815,193	41,246,207	126,609,494	169,496,498	337,352,199	58,324,275	80,138,719
Loans receivable	$ 480,185,395	$ 41,246,207	$ 129,087,825	$ 171,148,893	$ 341,482,925	$ 58,439,799	$ 80,262,671

Note 4. Loans and Allowance for Loan Losses, Continued

The following summarizes the Company's impaired loans as of December 31, 2020:

	Recorded Investment	Unpaid Principal	Related Allowance	Average Balance	Interest Income Recognized
With no related allowance recorded:					
Real estate loans					
Construction	$ 2,958,255	$ 2,958,255	$ -	$ 2,969,253	$ 155,098
Residential	1,193,719	1,440,907	-	1,226,973	82,092
Nonresidential	1,406,832	1,426,983	-	1,437,667	91,690
Total real estate loans	5,558,806	5,826,145	-	5,633,893	328,880
Commercial and industrial	5,654,707	5,654,707	-	5,494,786	142,007
Consumer and other	196,441	232,577	-	251,497	19,461
Total	$ 11,409,954	$ 11,713,429	$ -	$ 11,380,176	$ 490,348
With an allowance recorded:					
Commercial and industrial	$ 3,911,875	$ 3,911,875	$ 66,676	$ 2,977,750	$ 55,358
Consumer and other	120,460	159,893	29,809	141,768	11,105
Total	$ 4,032,335	$ 4,071,768	$ 96,485	$ 3,119,518	$ 66,463
Total					
Real estate loans					
Construction	$ 2,958,255	$ 2,958,255	$ -	$ 2,969,253	$ 155,098
Residential	1,193,719	1,440,907	-	1,226,973	82,092
Nonresidential	1,406,832	1,426,983	-	1,437,667	91,690
Total real estate loans	5,558,806	5,826,145	-	5,633,893	328,880
Commercial and industrial	9,566,582	9,566,582	66,676	8,472,536	197,365
Consumer and other	316,901	392,470	29,809	393,265	30,566
Total	$ 15,442,289	$ 15,785,197	$ 96,485	$ 14,499,694	$ 556,811

Note 4. Loans and Allowance for Loan Losses, Continued

The following summarizes the Company's impaired loans as of December 31, 2019:

	Recorded Investment	Unpaid Principal	Related Allowance	Average Balance	Interest Income Recognized
With no related allowance recorded:					
Real estate loans					
Residential	$ 2,478,331	$ 2,478,331	$	$ 2,561,287	$ 152,256
Nonresidential	1,559,820	1,559,821	-	1,881,542	130,091
Total real estate loans	4,038,151	4,038,152	-	4,442,829	282,347
Commercial and industrial	91,407	168,849	-	137,562	9,396
Consumer and other	98,047	128,458	-	133,031	11,062
Total	$ 4,227,605	$ 4,335,459	$ -	$ 4,713,422	$ 302,805
With an allowance recorded:					
Nonresidential	$ 92,575	$ 92,575	$ 24,375	$ 96,008	$ 6,848
Total real estate loans	92,575	92,575	24,375	96,008	6,848
Commercial and industrial	24,117	24,117	2,837	25,042	1,840
Consumer and other	25,905	25,905	61	28,164	1,427
Total	$ 142,597	$ 142,597	$ 27,273	$ 149,214	$ 10,115
Total					
Real estate loans					
Residential	$ 2,478,331	$ 2,478,331	$ -	$ 2,561,287	$ 152,256
Nonresidential	1,652,395	1,652,396	24,375	1,977,550	136,939
Total real estate loans	4,130,726	4,130,727	24,375	4,538,837	289,195
Commercial and industrial	115,524	192,966	2,837	162,604	11,236
Consumer and other	123,952	154,363	61	161,195	12,489
Total	$ 4,370,202	$ 4,478,056	$ 27,273	$ 4,862,636	$ 312,920

The following is an aging analysis of the Company's loan portfolio at December 31, 2020:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Past Due > 90 Days and Accruing
Real estate loans							
Construction	$ -	$ -	$ -	$ -	$42,990,804	$ 42,990,804	$ -
Residential	-	-	452,012	452,012	122,117,556	122,569,568	-
Nonresidential	-	-	-	-	187,067,588	187,067,588	-
Total real estate loans	-	-	452,012	452,012	352,175,948	352,627,960	-
Consumer and industrial	1,310	-	-	1,310	57,512,014	57,513,324	-
Consumer and other	64,675	35,070	-	99,745	67,726,605	67,826,350	-
Total	$ 65,985	$ 35,070	$ 452,012	$ 553,067	$477,414,567	$ 477,967,634	$ -

Note 4. Loans and Allowance for Loan Losses, Continued

The following is an aging analysis of the Company's loan portfolio at December 31, 2019:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Past Due > 90 Days and Accruing
Real estate loans							
Construction	$ -	$ -	$ -	$ -	$ 41,246,207	$ 41,246,207	$ -
Residential	-	-	399,746	399,746	128,688,079	129,087,825	-
Nonresidential	156,322	-	-	156,322	170,992,571	171,148,893	-
Total real estate loans	156,322	-	399,746	556,068	340,926,857	341,482,925	-
Consumer and industrial	-	-	12,244	12,244	58,427,555	58,439,799	6,294
Consumer and other	148,559	12,171	110,310	271,040	79,991,631	80,262,671	49,672
Total	$ 304,881	$ 12,171	$ 522,300	$ 839,352	$479,346,043	$ 480,185,395	$ 55,966

The following is an analysis of the Company's nonaccrual loan portfolio recorded at December 31, 2020 and 2019:

	2020	2019
Real estate loans		
Residential	$ 604,028	$ 590,561
Nonresidential	478,311	517,639
Total real estate loans	1,082,339	1,108,200
Commercial and industrial	-	39,438
Consumer and other	284,474	328,183
	$ 1,366,813	$ 1,475,821

Troubled Debt Restructurings

The following table summarizes the carrying balance of troubled debt restructurings ("TDRs") as of December 31, 2020 and 2019:

	2020	2019
Performing TDRs	$ 1,584,364	$ 2,469,036
Nonperforming TDRs	269,752	1,462,960
Total TDRs	$ 1,854,116	$ 3,931,996

Loans classified as TDRs may be removed from this status for disclosure purposes after a specified period of time if the TDR is subsequently restructured, and the newly restructured agreement specifies an interest rate equal to or greater than the rate that the lender was willing to accept at the time of the restructuring for a new loan with comparable risk, the loan is performing in accordance with the terms specified by the restructured agreement, and certain other criteria are met.

Note 4. Loans and Allowance for Loan Losses, Continued

The following is an analysis of TDRs identified during 2020:

	For the year ended December 31, 2020		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans			
Residential	1	$ 45,998	$ 45,998
Consumer and other	3	25,322	25,322
	4	$ 71,320	$ 71,320

During the year ended December 31, 2020, the Company modified four loans that were considered to be TDRs. One loan was designated as a TDR due to a rate concession while two loans were designated as TDRs due to reduced monthly payments. The fourth loan was restructured due to borrower's inability to obtain financing elsewhere. During the year ended December 31, 2020, no loans that had been restructured during the previous twelve months subsequently defaulted during the year.

The following is an analysis of TDRs identified during 2019:

	For the year ended December 31, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans			
Residential	1	$ 24,151	$ 24,151
Nonresidential	1	494,423	494,423
Commercial and industrial	1	24,117	24,117
Consumer and other	4	48,102	48,102
	7	$ 590,793	$ 590,793

During the year ended December 31, 2019, the Company modified seven loans that were considered to be troubled debt restructurings. The Company provided rate and term concessions for four of these loans due to bankruptcies and the other three loans were restructured due to borrower's inability to obtain financing elsewhere. During the year ended December 31, 2019, no loans that had been restructured during the previous twelve months subsequently defaulted during the year.

Note 4. Loans and Allowance for Loan Losses, Continued

Credit Quality Indicators

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, including, among other factors: current financial information, historical payment experience, credit documentation, public information, and current economic trends. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention - Loans classified as special mention have a potential weakness that deserves managements close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

The following table lists the loan guides used by the Bank as credit quality indicators and the balance in each category at December 31, 2020:

		Real Estate Loans			Total		
	Total	Construction	Residential	Non-Residential	Real Estate Loans	Commercial	Consumer and Other
Pass	$ 457,040,770	$ 40,032,549	$ 120,977,789	$ 182,497,975	$ 343,508,313	$ 46,423,452	$ 67,109,005
Special mention	16,636,289	2,371,296	907,703	2,285,824	5,564,823	10,619,298	452,168
Substandard	4,290,575	586,959	684,076	2,283,789	3,554,824	470,574	265,177
Doubtful	-	-	-	-	-	-	-
Total	$ 477,967,634	$ 42,990,804	$ 122,569,568	$ 187,067,588	$ 352,627,960	$ 57,513,324	$ 67,826,350

The following table lists the loan guides used by the Bank as credit quality indicators and the balance in each category at December 31, 2019:

		Real Estate Loans			Total		
	Total	Construction	Residential	Non-Residential	Real Estate Loans	Commercial	Consumer and Other
Pass	$ 464,643,034	$ 40,308,707	$ 125,951,550	$ 162,804,795	$ 329,065,052	$ 56,150,250	$ 79,427,732
Special mention	11,998,802	937,500	2,166,887	6,537,595	9,641,982	1,860,727	496,093
Substandard	3,543,559	-	969,388	1,806,503	2,775,891	428,822	338,846
Doubtful	-	-	-	-	-	-	-
Total	$ 480,185,395	$ 41,246,207	$ 129,087,825	$ 171,148,893	$ 341,482,925	$ 58,439,799	$ 80,262,671

Note 4. Loans and Allowance for Loan Losses, Continued

The Company enters into financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. 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. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities.

Collateral held for commitments to extend credit and standby letters of credit varies but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties.

The following table summarizes the Company's off-balance sheet financial instruments whose contract amounts represent credit risk for the years ended December 31:

	2020	2019
Commitments to extend credit	$ 77,324,283	$ 92,921,655
Standby letters of credit	163,321	589,196

<u>Acquired Loans:</u>

Loans acquired through acquisitions are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. Discounts on loans that are not considered impaired at acquisition are recorded as an accretable discount and are accreted into interest income over the terms of the related loans. The remaining balance of acquired non-PCI loans was $9.7 million and $14.8 million with remaining accretable yield of $163 thousand and $231 thousand at December 31, 2020 and 2019, respectively. For acquired loans that are considered impaired at the time of acquisition (PCI), the difference between the contractually required payments and expected cash flows is recorded as a nonaccretable discount.

The following table presents changes in the carrying value of PCI loans for the years ended December 31, 2020 and 2019:

	2020	2019
Balance at beginning of period	$ 9,113,965	$ 14,666,715
Change due to payments received and accretion	(3,837,432)	(5,646,148)
Advances	31,039	93,398
Balance at end of period	$ 5,307,572	$ 9,113,965

Note 4. Loans and Allowance for Loan Losses, Continued

The following table presents changes in the nonaccretable yield for PCI loans for the year ended December 31, 2020 and 2019:

	2020	2019
Balance at beginning of period	$ 491,373	$ 1,048,796
Reclassification to accretable yield	(29,039)	(95,494)
Change due to recoveries (charge-offs)	14,613	(461,929)
Balance at end of period	$ 476,947	$ 491,373

The following table presents changes in the accretable yield for PCI loans for the year ended December 31, 2020 and 2019:

	2020	2019
Balance at beginning of period	$ 561,088	$ 618,281
Reclassification from nonaccretable yield	29,039	95,494
Accretion, net cash basis interest collections	(217,834)	(152,687)
Balance at end of period	$ 372,293	$ 561,088

The Company did not include acquired loans within the calculation of allowance for loan losses as of December 31, 2020 and 2019, as the remaining discount was in excess of calculated allowance on those loans.

Note 5. Premises, Furniture and Equipment

Premises, furniture and equipment consisted of the following for the years ended December 31:

	2020	2019
Land	$ 6,732,700	$ 7,951,239
Buildings	14,892,869	14,822,259
Leasehold improvements	1,359,978	1,630,762
Furniture and equipment	9,732,384	9,464,291
Construction in progress	863,228	1,062,491
Total	33,581,159	34,931,042
Less, accumulated depreciation	(15,090,611)	(14,510,536)
Premises and equipment, net	$ 18,490,548	$ 20,420,506

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to $811,654 and $814,612, respectively.

At December 31, 2020 and 2019, construction in progress consists mainly of architect fees and site work for potential new branches. As of December 31, 2020, there were no material commitments outstanding for the construction or purchase of premises, furniture and equipment.

Note 6. Other Real Estate Owned

Transactions in other real estate owned for the years ended December 31, 2020 and 2019 are summarized below:

	2020	2019
Beginning balance	$ 347,552	$ 341,519
Additions	44,722	183,257
Sales	(227,979)	(176,724)
Write downs	-	(500)
Ending balance	$ 164,295	$ 347,552

The Company recognized net gains of $62,027 and $27,676 on the sale of other real estate owned for the years ended December 31, 2020 and 2019, respectively, which are recorded within other noninterest expense.

Note 7. Mortgage Servicing Rights

The Company retains the right to service the residential mortgage loans that it sells to the Federal National Mortgage Association (“FNMA”) and Freddie Mac (“FHLMC”) and recognizes those rights as an asset on the consolidated balance sheets.

The Company’s servicing assets are initially measured at fair value and are subsequently measured using either the fair value method or the amortization method, depending on the asset class, which has been determined to be vintage (or loan origination) year. Vintage year classes prior to 2020 are measured using the fair value method while the 2020 vintage year class is measured using the amortization method. MSRs accounted for under the amortization method are subsequently accounted for at lower of cost or fair value, net of accumulated amortization, which is recorded in proportion to, and over the period of, net servicing income. The Company has entered into a derivative contract to manage the risk associated with changes in the value of the MSR portfolio accounted for under the fair value method (see Note 8). Any changes in fair value during the period for MSRs carried under the fair value method, as well as amortization and impairment of MSRs under the amortization method, are recorded in mortgage banking income in the consolidated statements of operations.

The following table presents the activity for MSRs accounted for using the amortization method for the year ended December 31, 2020:

	2020
Balances, beginning of year	$ -
Amount capitalized	7,024,346
Amount amortized	(666,646)
Balances, end of year	$ 6,357,700

Note 7. Mortgage Servicing Rights, Continued

The following table presents the activity for MSRs accounted for using the fair value method for the year ended December 31, 2020:

		2020
Balances, beginning of year	$	11,022,638
Changes in fair value (1)		(2,754,902)
Changes in unpaid principal balance (2)		(2,604,824)
Balances, end of year	$	5,662,912

(1) Represents changes in value primarily due to market driven changes in interest rates and prepayment speeds.
(2) Represents changes in value of the MSRs due to i) passage of time, including the impact from both regularly scheduled loan principal payments and partial paydowns, and ii) loans that paid off fully during the period.

The fair value of MSRs is highly sensitive to changes in assumptions and fair value is determined by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates and other assumptions validated through comparison to trade information, industry surveys and with the use of independent third party appraisals. Changes in prepayment speed assumptions have the most significant impact on the fair value of MSRs. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of the MSRs. Measurement of fair value is limited to the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time.

At December 31, 2020, the aggregate amount of loans serviced by the Company for the benefit of others totaled $1.2 billion.

The characteristics and sensitivity analysis of the MSRs are included in the following table as of December 31, 2020 and 2019.

	2020	2019
Composition of residential loans serviced for others		
Fixed-rate mortgage loans	100.00%	100.00%
Weighted average expected life	6.5 years	7.4 years
Constant prepayment rate ("CPR")	10.30%	9.00%
Weighted average discount rate	8.54%	8.56%

Note 8. Derivatives

The derivative positions of the Company for the years ended December 31, 2020 and 2019 are reported as other assets and liabilities and are as follows:

	2020		2019	
Derivative assets (liabilities):	Fair value	Notional value	Fair value	Notional value
Mortgage loan interest rate lock commitments	$ 2,998,327	$ 75,722,217	$ 713,496	$ 19,895,637
Mortgage loan forward sales commitments	(391,563)	62,000,000	(49,453)	18,000,000
U.S. Treasury futures contracts	10,406	9,647,875	-	-

The Company uses derivatives to reduce interest rate risk incurred as a result of market movements. These derivatives primarily consist of mortgage loan interest rate lock commitments. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or reference interest rate. The Company uses derivatives primarily to minimize interest rate risk related to its pipeline of loan interest rate lock commitments issued on residential mortgage loans in the process of origination for sale or loans held for sale. The Company also uses derivatives to minimize interest rate risk associated with mortgage servicing rights. The Company's derivative positions are classified as trading assets and liabilities, and as such, the changes in the fair market value of the derivative positions are recognized in the consolidated statements of operations within mortgage banking income.

Note 9. Core Deposit Intangible

The following table presents information about our intangible assets as of December 31:

	2020		2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	$ 880,000	$ 513,546	$ 880,000	$ 366,965

Based on the core deposit intangibles as of December 31, 2020, the following table presents the aggregate amortization expense for each of the succeeding years ending December 31:

	Amount
2021	$ 121,980
2022	97,379
2023	72,778
2024	48,177
2025 and thereafter	26,140
Total	$ 366,454

Note 9. Core Deposit Intangible, Continued

Amortization expense of $146,581 and $171,182 related to the core deposit intangibles was recognized in 2020 and 2019, respectively, and recorded within other noninterest expense.

Note 10. Deposits

At December 31, 2020, the scheduled maturities of time deposits were as follows:

Maturing In:		**Amount**
2021	$	129,026,905
2022		7,457,950
2023		995,938
2024		1,476,514
2025		474,496
Total	$	139,431,803

Included in total time deposits at December 31, 2020 were brokered time deposits of $10,021,000. There were no brokered time deposits outstanding at December 31, 2019. Interest expense on time deposits that meet or exceed the FDIC insurance limit of $250,000 was $741,136 and $1,430,128 for the years ended December 31, 2020 and 2019, respectively.

Note 11. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature on a one to thirty day basis. Under the terms of the repurchase agreement, the Company sells an interest in securities issued by United States Government agencies and agrees to repurchase the same securities the following business day. Information concerning securities sold under agreements to repurchase is summarized as follows at December 31:

	2020	**2019**
Balance at December 31	$ 5,522,872	$ 14,637,332
Maximum month-end balance during the year	15,104,284	15,778,316
Average balance during the year	6,262,461	13,301,943
Average interest rate at the end of the year	0.15%	0.51%
Average interest rate during the year	0.19%	0.56%

At December 31, 2020 and 2019, investment securities with a par value of $6,533,893 and $14,832,908 and a fair market value of $6,886,132 and $15,103,164, respectively, were pledged as collateral for the underlying agreements.

Note 12. Federal Home Loan Bank Advances

Federal Home Loan Bank advances consisted of the following at December 31:

	Interest Rate	2020	2019
Fixed rate			
February 7, 2020	2.76%	-	3,300,000
October 25, 2020	1.34%	-	5,000,000
January 27, 2020	1.80%	-	5,000,000
September 20, 2029	1.62%	10,000,000	10,000,000
Daily rate			
January 17, 2020	1.78%	-	20,000,000
		$ 10,000,000	$ 43,300,000

At December 31, 2020 and 2019, the Company has pledged certain loans totaling $188,432,001 and $183,459,356, respectively, as collateral to secure its borrowings from the FHLB. Additionally, the Company's FHLB stock is pledged to secure the borrowings.

Note 13. Junior Subordinated Debentures

On June 30, 2005, the Trust (a non-consolidated subsidiary) issued $10,000,000 in trust preferred securities (callable without penalty) with a maturity of November 23, 2035. Interest on these securities is payable quarterly at the three-month LIBOR rate plus 1.83%. In accordance with generally accepted accounting principles, the Trust has not been consolidated in these financial statements. The Company received from the trust the $10,000,000 proceeds from the issuance of the securities and the $310,000 initial proceeds from the capital investment in the Trust, and accordingly has shown the funds due to the trust as $10,310,000 junior subordinated debentures. Current regulations allow the entire amount of junior subordinated debentures to be included in the calculation of regulatory capital. As of December 31, 2020 and 2019, the Company had accrued and unpaid interest totaling $22,806 and $40,237, respectively.

Note 14. Borrowings

On August 5, 2016, the Company entered into subordinated debt agreements with eight financial institutions totaling $5,000,000. The debt initially bears interest at a fixed rate of 7.00% per annum until August 1, 2021 and then variable at three-month LIBOR plus 5.86%, payable quarterly with principal and unpaid interest due at maturity, August 5, 2026. The Company recorded $111,450 in issuance costs associated with the subordinated debt, which is recorded net within subordinated debentures and to be amortized over five years. As of December 31, 2020, remaining issuance costs to be amortized totaled $13,003.

On June 2, 2020, the Company entered into subordinated debt agreements with eight financial institutions totaling $5,500,000. The debt initially bears interest at a fixed rate of 5.875% per annum until June 1, 2025 and then variable at three-month SOFR plus 5.51%, payable quarterly with principal and unpaid interest due at maturity, June 1, 2030.

Note 15. Shareholders' Equity

Common Stock - The following is a summary of the changes in common stock outstanding for the years ended December 31, 2020 and 2019.

	2020	2019
Common shares outstanding at beginning of the period	8,444,078	8,412,671
Conversion of Series D preferred stock to common stock	1,300	850
Restricted stock issued	148,000	90,000
Additional shares granted	42,178	40,557
Forfeiture of restricted shares	(71,500)	(100,000)
Common shares outstanding at end of the period	8,564,056	8,444,078

Preferred Stock - The Company's Articles of Incorporation authorizes the issuance of a class of 10,000,000 shares of preferred stock, having no par value. Subject to certain conditions, the Company's Board of Directors is authorized to issue preferred stock without shareholder approval. Under the Articles of Incorporation, the Board of Directors is authorized to determine the terms of one or more series of preferred stock, including the preferences, rights, and limitations of each series.

On March 6, 2009, the Company completed a transaction with the United States Treasury (the "Treasury") under the Troubled Asset Relief Program Capital Purchase Program, whereby the Company sold 15,349 shares of its Series A Cumulative Perpetual Preferred Stock (the "Series A Shares") to the Treasury. In addition, the Treasury received a warrant to purchase 767 shares of the Company's Series B Cumulative Perpetual Preferred Stock (the "Series B Shares"), which was immediately exercised for a nominal exercise price. The preferred shares issued to the Treasury qualify as Tier 1 capital for regulatory purposes. On March 1, 2013, the Treasury auctioned the subject securities in a private transaction with unaffiliated third-party investors.

The Series A Preferred Stock was a senior cumulative perpetual preferred stock that had a liquidation preference of $1,000 per share, paid cumulative dividends at a rate of 5% per year (approximately $767,000 annually) for the first five years and beginning May 15, 2014, at a rate of 9% per year (approximately $1,381,000 annually). Dividends were payable quarterly. At any time, the Company could, at its option and with regulatory approval, redeem the Series A Preferred Stock at par value plus accrued and unpaid dividends. The Series A Preferred Stock was generally non-voting.

The Series B Preferred Stock was a cumulative perpetual preferred stock that had the same rights, preferences, privileges, voting rights and other terms as the Series A Preferred Stock, except that dividends were to be paid at the rate of 9% per year so long as the Series A Preferred Stock was outstanding and could not be redeemed until all the Series A Preferred Stock had been redeemed. The Series A and Series B Preferred Shares would received preferential treatment in the event of liquidation, dissolution or winding up of the Company.

The net amount of the accretion and amortization was treated as a deemed dividend to preferred shareholders in the computation of income per share.

During 2016, the Company redeemed both Series A and Series B Preferred Stock outstanding totaling $15,179,709 and $767,000, respectively. The preferred stock was repaid through borrowings obtained as described in Note 15.

Note 15. Shareholders' Equity, Continued

The Series D Preferred Stock ("Series D Shares") is a fixed rate non-cumulative perpetual preferred stock, created July 16, 2015, with the authorized issuance of 70,000 shares. The Series D shares were created for the purpose of converting Common Stock holders with 200 shares or less to Series D Shares. The Series D Shares have no voting rights, and in the event dividends are declared on Common Stock, will be entitled to 4% more than those paid on the Common Stock. Series D Shares will, with respect to ranking to include but not limited to dividends and rights upon liquidation, be senior to all Common Stock.

On September 22, 2017, the Company issued 410,499 shares of Series E Preferred Stock ("Series E Shares"). The Series E Shares were created in conjunction with the 2017 common stock issuance. The Series E Shares have no voting rights, and are entitled to receive dividends as declared in the same per share amount as common stock. During 2018, the Series E Shares were converted to 410,499 shares of non-voting common stock.

Restrictions on Shareholders' Equity - South Carolina banking regulations restrict the amount of dividends that can be paid to shareholders. All of the Bank's dividends to the Company are payable only from the undivided profits of the Bank. At December 31, 2020, the Bank had undivided profits of $29,772,235. The Bank is authorized to dividend 100% of net income in any calendar year without obtaining the prior approval of the South Carolina Commissioner of Banks provided that the Bank received a composite CAMELS rating of one or two at the last Federal or State regulatory examination. Under Federal Reserve regulations, the amounts of loans or advances from the Bank to the parent company are also restricted.

Note 16. Other Operating Expense

Other operating expenses are summarized below for the years ended December 31:

	2020	2019
Advertising	$ 245,155	$ 200,187
Office supplies, postage and printing	357,998	322,021
Telephone	383,821	313,198
Professional fees and services	1,329,688	1,339,913
Supervisory fees and assessments	386,748	164,890
Debit and credit card expenses	866,432	925,883
Insurance expenses	221,830	215,072
Net cost of other real estate owned	2,582	11,549
Core deposit amortization	146,581	171,182
Directors' fees	364,508	385,507
Other	2,313,328	1,656,882
Total	$ 6,618,671	$ 5,706,284

Note 17. Income Taxes

Income tax provision for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020	2019
Provision		
Current income tax expense		
Federal	$ -	$ -
State	426,940	232,536
Total current	426,940	232,536
Deferred income tax expense (benefit)		
Federal	2,851,747	1,005,350
State	(70,525)	(56,175)
Total deferred	2,781,222	949,175
Change in valuation allowance	70,525	71,522
Total income tax expense	$ 3,278,687	$ 1,253,233

The components of deferred tax assets and deferred tax liabilities as of December 31, are as follows:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 1,151,938	$ 596,882
Accumulated depreciation	15,373	-
Net operating losses	5,456,175	8,292,928
Non-accrual interest	14,183	12,893
Deferred compensation	714,532	589,609
Purchase accounting on acquisition	130,976	163,668
Leases	15,336	6,758
Other	185,633	129,225
Gross deferred tax assets	7,684,146	9,791,963
Less, valuation allowance	(697,480)	(626,955)
Net deferred tax assets	6,986,666	9,165,008
Deferred tax liabilities:		
Accumulated depreciation	-	14,779
Prepaid expenses	19,552	21,547
Unrealized gains on securities available for sale	374,603	98,715
Mark to market adjustments	3,071,748	2,387,453
Other	68,758	62,874
Total gross deferred tax liabilities	3,534,661	2,585,368
Net deferred tax assets recognized	$ 3,452,005	$ 6,579,640

Note 17. Income Taxes, Continued

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the net deferred tax assets to net realizable value. As of December 31, 2020, management has determined that it is more likely than not that the majority of the deferred tax asset from continuing operations will be realized. In 2020, the balance in the valuation allowance changed by $70,525. The remaining valuation allowance relates to the parent company's state operating loss carryforwards for which realizability is uncertain.

The Company has federal net operating losses of $22,855,995 and $36,630,028 for the years ended December 31, 2020 and 2019, respectively. Net operating losses of $10,799,997 expire at various times from 2025-2037, with the remainder having no expiration date. The Company's ability to benefit from the use of net operating loss carryforwards of $15,190,367 is limited annually under Section 382 of the Internal Revenue Code. The Company has state net operating losses of $16,618,136 and $15,205,628 for the years ended December 31, 2020 and 2019, respectively. These net operating losses expire at various times from 2022-2037.

A reconciliation between the income tax expense and the amount computed by applying the federal statutory rate of 21% to income before income taxes for the years ended December 31, 2020 and 2019 follows:

	2020	2019
Tax expense at statutory rate	$ 2,917,916	$ 1,121,835
State income tax expense, net of federal income tax benefit	281,568	139,325
Tax-exempt interest income	(28,420)	(28,525)
Disallowed interest expense	1,831	1,393
Life insurance surrender value	(85,982)	(81,075)
Change in valuation allowance	70,525	71,522
Other, net	121,249	28,758
Total	$ 3,278,687	$ 1,253,233

The Company had analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions. Tax returns for 2017 and subsequent years are subject to review by taxing authorities.

Note 18. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families and business interests) are loan customers of the Company. In compliance with relevant law and regulations, the Company's related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the lender and do not involve more than the normal risk of collectability. As of December 31, 2020 and 2019, the Company had related party loans totaling $1,643,783 and $1,318,435, respectively.

Deposits from directors and executive officers and their related interests totaled $2,778,595 and $2,599,318 at December 31, 2020 and 2019, respectively.

Note 19. Commitments and Contingencies

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. At December 31, 2020, management and legal counsel are not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, that would be material to the consolidated financial statements.

Effective January 1, 2019, the Company adopted ASC 842 “Leases”. Currently, the Company has operating leases on ten of its facilities that are accounted for under this standard. At December 31, 2020 the Company had operating lease right of use asset of $5,360,111, and operating lease liability of $5,433,137.

Rental expense recorded under the leases for the years ended December 31, 2020 and 2019 was $1,038,459 and $1,028,736, respectively.

The weighted average remaining lease term as of December 31, 2020 is 9.76 years and the weighted average discount rate used is 3.08%. The following table shows future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2020:

2021	$	822,256
2022		724,518
2023		658,502
2024		672,153
2025		646,270
Thereafter		2,727,897
Total undiscounted lease payments		6,251,596
Less effect of discounting		(818,459)
Present value of estimate lease payments (lease liability)	$	5,433,137

Note 20. Equity Incentive Plan

The Company has adopted a 2017 Equity Incentive Plan (the “2017 Plan") under which an aggregate of 500,000 shares of common stock have been reserved for issuance. The maximum aggregate shares subject to options is restricted to 80,000 in any calendar year to any one participant. Options may be granted for a term of up to ten years from the effective date of the grant. The aggregate number of shares subject to awards of restricted stock is restricted to 50,000 in any calendar year to any one participant. The Company also has a Restricted Stock Reserve under which 540,000 shares of common stock have been reserved for issuance as restricted stock. The 2017 Plan and the Restricted Stock Reserve are referred to collectively as the “Plans.” At December 31, 2020, there were 433,379 stock awards available for grant under the Plans.

The Company can issue restricted shares as of the grant date either by the issuance of share certificate(s) evidencing restricted shares or by documenting the issuance in uncertificated or book entry form on the Company's stock records. Except as provided by the Plans, the employee does not have the right to make or permit to exist any transfer or hypothecation of any restricted shares. When restricted shares vest, the employee must either pay the Company within two business days the amount of all tax withholding obligations imposed on the Company or make an election pursuant to Section 83(b) of the Internal Revenue Code to pay taxes at grant date.

Note 20. Equity Incentive Plan, Continued

Restricted shares may be subject to one or more employment, performance, or other conditions established at the time of grant. Under the terms of the Plans, the restricted shares will vest completely based on the individual grant's vesting period, which is between three and ten years. The shares are forfeited entirely if the participant terminates employment for any reason other than changes in control or death or disability. Any shares of restricted stock that are forfeited will again become available for issuance under the Plans. An employee or director has the right to vote the shares of restricted stock after grant until they are forfeited. Compensation cost for restricted stock is equal to the market value of the shares at the date of the award and is amortized to compensation expense over the vesting period. Dividends, if any, will be paid on awarded but unvested stock.

Nonvested restricted stock for the years ended December 31, 2020 and 2019 is summarized in the following table.

	2020		2019	
	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1	358,176	$ 5.06	379,838	$ 5.14
Granted	148,000	6.15	90,000	7.64
Vested	(11,662)	6.60	(11,662)	6.60
Forfeited	(71,500)	6.01	(100,000)	7.50
Nonvested at December 31	423,014	$ 5.24	358,176	5.06

The vesting schedule for these shares as of December 31, 2020 is as follows:

	Shares
2021	$ 153,666
2022	19,667
2023	41,681
2024	72,000
2025 and thereafter	136,000
Total	$ 423,014

The Company recognized stock-based compensation costs related to restricted stock of $353,396 and $225,165 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, there was $1,505,331 of total unrecognized compensation cost related to the nonvested restricted stock that will be recognized over the remainder of their vesting schedule.

Note 20. Equity Incentive Plan, Continued

No stock options were granted during the years ended December 31, 2020 and 2019. Activity related to stock options is summarized in the following table.

	Options	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price
Outstanding at December 31, 2019	200,000	3.80	$ 7.27
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2020	200,000	2.80	7.27
Options exercisable as of December 31, 2020	105,808	2.78	7.25

The Company recognized stock-based compensation costs related to stock options of $58,845 and $58,684 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, there was $190,139 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over the remainder of their vesting schedule.

Note 21. Income Per Common Share

Net income available to common shareholders represents net income adjusted for preferred dividends including dividends declared, accretions of discounts and amortization of premiums on preferred stock issuances and cumulative dividends related to the current dividend period that have not been declared as of period end.

The following is a summary of the income per common share calculations for the years ended December 31, 2020 and 2019.

	2020	2019
Income available to common shareholders		
Net income	$ 10,616,150	$ 4,088,839
Preferred stock dividends	-	-
Net income available to common shareholders	$ 10,616,150	$ 4,088,839
Basic income per common share:		
Net income available to common shareholders	$ 10,616,150	$ 4,088,839
Average common shares outstanding - basic	7,919,406	7,937,617
Basic income per common share	$ 1.34	$ 0.52

Note 21. Income Per Common Share, Continued

Diluted income per common share:		
Net income available to common shareholders	$ 10,616,150	$ 4,088,839
Average common shares outstanding - basic	7,919,406	7,937,617
Dilutive potential common shares	118,195	124,869
Average common shares outstanding - diluted	8,037,601	8,062,486
Diluted income per common share	$ 1.32	$ 0.51

Note 22. 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 adverse material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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 ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 ("CET1"), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common shareholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

The Bank is also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. The Bank is required to maintain a required minimum leverage ratio of 4%.

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act"), require the Bank to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank is required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of CET1, but the buffer applies to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer began to be phased in incrementally over time, beginning January 1, 2016 at 0.625% and was fully effective on January 1, 2019, consisting of an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets.

Note 22. Regulatory Matters, Continued

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements at December 31, 2020 and 2019.

(Dollars in Thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020						
The Bank						
Total capital (to risk-weighted assets)	$ 84,859	15.67%	$ 43,336	8.00%	$ 54,170	10.00%
Tier 1 capital (to risk-weighted assets)	78,672	14.52%	32,502	6.00%	43,336	8.00%
Tier 1 capital (to average assets)	78,672	10.31%	30,518	4.00%	38,148	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	78,672	14.52%	24,376	4.50%	35,210	6.50%
December 31, 2019						
The Bank						
Total capital (to risk-weighted assets)	$ 62,299	11.54%	$ 43,183	8.00%	$ 53,978	10.00%
Tier 1 capital (to risk-weighted assets)	58,752	10.88%	32,387	6.00%	43,183	8.00%
Tier 1 capital (to average assets)	58,752	9.23%	24,290	4.00%	35,086	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	58,752	10.88%	25,473	4.50%	31,841	6.50%

Note 23. Unused Lines of Credit

The Company had available at December 31, 2020 several unsecured lines of credit, which were unused, to purchase up to $39,000,000 of federal funds. Also, as of December 31, 2020, the Company had the ability to borrow funds from the FHLB of up to $151,800,337. At that date, $10,000,000 had been advanced.

Note 24. Fair Value Measurements

Generally accepted accounting principles ("GAAP") provide a framework for measuring and disclosing fair value that requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair value is defined as the exchange in price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or the writing down of individual assets.

Note 24. Fair Value Measurements, Continued

The following methods and assumptions were used to estimate the fair value of significant 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 the 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 the 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.

Securities Available-for-Sale and Marketable Equity Securities - Securities available-for-sale and marketable equity securities are recorded at fair value on a recurring basis. 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, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Mortgage Loans Held for Sale - Mortgage loans held for sale are comprised of loans originated for sale in the ordinary course of business. The fair value of mortgage loans originated for sale in the secondary market is based on purchase commitments or quoted prices for the same or similar loans and are classified as recurring Level 2.

Mortgage Servicing Rights – Fair Value Method - Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The assumptions used in the discounted cash flow model are those that market participants would use in estimating future net servicing income. Assumptions in the valuation of mortgage servicing rights may include estimated loan repayment rates, the discount rate, servicing costs, and the timing of cash flows, among other factors. The Company measures mortgage servicing rights accounted for using the fair value method as recurring Level 3.

Note 24. Fair Value Measurements, Continued

Derivatives - The Company's valuation techniques and inputs to internally-developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative's value is based. Key inputs can include yield curves, credit curves, foreign-exchange rates, prepayment rates, volatility measurements and correlation of such inputs. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified as Level 2 of the fair value hierarchy. Examples of derivatives classified as Level 2 include interest rate lock commitments written for our residential mortgage loans that we intend to sell. When instruments are traded in less liquid markets and significant inputs are unobservable, such derivatives are classified as Level 3. Additionally, significant judgments are required when classifying financial instruments within the fair value hierarchy, particularly between Level 2 and 3, as is the case for certain derivatives.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at December 31, 2020 and 2019.

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 10,107,992	$ -	$ 10,107,992	$ -
Municipal securities	4,214,462	-	4,214,462	-
Mortgage-backed securities	16,424,550	-	16,424,550	-
Corporate bonds	1,982,890	-	1,982,890	-
Total available-for-sale securities	32,729,894	-	32,729,894	-
Marketable equity securities	29,424	-	29,424	-
Mortgage loans held for sale	35,641,877	-	35,641,877	-
Mortgage servicing rights	5,662,912	-	-	5,662,912
Derivative assets (liabilities):				
Mortgage loan interest rate lock commitments	2,998,327	-	2,998,327	-
Mortgage loan forward sales commitments	(391,563)	-	(391,563)	-
U.S. Treasury futures contracts	10,406	-	10,406	-
	$ 76,681,277	$ -	$ 71,018,365	$ 5,662,912

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 10,938,684	$ -	$ 10,938,684	$ -
Municipal securities	1,464,665	-	1,464,665	-
Mortgage-backed securities	19,377,081	-	19,377,081	-
Corporate bonds	3,903,716	-	3,903,716	-
Total available-for-sale securities	35,684,146	-	35,684,146	-
Marketable equity securities	30,895	-	30,895	-
Mortgage loans held for sale	27,901,419	-	27,901,419	-
Mortgage servicing rights	11,022,638	-	-	11,022,638
Derivative assets (liabilities):				
Mortgage loan interest rate lock commitments	713,496	-	713,496	-
Mortgage loan forward sales commitments	(49,453)	-	(49,453)	-
	$ 75,303,141	$ -	$ 64,280,503	$ 11,022,638

Note 24. Fair Value Measurements, Continued

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Mortgage Servicing Rights
Balance, December 31, 2018	9,023,859
Transfers into (out of) Level 3	-
Additions	3,306,078
Changes in fair value recognized in earnings (1)	(1,307,299)
Balance, December 31, 2019	11,022,638
Transfers into (out of) of Level 3	-
Changes in fair value recognized in earnings (1)	(2,754,902)
Settlements (2)	(2,604,824)
Balance, December 31, 2020	$ 5,662,912

(1) Represents changes in value primarily due to market driven changes in interest rates and prepayment speeds.
(2) Represents changes in value of the MSRs due to i) passage of time, including the impact from both regularly scheduled loan principal payments and partial paydowns, and ii) loans that paid off fully during the period.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2020 and December 31, 2019, aggregated by level in the fair value hierarchy within which those measurements fall.

	Total	Level 1	Level 2	Level 3
December 31, 2020				
Impaired loans	$ 15,345,804	$ -	$ -	$ 15,345,804
Other real estate owned	164,295	-	-	164,295
Mortgage servicing rights	6,412,477	-	-	6,412,477
Total assets at fair value	$ 21,922,576	$ -	$ -	$ 21,922,576

	Total	Level 1	Level 2	Level 3
December 31, 2019				
Impaired loans	$ 4,342,929	$ -	$ -	$ 4,342,929
Other real estate owned	347,552	-	-	347,552
Total assets at fair value	$ 4,690,481	$ -	$ -	$ 4,690,481

Impaired Loans - Loans that are considered impaired are recorded at fair value on a nonrecurring basis. Once a loan is considered impaired, the fair value is measured using one of several methods, including collateral liquidation value, market value of similar debt or discounted cash flows. Those impaired loans not requiring a specific charge against the allowance represent loans for which the fair value of the expected repayments or collateral meet or exceed the recorded investment in the loan. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair value of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be Level 3 inputs.

Note 24. Fair Value Measurements, Continued

Other Real Estate Owned - Foreclosed assets are adjusted to fair value upon transfer of the loans to OREO. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. 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 a current appraised value or when a current appraised value 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 foreclosed asset as nonrecurring Level 3.

Mortgage Servicing Rights – Amortization Method - Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The assumptions used in the discounted cash flow model are those that market participants would use in estimating future net servicing income. Assumptions in the valuation of mortgage servicing rights may include estimated loan repayment rates, the discount rate, servicing costs, and the timing of cash flows, among other factors. The Company measures mortgage servicing rights accounted for using the amortization method as nonrecurring Level 3.

The Company had no liabilities measured at fair value on a non-recurring basis.

For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of December 31, 2020 and December 31, 2019, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value as of December 31, 2020	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans	$ 15,345,804	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 5% to 20% for sales commissions and other holding cost
Other real estate owned	$ 164,295	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 10% to 20% for sales commissions and other holding cost
Mortgage servicing rights	$ 12,075,389	Discounted cash flows	Comparable sales	Weighted average discount rate – 9% Constant prepayment rate – 10%

Note 24. Fair Value Measurements, Continued

	Fair Value as of December 31, 2019	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans	$ 4,342,929	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 5% to 20% for sales commissions and other holding cost
Other real estate owned	$ 347,552	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 10% to 20% for sales commissions and other holding cost
Mortgage servicing rights	$ 11,022,638	Discounted cash flows	Comparable sales	Weighted average discount rate – 9% Constant prepayment rate – 9%

Fair Value of Financial Instruments

The following table includes the estimated fair value of the Company's financial assets and financial liabilities. The methodologies for estimating the fair value of financial assets and financial liabilities measured on a recurring and nonrecurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts at December 31, 2020 and 2019.

Note 24. Fair Value Measurements, Continued

	December 31,			
	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 98,688,915	$ 98,688,915	$ 40,340,683	$ 40,340,683
Securities available-for-sale	32,729,894	32,729,894	35,684,146	35,684,146
Marketable equity securities	29,424	29,424	30,895	30,895
Securities held-to-maturity	-	-	10,417,168	10,746,649
Mortgage loans held for sale	35,641,877	35,641,877	27,901,419	27,901,419
Loans held for investment, net	471,794,657	468,155,351	476,655,540	474,301,267
Nonmarketable equity securities	1,076,400	1,076,400	2,423,200	2,423,200
Deposits	594,000,242	594,383,572	505,087,637	505,307,623
Securities sold under agreement to repurchase	5,522,872	5,522,872	14,637,332	14,637,332
Federal funds purchased	-	-	16,500,000	16,500,000
Federal Home Loan Bank advances	10,000,000	9,423,420	43,300,000	42,997,000
Subordinated debentures	20,796,998	18,938,086	15,275,214	13,813,483

Cash and cash equivalents
The carrying amount approximates fair value for these instruments.

Investment securities
The fair value of investment securities are generally determined using widely accepted valuation techniques including market prices, matrix pricing, and broker-quote-based applications.

Loans held for sale
Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of one-to-four family residential real estate loans originated for sale to qualified third parties. Fair value is based upon the contractual price to be received from these third parties, which may be different than cost.

Loans held for investment
Fair values are estimated for portfolios of loans with similar financial characteristics if collateral-dependent. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect observable market information incorporating the credit, liquidity, yield and other risks inherent in the loan. The estimate of maturity is based upon the Company’s historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions.

Fair value for significant non-performing loans is generally based upon recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discounted rates are judgmentally determined using available market information and specific borrower information.

Note 24. Fair Value Measurements, Continued

Nonmarketable equity securities
Nonmarketable equity securities are carried at original cost basis, as cost approximates fair value and there is no ready market for such investments.

Deposits
The fair value of deposits with no stated maturity date, such as noninterest-bearing demand deposits, savings and money market and checking accounts, is based on the carrying value. The fair value of time deposits is based upon the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Subordinated debentures
The fair value of subordinated debentures is estimated by using discounted cash flow analyses based on incremental borrowing rates for similar types of instruments.

Federal Home Loan Bank advances
Fair value is estimated based on discounted cash flows using current market rates for borrowing with similar terms.

Other borrowings
The fair value of federal funds purchased and securities under agreements to repurchase approximate the carrying amount because of the short maturity of these borrowings.

Note 25. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 23, 2021, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Note 26. First Reliance Bancshares, Inc. (Parent Company Only)

Condensed Balance Sheets

	December 31, 2020	December 31, 2019
Assets		
Cash	$ 5,362,054	$ 1,380,350
Investment in banking subsidiary	81,968,412	69,046,787
Marketable equity securities	29,424	30,895
Nonmarketable equity securities	58,100	58,100
Investment in trust	310,000	310,000
Deferred tax asset	2,062,850	1,687,908
Other assets	28,069	129,637
Total assets	$ 89,818,909	$ 72,643,677
Liabilities		
Junior subordinated debentures	$ 10,310,000	$ 10,310,000
Subordinated debentures	10,486,998	4,965,214
Accrued salary benefits	114,482	105,196
Accrued interest payable	179,576	177,807
Total liabilities	21,091,056	15,558,217
Shareholders' equity	68,727,853	57,085,460
Total liabilities and shareholders' equity	$ 89,818,909	$ 72,643,677

Condensed Statements of Operations

	For the years ended December 31, 2020	For the years ended December 31, 2019
Income		
Interest income	$ 9,238	$ 14,161
(Loss) gain on change in fair value of marketable equity securities	(1,471)	16,076
Total income	7,767	30,237
Expenses		
Interest expense	814,143	782,220
Salaries and employee benefits	687,948	666,563
Equipment expense	94,741	56,154
Other expenses	271,779	430,959
Total expenses	1,868,611	1,935,896
Income before income taxes and equity in undistributed income of banking subsidiary	(1,860,844)	(1,905,659)
Equity in undistributed earnings of banking subsidiary	12,102,052	5,625,633
Net income before income taxes	10,241,208	3,719,974
Income tax benefit	374,942	368,865
Net income	$ 10,616,150	$ 4,088,839

Note 26. First Reliance Bancshares, Inc. (Parent Company Only), Continued

Condensed Statements of Cash Flows

	For the years ended December 31, 2020	2019
Cash flows from operating activities		
Net income	$ 10,616,150	$ 4,088,839
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income tax expense	(374,942)	(349,365)
Net equity in undistributed earnings of banking subsidiary	(12,102,052)	(5,625,633)
Amortization of debt issuance costs	21,784	30,337
Loss (gain) on change in fair value of marketable equity securities	1,471	(13,410)
Stock based compensation expense	58,845	58,683
Decrease (increase) in other assets	101,568	(47,739)
Increase (decrease) in accrued interest payable	1,769	(21,901)
Increase in accrued salary benefits	9,286	105,196
Net cash used in operating activities	(1,666,121)	(1,774,993)
Cash flows from by investing activities		
Proceeds from sale of marketable equity securities	-	150,666
Net cash provided by investing activities	-	150,666
Cash flows from financing activities		
Issuance of subordinated debentures	5,500,000	-
Net proceeds from issuance of common stock	777,042	173,737
(Increase) decrease in nonvested restricted stock	(232,734)	254,924
Purchase of treasury stock	(396,483)	(659,349)
Net cash provided by (used in) financing activities	5,647,825	(230,688)
Net increase (decrease) in cash	3,981,704	(1,855,015)
Cash and cash equivalents, beginning of year	1,380,350	3,235,365
Cash and cash equivalents, ending of year	$ 5,362,054	$ 1,380,350

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