

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

Date of Report (top-tier holding company's fiscal year-end):

12/31/2020

Month / Day / Year

N/A

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

FMB of S.C. Bancshares, Inc.

Legal Title of Holding Company

8624 Old State Road / P.O. Box 68

(Mailing Address of the Holding Company) Street / P.O. Box

Holly Hill

South Carolina

29059

City

State

Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

William H. Sohm, Jr.

CFO - Compliance

Name

Title

803-496-1428

Area Code / Phone Number / Extension

803-496-3964

Area Code / FAX Number

hsohm@fmbosc.com

E-mail Address

None

Address (URL) for the Holding Company's web page

I, John L. Hutto

Name of the Holding Company Director and Official

President & CEO

Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

John L. Hutto

Signature of Holding Company Director and Official

2/25/21

Date of Signature

For holding companies not registered with the SEC—
 Indicate status of Annual Report to Shareholders:

- is included with the FR Y-6 report
- will be sent under separate cover
- is not prepared

For Federal Reserve Bank Use Only

RSSD ID _____

C.I. _____

Is confidential treatment requested for any portion of this report submission? 0=No 1=Yes 0

In accordance with the General Instructions for this report (check only one),

- 1. a letter justifying this request is being provided along with the report
- 2. a letter justifying this request has been provided separately ...

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

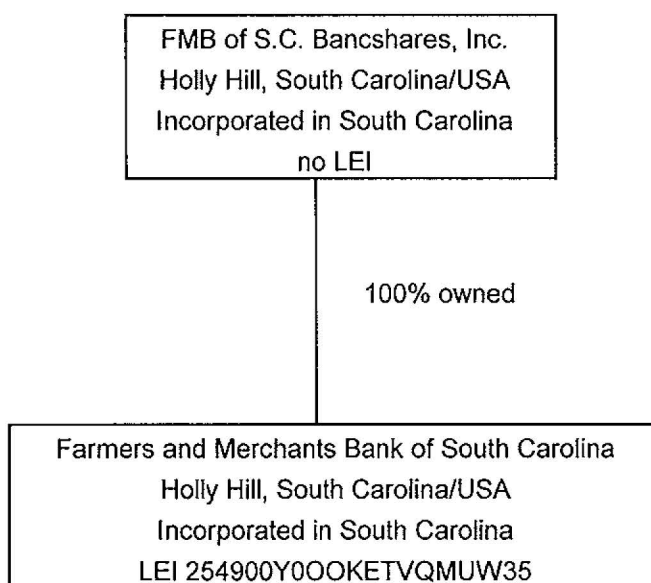
Form FR Y-6

FMB of S.C. Bancshares, Inc.
Holly Hill, South Carolina
Fiscal Year Ending December 31, 2020

Report Item 1: Annual Report to Shareholders

The holding company prepares an annual report for its shareholders.
An electronic copy of our "2020 Annual Report" is included as a pdf document
with this submission.

Report Item 2a: Organization Chart



Report Item 2b: Domestic Branch Listing

Domestic branch listing submitted via email to the Federal Reserve Bank
on 2/11/2021.

Report Item 3: Securities holders

(1) Current securities holders with ownership, control, or holdings of 5% or more with power to
vote as of fiscal year ending 12/31/2020:

None

(2) Securities holders not listed in section 3(1) above that had ownership, control, or holdings
of 5% or more with power to vote during the fiscal year ending 12/31/2020:

None

Results: A list of branches for your holding company: FNB OF S.C. BANCSHARES, INC. (11374243) of HOLLY HILL, SC.
 The data are as of 1/31/2020. Data reflects information that was received and processed through 11/05/2021.

Reconciliation and Verification Steps

1. In the Data Action column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the Effective Date column.

Actions

OK: If the branch information is correct, enter "OK" in the Data Action column.
Change: If the branch information is incorrect or incomplete, revise the data, enter "Change" in the Data Action column and the date when this information first became valid in the Effective Date column.
Close: If a branch listed was sold or closed, enter "Close" in the Data Action column and the sale or closure date in the Effective Date column.
Delete: If a branch listed was never opened by the depositor institution, enter "Delete" in the Data Action column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter "Add" in the Data Action column and the opening or acquisition date in the Effective Date column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
 If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:

To satisfy the FR Y-5D reporting requirements, you must also submit FR Y-5D Domestic Branch Schedules for each branch with a Data Action of Change, Close, Delete, or Add.
 The FR Y-5D report may be submitted in a hardcopy format or via the FR Y-5D Online application - <https://FDOnline.federalreserve.gov>.

* FDIC, CRA/NIA, Office Number, and D-RS22 columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID (RS22)*	Popular Name	Street Address	City	State	Zip Code	Country	FDIC (FDNIA)	CRA/NIA	Office Number*	Head Office	Head Office ID (RS22)*	Comments
OK		Full Service (Head Office)	282226	FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA	1801 OLD STATE ROAD	HOLLY HILL	SC	29053	UNITED STATES	Not Reported	Not Reported	FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA	282226		
OK		Full Service	513132	SCHEMANN BRANCH	2002 CHARLESTON HIGHWAY	ROWLAND	SC	29218	UNITED STATES	Not Reported	Not Reported	FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA	282226		
OK		Full Service	110093	BRANFORD BRANCH	7531 FREDSON ROAD	BRANFORD	SC	29542	UNITED STATES	Not Reported	Not Reported	FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA	282226		
OK		Full Service	118141	LAMBERTON BRANCH	216 NORTH BUCKLE LAUREN DR	LAMBERTON	SC	29039	UNITED STATES	Not Reported	Not Reported	FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA	282226		
OK		Full Service	462226	CHARLESTON BRANCH	1104-104 MARKET STREET	CHARLESTON	SC	29408	UNITED STATES	Not Reported	Not Reported	FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA	282226		
OK		Full Service	128140	CANNON CROSSROADS BRANCH	3700 N MAIN STREET	WYCKS CORNER	SC	29463	UNITED STATES	Not Reported	Not Reported	FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA	282226		
OK		Full Service	28181	WYCKS CORNER BRANCH	211 EAST MAIN ST	WYCKS CORNER	SC	29461	UNITED STATES	Not Reported	Not Reported	FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA	282226		
OK		Full Service	77047	LAURENCEVILLE BRANCH	111 CHURCH STREET	LAURENCEVILLE	SC	29577	UNITED STATES	Not Reported	Not Reported	FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA	282226		

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FMB of S.C. Bancshares, Inc.
Holly Hill, South Carolina
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders

Principal securities holders, directors, trustees, partners, executive officers, or persons exercising similar functions of the holding company, regardless of title or compensation, showing the following:

- (1) Name, city and state/country;
- (2) Principal occupation, if other than with the holding company;
- (3) Title or position with:
 - (a) the holding company;
 - (b) all direct and indirect subsidiaries of the holding company; and
 - (c) any other company in which the person is a director, trustee, partner, or executive officer; and
- (4) Percentage of each class of voting securities owned, controlled, or held with power to vote in:
 - (a) the holding company;
 - (b) direct and indirect subsidiaries of the holding company; and
 - (c) any other company, if 25 percent or more of its outstanding voting securities or proportionate interest in a partnership are held. (Include the name of the company and the percentage of voting securities owned, controlled, or held with power to vote.)

- (1) E. Ward Avinger, Jr.
Holly Hill, South Carolina/USA
 - (2) Retired - Avinger Funeral Home, Inc.
 - (3) (a) Director
(b) Director (Farmers & Merchants Bank of SC)
(c) N/A (Not Applicable)
 - (4) (a) 0.29%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)
-
- (1) John H. Clarke, Jr.
St. Stephen, South Carolina/USA
 - (2) President - Oliver-Clarke Furniture Company, Inc.
 - (3) (a) Director & Vice President
(b) Director (Farmers & Merchants Bank of SC)
(c) President - Oliver-Clarke Furniture Company, Inc.
 - (4) (a) 0.25%
(b) N/A (Not Applicable)
(c) Oliver-Clarke Furniture Company, Inc. - 50%

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FMB of S.C. Bancshares, Inc.
Holly Hill, South Carolina
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders (continued)

- (1) William S. Helmly
Moncks Corner, South Carolina/USA
- (2) President & CEO - Home Telecom
- (3) (a) Director
(b) Director (Farmers & Merchants Bank of SC)
(c) President & CEO - Home Telecom
- (4) (a) 0.06%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)

- (1) R.M. Holcombe
Moncks Corner, South Carolina/USA
- (2) Retired - Farmers & Merchants Bank of South Carolina
- (3) (a) Director & Treasurer
(b) Director (Farmers & Merchants Bank of SC)
(c) N/A (Not Applicable)
- (4) (a) 1.54%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)

- (1) John L. Hutto
Holly Hill, South Carolina/USA
- (2) CEO - Farmers & Merchants Bank of South Carolina
- (3) (a) Director & President & CEO
(b) Director & CEO (Farmers & Merchants Bank of SC)
(c) N/A (Not Applicable)
- (4) (a) 2.65%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)

- (1) R. Barry Hutto
Holly Hill, South Carolina/USA
- (2) Farmer
- (3) (a) Director
(b) Director (Farmers & Merchants Bank of SC)
(c) N/A (Not Applicable)
- (4) (a) 0.45%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)

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FMB of S.C. Bancshares, Inc.
Holly Hill, South Carolina
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders (continued)

- (1) Thomas O. Hutto
Holly Hill, South Carolina/USA
- (2) President - Farmers & Merchants Bank of South Carolina
- (3) (a) Director
(b) Director & President (Farmers & Merchants Bank of SC)
(c) N/A (Not Applicable)
- (4) (a) 0.25%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)

- (1) Robert F. McCurry
Holly Hill, South Carolina/USA
- (2) Retired - R.F. McCurry & Sons
- (3) (a) Director & Chairman of the Board
(b) Director & Chairman of the Board (Farmers & Merchants Bank of SC)
(c) N/A (Not Applicable)
- (4) (a) 0.43%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)

- (1) Joseph C. Shuler, Jr.
Holly Hill, South Carolina/USA
- (2) Retired - Farmers & Merchants Bank of South Carolina
- (3) (a) Director & Secretary
(b) Director (Farmers & Merchants Bank of SC)
(c) N/A (Not Applicable)
- (4) (a) 0.74%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)

- (1) William H. Sohm, Jr.
Holly Hill, South Carolina/USA
- (2) CFO - Compliance - Farmers & Merchants Bank of South Carolina
- (3) (a) Director
(b) Director & CFO - Compliance (Farmers & Merchants Bank of SC)
(c) N/A (Not Applicable)
- (4) (a) 0.61%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)

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FMB of S.C. Bancshares, Inc.
Holly Hill, South Carolina
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders (continued)

- (1) Lawrence L. Weathers
Bowman, South Carolina/USA
- (2) Partner - Weathers Farms, Inc.
- (3) (a) Director
(b) Director (Farmers & Merchants Bank of SC)
(c) Vice President - Weathers Farms, Inc.
President - Weathers Trucking, Inc.
Partner - Weathers Dairy, LLC
Partner - Circle W Farms
- (4) (a) 0.12%
(b) N/A (Not Applicable)
(c) Weathers Farms, Inc. - 50%
Weathers Trucking, Inc. - 50%

- (1) F. Eugene Williams
Pinopolis, South Carolina/USA
- (2) Retired - Berkeley Electric Cooperative, Inc.
- (3) (a) Director
(b) Director (Farmers & Merchants Bank of SC)
(c) N/A (Not Applicable)
- (4) (a) 0.29%
(b) N/A (Not Applicable)
(c) N/A (Not Applicable)

Farmers & Merchants Bank
OF SOUTH CAROLINA



Holly Hill
Bowman
Moncks Corner
Eutawville

Branchville
St. Stephen
Carnes Crossroads
Cameron

Santee (Full Service ATM)

FMB of S.C. Bancshares, Inc.
8624 Old State Road
Holly Hill, South Carolina 29059

www.fmbosc.com
Member FDIC

fmb
2020 ANNUAL REPORT

The logo features the lowercase letters 'fmb' in a bold, italicized, sans-serif font. A white silhouette of a palmetto tree is integrated into the dot of the 'i'. Below the logo, the text '2020 ANNUAL REPORT' is written in a clean, sans-serif font. The background of the entire page is a light green color with a faint, dotted pattern of the word 'FARMERS' repeated in a grid.

FMB of S.C. Bancshares, Inc.

Holly Hill, Bowman, Moncks Corner, Eutawville, Branchville
St. Stephen, Carnes Crossroads, Cameron, Santee (Full Service ATM)
Member FDIC

REPORT TO STOCKHOLDERS

We are pleased to present the Annual Report of the financial operations FMB of SC Bancshares, Incorporated and its subsidiary, the Farmers & Merchants Bank of South Carolina. Covid-19 has proven to be a virus that our nation and global economy continue to struggle with. All business sectors, as well as families, have been impacted by this pandemic.

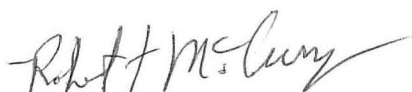
Profits were lower in 2020 as a result of these impacts. The Bank has processed over 150 loans through the Paycheck Protection Program (PPP) that our Government created. The purpose was to allow businesses to remain open and keep employees working. This loan program was implemented by the Bank early in the year to meet the needs of our respective communities and customers.

The Bank's capital and liquidity ratios rank among the highest in the state. We will continue to operate in a conservative manner as we have in the past. The Bank has been in operation since 1912 and is in excellent condition to move forward. Historically low interest rates and weak loan demand, however, will continue to issue challenges in 2021.

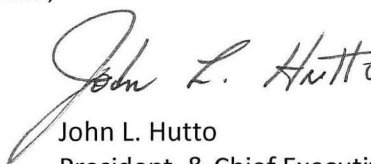
Your Board and management remain committed to meeting the needs of the communities we serve, while maintaining profitable operations and returns for our stockholders.

We thank our stockholders, customers, and especially our loyal, dedicated employees for their support during 2020.

Respectfully submitted,



Robert F. McCurry
Chairman of the Board
FMB of S.C. Bancshares, Inc. and
Farmers & Merchants Bank of S.C.



John L. Hutto
President & Chief Executive Officer
FMB of S.C. Bancshares, Inc. and
Chief Executive Officer
Farmers & Merchants Bank of S.C.

FMB of SC Bancshares, Inc. and Subsidiary

Report on Consolidated Financial Statements

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

FMB of SC Bancshares, Inc. and Subsidiary

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Independent Auditor's Report

To the Board of Directors
FMB of SC Bancshares, Inc. and Subsidiary
Holly Hill, South Carolina

Report on the Financial Statements

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

Management's Responsibility for the 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 from 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 FMB of SC 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.

A handwritten signature in black ink that reads "Elliott Davis, LLC".

Columbia, South Carolina
January 21, 2021

FMB of SC Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

As of December 31, 2020 and 2019

(Dollars in thousands, except share amounts)

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents		
Cash and due from banks	\$ 19,065	\$ 11,391
Interest bearing balances	172,756	213,812
Federal funds sold	500	2,676
Total cash and cash equivalents	<u>192,321</u>	<u>227,879</u>
Time deposits with other banks	5,500	-
Investment securities		
Securities available-for-sale	112,539	100,689
Nonmarketable equity securities	436	397
Total investment securities	<u>112,975</u>	<u>101,086</u>
Loans receivable	99,155	88,814
Less allowance for loan losses	<u>1,508</u>	<u>1,548</u>
Loans receivable, net	<u>97,647</u>	<u>87,266</u>
Premises and equipment, net	4,319	4,517
Other real estate owned, net	645	989
Accrued interest receivable	1,070	1,205
Other assets	2,316	2,152
Total assets	<u>\$ 416,793</u>	<u>\$ 425,094</u>
Liabilities		
Deposits		
Noninterest-bearing transaction accounts	\$ 146,422	\$ 122,047
Interest-bearing transaction accounts	107,203	145,483
Money market accounts	14,620	13,628
Savings accounts	58,198	51,694
Certificates of deposit \$250,000 and over	18,663	19,746
Other time deposits	21,553	22,430
Total deposits	<u>366,659</u>	<u>375,028</u>
Accrued interest payable	63	117
Other liabilities	1,134	1,122
Total liabilities	<u>367,856</u>	<u>376,267</u>
Commitments and contingencies - Notes 4, 12 and 14		
Stockholders' equity		
Common stock, \$10.00 par value, 500,000 shares authorized, 250,000 shares issued and outstanding	2,500	2,500
Capital surplus	2,112	2,112
Retained earnings	55,138	54,548
Accumulated other comprehensive loss	(430)	(404)
Treasury stock at cost, (80,042 and 77,775 shares at December 31, 2020 and 2019, respectively)	<u>(10,383)</u>	<u>(9,929)</u>
Total stockholders' equity	<u>48,937</u>	<u>48,827</u>
Total liabilities and stockholders' equity	<u>\$ 416,793</u>	<u>\$ 425,094</u>

See Notes to Consolidated Financial Statements

FMB of SC Bancshares, Inc. and Subsidiary**Consolidated Statements of Income****For the years ended December 31, 2020 and 2019***(Dollars in thousands, except per share amounts)*

	<u>2020</u>	<u>2019</u>
Interest income		
Loans, including fees	\$ 5,528	\$ 5,771
Investment securities	1,754	2,126
Nonmarketable equity securities	20	23
Federal funds sold and interest-bearing balances	<u>977</u>	<u>3,340</u>
Total interest income	<u>8,279</u>	<u>11,260</u>
Interest expense		
Certificates of deposit	398	502
Other deposits	<u>161</u>	<u>211</u>
Total interest expense	<u>559</u>	<u>713</u>
Net interest income	7,720	10,547
Provision for loan losses	<u>-</u>	<u>-</u>
Net interest income after provision for loan losses	<u>7,720</u>	<u>10,547</u>
Noninterest income		
Service charges on deposit accounts	830	1,124
Other service fees	1,106	1,022
Credit life insurance commissions	8	8
Other income	<u>141</u>	<u>137</u>
Total noninterest income	<u>2,085</u>	<u>2,291</u>
Noninterest expense		
Salaries and employee benefits	4,696	4,722
Occupancy	670	662
Furniture and equipment	1,283	1,186
Printing, supplies and postage	214	240
Telecommunications expense	235	235
Net cost of operation of other real estate owned	6	(2)
FDIC assessment	62	27
ATM processing fees	394	371
Other operating expenses	<u>770</u>	<u>916</u>
Total noninterest expense	<u>8,330</u>	<u>8,357</u>
Income before taxes	1,475	4,481
Income tax expense	<u>333</u>	<u>1,053</u>
Net income	<u>\$ 1,142</u>	<u>\$ 3,428</u>
Average shares outstanding	<u>170,295</u>	<u>172,747</u>
Net income per share of common stock	<u>\$ 6.71</u>	<u>\$ 19.84</u>

See Notes to Consolidated Financial Statements

FMB of SC Bancshares, Inc. and Subsidiary**Consolidated Statements of Comprehensive Income****For the years ended December 31, 2020 and 2019**

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Net income	\$ 1,142	\$ 3,428
Other comprehensive income (loss)		
Unrealized holding gains (losses) arising during the period	(35)	3,513
Tax effect	<u>9</u>	<u>(863)</u>
Other comprehensive income (loss), net of tax	<u>(26)</u>	<u>2,650</u>
Comprehensive income	<u>\$ 1,116</u>	<u>\$ 6,078</u>

See Notes to Consolidated Financial Statements

FMB of SC Bancshares, Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2020 and 2019

<i>(Dollars in thousands, except share amounts)</i>	Common Stock		Capital surplus	Retained earnings	Treasury stock	Accumulated Other comprehensive loss	Total
	Shares	Amount					
Balance, December 31, 2018	250,000	\$ 2,500	\$ 2,112	\$ 51,766	\$ (9,594)	\$ (3,054)	\$ 43,730
Net income	-	-	-	3,428	-	-	3,428
Other comprehensive income, net of tax	-	-	-	-	-	2,650	2,650
Cash dividend, \$3.75 per share	-	-	-	(646)	-	-	(646)
Purchase of treasury stock	-	-	-	-	(335)	-	(335)
Balance, December 31, 2019	250,000	2,500	2,112	54,548	(9,929)	(404)	48,827
Net income	-	-	-	1,142	-	-	1,142
Other comprehensive loss, net of tax	-	-	-	-	-	(26)	(26)
Cash dividend, \$3.25 per share	-	-	-	(552)	-	-	(552)
Sale of treasury stock	-	-	-	-	10	-	10
Purchase of treasury stock	-	-	-	-	(464)	-	(464)
Balance, December 31, 2020	<u>250,000</u>	<u>\$ 2,500</u>	<u>\$ 2,112</u>	<u>\$ 55,138</u>	<u>\$ (10,383)</u>	<u>\$ (430)</u>	<u>\$ 48,937</u>

See Notes to Consolidated Financial Statements

FMB Corporation and Subsidiary
Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>
Operating activities		
Net income	\$ 1,142	\$ 3,428
Adjustments to reconcile net income to net cash provided by operating activities		
Accretion on available-for-sale securities	(14)	(38)
Depreciation and amortization	396	351
Net loss on disposal of equipment	-	3
Amortization of intangible assets	-	7
Deferred income taxes	(31)	(111)
Decrease (increase) in accrued interest receivable	135	(158)
(Decrease) increase in interest payable	(54)	43
Increase in other assets	(124)	(76)
Increase (decrease) in other liabilities	<u>12</u>	<u>(117)</u>
Net cash provided by operating activities	<u>1,462</u>	<u>3,332</u>
Investing activities		
Purchases of securities available-for-sale	(170,139)	(51,976)
Purchases of time deposits held with other banks	(5,500)	-
Proceeds from calls and maturities of securities available-for-sale	158,237	40,705
Net (purchase) sale of nonmarketable equity securities	(39)	11
Net (increase) decrease in loans receivable	(10,471)	3,429
Net purchase of premises and equipment	(167)	(413)
Proceeds from sale of other real estate owned	<u>434</u>	<u>-</u>
Net cash used in investing activities	<u>(27,645)</u>	<u>(8,244)</u>
Financing activities		
Net (decrease) increase in demand deposits, interest-bearing transaction accounts and savings accounts	(6,409)	39,090
Net decrease in certificates of deposits and other time deposits	(1,960)	(1,104)
Cash dividends paid	(552)	(646)
Net purchase of treasury stock	<u>(454)</u>	<u>(335)</u>
Net cash (used in) provided by financing activities	<u>(9,375)</u>	<u>37,005</u>
Net (decrease) increase in cash and cash equivalents	(35,558)	32,093
Cash and cash equivalents, beginning of year	<u>227,879</u>	<u>195,786</u>
Cash and cash equivalents, end of year	<u>\$ 192,321</u>	<u>\$ 227,879</u>
Cash paid during the year for:		
Interest	\$ 613	\$ 670
Income taxes	<u>\$ 291</u>	<u>\$ 1,249</u>
Non-cash investing and financing activities:		
Change in unrealized gain (loss) on securities available for sale	<u>\$ (35)</u>	<u>\$ 3,513</u>
Transfer of loans to other real estate owned	<u>\$ 90</u>	<u>\$ 231</u>

See Notes to Consolidated Financial Statements

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies and Activities

Consolidation:

FMB of SC Bancshares, Inc. (the "Company") is a bank holding company that has a wholly-owned subsidiary, Farmers and Merchants Bank of South Carolina (the "Bank"). The Bank provides banking services to domestic markets in Orangeburg, Berkeley and Calhoun Counties in South Carolina. The consolidated financial statements include the accounts of the Company and the Bank after elimination of all significant intercompany balances and transactions.

Management's estimates:

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the year. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, including valuation allowances for impaired loans, and the carrying amount of real estate acquired in connection with foreclosures or in satisfaction of loans. 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 allowance 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 Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the 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 in Berkeley, Orangeburg, and Calhoun Counties of South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Concentrations of credit risk, continued:

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. The only concentration of credit identified by management are loans to subprime borrowers. This identified concentration was within the projected policy limit and represented 31% and 46% of Tier 1 Risk Based Capital at December 31, 2020 and 2019, respectively. Additionally, 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. Therefore, 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, its agencies or its corporations. Federal Home Loan Bank (FHLB) bonds and Federal Farm Credit Bank (FFCB) bonds make up the only concentrations of credit risk within the investment portfolio. The concentration of FHLB bonds totaled \$45.0 million at December 31, 2020, representing 91.0% of total equity and 39.6% of investment securities. The concentration of FHLB bonds totaled \$53.9 million at December 31, 2019, representing 110.5% of total equity and 53.6% of investment securities. The concentration of FFCB bonds totaled \$58.8 million at December 31, 2020, representing 120.0% of total equity and 52.2% of investment securities. The concentration of FFCB bonds totaled \$45.7 million at December 31, 2019, representing 93.7% of total equity and 45.4% of investment securities. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Deposits with the Federal Reserve in Richmond, Virginia represent the only concentration of credit risk with regard to correspondent accounts at December 31, 2020. This concentration of correspondent accounts to the Federal Reserve totaled \$172.3 million at December 31, 2020, representing 352.0% of total equity and 89.6% of total cash and cash equivalents. The Company also had a concentration in deposits to one customer of \$106.4 million, representing 217.4% of total equity and 29.0% of total deposits at December 31, 2020. Comparatively, the Company had a concentration in deposits to one customer of \$136.0 million, representing 278.4% of total equity and 36.3% of total deposits at December 31, 2019.

Cash, cash equivalents and cash flows:

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, due from banks, and demand deposits at other financial institutions. The Company considers certain highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents also include federal funds sold. Federal funds are generally sold for one-day periods. Cash flows from loans and deposits are reported net.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Investment securities:

Investment securities classified as available-for-sale by the Company are carried at amortized cost and adjusted to their estimated market value. Unrealized gains and losses are excluded from earnings and reported in other comprehensive income (loss), 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 in the security. The adjusted cost basis of securities available-for-sale is determined by specific identification and is used in computing the realized gain or loss from a sales transaction. Securities available-for-sale are accounted for on a trade date basis.

Nonmarketable equity securities:

Nonmarketable equity securities include the Company's investment in the stock of the Federal Home Loan Bank, Business Development Corporation, and Farmer Mac. The stocks are carried at cost because they have no quoted market value and no ready market exists. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to secure borrowings. The investment in Federal Home Loan Bank stock was \$383,400 and \$344,600 at December 31, 2020 and 2019, respectively. The investment in Business Development Corporation stock was \$50,000 at December 31, 2020 and 2019. The investment in Farmer Mac stock was \$2,250 at December 31, 2020 and 2019. Dividends received on all stocks are included as a separate component of interest income.

Loans receivable:

Loans are stated at their unpaid principal balance, net of any charge-offs. Interest income on loans 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 a loan is contractually 90 days past due, the accrual of interest income is generally discontinued unless the estimated net realizable value of the collateral is sufficient to assure collection of the principal balance and accrued interest. When interest accruals are discontinued, income in the current year is reversed and interest accrued in prior years is charged to the allowance for loan losses.

While a loan is on nonaccrual status, the Company's policy is that all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to recoveries of any amounts previously charged off. Further cash receipts are recorded as interest income to the extent that any interest has been foregone. 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 principal and interest, and after a sufficient history of satisfactory payment performance has been established.

Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the collateral less estimated selling costs if the loan is collateral dependent. When management determines that a loan is impaired, the difference between the Company's investment in the related loan and the present value of the expected future cash flows or the fair value of the collateral less estimated selling costs is charged to the allowance for loan losses or recorded as a specific reserve to the allowance for loan loss.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Loans receivable, continued:

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 the borrower will be able to perform in accordance with the loan agreement. 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.

Allowance for loan losses:

An allowance for loan losses is maintained at a level deemed appropriate by management to absorb losses in the existing portfolio. The allowance is based upon a continuing review of past loan loss experience, current economic conditions which may affect the borrowers' ability to pay, and the underlying collateral value of the loans. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Loans or portions of loans that are deemed to be uncollectable are charged-off and deducted from the allowance. The provision for loan losses and recoveries on loans previously charged-off are added to the allowance.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For these accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting.

Premises and equipment:

Premises and equipment are stated at cost, less accumulated depreciation. The depreciation expense is computed using the straight-line method allowed for income tax reporting purposes if there were no material differences from generally accepted accounting principles. Rates of depreciation are generally based on the following estimated useful lives: buildings and land improvements - 15 to 40 years; furniture and equipment - 5 to 10 years; software - 3 years. The cost of assets sold, or otherwise disposed, and the related accumulated depreciation is eliminated from the accounts, and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expense as incurred, and the costs of major renewals and improvements are capitalized.

Other real estate owned:

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is initially recorded at the lower of the loan amount or fair value less estimated costs to sell. After foreclosure, valuations are periodically performed by management and are carried at the lower of cost or fair value less estimated costs of disposal. Revenue and expense from the operations of foreclosed assets and changes in the valuation allowances are included in net cost of operation of other real estate owned.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Intangible asset:

During the year ended December 31, 2019, the Company has an intangible core deposit premium, which was amortized over a fifteen-year period using the straight-line method. Amortization expense relating to this intangible asset was \$7,000 during the year ended December 31, 2019, which was included in the Company's consolidated statements of income in other operating expenses. The intangible core deposit premium fully amortized during the year ended December 31, 2019.

Loan origination fees and costs:

Loan origination fees and certain direct loan origination costs are deferred and amortized over the contractual life of the related loan as an adjustment of the loan yield using the level yield method. Direct costs of unsuccessful loans and indirect costs are expensed as incurred.

Income and expense recognition:

The accrual method of accounting is used for all significant categories of income and expense. Immaterial amounts of miscellaneous fees are reported when received.

Income taxes:

Amounts provided for income taxes are based on income reported for financial statement purposes. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. 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. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, consolidated statements of income, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded.

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 of \$50,000 and \$64,000, were included in the Company's consolidated statements of income in other operating expenses for 2020 and 2019, respectively.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Retirement and benefit plans:

The Bank has a noncontributory profit-sharing plan which provides retirement and other benefits to all full-time employees and part-time employees who have worked 1,000 or more hours during the calendar year with one year's service. All eligible employees must be at least age 21. Contributions are determined annually by the Board of Directors but cannot exceed 15% of total annual compensation of eligible employees. The Bank has entered into formal deferred compensation agreements with its senior officers. The Bank has agreed to pay each officer a specified amount in sixty monthly installments once the individual reaches the age of retirement. The Bank's policy is to accrue expenses for deferred compensation payable in future years based on the number of years to retirement and the contract amount.

The Company has an Officers' Incentive Compensation Plan which provides certain officers with cash awards based upon various performance measures of the Company. The Company's policy is to accrue the estimated expenses for the incentive compensation plan based on projected performance. Amounts are paid during the first six months following the year in which they were accrued.

Refer to Note 11 for amounts recognized in the financial statements for the above plans.

Per-share data:

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding for the period. The weighted average number of shares outstanding was 170,295 and 172,747 in 2020 and 2019, respectively. The Company has no instruments which are dilutive; therefore, only basic net income per share of common stock is presented.

Comprehensive income:

The Company reports comprehensive income in accordance with Accounting Standards Codification (ASC) 220, "Comprehensive Income." ASC 220 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 financial statements. The disclosure requirements have been included in the Company's consolidated statements of comprehensive income (loss). Comprehensive income consists solely of unrealized holding gains and losses on investment securities available-for-sale.

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 financial statements when they become payable by the customer.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies and Activities, Continued

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 February 2016, the FASB amended the Leases topic of the ASC to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2018, the FASB amended the Fair Value Measurement Topic of the Accounting Standards Codification. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company does not expect these amendments to have a material effect on its financial statements.

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 fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. 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 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), leases, hedging. The new effective dates will be; CECL: fiscal years beginning after December 15, 2022 including interim periods within those fiscal years; Leases: fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. 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.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Recently issued accounting pronouncements, continued:

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, 2021, and interim periods within annual reporting periods beginning after December 15, 2022. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the current expected credit losses (CECL) guidance issued in 2016. The amendments related to conforming amendments: For public business entities, the amendments are effective upon issuance of this final ASU. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020. Early application is permitted. The effective date of the amendments to ASU 2016-01 is for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All other entities should adopt the amendments in ASU 2016-13 during 2023. Early adoption will continue to be permitted. For entities that have not yet adopted the guidance in ASU 2016-13, the effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in ASU 2016-13. 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 June 2020, the FASB issued guidance to defer the effective dates for certain companies and organizations which have not yet applied the revenue recognition and leases guidance by one year. The new effective dates for entities that have not already adopted will be: Revenue Recognition: annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020; Leases: fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company implemented the guidance related to revenue recognition during the year ended December 31, 2019. No material changes were identified related to the timing or amount of revenue recognition. The Company does not expect the amendment related to leases 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 Bank's financial position, results of operations or cash flows.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies and Activities, Continued

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 a different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a 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. 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.

Reclassifications:

Certain captions and amounts in the 2019 financial statements were reclassified to conform with the 2020 presentation. These reclassifications had no impact on net income or stockholders' equity.

Note 2. Restrictions on Cash and Due From Banks

The Bank has been required to maintain average reserve balances either at the Bank or on deposit with the Federal Reserve Bank based on a percentage of deposits. There were no such requirements as of December 31, 2020 and were approximately \$5,729,000 as of December 31, 2019, which satisfied such requirements by cash held at the Bank.

Note 3. Investment Securities

The amortized cost and approximate fair value of investment securities, including contractual maturities, are summarized as follows:

<i>(Dollars in thousands)</i>	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
Government-sponsored enterprises				
One to five years	\$ 6,000	\$ 9	\$ -	\$ 6,009
Five to ten years	97,000	73	777	96,296
Over ten years	1,000	-	6	994
Municipal securities				
Five to Ten Years	1,066	4	-	1,070
Ten to Fifteen years	8,043	131	4	8,170
	<u>\$ 113,109</u>	<u>\$ 217</u>	<u>\$ 787</u>	<u>\$ 112,539</u>

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Investment Securities, Continued

<i>(Dollars in thousands)</i>	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale				
U.S. Treasuries				
Less than one year	\$ 991	\$ 10	\$ -	\$ 1,001
Government-sponsored enterprises				
Less than one year	496	5	-	501
One to five years	41,737	1	161	41,577
Five to ten years	58,000	2	392	57,610
	<u>\$ 101,224</u>	<u>\$ 18</u>	<u>\$ 553</u>	<u>\$ 100,689</u>

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2020 and 2019.

<i>(Dollars in thousands)</i>	December 31, 2020					
	Less than Twelve Months		Twelve Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Government-sponsored enterprises	\$ 61,217	\$ 783	\$ -	\$ -	\$ 61,217	\$ 783
Municipal securities	\$ 1,476	\$ 4	\$ -	\$ -	\$ 1,476	\$ 4

<i>(Dollars in thousands)</i>	December 31, 2019					
	Less than Twelve Months		Twelve Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Government-sponsored enterprises	\$ 75,269	\$ 468	\$ 4,915	\$ 85	\$ 80,184	\$ 553

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 3. Investment Securities, Continued

Securities classified as available-for-sale are recorded at fair market value. At December 31, 2020, the Company has sixty investments which were in an unrealized loss position, compared to eighty-six as of December 31, 2019. Additionally, the Company had no investments that have been in an unrealized loss position greater than twelve months as of December 31, 2020. The Company has the ability and intent to hold these securities until such time as the value recovers or the securities mature. The Bank believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary.

At December 31, 2020 and 2019, investment securities with a book value of \$59,150,000 and \$57,036,000 and a market value of \$58,834,000 and \$56,719,000, respectively, were pledged as collateral to secure public deposits and for other purposes as required or permitted by law.

There were no sales of securities available-for-sale for the years ended December 31, 2020 and 2019.

Note 4. Loans Receivable

Following is a summary of loans by major classification at December 31:

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Consumer	\$ 6,044	\$ 7,099
Commercial	12,391	4,903
Real estate – 1-4 family	26,473	27,282
Real estate – commercial	29,776	28,305
Real estate – all other	22,425	18,644
All other loans	<u>2,254</u>	<u>2,647</u>
	<u>99,363</u>	<u>88,880</u>
Less allowance for loan losses	1,508	1,548
Less deferred loan fees, net	<u>208</u>	<u>66</u>
Loans receivable, net	<u>\$ 97,647</u>	<u>\$ 87,266</u>

All other loans include overdrafts of demand deposits which have been reclassified to loans in the amount of \$38,000 and \$111,000 for 2020 and 2019, respectively

Certain parties (principally certain directors and officers of the Bank, their immediate families and business interests) were loan customers of, and had other transactions in the normal course of business with the Bank. 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 unrelated persons and do not involve more than normal risk of collectability. The aggregate dollar amount of loans to related parties was approximately \$2,178,000 and \$1,993,000 at December 31, 2020 and 2019, respectively.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4. Loans Receivable, Continued

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. The Bank received a processing fee ranging from 1% to 5% based on the size of the loan from the SBA. The fees are deferred and amortized over the life of the loans in accordance with ASC 310-20. The Bank received \$357,000 of processing fees and has recognized \$220,000 during the period ended December 31, 2020. The Bank provided \$14.6 million in funding to 156 customers through the PPP during 2020. Because these loans are 100% guaranteed by the SBA and did not undergo the Bank's typical underwriting process, they are not graded and do not have an associated reserve.

The SBA began accepting PPP Forgiveness Applications on August 10, 2020. Borrowers must submit the application within ten months of the completion of the covered period. Once the borrower has submitted the application, the Bank has 60 days to review, issue a lender decision, and submit to the SBA. Once the application is submitted, the SBA has 90 days to review and remit the appropriate forgiveness amount to the Bank plus any interest accrued through the date of payment. As of December 31, 2020, the Bank received \$2.1 million from the SBA for the forgiveness of 39 PPP loans. In addition, one loan in the amount of \$4.7 million was paid-off by the borrower prior to submitting a request for forgiveness.

Regulatory agencies, as set forth in the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (initially issued on March 22, 2020 and revised on April 7, 2020), have encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. This guidance allows banks to elect not to categorize loan modifications as troubled debt restructurings (TDRs) if the modifications are related to COVID-19 and executed on a loan that was not more than 30 days past due as of December 31, 2019.

All short term loan modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered to be TDRs. Beginning in March 2020, the Bank provided payment accommodations to customers, consisting of 60-day principal deferral to borrowers negatively impacted by COVID-19. The Bank processed principal deferments to 196 customers, with an aggregate loan balance of \$12.9 million, during the year ending December 31, 2020. The principal deferments represent approximately 13.2% of the Bank'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 TDRs. Of the 196 customers that received payment accommodations, 36 customers remain in deferral as of December 31, 2020, with an aggregate loan balance of \$2.1 million.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2020 (SBA PPP loans guaranteed by the SBA were excluded from the allowance calculation):

<i>(Dollars in thousands)</i>	<u>Consumer</u>	<u>Commercial</u>	<u>Real estate 1-4 family</u>	<u>Real estate commercial</u>	<u>Real estate all other</u>	<u>All other loans</u>	<u>Total</u>
Allowance for loan losses							
Beginning balance	\$ 195	\$ 154	\$ 472	\$ 315	\$ 340	\$ 72	\$ 1,548
Charge-offs	(28)	(1)	(53)	(10)	-	(27)	(119)
Recoveries	24	11	22	-	1	21	79
Provisions	(54)	(45)	38	230	(121)	(48)	-
Ending balance	<u>\$ 137</u>	<u>\$ 119</u>	<u>\$ 479</u>	<u>\$ 535</u>	<u>\$ 220</u>	<u>\$ 18</u>	<u>\$ 1,508</u>
Ending balances:							
Individually evaluated for impairment	<u>\$ 2</u>	<u>\$ 66</u>	<u>\$ 167</u>	<u>\$ 30</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 267</u>
Collectively evaluated for impairment	<u>\$ 135</u>	<u>\$ 53</u>	<u>\$ 312</u>	<u>\$ 505</u>	<u>\$ 218</u>	<u>\$ 18</u>	<u>\$ 1,241</u>
Loans receivable:							
Ending balance, total	<u>\$ 6,044</u>	<u>\$ 12,391</u>	<u>\$ 26,473</u>	<u>\$ 29,776</u>	<u>\$ 22,425</u>	<u>\$ 2,254</u>	<u>\$ 99,363</u>
Ending balances:							
Individually evaluated for impairment	<u>\$ 67</u>	<u>\$ 402</u>	<u>\$ 2,966</u>	<u>\$ 1,110</u>	<u>\$ 930</u>	<u>\$ 24</u>	<u>\$ 5,499</u>
Collectively evaluated for impairment	<u>\$ 5,977</u>	<u>\$ 4,634</u>	<u>\$ 23,507</u>	<u>\$ 28,666</u>	<u>\$ 21,495</u>	<u>\$ 1,790</u>	<u>\$ 86,069</u>
SBA guaranteed Paycheck Protection Program	<u>\$ -</u>	<u>\$ 7,355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 440</u>	<u>\$ 7,795</u>

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2019:

<i>(Dollars in thousands)</i>	<u>Consumer</u>	<u>Commercial</u>	<u>Real estate 1-4 family</u>	<u>Real estate commercial</u>	<u>Real estate all other</u>	<u>All other loans</u>	<u>Total</u>
Allowance for loan losses							
Beginning balance	\$ 194	\$ 155	\$ 526	\$ 390	\$ 210	\$ 78	\$ 1,550
Charge-offs	(72)	(100)	(26)	(148)	-	(52)	(398)
Recoveries	34	122	219	4	2	15	396
Provisions	39	(23)	(244)	69	128	31	-
Ending balance	<u>\$ 195</u>	<u>\$ 154</u>	<u>\$ 472</u>	<u>\$ 315</u>	<u>\$ 340</u>	<u>\$ 72</u>	<u>\$ 1,548</u>
Ending balances:							
Individually evaluated for impairment	<u>\$ 31</u>	<u>\$ 93</u>	<u>\$ 138</u>	<u>\$ 22</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 284</u>
Collectively evaluated for impairment	<u>\$ 164</u>	<u>\$ 61</u>	<u>\$ 334</u>	<u>\$ 293</u>	<u>\$ 340</u>	<u>\$ 72</u>	<u>\$ 1,264</u>
Loans receivable:							
Ending balance, total	<u>\$ 7,099</u>	<u>\$ 4,903</u>	<u>\$ 27,282</u>	<u>\$ 28,305</u>	<u>\$ 18,644</u>	<u>\$ 2,647</u>	<u>\$ 88,880</u>
Ending balances:							
Individually evaluated for impairment	<u>\$ 135</u>	<u>\$ 589</u>	<u>\$ 3,843</u>	<u>\$ 1,074</u>	<u>\$ 796</u>	<u>\$ 33</u>	<u>\$ 6,470</u>
Collectively evaluated for impairment	<u>\$ 6,964</u>	<u>\$ 4,314</u>	<u>\$ 23,439</u>	<u>\$ 27,231</u>	<u>\$ 17,848</u>	<u>\$ 2,614</u>	<u>\$ 82,410</u>

Credit quality indicators:

The Company uses a risk based approach based on the following credit quality measures when analyzing the loan portfolio: pass, special mention, and substandard. These indicators are used to rate the credit quality of loans for the purposes of determining the Company's allowance for loan losses.

Pass loans are loans that are performing and are deemed adequately protected by the net worth of the borrower or the underlying collateral value. These loans are considered the least risky in terms of determining the allowance for loan losses.

Special Mention loans have a potential weakness that deserves management's 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 are considered the most risky category. These loans typically have an identified weakness or weaknesses and are inadequately protected by the net worth of the borrower or collateral value.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4. Loans Receivable, Continued

The following tables list the loan grades used by the Company as credit quality indicators and the balance in each category.

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2020:

<i>(Dollars in thousands)</i>	<u>Consumer</u>	<u>Commercial</u>	<u>Real estate 1-4 family</u>	<u>Real estate commercial</u>	<u>Real estate all other</u>	<u>All other loans</u>	<u>Total</u>
Pass	\$ 5,862	\$ 11,718	\$ 20,751	\$ 28,894	\$ 21,415	\$ 2,223	\$ 90,863
Special mention	116	331	3,284	649	296	7	4,683
Substandard	66	342	2,438	233	714	24	3,817
	<u>\$ 6,044</u>	<u>\$ 12,391</u>	<u>\$ 26,473</u>	<u>\$ 29,776</u>	<u>\$ 22,425</u>	<u>\$ 2,254</u>	<u>\$ 99,363</u>

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2019:

<i>(Dollars in thousands)</i>	<u>Consumer</u>	<u>Commercial</u>	<u>Real estate 1-4 family</u>	<u>Real estate commercial</u>	<u>Real estate all other</u>	<u>All other loans</u>	<u>Total</u>
Pass	\$ 6,813	\$ 4,228	\$ 21,121	\$ 26,787	\$ 17,523	\$ 2,602	\$ 79,074
Special mention	147	98	2,668	1,162	297	12	4,384
Substandard	139	577	3,493	356	824	33	5,422
	<u>\$ 7,099</u>	<u>\$ 4,903</u>	<u>\$ 27,282</u>	<u>\$ 28,305</u>	<u>\$ 18,644</u>	<u>\$ 2,647</u>	<u>\$ 88,880</u>

The following is an aging analysis of our loan portfolio at December 31, 2020:

<i>(Dollars in thousands)</i>	<u>30-89 Days Past Due</u>	<u>Greater Than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>	<u>>90 Days and Accruing</u>
Consumer	\$ 58	\$ -	\$ 58	\$ 5,986	\$ 6,044	\$ -
Commercial	17	-	17	12,374	12,391	-
Real estate – 1-4 family	832	371	1,203	25,270	26,473	-
Real estate – commercial	454	169	623	29,153	29,776	-
Real estate – all other	97	-	97	22,328	22,425	-
All other loans	24	-	24	2,230	2,254	-
	<u>\$ 1,482</u>	<u>\$ 540</u>	<u>\$ 2,022</u>	<u>\$ 97,341</u>	<u>\$ 99,363</u>	<u>\$ -</u>

The following is an aging analysis of our loan portfolio at December 31, 2019:

<i>(Dollars in thousands)</i>	<u>30-89 Days Past Due</u>	<u>Greater Than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>	<u>>90 Days and Accruing</u>
Consumer	\$ 78	\$ 16	\$ 94	\$ 7,005	\$ 7,099	\$ 10
Commercial	249	99	348	4,555	4,903	-
Real estate – 1-4 family	951	871	1,822	25,460	27,282	-
Real estate – commercial	190	100	290	28,015	28,305	-
Real estate – all other	124	-	124	18,520	18,644	-
All other loans	33	-	33	2,614	2,647	-
	<u>\$ 1,625</u>	<u>\$ 1,086</u>	<u>\$ 2,711</u>	<u>\$ 86,169</u>	<u>\$ 88,880</u>	<u>\$ 10</u>

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4. Loans Receivable, Continued

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2020:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Balance</u>	<u>Interest Income Recognized</u>
<u>With no related allowance needed:</u>					
Consumer	\$ 61	\$ 61	\$ -	\$ 61	\$ 4
Commercial	192	192	-	256	4
Real estate – 1-4 family	1,554	1,554	-	2,135	48
Real estate – commercial	395	395	-	511	15
Real estate – all other	688	688	-	742	85
All other loans	<u>24</u>	<u>24</u>	<u>-</u>	<u>29</u>	<u>-</u>
	<u>2,914</u>	<u>2,914</u>	<u>-</u>	<u>3,734</u>	<u>156</u>
<u>With an allowance recorded:</u>					
Consumer	6	6	2	40	1
Commercial	210	210	66	240	6
Real estate – 1-4 family	1,412	1,412	167	1,270	95
Real estate – commercial	715	715	30	581	35
Real estate – all other	242	242	2	121	19
All other loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,585</u>	<u>2,585</u>	<u>267</u>	<u>2,252</u>	<u>156</u>
<u>Totals:</u>					
Consumer	67	67	2	101	5
Commercial	402	402	66	496	10
Real estate – 1-4 family	2,966	2,966	167	3,405	143
Real estate – commercial	1,110	1,110	30	1,092	50
Real estate – all other	930	930	2	863	104
All other loans	<u>24</u>	<u>24</u>	<u>-</u>	<u>29</u>	<u>-</u>
	<u>\$ 5,499</u>	<u>\$ 5,499</u>	<u>\$ 267</u>	<u>\$ 5,986</u>	<u>\$ 312</u>

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4. Loans Receivable, Continued

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2019:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Balance</u>	<u>Interest Income Recognized</u>
<u>With no related allowance needed:</u>					
Consumer	\$ 61	\$ 61	\$ -	\$ 77	\$ 1
Commercial	319	319	-	269	12
Real estate – 1-4 family	2,715	2,715	-	3,066	103
Real estate – commercial	627	627	-	740	20
Real estate – all other	796	796	-	900	-
All other loans	33	33	-	17	-
	<u>4,551</u>	<u>4,551</u>	<u>-</u>	<u>5,069</u>	<u>136</u>
<u>With an allowance recorded:</u>					
Consumer	74	74	31	55	3
Commercial	270	270	93	296	10
Real estate – 1-4 family	1,128	1,128	138	873	37
Real estate – commercial	447	447	22	498	27
Real estate – all other	-	-	-	-	-
All other loans	-	-	-	23	-
	<u>1,919</u>	<u>1,919</u>	<u>284</u>	<u>1,745</u>	<u>77</u>
<u>Totals:</u>					
Consumer	135	135	31	132	4
Commercial	589	589	93	565	22
Real estate – 1-4 family	3,843	3,843	138	3,939	140
Real estate – commercial	1,074	1,074	22	1,238	47
Real estate – all other	796	796	-	900	-
All other loans	33	33	-	40	-
	<u>\$ 6,470</u>	<u>\$ 6,470</u>	<u>\$ 284</u>	<u>\$ 6,814</u>	<u>\$ 213</u>

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4. Loans Receivable, Continued

The following is an analysis of our nonaccrual loan portfolio recorded as of December 31, 2020 and 2019:

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>
Consumer	\$ 33	\$ 58
Commercial	222	247
Real estate – 1-4 family	1,080	1,860
Real estate – commercial	233	356
Real estate – all other	-	107
All other loans	24	33
	<u>\$ 1,592</u>	<u>\$ 2,661</u>

Troubled debt restructurings:

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

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>
Performing TDRs	\$ 3,112	\$ 2,793
Nonperforming TDRs	1,049	874
	<u>\$ 4,161</u>	<u>\$ 3,667</u>

Loans classified as TDRs may be removed from this status for disclosure purposes after a specified period of time if the subsequently 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 compliance with certain other requirements.

The following is an analysis of TDRs identified during 2020 and 2019:

	<u>For the year ended December 31, 2020</u>		
	<u>Number of Contracts</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
Consumer	-	\$ -	\$ -
Commercial	1	34	34
Real estate – 1-4 family	3	277	277
Real estate – commercial	1	180	180
Real estate – all other	-	-	-
Total	<u>5</u>	<u>\$ 491</u>	<u>\$ 491</u>

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4. Loans Receivable, Continued

During the year ended December 31, 2020, five loans were modified that were considered to be TDRs as a result of changes to payment terms. No loans identified as TDRs in the previous 12 months went into default during the year ended December 31, 2020. A default is considered to be any loan greater than ninety days past due.

	For the year ended December 31, 2019		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Consumer	3	\$ 73	\$ 73
Commercial	3	152	152
Real estate – 1-4 family	3	309	309
Real estate – commercial	1	231	231
Real estate – all other	-	-	-
Total	10	765	765

During the year ended December 31, 2019, ten loans were modified that were considered to be TDRs as a result of changes to payment terms. No loans identified as TDRs in the previous 12 months went into default during the year ended December 31, 2019. A default is considered to be any loan greater than ninety days past due.

Note 5. Premises and Equipment

Premises and equipment is summarized as follows as of December 31:

(Dollars in thousands)	2020	2019
Land	\$ 1,396	\$ 1,396
Building and land improvement	6,485	6,460
Furniture and equipment	3,123	2,981
Software	268	268
	11,272	11,105
Less accumulated depreciation	6,953	6,588
Premises and equipment, net	<u>\$ 4,319</u>	<u>\$ 4,517</u>

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was \$396,000 and \$351,000, respectively.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 6. Other Real Estate Owned

The following summarizes the activity in the other real estate owned for the years ended December 31:

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 989	\$ 758
Additions	90	231
Sales	(434)	-
Write-downs	-	-
Balance, end of year	<u>\$ 645</u>	<u>\$ 989</u>

Note 7. Intangible Assets

Finite lived intangible assets of the Company represented a core deposit premium recorded upon the purchase of certain assets and liabilities from other financial institutions. The core deposit premium was amortized over fifteen years, the estimated average lives of the deposits acquired, using the straight-line method and was included within other assets on the consolidated balance sheets.

The Company reviewed the carrying value of this intangible on an annual basis and on an interim basis if certain events or circumstances indicated that an impairment loss may have been incurred. Management determined that no impairment occurred on this asset.

The following table presents the aggregate amortization expense for the years ended December 31, 2020 and 2019:

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>
Aggregate amortization expense of core deposit premium intangible	<u>\$ -</u>	<u>\$ 7</u>

The core deposit premium intangible was fully amortized during the year ended December 31, 2019.

Note 8. Deposits

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

<i>(Dollars in thousands)</i>	<u>Maturing In</u>	<u>Amount</u>
	2021	\$ 34,949
	2022	4,917
	2023	<u>350</u>
		<u>\$ 40,216</u>

Deposits from directors and executive officers and their related interests totaled approximately \$4,123,000 and \$3,322,000 at December 31, 2020 and 2019, respectively.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 9. Restrictions on Subsidiary Dividends, Loans or Advances

South Carolina banking regulations restrict the amount of dividends that can be paid to stockholders. All of the Bank's dividends to FMB of SC Bancshares, Inc. are payable only from the retained earnings of the Bank. At December 31, 2020, the Bank's retained earnings were \$42.9 million. The Bank is authorized to pay cash dividends up to 100% of net income in any calendar year without obtaining the prior approval of the Commissioner of Banking provided that the Bank received a composite rating of one or two at the last Federal or State regulatory examination. Under Federal Reserve Board regulations, the amounts of loans or advances from the Bank to the parent company are also restricted.

Note 10. Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum 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 stockholders' 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 average assets (as defined), which is known as the leverage ratio. Banks are to maintain capital at the minimum requirement of 4%. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

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.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 10. Capital Requirements, Continued

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 was phased in incrementally over time, beginning January 1, 2016 at 0.625% and became fully effective on January 1, 2019. The capital conservation buffer consists of an additional amount of Tier 1 capital equal to 2.50% of risk-weighted assets, which was in effect for the year ended December 31, 2020.

As of the most recent regulatory examination, the Bank was deemed well-capitalized under the regulatory framework for prompt corrective action. To be categorized well capitalized, the Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events that management believes have changed the Bank’s categories.

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

<i>(Dollars in thousands)</i>	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)	\$ 50,390	42.93%	\$ 9,391	8.00%	\$ 11,739	10.00%
Tier 1 capital						
(to risk-weighted assets)	48,922	41.68%	7,043	6.00%	9,391	8.00%
Tier 1 capital						
(to average assets)	48,922	13.11%	14,930	4.00%	18,662	5.00%
Common equity tier 1 capital						
(to risk-weighted assets)	48,922	41.68%	5,282	4.50%	7,630	6.50%
December 31, 2019						
The Bank						
Total capital						
(to risk-weighted assets)	\$ 50,341	46.02%	\$ 8,752	8.00%	\$ 10,940	10.00%
Tier 1 capital						
(to risk-weighted assets)	48,971	44.76%	6,564	6.00%	8,752	8.00%
Tier 1 capital						
(to average assets)	48,971	13.47%	14,539	4.00%	18,174	5.00%
Common equity tier 1 capital						
(to risk-weighted assets)	48,971	44.76%	4,923	4.50%	7,111	6.50%

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 11. Retirement and Benefit Plans

Contributions to the Company's profit sharing plan were approximately \$477,000 and \$496,000 for the years ended December 31, 2020 and 2019, respectively, and are included in salary and employee benefit expenses.

In 2020 and 2019, the Company recognized \$36,000 and \$38,000, respectfully, of compensation expense pursuant to formal deferred compensation agreements. The amounts relating to these agreements are included as liabilities in other liabilities and are \$953,000 and \$960,000 for the years ended December 31, 2020 and 2019, respectively.

For the years ended December 31, 2020 and 2019, the Company did not recognize any expense for the officers' incentive compensation plan.

Note 12. 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.

Note 13. Income Taxes

Income tax expense (benefit) is summarized as follows:

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Currently payable		
Federal	\$ 312	\$ 856
State	<u>52</u>	<u>155</u>
	<u>364</u>	<u>1,011</u>
Deferred income tax expense (benefit)	(31)	42
Change in valuation allowance	<u>-</u>	<u>-</u>
Income tax expense	<u>\$ 333</u>	<u>\$ 1,053</u>

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 13. Income Taxes, Continued

The components of the net deferred tax asset as of December 31, were as follows:

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Allowance for loan losses	\$ 184	\$ 184
Net capitalized loan costs and fees	21	14
Deferred compensation	200	202
Securities available-for-sale	140	131
Other	<u>85</u>	<u>89</u>
Total deferred tax assets	<u>630</u>	<u>620</u>
Deferred tax liabilities:		
Prepaid expenses	10	11
Accumulated depreciation	<u>210</u>	<u>239</u>
Total deferred tax liabilities	<u>220</u>	<u>250</u>
Net deferred tax asset	<u>\$ 410</u>	<u>\$ 370</u>

Deferred tax assets, included in other assets, represent the future tax benefit of future 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 recorded deferred tax assets to net realizable value. As of December 31, 2020 and 2019, management has determined that a valuation allowance is not necessary. Management has determined that it is more likely than not that the entire deferred tax asset at December 31, 2020 will be realized, and accordingly, has not established a valuation allowance.

The Company has state net operating losses of \$316,325 at December 31, 2020. These net operating losses will begin to expire in the year 2029.

Tax returns for 2017 and subsequent years are subject to examination by taxing authorities.

A reconciliation between the income tax expense allocated to continuing operations and the amount computed by applying the Federal statutory rate of 21% for 2020 and 2019 to income before income taxes follows:

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>
Tax expense at statutory rate	\$ 310	\$ 941
State income tax, net of federal income tax benefit	41	122
Tax-exempt interest income	(16)	(5)
Other, net	<u>(2)</u>	<u>(5)</u>
Total	<u>\$ 333</u>	<u>\$ 1,053</u>

The Company has analyzed the tax positions taken or expected to be taken on its tax returns and concluded it has no liability related to uncertain tax positions in accordance with ASC Topic 740.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 14. Financial Instruments with Off-Balance-Sheet Risk

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

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the counterparty. 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 Bank's off-balance-sheet financial instruments whose contract amounts represent credit risk as of December 31:

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>
Commitments to extend credit	\$ 8,134	\$ 9,533
Standby letters of credit	392	635

Management is not aware of any significant concentrations of loans to classes of borrowers or industries that would be affected similarly by economic conditions.

Note 15. Unused Line of Credit

As of December 31, 2020, the Company had an unused line of credit to purchase federal funds from an unrelated bank totaling \$5,000,000. The line of credit is available on a one to fourteen day basis for general banking purposes. As of December 31, 2020, there were no amounts outstanding on the line.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 16. Stock Compensation Plan

The Company had a stock option awards program that included an Incentive Stock Option Plan (Incentive Plan), a Director Non-Qualified Stock Option Plan (Non-Qualified Plan), and a Stock Appreciation Rights Plan (SARS Plan). The Incentive Plan provided for granting incentive stock options to certain officers and employees of the Company. The Incentive Plan had a 10-year duration whereby 20% of options granted typically vested immediately and the remaining vested ratably over four years. The Non-Qualified Plan was designed to provide stock options to members of the Board of Directors of the Company. Vesting occurred at 20% immediately and the remaining amount at 20% per year over four years. However, certain options granted in 2006 were approved to vest immediately. There were no options outstanding at the beginning of 2020 under these plans. The Company approved the issuance of 16,667 options in total for the two option plans. At December 31, 2020, 3,042 options remained available for issuance for future stock option grants.

There were no additional options granted during 2020 or 2019. As of December 31, 2020 and 2019, all options were either exercised or cancelled that were previously outstanding.

Note 17. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. The Company had no dilutive common share equivalents outstanding at December 31, 2020 or 2019; therefore, basic and diluted earnings per share are the same.

(Dollars in thousands, except share amounts)

	<u>2020</u>	<u>2019</u>
Basic Earnings per share computation:		
Net income available to common stockholders	\$ <u>1,142</u>	\$ <u>3,428</u>
Average common shares outstanding - basic	<u>170,295</u>	<u>172,747</u>
Basic earnings per share	\$ <u>6.71</u>	\$ <u>19.84</u>

Note 18. Fair Value of Financial Instruments

Generally accepted accounting principles require disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, 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).

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 18. Fair Value of Financial Instruments, Continued

Fair value is defined as the exchange 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. The accounting standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasuries, and money market funds.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bonds, corporate debt securities, and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

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

Investment Securities Available-for-Sale - Investment securities available-for-sale 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.

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 18. Fair Value of Financial Instruments, Continued

Impaired Loans - The Bank does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value, or discounted cash flows. Those impaired loans not requiring a specific allowance represents loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2020 and 2019, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value less selling costs, the Bank records the loan as nonrecurring Level 2. When an 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 Bank records the loan as nonrecurring Level 3.

Other Real Estate Owned - Other real estate owned is adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, other real estate owned is carried at the lower of carrying value or fair 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 an observable market price or an appraised value less selling costs, the Bank records the other real estate owned as nonrecurring Level 2. When an 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 other real estate owned as nonrecurring Level 3.

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy. There were no liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019.

(Dollars in thousands)	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Government-sponsored enterprises	\$ 103,299	\$ -	\$ 103,299	\$ -
Municipal securities	9,240	-	9,240	-
Total	<u>\$ 112,539</u>	<u>\$ -</u>	<u>\$ 112,539</u>	<u>\$ -</u>
(Dollars in thousands)	December 31, 2019			
	Total	Level 1	Level 2	Level 3
U.S. Treasuries	\$ 1,001	\$ -	\$ 1,001	\$ -
Government-sponsored enterprises	99,688	-	99,688	-
Total	<u>\$ 100,689</u>	<u>\$ -</u>	<u>\$ 100,689</u>	<u>\$ -</u>

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 18. Fair Value of Financial Instruments, Continued

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 carried on the balance sheet by caption and by level within the valuation hierarchy (as described above) as of December 31, 2020 and 2019 for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2020 and 2019.

Assets and liabilities measured at fair value on a nonrecurring basis are as follows as of December 31, 2020 and 2019:

<i>(Dollars in thousands)</i>	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Other real estate owned	\$ 645	\$ -	\$ 645	\$ -
Impaired loans, net of specific reserves:				
Consumer	65	-	65	-
Commercial	336	-	336	-
Real estate - 1-4 family	2,799	-	2,799	-
Real estate - commercial	1,080	-	1,080	-
Real estate - all other	928	-	928	-
All other loans	24	-	24	-
Total impaired loans	<u>5,232</u>	<u>-</u>	<u>5,232</u>	<u>-</u>
Total	<u>\$ 5,877</u>	<u>\$ -</u>	<u>\$ 5,877</u>	<u>\$ -</u>

<i>(Dollars in thousands)</i>	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Other real estate owned	\$ 989	\$ -	\$ 989	\$ -
Impaired loans, net of specific reserves:				
Consumer	104	-	104	-
Commercial	496	-	496	-
Real estate - 1-4 family	3,705	-	3,705	-
Real estate - commercial	1,052	-	1,052	-
Real estate - all other	796	-	796	-
All other loans	33	-	33	-
Total impaired loans	<u>6,186</u>	<u>-</u>	<u>6,186</u>	<u>-</u>
Total	<u>\$ 7,175</u>	<u>\$ -</u>	<u>\$ 7,175</u>	<u>\$ -</u>

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2020 and 2019.

The Company has no assets or liabilities whose fair values are measured using Level 3 inputs as of December 31, 2020 and 2019.

FMB of SC BANCSHARES, INCORPORATED

Directors

E. Ward Avinger, Jr.Retired
Avinger Funeral Home, Incorporated

John H. Clarke, Jr.President
Oliver-Clarke Furniture Company, Incorporated

W. S. Helmly President & CEO
Home Telecom

R. M. Holcombe.....Retired
Farmers & Merchants Bank of South Carolina

John L. HuttoChief Executive Officer
Farmers & Merchants Bank of South Carolina

R. Barry HuttoFarmer

Thomas O. Hutto President
Farmers & Merchants Bank of South Carolina

Robert F. McCurryRetired
R. F. McCurry & Sons

Joseph C. Shuler, Jr.Retired
Farmers & Merchants Bank of South Carolina

William H. Sohm, Jr.Chief Financial Officer - Compliance
Farmers & Merchants Bank of South Carolina

L. L. WeathersPartner
Weathers Farms, Incorporated

F. Eugene WilliamsRetired
Berkeley Electric Cooperative, Incorporated

Principal Officers

R. F. McCurryChairman of the Board

John L. HuttoPresident & CEO

John H. Clarke, Jr.Vice President

Joseph C. Shuler, Jr.Secretary

R. Michael HolcombeTreasurer

Farmers and Merchants Bank of South Carolina

FARMERS AND MERCHANTS BANK OF SOUTH CAROLINA

Annual Financial Disclosure Statement
furnished pursuant to Part 350 of the Federal Deposit
Insurance Corporation's
rules and regulations

For the year ended December 31, 2020

I, John L. Hutto, do hereby declare that this Financial Disclosure Statement is true and correct
in every material respect to the best of my knowledge and belief.



**THIS STATEMENT HAS NOT BEEN REVIEWED,
OR CONFIRMED FOR ACCURACY OR RELEVANCE BY THE
FEDERAL DEPOSIT INSURANCE CORPORATION.**

FMB of SC Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 19. FMB of SC Bancshares, Inc. (Parent Company Only), Continued

<i>(Dollars in thousands)</i>	<u>Condensed Statements</u>	
	<u>of Cash Flows</u>	
	<u>For the years ended</u>	
	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Operating activities		
Net income	\$ 1,142	\$ 3,428
Adjustments to reconcile net income to net cash		
Equity in undistributed earnings of banking subsidiary	49	(2,497)
Increase in other assets	(1)	(3)
Net cash provided by operating activities	<u>1,190</u>	<u>928</u>
Financing activity		
Cash dividends paid	(552)	(646)
Sale of treasury stock	10	-
Purchase of treasury stock	(464)	(335)
Net cash used by financing activities	<u>(1,006)</u>	<u>(981)</u>
Net increase (decrease) in cash	184	(53)
Cash, beginning of year	<u>242</u>	<u>295</u>
Cash, end of year	<u>\$ 426</u>	<u>\$ 242</u>

Note 20. 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 January 21, 2020, the date the financial statements were available to be issued, and other than the paragraph below, no subsequent events occurred requiring accrual or disclosure.

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 have 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. Reductions in interest rates and other effects of the COVID-19 outbreak may adversely affect the Company's financial condition and results of operations.



Independent Auditor's Report on the Supplementary Information

To the Board of Directors
FMB of SC Bancshares, Inc. and Subsidiary
Holly Hill, South Carolina

We have audited the consolidated financial statements of FMB of SC Bancshares, Inc. and its Subsidiary as of and for the years ended December 31, 2020 and 2019, and have issued our report thereon, dated January 21, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Elliott Davis, LLC

Columbia, South Carolina
January 21, 2021

Farmers and Merchants Bank of South Carolina

Balance Sheets

As of December 31, 2020 and 2019

(Dollars in thousands, except share amounts)

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents		
Cash and due from banks	\$ 19,065	\$ 11,391
Interest bearing balances	172,756	213,812
Federal funds sold	500	2,676
Total cash and cash equivalents	<u>192,321</u>	<u>227,879</u>
Time deposits with other banks	5,500	-
Investment securities		
Securities available-for-sale	112,539	100,689
Nonmarketable equity securities	436	397
Total investment securities	<u>112,975</u>	<u>101,086</u>
Loans receivable	99,155	88,814
Less allowance for loan losses	1,508	1,548
Loans receivable, net	<u>97,647</u>	<u>87,266</u>
Premises and equipment, net	4,319	4,517
Other real estate owned, net	645	989
Accrued interest receivable	1,070	1,205
Other assets	2,297	2,138
Total assets	<u>\$ 416,774</u>	<u>\$ 425,080</u>
Liabilities		
Deposits		
Noninterest-bearing transaction accounts	\$ 146,422	\$ 122,047
Interest-bearing transaction accounts	107,203	145,483
Money market accounts	15,046	13,870
Savings accounts	58,198	51,694
Certificates of deposit \$250,000 and over	18,663	19,746
Other time deposits	21,553	22,430
Total deposits	<u>367,085</u>	<u>375,270</u>
Accrued interest payable	63	117
Other liabilities	1,134	1,126
Total liabilities	<u>368,282</u>	<u>376,513</u>
Stockholders' equity		
Common stock, \$5.00 par value, 500,000 shares authorized, 250,000 shares issued and outstanding	1,250	1,250
Capital surplus	4,750	4,750
Retained earnings	42,922	42,971
Accumulated other comprehensive loss	(430)	(404)
Total stockholders' equity	<u>48,492</u>	<u>48,567</u>
Total liabilities and stockholders' equity	<u>\$ 416,774</u>	<u>\$ 425,080</u>

Farmers and Merchants Bank of South Carolina

Statements of Income

For the years ended December 31, 2020 and 2019

(Dollars in thousands, except per share amounts)

	<u>2020</u>	<u>2019</u>
Interest income		
Loans, including fees	\$ 5,528	5,771
Investment securities	1,754	2,126
Nonmarketable equity securities	20	23
Federal funds sold and interest-bearing balances	<u>977</u>	<u>3,340</u>
Total interest income	<u>8,279</u>	<u>11,260</u>
Interest expense		
Certificates of deposit	398	502
Other deposits	<u>161</u>	<u>211</u>
Total interest expense	<u>559</u>	<u>713</u>
Net interest income		
Provision for loan losses	<u>-</u>	<u>-</u>
Net interest income after provision for loan losses	<u>7,720</u>	<u>10,547</u>
Noninterest income		
Service charges on deposit accounts	830	1,124
Other service fees	1,106	1,022
Credit life insurance commissions	8	8
Other income	<u>141</u>	<u>137</u>
Total noninterest income	<u>2,085</u>	<u>2,291</u>
Noninterest expense		
Salaries and employee benefits	4,696	4,722
Occupancy	670	662
Furniture and equipment	1,283	1,186
Printing, supplies and postage	214	240
Telecommunications expense	235	235
Net cost of operation of other real estate owned	6	(2)
FDIC assessment	62	27
ATM processing fees	394	371
Other operating expenses	<u>766</u>	<u>909</u>
Total noninterest expense	<u>8,326</u>	<u>8,350</u>
Income before taxes		
Income tax expense	<u>334</u>	<u>1,054</u>
Net income	<u>\$ 1,145</u>	<u>\$ 3,434</u>

FARMERS & MERCHANTS BANK OF SOUTH CAROLINA

A Wholly Owned Subsidiary

Directors

- E. Ward Avinger, Jr..... Retired
Avinger Funeral Home, Incorporated
- John H. Clarke, Jr.....President
Oliver-Clarke Furniture Co, Incorporated
- W. S. HelmlyPresident & CEO
Home Telecom
- R. M. HolcombeRetired
Farmers & Merchants Bank of South Carolina
- John L. HuttoChief Executive Officer
Farmers & Merchants Bank of South Carolina
- R. Barry HuttoFarmer
- Thomas O. HuttoPresident
Farmers & Merchants Bank of South Carolina
- Robert F. McCurryRetired
R. F. McCurry & Sons
- Joseph C. Shuler, Jr.Retired
Farmers & Merchants Bank of South Carolina
- William H. Sohm, Jr.Chief Financial Officer - Compliance
Farmers & Merchants Bank of South Carolina
- L. L. WeathersPartner
Weathers Farms, Incorporated
- F. Eugene WilliamsRetired
Berkeley Electric Cooperative, Incorporated
- Christopher N. WilliamsonCommander
South Carolina Highway Patrol

FARMERS & MERCHANTS BANK OF SOUTH CAROLINA

OFFICERS

R. F. McCurry
Chairman of the Board

Thomas O. Hutto
President

Brian P. West
Chief Credit Officer

Jennifer D. Walters
Vice President - Auditor

John L. Hutto
Chief Executive Officer

William H. Sohm, Jr.
Chief Financial Officer - Compliance

Timothy C. Ott
Vice President – Information Technology

HOLLY HILL OFFICE

Charles D. Paramore, Jr.
Vice President & Regional Executive

Penny H. Mims
Vice President – Human Resources

Tammie R. H. Rickenbacker
Vice President – Deposit Operations/Marketing

Arthur O. Shuler, III
Vice President – General Services

Jennifer P. Szorosy
Vice President – Loan Operations

Tammy M. Rudd
Asst. Vice President – Loan Operations

Hope D. Sweatman
Asst. Vice President – Operations Executive

A. Heath Prescott
Asst. Vice President – Data Processing Executive

Judy R. Griffith
Accounting Officer

Robin B. Kizer
Asst. Cashier

Felicia D. Weatherford
Information Services Officer

Barbara J. Addison
Asst. Cashier

BOWMAN OFFICE

Kathleen T. Gustafson
Branch Manager

MONCKS CORNER OFFICE

Thierry P. Longueville
Vice President – Business Development Officer

Charles W. Singletary, Jr.
Asst. Cashier – Branch Manager

Barbara C. Bunch
Asst. Vice President - Branch Operations

Davyne M. Tracy
Asst. Cashier

EUTAWVILLE OFFICE

Stacy D. Weathers
Asst. Vice President & Branch Manager

BRANCHVILLE OFFICE

Thomas E. Jennings, Jr.
Vice President & Branch Manager

ST. STEPHEN OFFICE

Becky J. Olson
Asst. Vice President & Branch Manager

CARNES CROSSROADS OFFICE

Steven M. Sabback
Vice President & Branch Manager

CAMERON OFFICE

Jennifer N. B. Myers
Asst. Vice President & Branch Manager