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.

I, R Bruce White
Name of the Holding Company Director and Official

Chief Executive Officer/Chairman of the Board
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.

Signature of Holding Company Director and Official

3/26/2020
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. _____

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

December 31, 2019
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Travelers Rest Bancshares, Inc.
Legal Title of Holding Company

42 Plaza Drive/ PO Box 1067
(Mailing Address of the Holding Company) Street / P.O. Box

Travelers Rest	SC	29690
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Jay C Edwards	CFO
Name	Title

864-834-9031 x1338
Area Code / Phone Number / Extension

864-834-3417
Area Code / FAX Number

jaye@bankoftravelersrest.com
E-mail Address

www.bankoftravelersrest.com
Address (URL) for the Holding Company's web page

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."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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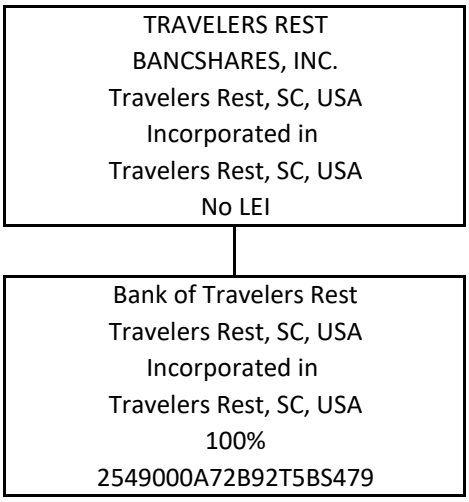
Form FR Y-6

Travelers Rest Bancshares, Inc.
Travelers Rest, SC 29690
Fiscal Year Ending December 31, 2019

Report Item

1: The bank holding company prepares an annual report for its securities holders. A copy is attached to this submission.

2a: Organizational Chart



2b: Domestic Branch Listing - Attached to this submission.

Form FR Y-6

Travelers Rest Bancshares, Inc.
Travelers Rest, SC 29690
Fiscal Year Ending December 31, 2019

Item 3.1: Securities holders

(1)(a) Name & Address				(1)(b) Country of Citizenship	(1)(c) Common Stock Ownership	
Name	City	State	Country		# Shares	% Shares
R. Bruce White	Travelers Rest	SC	USA	USA	171,420	47.54%
Martha S. White	Georgetown	SC	USA	USA	14,704	4.08%
Robert L. White	Greenville	SC	USA	USA	6,799	1.89%
John D. White	New York	NY	USA	USA	6,813	1.89%
Michael A. White	Travelers Rest	SC	USA	USA	6,186	1.72%
Elizabeth Steifle	Greenville	SC	USA	USA	214	*
Kelley S. Moss	Greer	SC	USA	USA	110	*
					Family Total	**57.38%**
Robert A. League, Jr.	Greenville	SC	USA	USA	23,746	6.59%
Isabelle Kyte	Travelers Rest	SC	USA	USA	44	0.01%
Abigail Leauge	Travelers Rest	SC	USA	USA	164	*
Joseph D. League, Jr.	Travelers Rest	SC	USA	USA	1,743	*
Emma League	Travelers Rest	SC	USA	USA	164	*
Ivey League	Greenville	SC	USA	USA	459	*
Meadow League	Greenville	SC	USA	USA	458	*
Maria League Prowse	Greenville	SC	USA	USA	57	*
Reagan League	Travelers Rest	SC	USA	USA	164	*
Robert A. League, IV	Travelers Rest	SC	USA	USA	108	*
Sean League	Travelers Rest	SC	USA	USA	164	*
Sonya League	Travelers Rest	SC	USA	USA	23	*
Andrew League McCall	Greenville	SC	USA	USA	80	*
Robert A. League, III	Greenville	SC	USA	USA	51	*
					Family Total	**7.63%**
Lucile Williams	Greenville	SC	USA	USA	10,474	2.91%
William Giles	Simpsonville	SC	USA	USA	4,444	1.24%
Eleanor Perry	Columbia	SC	USA	USA	2,893	*
William Giles IRA	Simpsonville	SC	USA	USA	1,287	*
Teresa Smith-Giles	Simpsonville	SC	USA	USA	218	*
					Family Total	**5.36%**

* Less than 1% ownership.

Item 3.2: None

Persons or families able to vote 5% at any point during the year that are not listed above.

Form FR Y-6

Travelers Rest Bancshares, Inc.
Travelers Rest, SC 29690
Fiscal Year Ending December 31, 2019

Report Item 4: Insiders

(1) Name & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiary (Bank of Traveler Rest	(3)(c) Title & Position with other Business(es) (Include name of other business(es))	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiary (Bank of Travelers Rest)	(4)(c) List of names of other companies (including partnerships) if 25 % or more of voting securities are held (List names of companies and % of voting securities held)
Ray B. Batson Travelers Rest, SC, USA	Consultant	Director	Director	N/A	0.47%	n/a	Sharpshooters Indoor Range 45% Eagle, SC, LLC 50% LTH, LP 60% Batson Developers, II 42% B&H, LLC 33.3% R&R Joint PTR 25%
Julie Godshall Brown Greenville, SC, USA	Consultant	Director	Director	President, Godshall & Godshall Personnel Consultants, Inc.	0.03%	n/a	Godshall & Godshall 100% Blue Waters of SC, LLC 100% Vista Towers Partners- Member
Harry F Cato Columbia, SC, USA	Advisor	Director	Director	Advisor, Nelson Mullins Riley & Scarborough, LLP	0.30%	n/a	Blue Moon Strategies, LLC 100% Cabana Girl, LLC 25% 2018 Covey Lane, LLC 100% 253 Little Oak Drive, LLC 100% 2425 Stono Watch Drive, LLC 100% 470 Tarpon Boulevard, LLC 100% H&K Holding Co., LLC 100% 56 Death Valley Walk, LLC 100% 471 Starling Road, LLC 100%
Benjamin N Cleveland Marietta, SC, USA	Operations Analyst	Director	Director	Senior Operation Analyst, BAE Systems	0.07%	n/a	Cleveland Cottages-15M LLC 50% Cleveland Cottages-19M LLC 50% Cleveland Cottages-21M LLC 50% MHOTW, LLC 50%
Gregory L Coleman Travelers Rest, SC, USA	Automobile Dealer	Director	Director	President, George Coleman Motors, Inc.	1.11% *0.54%	n/a	George Coleman Motors, Inc. dba George Coleman Ford 99%
Stephan R Farr Travelers Rest, SC, USA	N/A	Director	Director	N/A	1.63% *0.08%	n/a	None
Richard D Holcombe, Jr. Greenville, SC, USA	Electrical Corportation	Director	Director	President, H&W Electrical Corp.	0.74%	n/a	H&W Electrical Corp 96%
J David League, Jr. Travelers Rest, SC, USA	Food Store	Director	Director	Vice President, Handee Mart Food Stores	0.68% *6.95%	n/a	Handee Mart Food Stores, Inc 25%
L Lee Plumblee Greenville, SC, USA	Attorney	Director	Director	Attorney, Epps & Plumblee, P.A.	0.13%	n/a	Epps & Plumblee, P.A. 50% New Lawyers Building, LLC 33.3%
Elliott W. Goldsmith Greenville, SC USA	Franchise owner	Director	Director	Goldsmith Development dba Firehouse Subs	0.01%	n/a	Goldsmith Dev. Dba Firehouse Subs 100% EWG Holdings, LLC 100% Prospect One, LLC 33.3%
R Bruce White Travelers Rest, SC, USA	N/A	Director, President, Chairman	Director, CEO, Chairman	None	47.54% *9.84%	n/a	T&E Properties, LLC 50% Travelers Rest Prof Park, Inc. 25% Travelers Rest Bancshares, Inc. 50%
Jay C Edwards Easley, SC, USA	N/A	Treasurer	Chief Financial Officer	None	0.00%	n/a	None
Edward M. Fewell Greenville, SC, USA	N/A	Vice President	Executive Vice President	None	0.00%	n/a	None
Thomas R. Britt Greenville, SC, USA	N/A	Secretary	President	None	0.48% *0.22%	n/a	None

* Note: Does not directly own these shares. Family, as defined in the FR Y-6 instructions, own these shares. Per the instructions, these shares are reported as they could be voted in concert, as defined.

Results: A list of branches for your holding company: TRAVELERS REST BANCSHARES, INC. (2730383) of TRAVELERS REST, SC.
The data are as of 12/31/2019. Data reflects information that was received and processed through 03/05/2020.

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 owned by this depository 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-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	589523	BANK OF TRAVELERS REST	42 PLAZA DRIVE	TRAVELERS REST	SC	29690	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	912729	BUNCOMBE ROAD BRANCH	5101 OLD BUNCOMBE RD	GREENVILLE	SC	29617	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	3719059	EAST WASHINGTON STREET BRANCH	217-B EAST WASHINGTON STREET	GREENVILLE	SC	29601	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	3285862	NORTH PLEASANTBURG BRANCH	2021 NORTH PLEASANTBURG DR	GREENVILLE	SC	29609	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	3676572	PELHAM ROAD BRANCH	201 PELHAM ROAD	GREENVILLE	SC	29615	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	4972534	VERDAE BRANCH	1041 VERDAE BLVD	GREENVILLE	SC	29607	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	1444665	WHITE HORSE ROAD BRANCH	6204 WHITE HORSE ROAD	GREENVILLE	SC	29611	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	43427	MARIETTA BRANCH	3211 GEER HWY	MARIETTA	SC	29661	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	3719068	WADE HAMPTON BRANCH	6000 WADE HAMPTON BOULEVARD	TAYLORS	SC	29687	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	
OK		Full Service	46026	ROE CENTER COURT OFFICE	500 ROE CENTER COURT	TRAVELERS REST	SC	29690	GREENVILLE	UNITED STATES	Not Required	Not Required	BANK OF TRAVELERS REST	589523	

Travelers Rest Bancshares, Inc.
and Subsidiary

Report on Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Travelers Rest Bancshares, Inc. and Subsidiary

Contents

elliott davis

Independent Auditor's Report

The Board of Directors and Stockholders
Travelers Rest Bancshares, Inc. and Subsidiary
Travelers Rest, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Travelers Rest Bancshares, Inc. and its subsidiary which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Travelers Rest Bancshares, Inc. and its subsidiary as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Greenville, South Carolina
March 2, 2020

Travelers Rest Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

As of December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 34,097,882	$ 32,028,655
Federal funds sold	52,615,000	20,863,000
Total cash and cash equivalents	86,712,882	52,891,655
Securities		
Available for sale	182,721,372	174,871,191
Other investments, at cost	1,900,700	1,881,100
Loans, net of allowance for loan losses of $9,095,772 for 2019 and $8,383,814 for 2018	497,578,341	468,776,573
Premises and equipment, net	13,973,228	14,299,733
Accrued interest receivable	2,625,203	2,887,927
Bank owned life insurance	17,571,913	13,400,363
Other real estate owned	950,000	950,000
Other assets	869,121	615,817
Total assets	$ 804,902,760	$ 730,574,359
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 114,669,469	$ 103,047,131
Interest-bearing	594,084,342	544,656,439
Total deposits	708,753,811	647,703,570
Securities sold under repurchase agreements	5,266,682	4,856,330
Other liabilities	8,300,902	6,488,649
Total liabilities	722,321,395	659,048,549
Commitments and contingencies - notes 13 and 14		
Stockholders' equity		
Common stock - par value $.01 per share; 10,000,000 shares authorized; 360,610 and 359,910 shares issued and outstanding at December 31, 2019 and 2018, respectively	3,606	3,599
Capital in excess of par value of stock	26,774,026	26,677,239
Retained earnings	53,753,442	46,439,514
Treasury Stock	(19,165)	(33,737)
Accumulated other comprehensive income (loss)	2,069,456	(1,560,805)
Total stockholders' equity	82,581,365	71,525,810
Total liabilities and stockholders' equity	$ 804,902,760	$ 730,574,359

See Notes to Consolidated Financial Statements

Travelers Rest Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2019 and 2018

	2019	2018
Interest income		
Loans and fees on loans	$ 25,044,085	$ 22,058,872
Investment securities		
Taxable	2,275,318	2,299,390
Nontaxable	2,572,160	2,319,498
Federal funds sold	1,292,523	976,840
Total interest income	31,184,086	27,654,600
Interest expense		
Deposits	5,016,133	3,248,475
Repurchase agreements	47,260	24,651
Total interest expense	5,063,393	3,273,126
Net interest income	26,120,693	24,381,474
Provision for loan losses	1,584,000	1,368,000
Net interest income after provision for loan losses	24,536,693	23,013,474
Noninterest income		
Service charges on deposit accounts	6,820,190	6,331,797
Mortgage loan origination fees	527,775	302,028
Gateway Wealth Strategies income	890,134	953,577
Bank owned life insurance income	319,467	328,481
Other operating income	625,634	583,582
Gain realized on sale of investment securities	116,052	1,432
Total noninterest income	9,299,252	8,500,897
Noninterest expenses		
Salaries and wages	10,151,660	9,639,342
Profit sharing and other employee benefits	2,938,291	2,760,801
Occupancy	1,431,165	1,398,799
Furniture and equipment	924,348	894,111
Data processing	807,941	731,210
FDIC assessment	108,762	220,388
Stationery, supplies and printing	531,979	510,202
Postage	247,091	242,269
Losses on sale and writedowns of other real estate owned	-	73,621
Other real estate owned expenses	37,562	24,145
Other operating expenses	4,938,063	5,057,216
Total noninterest expenses	22,116,862	21,552,104
Net income before provision for income taxes	11,719,083	9,962,267
Provision for state income taxes	526,000	448,000
Net income	$ 11,193,083	$ 9,514,267
Basic net income per share of common stock	$ 31.12	$ 26.67
Diluted net income per share of common stock	$ 31.12	$ 26.64
Weighted average number of shares outstanding - basic	359,684	356,768
Weighted average number of shares outstanding - diluted	359,684	357,201

See Notes to Consolidated Financial Statements

Travelers Rest Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

	2019	2018
Net income	$ 11,193,083	$ 9,514,267
Other comprehensive income (loss)		
Changes in unrealized gain (loss) on securities available for sale		
Unrealized holding gain (loss) arising during the period, pretax	3,917,370	(1,981,407)
Reclassification adjustment for (gains)losses included in net income	(116,052)	1,432
Tax (expense) benefit	(171,057)	89,096
	3,630,261	(1,890,879)
Comprehensive income	$ 14,823,344	$ 7,623,388

See Notes to Consolidated Financial Statements

Travelers Rest Bancshares, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2019 and 2018

	Common stock		Capital In Excess of Par Value of Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares	Amount					
Balance, December 31, 2017	357,810	$ 3,578	$ 26,354,607	$ (63,604)	$ 39,827,874	$ 330,074	$ 66,452,529
Net income	-	-	-	-	9,514,267	-	9,514,267
Other comprehensive income	-	-	-	-	-	(1,890,879)	(1,890,879)
Stock options exercised	2,100	21	216,279	-	-	-	216,300
Treasury stock transactions, net	-	-	106,353	29,867	-	-	136,220
Cash dividend declared ($2.60 per share)	-	-	-	-	(929,347)	-	(929,347)
Tax pass through dividend declared ($5.53 per share)	-	-	-	-	(1,973,280)	-	(1,973,280)
Balance, December 31, 2018	359,910	3,599	26,677,239	(33,737)	46,439,514	(1,560,805)	71,525,810
Net income	-	-	-	-	11,193,083	-	11,193,083
Other comprehensive income	-	-	-	-	-	3,630,261	3,630,261
Stock options exercised	700	7	72,093	-	-	-	72,100
Treasury stock transactions, net	-	-	24,694	14,572	-	-	39,266
Cash dividend declared ($3.00 per share)	-	-	-	-	(1,080,183)	-	(1,080,183)
Tax pass through dividend declared ($7.78 per share)	-	-	-	-	(2,798,972)	-	(2,798,972)
Balance, December 31, 2019	360,610	$ 3,606	$ 26,774,026	$ (19,165)	$ 53,753,442	$ 2,069,456	$ 82,581,365

See Notes to Consolidated Financial Statements

Travelers Rest Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

	2019	2018
Operating activities		
Net income	$ 11,193,083	$ 9,514,267
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,073,591	1,051,403
Securities amortization and accretion, net	1,496,051	1,702,725
Provision for loan losses	1,584,000	1,368,000
Loss on sale and write down of other real estate owned	-	73,621
Net (Gain) Loss on investment securities transactions	(116,052)	1,432
Increase (Decrease) in accrued interest receivable	262,724	(216,018)
Increase in other assets	(253,304)	(70,251)
Increase in cash surrender value of life insurance	(371,550)	(380,355)
Decrease (Increase) in other liabilities	400,916	(754,463)
Net cash provided by operating activities	15,269,459	12,290,361
Investing activities		
Proceeds from the maturity or call of investment securities available for sale	30,208,860	11,531,600
Purchase of investment securities available for sale	(59,721,683)	(36,311,743)
Proceeds from the sale of investment securities available for sale	5,505,863	8,737,847
Principal repayments on mortgage-backed securities available for sale	18,578,104	10,179,462
Purchase of bank owned life insurance	(3,800,000)	-
Purchase of Federal Home Loan Bank stock	(19,600)	(66,800)
Net increase in loans	(30,385,768)	(50,161,648)
Proceeds from sales of other real estate owned	-	486,379
Proceeds from sale of land	-	744,114
Purchases of premises and equipment	(747,086)	(628,787)
Net cash used for investing activities	(40,381,310)	(55,489,576)
Financing activities		
Cash dividends paid	(539,366)	(461,626)
Tax pass through cash dividends paid	(2,099,515)	(1,473,179)
Proceeds from exercise of stock options	72,100	216,300
Treasury stock transactions, net	39,266	136,220
Net increase in deposits	61,050,241	14,841,085
Net increase in securities sold under repurchase agreements	410,352	1,704,641
Net cash provided by financing activities	58,933,078	14,963,441
Net increase (decrease) in cash and cash equivalents	33,821,227	(28,235,774)
Cash and cash equivalents, beginning of year	52,891,655	81,127,429
Cash and cash equivalents, end of year	$ 86,712,882	$ 52,891,655
Cash paid for		
Interest	$ 4,892,764	$ 3,141,935
State Income taxes	$ 477,239	$ 411,000
Noncash investing and financing activities		
Loans transferred to other real estate owned	$ -	$ 1,155,000
Accrued cash dividend declared	$ 540,817	$ 467,721
Accrued tax pass through dividend declared	$ 699,457	$ 500,101
Change in unrealized gain (loss) on investment securities	$ 3,801,318	$ (1,979,975)

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies and Activities

Principles of consolidation and nature of operations:

The consolidated financial statements include the accounts of Travelers Rest Bancshares, Inc. and Subsidiary (the "Company"), which includes its wholly-owned subsidiary, the Bank of Travelers Rest (the "Bank") and the Bank's wholly-owned subsidiary, Gateway Wealth Strategies, Inc. ("Gateway"). The Company is subject to regulatory oversight by the Federal Reserve Board. The Bank operates under a state bank charter and provides full banking services to its customers. The Bank is subject to regulation from both the South Carolina State Board of Financial Institutions and the Federal Deposit Insurance Corporation. Gateway provides investment counseling and brokerage services and is subject to the oversight of the South Carolina State Board of Financial Institutions.

Basis of presentation:

The Company operates as one business segment. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies conform to accounting principles generally accepted in the United States of America and to general practices in the industry.

The Bank derives its income primarily from interest on loans and investment securities. To a lesser extent, income is earned from service charges on deposit accounts, non-deposit sales, and fees received in connection with mortgage loan originations. The Bank's major expenses are salaries and benefits, the interest it pays on deposits and borrowings, and general operating expenses.

The Company conducts its business through the Bank, which is subject to the laws of the State of South Carolina and federal regulations governing the financial services industry. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Bank holding companies are subject to regulation and supervision by the Board of Governors of the Federal Reserve System.

Estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the consolidated balance sheets and the consolidated statements of income for the periods covered. The Company's most significant estimates relate to the allowance for loan losses and determining the fair value of other real estate owned. Actual results could differ from those estimates.

Cash and cash equivalents:

For the purposes of reporting cash flows, the Company considers cash and cash equivalents to be those items included in cash and due from banks and federal funds sold. Generally, cash and cash equivalents are considered to have maturities of three months or less.

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

Securities:

Accounting standards for securities require that the Company classify debt securities upon purchase as available for sale, held to maturity, or trading. Investments classified as available for sale are carried at fair value. Unrealized holding gains or losses are reported as a component of stockholders' equity (accumulated other comprehensive income or loss) net of deferred state income taxes. Securities classified as held to maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts into interest income using a method which approximates a level yield of interest over the estimated remaining life. To qualify as held to maturity, the Company must have the ability and intent to hold the securities to maturity. Trading securities are carried at market value. Gains or losses on disposition of securities are based on the difference between the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. The Company had no held to maturity or trading securities at December 31, 2019 and 2018.

Other investments include the Bank's investment in the Federal Home Loan Bank of Atlanta ("FHLB") in which, as a member institution, the Bank is required to own stock. The stock is generally pledged against any borrowings from the FHLB. No ready market exists for the stock and it has no quoted market value. However, redemption of the stock historically has been at par value. Additionally, the Bank invests in time deposits at other financial institutions.

Loans, interest and fee income on loans:

Loans are stated at the principal balance outstanding. Unearned discounts, unamortized loan fees and the allowance for loan losses are deducted from total loans in the consolidated balance sheets. Interest income is recognized over the term of the loan based on the principal amount outstanding.

Loans are generally placed on nonaccrual status when principal or interest becomes ninety days past due, or when, in the opinion of management, the collection of additional interest is questionable and payment in full is not anticipated. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. If collectability is in doubt, cash receipts on nonaccrual loans are not recorded as interest income but are used to reduce principal. Thereafter, no interest is taken into income unless received in cash or until such time as the borrower demonstrates the ability to pay principal and interest. Non-performing assets include real estate acquired through foreclosure or deed taken in lieu of foreclosure and loans on nonaccrual status.

Allowance for loan losses:

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

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

Allowance for loan losses, continued:

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

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

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

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Other real estate owned:

Other real estate owned is initially recorded at the lower of cost or estimated fair value less selling costs. Subsequent to the date of acquisition, it is carried at the lower of cost or fair value, adjusted for net selling costs. Fair values of real estate owned are reviewed regularly and writedowns are recorded when it is determined that the carrying value of real estate exceeds the fair value less estimated costs to sell. Costs relating to the development and improvement of such property are capitalized, whereas those costs relating to holding the property are charged to expense. At December 31, 2019 and 2018, other real estate owned by the Company totaled $950,000 and $950,000, respectively.

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

Premises and equipment:

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed over the estimated useful lives of the assets using primarily the straight-line method. Additions to premises and equipment and major replacements or improvements are capitalized at cost. Maintenance, repairs and minor replacements are expensed when incurred. Gains and losses on routine dispositions are reflected in current operations.

Bank owned life insurance:

Bank owned life insurance policies represent the cash value of policies on certain officers of the Bank.

Income taxes:

The Company, with the consent of its stockholders, elected to become an S Corporation for federal income tax purposes under the Internal Revenue Code. Under an S Corporation election, the income of the Company is taxed at the shareholder level rather than at the corporate level with certain exceptions. The State of South Carolina does not recognize S Corporation status for banks. Accordingly, the Bank will continue to accrue and pay South Carolina income taxes.

The Company is no longer subject to examination by federal and state taxing authorities for years prior to 2017.

Advertising expense:

Advertising, promotional and other business development 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 and are included in other operating expenses. For the years ended December 31, 2019 and 2018, advertising expense was $396,176 and $428,682, respectively.

Reclassifications:

Certain prior year amounts have been reclassified to conform with the current presentation. These reclassifications had no effect on the previously reported results of operations or stockholders' equity.

Net income per share:

Basic net income per share of common stock is computed using the weighted average number of common shares outstanding (359,684 in 2019 and 356,768 in 2018). The treasury stock method is used to compute the dilutive effect of stock options on the weighted average number of common shares outstanding (359,684 in 2019 and 357,201 in 2018).

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

Treasury stock transactions:

During 2019, the Company purchased 1,431 shares of the Company's stock at prices ranging from $269.90 to $294.85. The Company sold 1,491 shares of the Company's stock at the price of $294.85 resulting in a net increase of $24,694 to capital in excess of par value of stock. As of December 31, 2019, there were 65 shares in treasury stock. As of December 31, 2018, there were 125 shares in treasury stock.

Recently issued accounting standards:

The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company adopted the guidance on January 1, 2019 using a modified retrospective approach. The Company's primary sources of revenue are derived from interest earned on loans, investment securities, and other financial instruments that are not within the scope of the updated guidance. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Our accounting policies did not change materially since the principles of revenue recognition from the Accounting Standards Update ("ASU") are largely consistent with existing guidance and current practices applied by our business. We did not identify material changes to the timing or amount of revenue recognition. See Note 19 for more information.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of revenue recognition, measurement, presentation, and disclosure of financial instruments. The amendments were effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. These amendments did not have a material effect on the Company's financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification 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. We expect to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started an initial evaluation of our leasing contracts and activities. We have also started developing our methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of future lease payments. We do not expect a material change to the timing of expense recognition, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

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

Recently issued accounting standards, continued:

In May 2017, the FASB amended the requirements in Receivables – Nonrefundable Fees and Other Costs Topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Company for annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted. The Company does not expect these amendments to have a material impact on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The guidance requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. The amendments will be effective for the Company for fiscal years beginning after December 15, 2022 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 evaluating the effect that implementation of the new standard will have 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) and leases. As a result of this delay, the Company's effective date for CECL was delayed to fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. The effective date for the new lease guidance was delayed to fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

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

Risks and uncertainties:

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

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

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

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 the date. Management has reviewed events occurring through March 2, 2020, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

Note 2. Restrictions on Cash and Due from Banks

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. These required reserves were met through vault cash and deposits at the Federal Reserve and correspondent banks. The total of those reserve balances at December 31, 2019 and 2018 was approximately $17,070,000 and $14,447,000, respectively.

Note 3. Securities

The amortized cost, gross unrealized gains and losses and fair values of securities available for sale are summarized as follows:

	December 31, 2019			
	Amortized Cost	Unrealized holding Gains	Unrealized holding Losses	Fair Value
Available for sale				
Mortgage-backed securities	$ 41,122,329	$ 270,241	$ 122,334	$ 41,270,236
Asset backed securities	18,221,069	-	272,150	17,948,919
Municipal bonds	114,593,957	2,352,543	54,290	116,892,210
Corporate bonds	6,617,048	14,799	21,840	6,610,007
	$ 180,554,403	$ 2,637,583	$ 470,614	$ 182,721,372

	December 31, 2018			
	Amortized Cost	Unrealized holding Gains	Unrealized holding Losses	Fair Value
Available for sale				
Government-sponsored enterprises	$ 7,100,000	$ -	$ 60,675	$ 7,039,325
Mortgage-backed securities	48,131,240	31,544	1,091,722	47,071,062
Asset backed securities	11,070,689	3,499	91,659	10,982,529
Municipal bonds	103,587,476	558,569	912,215	103,233,830
Corporate bonds	6,616,135	11,472	83,162	6,544,445
	$ 176,505,540	$ 605,084	$ 2,239,433	$ 174,871,191

Note 3. Securities, Continued

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, 2019 and 2018.

	At December 31, 2019					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 6,928,702	$ 43,269	$ 9,345,491	$ 79,065	$16,274,193	$ 122,334
Asset backed securities	10,793,746	142,164	7,155,173	129,986	17,948,919	272,150
Municipal bonds	15,195,491	54,290	-	-	15,195,491	54,290
Corporate bonds	-	-	1,978,160	21,840	1,978,160	21,840
Total	$32,917,939	$ 239,723	$18,478,824	$ 230,891	$ 51,396,763	$ 470,614

	At December 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprises	$ 1,093,062	$ 6,938	$ 5,946,262	$ 53,737	$ 7,039,324	$ 60,675
Mortgage-backed securities	7,799,029	148,129	34,136,141	943,593	41,935,170	1,091,722
Asset backed securities	9,911,302	91,659	-	-	9,911,302	91,659
Municipal bonds	13,130,798	76,359	36,849,727	835,856	49,980,525	912,215
Corporate bonds	2,547,871	48,415	1,985,103	34,747	4,532,974	83,162
Total	$34,482,062	$ 371,500	$78,917,233	$ 1,867,933	$113,399,295	$ 2,239,433

At December 31, 2019, the Bank had nineteen investments in an unrealized loss position for twelve consecutive months or more. The Company does not believe that any unrealized losses indicate impairment that is considered other-than-temporary. The Company does not intend to sell these securities currently in a loss position and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost.

For the year ended December 31, 2019, gross realized gains on securities transactions amounted to $134,544 and gross realized losses amounted to $18,492. During 2019, the Bank had proceeds of $5,505,863 and recorded a gain of $6,003 on sales of investments. For the year ended December 31, 2018, gross realized gains on securities transactions amounted to $29,448 and gross realized losses amounted to $30,880. During 2018, the Bank had proceeds of $8,737,847 and recorded a loss of $3,882 on sales of investments. During the years ended December 31, 2019 and 2018, the Bank recorded prepayment fees on investment securities of $110,049 and $5,314, respectively.

Note 3. Securities, Continued

The amortized cost and fair value of securities available for sale, by contractual maturity, follow:

	December 31, 2019	
	Amortized Cost	**Fair Value**
Mortgage-backed securities		
Maturing after one but within five years	$ 4,926,863	$ 4,934,035
Maturing after five but within ten years	8,060,009	8,087,227
Maturing after ten years	28,135,457	28,248,974
	41,122,329	41,270,236
Asset backed securities		
Maturing after ten years	18,221,069	17,948,919
	18,221,069	17,948,919
Municipal bonds		
Maturing after one but within five years	23,831,296	24,142,572
Maturing after five but within ten years	30,462,352	31,162,482
Maturing after ten years	60,300,309	61,587,156
	114,593,957	116,892,210
Corporate bonds		
Maturing after one but within five years	4,617,048	4,631,847
Maturing after five but within ten years	2,000,000	1,978,160
	6,617,048	6,610,007
Total	$ 180,554,403	$ 182,721,372

Expected maturities of these securities may differ from contractual maturities because issuers may have the right to call or repay obligations with or without prepayment penalties. Investment securities with an aggregate par value of approximately $33,045,000 and $33,184,000 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Other investments, at cost:

The Bank, as a member institution, is required to own stock in the FHLB. This investment is carried at cost and generally is pledged against any borrowings from the FHLB (see Note 8). No ready market exists for the stock; it has no quoted market value, any requested redemptions may be subject to limitations regarding timing and amounts. The Bank evaluates this security for impairment based on the probability of ultimate recoverability of the recorded amount of the investment. No impairment has been recognized based on this evaluation.

Note 3. Securities, Continued

Other investments, at cost, continued:

The Company's other investments are summarized below as of December 31:

	2019	2018
FHLB stock	$ 657,700	$ 638,100
Certificates of deposit at other financial institutions	1,243,000	1,243,000
Total	$ 1,900,700	$ 1,881,100

Note 4. Loans and Allowance for Loan Losses

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

	2019	2018
Real estate - mortgage	$ 342,544,979	$ 323,792,350
Real estate - construction	47,258,275	41,085,067
Commercial and industrial	53,400,672	49,499,224
Installment loans to individuals	35,733,378	32,812,721
All other loans	27,736,809	29,971,025
Loans, gross	506,674,113	477,160,387
Allowance for loan losses	(9,095,772)	(8,383,814)
Loans, net	$ 497,578,341	$ 468,776,573

Fixed rate loans totaled $394,865,056 and $365,582,296, at December 31, 2019 and 2018, respectively. Variable rate loans totaled $111,809,057 and $111,578,091, at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, respectively, approximately $133,850,000 and $120,566,000 of mortgage loans were pledged as collateral to secure future borrowings from the FHLB.

Credit quality:

As part of the loan review process, loans are given individual credit grades, representing the risk the Company believes is associated with the loan balance. Credit grades are assigned based on factors that impact the collectability of the loan, the strength of the borrower, the type of collateral, and loan performance. Commercial loans are individually graded at origination and credit grades are reviewed on a regular basis in accordance with our loan policy. Consumer loans are designated a "pass" credit rating unless factors within the loan warrant a specific classification grade.

The following table summarizes management's internal credit risk grades, by portfolio class, as of December 31, 2019. The homogeneous pool of consumer loans are not assigned internal credit risk grades.

Note 4. Loans and Allowance for Loan Losses, Continued

Credit quality, continued:

	Real Estate - Mortgage	Real Estate - Construction	Commercial and Industrial	Installment Loans to Individuals	All Other Loans	Total
Excellent (grade 1)	$ -	$ -	$ 1,711,201	$ 3,570	$ 2,950,000	$ 4,664,771
Above average (grade 2)	54,861,737	3,976,289	10,896,742	10,000	7,716,114	77,460,882
Average (grade 3)	95,067,778	21,475,562	19,983,924	232,704	16,224,169	152,984,137
Below average (grade 4)	64,665,689	4,611,936	16,378,910	183,338	846,526	86,686,399
Minimally adequate (grade 5)	24,288,986	637,901	1,458,856	2,547	-	26,388,290
Watch list (grade 6)	1,906,054	-	1,269,751	4,413	-	3,180,218
Substandard (grade 7)	5,076,921	518,394	754,613	120,236	-	6,470,164
	245,867,165	31,220,082	52,453,997	556,808	27,736,809	357,834,861
Consumer loans	96,677,814	16,038,193	946,675	35,176,570	-	148,839,252
Total	$ 342,544,979	$ 47,258,275	$ 53,400,672	$ 35,733,378	$ 27,736,809	$ 506,674,113

The following table summarizes management's internal credit risk grades, by portfolio class, as of December 31, 2018. The homogeneous pool of consumer loans are not assigned internal credit risk grades.

	Real Estate - Mortgage	Real Estate - Construction	Commercial and Industrial	Installment Loans to Individuals	All Other Loans	Total
Excellent (grade 1)	$ -	$ -	$ 1,724,754	$ 4,057	$ 3,010,428	$ 4,739,239
Above average (grade 2)	48,003,835	5,810,242	10,349,257	90,779	10,154,962	74,409,075
Average (grade 3)	97,189,776	21,204,133	19,106,622	273,444	15,907,291	153,681,266
Below average (grade 4)	57,372,288	1,611,382	14,239,925	192,832	898,344	74,314,771
Minimally adequate (grade 5)	23,036,341	627,617	2,262,897	12,361	-	25,939,216
Watch list (grade 6)	1,730,008	-	789,777	8,494	-	2,528,279
Substandard (grade 7)	5,789,989	534,844	346,288	47,045	-	6,718,166
	233,122,237	29,788,218	48,819,520	629,012	29,971,025	342,330,012
Consumer loans	90,670,113	11,296,849	679,704	32,183,709	-	134,830,375
Total	$ 323,792,350	$ 41,085,067	$ 49,499,224	$ 32,812,721	$ 29,971,025	$ 477,160,387

At December 31, 2019 and 2018, approximately 98% and 98% of the loan portfolio, respectively, had a credit grade of 5 or better. For loans to qualify for this range of grades, they must be performing relatively close to expectations, with no significant departures from the intended source and timing of repayment. Loans totaling approximately $3,180,000 and $2,528,000 were classified as watch list loans at December 31, 2019 and 2018, respectively. This classification is utilized for loans with an elevated credit risk to borrowers with an adequate credit history and financial strength but who are experiencing declining trends (e.g., financial, economic, or industry specific). Loans are designated as such in order to be monitored more closely than other credits in the loan portfolio. At December 31, 2019 and 2018, substandard loans totaled approximately $6,470,000 and $6,718,000, respectively. This classification is utilized when loans are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged; have well-defined weaknesses that jeopardize the liquidation of the loan; and there is a distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Note 4. Loans and Allowance for Loan Losses, Continued

Credit quality, continued:

The following table summarizes delinquencies and nonaccruals, by portfolio class, as of December 31, 2019.

	Real Estate - Mortgage	Real Estate - Construction	Commercial and Industrial	Installment Loans to Individuals	All Other Loans	Total
30-59 days past due	$ 388,778	$ -	$ 43,220	$ 68,305	$ -	$ 500,303
60-89 days past due	18,058	-	-	56,962	-	75,020
90 days, still accruing	-	-	-	32,136	-	32,136
Nonaccrual	1,228,232	48,449	125,609	31,367	-	1,433,657
Total past due and nonaccrual	1,635,068	48,449	168,829	188,770	-	2,041,116
Current	340,909,911	47,209,826	53,231,843	35,544,608	27,736,809	504,632,997
Total	$ 342,544,979	$ 47,258,275	$ 53,400,672	$ 35,733,378	$ 27,736,809	$ 506,674,113

The following table summarizes delinquencies and nonaccruals, by portfolio class, as of December 31, 2018.

	Real Estate - Mortgage	Real Estate - Construction	Commercial and Industrial	Installment Loans to Individuals	All Other Loans	Total
30-59 days past due	$ 462,130	$ 8,975	$ 75,912	$ 59,921	$ -	$ 606,938
60-89 days past due	29,982	254	7,237	8,178	-	45,651
90 days, still accruing	-	-	-	43,766	-	43,766
Nonaccrual	1,996,694	-	67,805	51,292	-	2,115,791
Total past due and nonaccrual	2,488,806	9,229	150,954	163,157	-	2,812,146
Current	321,303,544	41,075,838	49,348,270	32,649,564	29,971,025	474,348,241
Total	$ 323,792,350	$ 41,085,067	$ 49,499,224	$ 32,812,721	$ 29,971,025	$ 477,160,387

Note 4. Loans and Allowance for Loan Losses, Continued

Credit quality, continued:

The following table summarizes information relative to impaired loans, by portfolio class, at December 31, 2019. The recorded investment in impaired loans is the unpaid principal balance net of loan principal charged off.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate - mortgage	$ 5,137,482	$ 5,267,912	$ -	$ 5,202,697	$ 266,161
Real estate - construction	526,087	1,044,449	-	785,268	51,464
Commercial and industrial	884,613	884,613	-	884,613	46,254
Installment loans to individuals	134,357	194,821	-	164,589	11,311
With related allowance recorded:					
Real estate - mortgage	$ -	$ -	$ -	$ -	$ -
Real estate - construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Installment loans to individuals	-	-	-	-	-
Total:					
Real estate - mortgage	$ 5,137,482	$ 5,267,912	$ -	$ 5,202,697	$ 266,161
Real estate - construction	526,087	1,044,449	-	785,268	51,464
Commercial and industrial	884,613	884,613	-	884,613	46,254
Installment loans to individuals	134,357	194,821	-	164,589	11,311
	$ 6,682,539	$ 7,391,795	$ -	$ 7,037,167	$ 375,190

Note 4. Loans and Allowance for Loan Losses, Continued

Credit quality, continued:

The following table summarizes information relative to impaired loans, by portfolio class, at December 31, 2018. The recorded investment in impaired loans is the unpaid principal balance net of loan principal charged off.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate - mortgage	$ 5,821,234	$ 5,959,101	$ -	$ 5,879,234	$ 242,152
Real estate - construction	534,844	1,034,687	-	576,844	54,881
Commercial and industrial	346,288	346,288	-	369,538	16,963
Installment loans to individuals	63,822	89,770	-	73,172	6,252
With related allowance recorded:					
Real estate - mortgage	$ -	$ -	$ -	$ -	$ -
Real estate - construction	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Installment loans to individuals	-	-	-	-	-
Total:					
Real estate - mortgage	$ 5,821,234	$ 5,959,101	$ -	$ 5,879,234	$ 242,152
Real estate - construction	534,844	1,034,687	-	576,844	54,881
Commercial and industrial	346,288	346,288	-	369,538	16,963
Installment loans to individuals	63,822	89,770	-	73,172	6,252
	$ 6,766,188	$ 7,429,846	$ -	$ 6,898,788	$ 320,248

Note 4. Loans and Allowance for Loan Losses, Continued

Provision and allowance for loan losses:

The following table summarizes activity related to our allowance for loan losses for the year ended December 31, 2019 by portfolio segment.

	Real Estate - Mortgage	Real Estate - Construction	Commercial and Industrial	Installment Loans to Individuals	All Other Loans	Total
Allowance for loan losses:						
Balance, beginning of year	$ 6,001,730	$ 1,228,138	$ 599,503	$ 409,102	$ 145,341	$ 8,383,814
Provision for loan losses	558,892	77,106	87,127	382,626	478,049	1,584,000
Loan charge-offs	(343)	-	(141,561)	(429,898)	(514,438)	(1,086,240)
Loan recoveries	90,257	4,667	545	31,038	87,691	214,198
Balance, end of year	$ 6,650,536	$ 1,309,911	$ 545,614	$ 393,068	$ 196,643	$ 9,095,772
Allowance for loan losses:						
Individually reviewed for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively reviewed for impairment	6,650,536	1,309,911	545,614	393,068	196,643	9,095,772
Total allowance for loan losses	$ 6,650,536	$ 1,309,911	$ 545,614	$ 393,068	$ 196,643	$ 9,095,772
Gross loans, end of period:						
Individually reviewed for impairment	$ 5,137,482	$ 526,087	$ 884,613	$ 134,357	$ -	$ 6,682,539
Collectively reviewed for impairment	337,407,497	46,732,188	52,516,059	35,599,021	27,736,809	499,991,574
Total loans	$ 342,544,979	$ 47,258,275	$ 53,400,672	$ 35,733,378	$ 27,736,809	$ 506,674,113

Note 4. Loans and Allowance for Loan Losses, Continued

Provision and allowance for loan losses, continued:

The following table summarizes activity related to our allowance for loan losses for the year ended December 31, 2018 by portfolio segment.

	Real Estate - Mortgage	Real Estate - Construction	Commercial and Industrial	Installment Loans to Individuals	All Other Loans	Total
Allowance for loan losses:						
Balance, beginning of year	$ 5,381,198	$ 1,169,103	$ 797,045	$ 457,233	$ 126,648	$ 7,931,227
Provision for loan losses	678,582	86,103	103,737	68,767	430,811	1,368,000
Loan charge-offs	(269,757)	(27,068)	(301,496)	(150,331)	(477,086)	(1,225,738)
Loan recoveries	211,707	-	217	33,433	64,968	310,325
Balance, end of year	$ 6,001,730	$ 1,228,138	$ 599,503	$ 409,102	$ 145,341	$ 8,383,814
Allowance for loan losses:						
Individually reviewed for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively reviewed for impairment	6,001,730	1,228,138	599,503	409,102	145,341	8,383,814
Total allowance for loan losses	$ 6,001,730	$ 1,228,138	$ 599,503	$ 409,102	$ 145,341	$ 8,383,814
Gross loans, end of period:						
Individually reviewed for impairment	$ 5,821,234	$ 534,844	$ 346,288	$ 63,822	$ -	$ 6,766,188
Collectively reviewed for impairment	317,971,116	40,550,223	49,152,936	32,748,899	29,971,025	470,394,199
Total loans	$323,792,350	$ 41,085,067	$ 49,499,224	$ 32,812,721	$ 29,971,025	$477,160,387

Nonaccrual loans at December 31, 2019 and 2018 were approximately $1,434,000 and $2,116,000, respectively. Foregone interest income was approximately $79,396 and $111,700 on these loans for 2019 and 2018, respectively. There were $32,136 and $43,766 loans with payments past due ninety days or more and accruing interest at December 31, 2019 and 2018, respectively.

Troubled debt restructurings:

Troubled debt restructurings are loans which have been restructured from their original contractual terms and include concessions that would not otherwise have been granted outside of the financial difficulty of the borrower. Concessions can relate to the contractual interest rate, maturity date, or payment structure of the note. As part of our workout plan for individual loan relationships, we may restructure loan terms to assist borrowers facing challenges in the current economic environment. The purpose of a troubled debt restructuring is to facilitate ultimate repayment of the loan.

Note 4. Loans and Allowance for Loan Losses, Continued

Troubled debt restructurings, continued:

At December 31, 2019 and 2018, the principal balance of troubled debt restructurings totaled $1,454,801 and $2,190,323, respectively. All troubled debt restructurings were considered classified and impaired. Of these loans, approximately $504,000 were on nonaccrual status at December 31, 2019 and $1,205,000 were on nonaccrual status at December 31, 2018. The remaining loans are on accrual and are currently performing in accordance with the new terms.

For the year ended December 31, 2019, the Company modified no loans that were considered to be troubled debt restructurings. As of December 31, 2019, no loans that had previously been restructured prior to December 31, 2018, were in default. No loan restructured in the twelve months prior to December 31, 2019 went into default during the period.

For the year ended December 31, 2018, the Company modified no loans that were considered to be troubled debt restructurings. As of December 31, 2018, two loans that had previously been restructured prior to December 31, 2017, were in default. No loan restructured in the twelve months prior to December 31, 2018 went into default during the period.

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings by placing the loan on nonaccrual status.

Note 5. Premises and Equipment

The following is a summary of premises and equipment at cost as of December 31:

	Estimated Useful Lives	2019	2018
Land		$ 4,679,060	$ 4,679,060
Buildings and improvements	10 - 40 years	13,988,062	13,668,015
Leasehold improvements	15 - 20 years	464,231	433,469
Furniture, fixtures and equipment	3 - 20 years	6,159,269	5,809,734
Automobiles	5 years	63,995	63,995
Software	3 - 5 years	1,056,343	993,206
Construction in process		67,015	83,410
		26,477,975	25,730,889
Accumulated depreciation		(12,504,747)	(11,431,156)
		$ 13,973,228	$ 14,299,733

Depreciation of premises and equipment charged to occupancy and furniture and equipment expenses was $1,073,591 and $1,051,403 in 2019 and 2018, respectively.

Note 6. Deposits and Securities Sold Under Repurchase Agreements

The amounts and scheduled maturities of deposits are as follows as of December 31:

	2019	2018
Time deposits maturing		
Within one year	$ 106,351,805	$ 91,706,399
After one but within two years	41,517,460	38,045,635
After two but within four years	25,506,538	24,255,747
Thereafter	6,855,129	7,208,755
	180,230,932	161,216,536
Transaction and savings accounts	528,522,879	486,487,034
	$ 708,753,811	$ 647,703,570

At December 31, 2019 and 2018, time deposits of $250,000 or more totaled $41,806,031 and $35,582,254, respectively. Interest expense on these deposits was $704,612 in 2019 and $436,638 in 2018.

The Bank enters into sales of securities under agreements to repurchase. These obligations to repurchase securities sold are reflected as liabilities in the consolidated balance sheets. The dollar amount of securities underlying the agreements remains in the asset accounts. The securities underlying the agreements are book entry securities maintained by a safekeeping agent. The agreements mature daily. Securities sold under agreements to repurchase averaged $4,635,388 and $3,349,421 during 2019 and 2018 with an average interest rate of 1.01% and 0.74%, respectively. At December 31, 2019 and 2018, the Bank sold repurchase agreements to their customers in the amounts of $5,266,682 and $4,856,330, respectively.

Note 7. Other Real Estate Owned

The following summarized the activity in other real estate owned for the year ended December 31:

	2019	2018
Balance, beginning of year	$ 950,000	$ 355,000
Additions	-	1,155,000
Net write downs	-	(47,571)
Sales	-	(486,379)
Loss on sale	-	(26,050)
Balance, end of year	$ 950,000	$ 950,000

Note 8. Borrowed Funds

At December 31, 2019 and 2018 the Company had no outstanding borrowings.

Future FHLB borrowings are collateralized by certain mortgage loans (see Note 4) and by FHLB stock with a carrying value of $657,700 and $638,100 at December 31, 2019 and 2018, respectively.

Note 9. Unused Lines of Credit

The Bank had unused short-term lines of credit totaling $18,000,000 at December 31, 2019 to purchase Federal Funds from correspondent banks. These lines of credit are available on a one to fifteen-day basis for general banking purposes. The Bank also has the ability to borrow an additional $96,588,331 or up to 12% of total assets from the FHLB as of December 31, 2019. The lenders have reserved the right to withdraw the lines at their option.

Note 10. Income Taxes

As the stockholders of the Company elected to become an S Corporation, income of the Company is taxed at the stockholder level with certain limitations. Also, the State of South Carolina does not recognize S Corporation status for a commercial bank. The Bank will continue to accrue and pay South Carolina income taxes.

The Bank had a deferred tax liability in the amount of $97,514 and a deferred tax asset in the amount of $73,546 related to securities held as available for sale at December 31, 2019 and 2018, respectively. Such amounts are included in other assets or liabilities on the consolidated balance sheet.

Note 11. Employee Benefit Plans

The Bank maintains a profit-sharing plan that covers all employees over eighteen years of age who have completed one year of employment. Upon ongoing approval of the Board of Directors, the Bank matches employee contributions equal to 100% of participant contributions up to 5% of compensation. Contributions charged to operations under the plan were $401,130 and $382,335 for the years ended December 31, 2019 and 2018, respectively.

Supplemental benefits are provided to certain key officers under a deferred compensation plan. This plan is not qualified under the Internal Revenue Code. The plan is unfunded. However, certain benefits under the plan are informally and indirectly funded by insurance policies on the lives of the covered employees.

Note 12. Stock Option Plan

The Company has a stock option compensation plan through which the Board of Directors may grant stock options to officers and employees to purchase common stock of the Company at prices not less than 100% of the stock's fair market value on the grant date. The outstanding options have a vesting period of ten years from the date of grant and expire ten years from the grant date. The Company issues new shares of common stock when options are exercised.

Note 12. Stock Option Plan, Continued

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option-pricing model as follows: the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company's dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company's stock (subject to adjustment if historical volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures, and cancellations.

There were no options granted in 2019 or 2018. A summary of the status of the plan and changes during the year are presented below:

	2019		2018	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	700	$ 103.00	2,800	$ 103.00
Granted	-	-	-	-
Exercised	700	103.00	2,100	103.00
Expired	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of year	-	-	700	103.00
Options exercisable at year-end	-	-	700	103.00
Shares available for grant	-		-	

The plan is administered by the Board of Directors. The plan provides that if the shares of common stock are subdivided or combined into a greater or smaller number of shares or if the Company issues any shares of common stock as a stock dividend on its outstanding common stock, the number of shares of common stock deliverable upon the exercise of options will be increased or decreased proportionately, and appropriate adjustments will be made in the purchase price per share to reflect such subdivision, combination or stock dividend.

Intrinsic value is calculated for shares outstanding and exercisable by taking the closing price of the Company's common stock as of the most recent third-party valuation and subtracting the exercise price of each option grant. When the result is a positive number, the difference is multiplied by the number of options outstanding for each such grant. At December 31, 2019 and 2018, the aggregate intrinsic value of shares outstanding and exercisable was $0 and $116,830, respectively.

Note 13. 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. They involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. 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 amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments. A summary of the Bank's commitments is as follows at December 31:

	2019	2018
Commitments to extend credit	$ 159,812,725	$ 145,889,513
Standby letters of credit	$ 2,164,338	$ 1,973,212

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. Since many 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. In certain cases, the Bank reserves the right to withdraw or limit the available line. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties. The Company has not recorded a liability for the current carrying amount of the obligation to perform as a guarantor, and no contingent liability was considered necessary, as such amounts were not considered material.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary. The Company has not recorded a liability for the current carrying amount of the obligation to perform as a guarantor, and no contingent liability was considered necessary, as such amounts were not considered material.

Note 14. Commitments and Contingencies

Contingencies:

The Company and the Bank have, from time to time, various lawsuits and claims arising from the conduct of their business. Such items, in the opinion of management, are not expected to have any material adverse effect on the Company's consolidated financial position or results of operations.

Lease commitments:

The Bank is obligated under non-cancellable operating leases that expire in 2026 and 2028 (See Note 15). Future minimum rental payments due under these leases are as follows:

2020	$ 168,189
2021	168,887
2022	170,324
2023	171,043
Thereafter	538,622
Total minimum payments required	$ 1,217,065

Lease payments charged to operations were $166,792 and $164,885 for the years ended December 31, 2019 and 2018, respectively. The leases provide that the Bank pay property taxes, insurance and maintenance costs and includes a renewal option with adjustments in the rental amount for each option period.

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 the upstate region of South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or in a relatively small number of borrowers. Management defines an industry concentration as any loans to an industry which in aggregate equals or exceeds 25% of capital. At December 31, 2019, management identified one industry which meet this definition; loans to hotels are approximately 30% of capital.

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 that could arise from potential 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. 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. Management has determined that there is no concentration of credit risk associated with its lending policies or practices.

Note 14. Commitments and Contingencies, Continued

Concentrations of credit risk, continued:

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations, general obligation municipal securities, and mortgage-backed securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Note 15. Transactions with Related Parties

Directors and executive officers of the Company and the Bank are customers of, and have transactions with, the Bank in the ordinary course of business. Included in such transactions are outstanding loans and commitments, all of which were made on comparable terms, including interest rate and collateral, as those prevailing at the time for other customers of the Bank, and did not involve more than normal risk of collectability or present other unfavorable features. Loans to Directors and executive officers are as follows:

	2019	2018
Balance, beginning of year	$ 7,468,809	$ 5,774,619
New loans	152,205	700,746
Existing loans to new board members	-	1,223,512
Repayments	422,637	(200,068)
Existing loans to retired board members	-	(30,000)
Balance, end of year	$ 7,198,377	$ 7,468,809

Deposits by directors, executive officers, and their related interests totaled $11,310,001 and $10,768,870 as of December 31, 2019 and 2018, respectively.

The Bank leases a branch office from an officer and major shareholder. Lease expense charged to operations was $83,712 and $82,802 for the years ended December 31, 2019 and 2018, respectively.

Note 16. Restriction of Dividends

The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from the Bank. Federal and state banking regulations restrict the amount of dividends that can be paid. Dividends are payable only from the retained earnings of the Bank and may be limited to the amount of current year earnings without prior regulatory approval. The Bank's retained earnings were approximately $57,019,000 and $49,701,000 at December 31, 2019 and 2018, respectively.

Note 17. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. The regulations require the Bank to meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 ("CET1"), and total capital (as defined in the regulations) to risk-weighted assets and average assets (as defined). Management believes, as of December 31, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

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 All Street Report 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 2.00% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Company and Bank will also be required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. The buffer will be required to consist solely of CET1, but the buffer will apply to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer became fully effective on January 2, 2019 and consists of an additional amount of Tier 1 capital equal to 2.50% of risk-weighted assets.

As of December 31, 2019 and December 31, 2018, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios and minimum regulatory amounts and ratios are presented as follows:

Note 17. Regulatory Matters, Continued

	Actual		For Capital Adequacy Purposes Minimum		To Be Well Capitalized Under Prompt Corrective Action Provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar amounts in thousands)					
As of December 31, 2019:						
Total Capital (to risk-weighted assets)	$ 86,366	15.59%	$ 44,331	8.00%	$ 55,414	10.00%
Tier 1 Capital (to risk-weighted assets)	79,412	14.33	33,249	6.00	44,331	8.00
Common Equity Tier 1 Capital (to risk weighted assets)	79,412	14.33	24,936	4.50	36,019	6.50
Tier 1 Capital (to average assets)	79,412	9.94	31,967	4.00	39,959	5.00

	Actual		For Capital Adequacy Purposes Minimum		To Be Well Capitalized Under Prompt Corrective Action Provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar amounts in thousands)					
As of December 31, 2018:						
Total Capital (to risk-weighted assets)	$ 78,470	15.44%	$ 40,649	8.00%	$ 50,811	10.00%
Tier 1 Capital (to risk-weighted assets)	72,093	14.19	30,487	6.00	40,649	8.00
Common Equity Tier 1 Capital (to risk weighted assets)	72,093	14.19	22,865	4.50	33,027	6.50
Tier 1 Capital (to average assets)	72,093	9.86	29,235	4.00	36,544	5.00

Note 18. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial statements. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

Note 18. Fair Value of Financial Instruments, Continued

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments:

Cash and due from banks - The carrying amounts of cash and due from banks (cash on hand, due from banks and interest-bearing deposits with other banks) approximate their fair value.

Federal funds sold - The carrying amounts of federal funds sold approximate their fair value.

Investment securities available for sale - The fair values of securities available for sale are the carrying amount which is the quoted market price. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities.

Other investments - Other investments consists of FHLB stock and certificates of deposit in other financial institutions. The carrying value of FHLB stock, which has no quoted market value, approximates fair value based on the redemption provisions. The certificates of deposit are carried at amortized cost, which approximates fair value.

Loans - For certain categories of loans, such as variable rate loans which are repriced frequently and have no significant change in credit risk, fair values are based on the carrying amounts. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to the borrowers with similar credit ratings and for the same remaining maturities.

Bank owned life insurance - The carrying amount is cash surrender value adjusted for any surrender expense and is a reasonable estimate of fair value.

Deposits - The fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities.

Securities sold under repurchase agreements - The carrying amounts of securities sold under repurchase agreements maturing within ninety days approximate their fair values.

Note 18. Fair Value of Financial Instruments, Continued

The carrying values and estimated fair values of the Company's financial instruments are as follows:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 34,097,882	$ 34,097,882	$ 32,028,655	$ 32,028,655
Federal funds sold	52,615,000	52,615,000	20,863,000	20,863,000
Securities available for sale	182,721,372	182,721,372	174,871,191	174,871,191
Other investments	1,900,700	1,900,700	1,881,100	1,881,100
Loans, net [(1)]	497,578,341	487,626,774	468,776,573	462,469,465
Bank owned life insurance	17,571,913	17,571,913	13,400,363	13,400,363
Financial liabilities:				
Deposits	708,753,811	605,488,381	647,703,570	529,508,032
Securities sold under repurchase agreements	5,266,682	5,266,682	4,856,330	4,856,330

[(1)] Represents loans net of the allowance for loan losses. In accordance with the prospective adoption of ASU 2015-01, the fair value of loans as of December 31, 2019 was measured using an exit price notion. The fair value of loans as of December 31, 2018 was measured using an entry price notion.

Generally accepted accounting principles require disclosures that establish a framework for measuring fair value and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to the standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Note 18. Fair Value of Financial Instruments, Continued

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

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 agency and mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities.

Impaired loans

Once a loan is identified as individually impaired, management measures the fair value of impaired loans using one of several methods, including the collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 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, the Company records the loan as nonrecurring Level 2.

Other real estate owned

Other real estate owned ("OREO") is adjusted to fair value upon transfer of the loans to OREO. Subsequently, OREO 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 a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2.

Note 18. Fair Value of Financial Instruments, Continued

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	Fair Value Measurements at December 31, 2019			
	(Level 1)	(Level 2)	(Level 3)	Total
Securities available for sale	$ -	$ 182,721,372	$ -	$ 182,721,372

	Fair Value Measurements at December 31, 2018			
	(Level 1)	(Level 2)	(Level 3)	Total
Securities available for sale	$ -	$ 174,871,191	$ -	$ 174,871,191

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 as of December 31, 2019 and 2018 for which measurement of fair value has been nonrecurring.

	Fair Value at December 31, 2019			
	(Level 1)	(Level 2)	(Level 3)	Total
Impaired loans	$ -	$ 6,682,539	$ -	$ 6,682,539
Other real estate owned	-	950,000	-	950,000

	Fair Value at December 31, 2018			
	(Level 1)	(Level 2)	(Level 3)	Total
Impaired loans	$ -	$ 6,766,188	$ -	$ 6,766,188
Other real estate owned	-	950,000	-	950,000

Note 19. Revenue Recognition

On January 1, 2019, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and all subsequent ASUs that modified ASC 606. Results for reporting periods beginning after December 31, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under ASC 605.

ASC 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities, which comprise the majority of the Company's revenue. All of the Company's revenue from contracts with customers within the scope of Topic 606 is recognized in noninterest income.

Note 19. Revenue Recognition, Continued

The following table presents the Company's noninterest income for the years ended December 31, 2019 and 2018.

	2019	2018
Service charges on deposit accounts	$ 6,820,190	$ 6,331,797
Mortgage loan origination fees [1]	527,775	302,028
Gateway Wealth Strategies income	890,134	953,577
Bank owned life insurance income [1]	319,467	328,481
Other operating income [1]	625,634	583,582
Gain realized on sale of investment securities [1]	116,052	1,432
Total noninterest income	$ 9,299,252	$ 8,500,897

[1]Not within scope of ASC 606

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

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

Service charges on deposit accounts:

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

Note 19. Revenue Recognition, Continued

Gateway Wealth Strategies income:

Gateway earns fees from investment brokerage services provided to customers by a third-party service provider. The Company receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The fees are recognized monthly. Because the Company acts as an agent in arranging the relationship between customers and the third-party service provider and does not control the services rendered to the customers, investment brokerage fees are presented net of related costs.

Note 20. Parent Company Information

The following is condensed financial information of Travelers Rest Bancshares, Inc. (parent company only):

Condensed Balance Sheets

	As of December 31,	
	2019	2018
Assets		
Cash	$ 1,101,081	$ 993,988
Due from subsidiary	1,240,275	967,822
Investment in subsidiary	81,480,284	70,531,822
	$ 83,821,640	$ 72,493,632
Liabilities and Stockholders' Equity		
Accrued tax pass through and cash dividend declared	$ 1,240,275	$ 967,822
Stockholders' equity	82,581,365	71,525,810
	$ 83,821,640	$ 72,493,632

Condensed Statements of Income

	For the Years Ended December 31,	
	2019	2018
Income		
Dividends from subsidiary	$ 3,879,156	$ 2,902,627
Equity in undistributed net income of subsidiary	7,318,201	6,615,592
Expense		
Other operating expense	4,274	3,952
Net income	$ 11,193,083	$ 9,514,267

Note 20. Parent Company Information, Continued

Condensed Statements of Cash Flows

	For the Years Ended December 31,	
	2019	**2018**
Operating activities		
Net income	$ 11,193,083	$ 9,514,267
Adjustments to reconcile net income to net cash provided by operating activities		
Increase in due from subsidiary	(272,453)	(352,876)
Increase in dividends from subsidiary	(967,821)	(614,947)
Equity in undistributed net income of subsidiaries	(7,318,201)	(6,615,592)
Net cash provided by operating activities	2,634,608	1,930,852
Financing activities		
Treasury stock transactions, net	39,266	136,220
Proceeds from exercise of stock options	72,100	216,300
Cash dividends	(539,366)	(461,626)
Tax pass through cash dividend	(2,099,515)	(1,473,179)
Net cash used for financing activities	(2,527,515)	(1,582,285)
Net increase (decrease) in cash	107,093	348,567
Cash, beginning of year	993,988	645,421
Cash, end of year	$ 1,101,081	$ 993,988