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, Richard N. Burch
Name of the Holding Company Director and Official

EVP & CFO
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

03/13/2020
Date of Signature

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

- [x] 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

NO LEI
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

South Atlantic Bancshares Inc
Legal Title of Holding Company

PO Box 70130
(Mailing Address of the Holding Company) Street / P.O. Box

Myrtle Beach	SC	29572
City	State	Zip Code

630 29th Avenue N., Myrtle Beach, SC 29577
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Dick Burch	EVP & CFO
Name	Title

843.839.4412
Area Code / Phone Number / Extension

843.839.9804
Area Code / FAX Number

dburch@southatlantic.bank
E-mail Address

N/A
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."

Form FR Y-6
South Atlantic Bancshares, Inc.
Myrtle Beach, SC 29577
Fiscal Year Ending December 31, 2019

2 Organization Chart
Incorporated in the State of South Carolina

*South Atlantic Bancshares, Inc. Myrtle Beach, SC 29577 No LEI for South Atlantic Bancshares

*South Atlantic Bank 100% Myrtle Beach, SC LEI 5493003I223S7AP6XL58

Form FR Y-6
South Atlantic Bancshares, Inc.
Myrtle Beach, SC 29577
Fiscal Year Ending December 31, 2019

3 (1) a, b, c — Shareholders

Name & Address	Country	Number & % of Ownership
None		
	USA	

3 (2) a, b, c
Shareholders not listed in 3 (1)

NA

Results: A list of branches for your depository institution: SOUTH ATLANTIC BANK (ID_RSSD: 3637247).
This depository institution is held by SOUTH ATLANTIC BANCSHARES, INC. (3637238) of MYRTLE BEACH, SC.
The data are as of 12/31/2019. Data reflects information that was received and processed through 01/07/2020.

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)	3637247	SOUTH ATLANTIC BANK	630 29TH AVENUE NORTH	MYRTLE BEACH	SC	29577	HORRY	UNITED STATES	Not Required	Not Required	SOUTH ATLANTIC BANK	3637247	
OK		Full Service	3393785	BLUFFTON BRANCH	ONE SHERIDAN PARK CIRCLE	BLUFFTON	SC	29910	BEAUFORT	UNITED STATES	Not Required	Not Required	SOUTH ATLANTIC BANK	3637247	
OK		Full Service	5140479	EAST BAY BRANCH	480 EAST BAY STREET	CHARLESTON	SC	29403	CHARLESTON	UNITED STATES	Not Required	Not Required	SOUTH ATLANTIC BANK	3637247	
OK		Full Service	4553205	GEORGETOWN BRANCH	1187 NORTH FRASIER STREET	GEORGETOWN	SC	29440	GEORGETOWN	UNITED STATES	Not Required	Not Required	SOUTH ATLANTIC BANK	3637247	
OK		Full Service	3689394	HILTON HEAD ISLAND BRANCH	5A PARK LANE	HILTON HEAD ISLAND	SC	29928	BEAUFORT	UNITED STATES	Not Required	Not Required	SOUTH ATLANTIC BANK	3637247	
OK		Full Service	4841108	MT. PLEASANT BRANCH	930 JOHNNIE DODDS BOULEVARD	MOUNT PLEASANT	SC	29464	CHARLESTON	UNITED STATES	Not Required	Not Required	SOUTH ATLANTIC BANK	3637247	
OK		Full Service	4099712	MURRELLS INLET BRANCH	11019 TOURNAMENT BOULEVARD	MURRELLS INLET	SC	29576	HORRY	UNITED STATES	Not Required	Not Required	SOUTH ATLANTIC BANK	3637247	
OK		Full Service	4841096	NORTH MYRTLE BEACH BRANCH	1801 HIGHWAY 17 SOUTH	NORTH MYRTLE BEACH	SC	29582	HORRY	UNITED STATES	Not Required	Not Required	SOUTH ATLANTIC BANK	3637247	
OK		Full Service	4418760	PAWLEYS ISLAND BRANCH	10970 OCEAN HIGHWAY	PAWLEYS ISLAND	SC	29585	GEORGETOWN	UNITED STATES	Not Required	Not Required	SOUTH ATLANTIC BANK	3637247	

Form FR Y-6
South Atlantic Bancshares, Inc.
December 31, 2019

Report Item 4: Directors and Officers

(1) Name and Address	(2) Principal Occupation	(3)(a) Title and Position with the Bank Holding Company	(3)(b) Title and Position with Subsidiary (South Atlantic Bank)	(3)(c) Title and Position with Other Businesses	(4)(a) Percentage of Voting Shares in Bank Holding Co.	(4)(b) Percentage of Voting Shares in Subsidiary	(4)(c) Names of Companies if 25% Voting Shares Held	
James Carson Benton, Jr.	Construction	Director	Director	Owner & Operator	1.77%	None	C L Benton & Sons, Inc.	50.00%
Myrtle Beach, SC USA				CL Benton & Sons, Inc.			Triple B, LLC	100.00%
							GUMBO, Inc.	33.33%
							Coastal Transit Systems, Inc.	50.00%
							B4 Mining, LLC	25.00%
							RCEE Corporation	25.00%
							Spademan, Inc.	50.00%
Thomas C. Brittain	Attorney	Director	Director	Partner - Law Firm	0.70%	None	The Brittain Law Firm, PA	55.00%
Myrtle Beach, SC USA				Brittain Law Firm, PA			Palmetto Pines, LLC	33.33%
							The Legal Bees	55.00%
Richard N. Burch	Banker	EVP, CFO & Secretary	EVP & CFO, Secretary	None	1.96%	None	None	
Myrtle Beach, SC USA		Director	Director					
Tony K. Cox	Real Estate Broker	Director	Director	Chief Real Estate Officer	1.07%	None	Constant Velocity, LLC	100.00%
North Myrtle Beach, SC USA				Burroughs & Chapin, Inc.			Cox Land Holding, LLC	100.00%
							C&S Powerwash, LLC	50.00%
							BJT-Seviere, LLC	100.00%
							PARC Associates	50.00%
							Your Average, LLC	50.00%

Form FR Y-6
South Atlantic Bancshares, Inc.
December 31, 2019

Report Item 4: Directors and Officers

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Miles M. Herring	Restaurant Owner	Director	Director	Owner/Operator	1.55%	None	New Hanover Doughnut Company, Inc	100.00%
Murrells Inlet, SC USA				Krispy Kerme Doughnuts			January 28th, LLC	100.00%
							Herring Enterprises, LLC	100.00%
							546 Properties, LLC	100.00%
							Herring Investments, LLC	100.00%
							Wachesaw Properties, LLC	100.00%
							Cypress Creek Investments, LLC	100.00%
							MMH Properties, LLC	100.00%
							MMH Management Group	100.00%
							NMB Doughnuts, LLC	50.00%
							Kate's Great	50.00%
							RMB Ventures, LLC	50.00%
							Lowcountry Doughnuts, Inc.	100.00%
							Herring Lowcountry Properties, LLC	100.00%
							1170 Properties, LLC	100.00%
							1170 Doughnuts Inc	100.00%
							545 Doughnuts Inc	100.00%
							546 Doughnuts Inc	100.00%
							547 Doughnuts, Inc	100.00%
							548 Doughnuts, Inc.	100.00%
							561 Properties, LLC	100.00%
							561 Doughnuts, Inc.	100.00%
							537 Doughnuts, Inc.	100.00%
							537 Properties, LLC	100.00%
							4720 Properties, LLC	100.00%
							H6 Ventures, LLC	100.00%
							Lolligag, LLC	100.00%

Form FR Y-6
South Atlantic Bancshares, Inc.
December 31, 2019

Report Item 4: Directors and Officers

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Martha S. Lewis	Physical Therapist	Director	Director	Retired Senior Therapist	0.22%	None	None	
Conway, SC USA								
R. Scott Plyler	Banker	President, Director	President, Director	None	2.24%	None	None	
Murrells Inlet, SC USA								
Albert A Springs, IV	Insurance	Director	Director	Partner Manager	0.91%	None	H B Springs Co	33.33%
Myrtle Beach, SC USA				H B Springs Company, Inc.			Springs & Davenport	25.00%
							Springs Properties, Inc.	33.33%
							Royal Oak, LLC	33.33%
							Springs Brothers Partnership	33.33%
							JDS3, LLC	25.00%
							Village at Crabtree, LLC	25.00%
Jack L. Springs, Jr.	Real Estate	Director	Director	Partner	0.75%	None	BFR Kings Hwy, LLC	50.00%
Myrtle Beach, SC USA				Century 21 Barefoot Realty			Jack L Springs Jr LLC	100.00%
							J & E Designs, LLC	50.00%
							Waccamaw Water Hunt Club, LLC	25.00%
							Tony's Holding Company, LLC	33.33%
							Barefoot Resort Rentals, LLC	100.00%
Michael C. Tawes, Sr.	Appraiser	Director	Director	Partner	0.10%	None	WT Investments of Mt. Pleasant, LLC	50.00%
Mount Pleasant, SC USA				Atlantic Appraisals, LLC			MTFS, LLC	50.00%
K Wayne Wicker	Banker	CEO, Chairman, Director	CEO, Chairman, Director	None	3.31%	None	Waccamaw Water Hunt Club, LLC	25.00%
Myrtle Beach, SC USA								
Edgar L. Woods	Grain Broker	Director	Director	President	4.62%	None	Palmetto Grain Brokerage	95.00%
Bluffton, SC				Palmetto Grain Brokerage			Performance AG, LLC	100.00%
							Woods Holdings, Inc.	100.00%
							Woods Enterprises, Inc.	100.00%
							Edgar Woods, LLC	100.00%
							M B Partners, LLC	100.00%
							Combahatchie, LLC	50.00%

South Atlantic Bancshares, Inc. and Subsidiary

Report on Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Contents

elliott davis

Independent Auditor's Report

The Board of Directors
South Atlantic Bancshares, Inc. and Subsidiary
Myrtle Beach, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of South Atlantic 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, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the "financial statements").

Management's Responsibility for the Financial Statements

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable 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 South Atlantic 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

Columbia, South Carolina
March 3, 2020

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2019 and 2018

	2019	2018
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 9,660,999	$ 8,420,048
Federal funds sold and interest-bearing deposits	4,043,078	7,380,430
Total cash and cash equivalents	13,704,077	15,800,478
Investment securities:		
Securities available-for-sale	76,398,560	49,240,294
Nonmarketable equity securities	563,700	752,500
Total investment securities	76,962,260	49,992,794
Mortgage loans held-for-sale	4,904,195	923,722
Loans receivable	575,721,370	531,034,918
Less allowance for loan losses	5,237,127	4,399,945
Loans, net	570,484,243	526,634,973
Premises, furniture and equipment, net	20,476,304	16,102,895
Right of use operating lease asset	8,194,535	-
Bank-owned life insurance	11,707,918	9,467,137
Accrued interest receivable	2,105,709	1,806,034
Deferred tax assets	1,562,868	1,916,850
Goodwill	5,348,699	5,348,699
Core deposit intangible	1,111,364	1,395,602
Other assets	1,840,037	826,687
Total assets	$ 718,402,209	$ 630,215,871
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 156,468,826	$ 144,033,871
Interest-bearing transaction accounts	75,956,855	71,144,614
Savings and money market accounts	252,907,360	222,998,975
Time deposits $250,000 and over	70,711,126	55,016,686
Other deposits	60,762,649	37,144,606
Total deposits	616,806,816	530,338,752
Advances from Federal Home Loan Bank	-	5,000,000
Federal funds purchased	-	10,453,000
Right of use operating lease liability	8,194,535	-
Accrued interest payable	117,947	95,520
Other liabilities	4,876,637	4,992,154
Total liabilities	629,995,935	550,879,426
Commitments and contingencies (Notes 13, 15 and 18)		
Shareholders' equity:		
Preferred stock, $1.00 par value per share, 5,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $1.00 par value, 25,000,000 shares authorized; 7,504,040 and 7,504,040 shares issued and outstanding at December 31, 2019 and 2018, respectively	7,504,040	7,504,040
Capital surplus	70,693,055	69,967,638
Retained earnings	9,309,463	3,243,306
Accumulated other comprehensive income (loss)	1,197,582	(743,291)
Treasury stock, 20,728 and 45,728 shares at December 31, 2019 and 2018, respectively	(297,866)	(635,248)
Total shareholders' equity	88,406,274	79,336,445
Total liabilities and shareholders' equity	$ 718,402,209	$ 630,215,871

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2019 and 2018

	2019	2018
Interest income:		
Loans, including fees	$ 29,689,979	$ 24,927,041
Securities available-for-sale	1,900,286	1,229,407
Other interest income	653,500	504,021
Total	32,243,765	26,660,469
Interest expense:		
Deposits	4,009,234	2,070,220
Time deposits $250,000 and over	1,323,394	695,601
Other borrowings	96,491	129,372
Total	5,429,119	2,895,193
Net interest income	26,814,646	23,765,276
Provision for loan losses	810,000	710,000
Net interest income after provision for loan losses	26,004,646	23,055,276
Noninterest income:		
Mortgage origination income	1,947,916	1,429,718
Merchant fee income	538,872	486,394
Service charges on deposit accounts	368,572	325,415
Gain on sale of investment securities	408,795	-
Bank-owned life insurance income	240,781	241,722
Other income	1,354,381	1,041,307
Total noninterest income	4,859,317	3,524,556
Noninterest expenses:		
Salaries and employee benefits	13,964,853	11,957,901
Net occupancy	2,061,569	1,967,976
Furniture and equipment	865,830	767,646
FDIC banking assessments	285,196	411,495
Advertising	746,760	766,632
Data processing fees	821,862	711,997
Merger related expenses	-	1,385,270
Other operating expenses	4,611,727	4,241,827
Total noninterest expenses	23,357,797	22,210,744
Income before income taxes	7,506,166	4,369,088
Income taxes	1,440,009	911,634
Net income	$ 6,066,157	$ 3,457,454
Income per common share		
Basic income per common share	$ 0.81	$ 0.48
Average common shares outstanding - basic	7,504,040	7,176,015
Diluted income per common share	$ 0.80	$ 0.47
Average common shares outstanding - diluted	7,601,903	7,307,507

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

	2019	2018
Net income	$ 6,066,157	$ 3,457,454
Other comprehensive income:		
Unrealized gains (losses) arising during the period on securities available-for-sale	2,865,596	(749,756)
Reclassification adjustment for gains realized in net income	(408,795)	-
Net unrealized gains (losses) on securities	2,456,801	(749,756)
Income tax benefit (expense)	(515,928)	150,655
Other comprehensive income (loss)	1,940,873	(599,101)
Comprehensive income	$ 8,007,030	$ 2,858,353

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2019 and 2018

	Common Stock		Capital	Retained	Accumulated other	Treasury	
	Shares	Amount	surplus	earnings (deficit)	comprehensive income (loss)	stock	Total
Balance, December 31, 2017	6,423,797	$ 6,423,797	$ 54,533,637	$ (214,148)	$ (144,190)	$ (457,092)	$ 60,142,004
Net income	-	-	-	3,457,454	-	-	3,457,454
Other comprehensive loss, net of tax benefit of $150,655	-	-	-	-	(599,101)	-	(599,101)
Stock and warrant compensation expense	-	-	104,074	-	-	-	104,074
Stock issued - Atlantic Bancshares, Inc. merger	1,062,731	1,062,731	15,143,917	-	-	-	16,206,648
Proceeds from exercise of stock options	17,512	17,512	142,260	-	-	-	159,772
Purchase of treasury stock	-	-	-	-	-	(446,906)	(446,906)
Contribution of treasury stock to KSOP plan	-	-	43,750	-	-	268,750	312,500
Balance, December 31, 2018	7,504,040	7,504,040	69,967,638	3,243,306	(743,291)	(635,248)	79,336,445
Net income	-	-	-	6,066,157	-	-	6,066,157
Other comprehensive income, net of tax expense of $515,928	-	-	-	-	1,940,873	-	1,940,873
Stock and warrant compensation expense	-	-	59,307	-	-	-	59,307
Equity effect of payment on previously issued loan collateralized by common stock	-	-	688,447	-	-	-	688,447
Contribution of treasury stock to KSOP plan	-	-	(22,337)	-	-	337,382	315,045
Balance, December 31, 2019	7,504,040	$ 7,504,040	$ 70,693,055	$ 9,309,463	$ 1,197,582	$ (297,866)	$ 88,406,274

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income	$ 6,066,157	$ 3,457,454
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	810,000	710,000
Depreciation expense	995,977	933,991
Discount accretion and premium amortization	290,895	255,571
Amortization of core deposit intangibles	284,238	234,398
Stock and warrant compensation expense	59,307	104,074
Gain on sale of securities	(408,795)	-
Contribution of treasury stock to KSOP plan	315,045	312,500
Deferred income tax benefit	(161,946)	(72,573)
Accretion on acquired loans	(429,084)	(382,280)
Amortization of deferred loan costs and fees, net	(497,829)	(462,582)
(Increase) decrease in loans held for sale	(3,980,473)	941,543
Increase in cash surrender value of BOLI	(240,781)	(241,898)
Increase in accrued interest receivable	(299,675)	(171,245)
Increase in accrued interest payable	22,427	19,256
(Increase) decrease in other assets	(1,013,350)	301,974
Increase (decrease) in other liabilities	(115,517)	680,771
Net cash provided by operating activities	1,696,596	6,620,954
Investing activities:		
Purchase of securities available-for-sale	(62,324,052)	(15,618,288)
Proceeds from sales of securities available-for-sale	34,150,206	-
Proceeds from maturities, calls, and paydowns of securities available-for-sale	3,590,281	1,910,311
Sales of nonmarketable equity securities	188,800	284,500
Net increase in loans to customers	(43,732,357)	(32,227,235)
Purchases of premises, furniture and equipment	(5,369,386)	(491,991)
Purchase of BOLI	(2,000,000)	-
Cash received from acquisitions, net	-	14,304,699
Net cash used by investing activities	(75,496,508)	(31,838,004)
Financing activities:		
Increase in noninterest-bearing deposits	12,434,955	420,342
Increase in interest-bearing deposits	74,033,109	20,044,822
Proceeds from Federal Home Loan Bank Advances	20,000,000	10,000,000
Repayments of Federal Home Loan Bank Advances	(25,000,000)	(20,000,000)
Increase (decrease) in federal funds purchased	(10,453,000)	10,453,000
Proceeds from exercise of stock options	688,447	159,772
Purchase of treasury stock	-	(446,906)
Net cash provided by financing activities	71,703,511	20,631,030
Net decrease in cash and cash equivalents	(2,096,401)	(4,586,020)
Cash and cash equivalents, beginning of year	15,800,478	20,386,498
Cash and cash equivalents, end of year	$ 13,704,077	$ 15,800,478
Cash paid during the year for:		
Interest	$ 5,406,692	$ 2,852,839
Income taxes	1,463,000	549,703
Noncash investing and financing activities:		
Assets acquired, net of cash	$ -	$ 81,859,744
Liabilities assumed	-	70,999,575
Net assets acquired	-	10,860,169
Goodwill and fair value acquisition adjustments	-	5,348,699
Unrealized gain (loss) on securities available-for-sale	2,456,801	(749,756)
Establishment of right of use operating lease asset	8,838,765	-
Establishment of right of use operating lease liability	8,838,765	-

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization:

South Atlantic Bancshares, Inc. and Subsidiary (the “Company”) was incorporated to serve as a bank holding company for its subsidiary, South Atlantic Bank (the “Bank”). The Bank commenced business on November 28, 2007. The principal business activity of the Bank is to provide banking services to domestic markets, principally in Horry, Georgetown, Charleston, and Beaufort counties, South Carolina. The Bank is a state-chartered commercial bank, and its deposits are insured by the Federal Deposit Insurance Corporation. The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions.

Management's estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) 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 balance sheets and the statements of income for the periods covered. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, including valuation allowances for impaired loans, business combination accounting, including valuation of goodwill and core deposit intangibles, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

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

Concentrations of credit risk:

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

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in Horry, Georgetown, Charleston, and Beaufort counties in South Carolina. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of credit risk, continued:

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. 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. However, to offset this risk, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully amortized (i.e. balloon payment loans usually five to seven years). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations and general obligation municipals. 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.

Cash and cash equivalents:

Cash and cash equivalents consists of cash and due from banks and interest-bearing cash with banks. Cash and cash equivalents have maturities of three months or less. Accordingly, the carrying amount of such instruments is considered a reasonable estimate of fair value. The Company is required by regulation to maintain an average cash reserve balance based on a percentage of deposits. The amounts of these reserve balances at December 31, 2019 and 2018 were approximately $1,730,000 and $2,267,000, respectively. As of December 31, 2019 and 2018, these reserve requirements were satisfied by cash held at the Bank.

Securities available-for-sale:

Securities available-for-sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded in shareholders' equity net of deferred income taxes. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security. The adjusted cost basis of investments available-for-sale is determined by specific identification and is used in computing the gain or loss upon sale.

Note 1. Summary of Significant Accounting Policies, Continued

Nonmarketable equity securities:

Nonmarketable equity securities include the cost of the Company's investment in the stock of the Federal Home Loan Bank. The stock has no quoted market value and no ready market exists. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank. At December 31, 2019 and 2018, the investment in Federal Home Loan Bank stock was $563,700 and $752,500, respectively. Dividends received on the stock are included in the nonmarketable equity securities component of interest income.

Loans held-for-sale:

The Bank's mortgage activities are comprised of accepting residential mortgage loan applications, qualifying borrowers to standards established by investors, funding residential mortgages, and selling mortgages to investors under pre-existing commitments. Funded residential mortgages held temporarily for sale to investors are recorded at cost which approximates market value. Application and origination fees collected by the Bank are recognized as income upon sale to the investor.

Loans receivable:

Loans are stated at their unpaid principal balance adjusted for any unamortized deferred fees and costs. Interest income is accrued on the unpaid principal balance using the simple interest method and is recorded in the period earned.

When serious doubt exists as to the collectability of a loan or when a loan becomes contractually 90 days past due as to principal or interest, interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest. When interest accruals are discontinued, income earned but not collected is reversed.

Loan origination and commitment fees and certain direct loan origination costs (principally salaries and employee benefits) are deferred and amortized to income over the contractual life of the related loans or commitments, adjusted for prepayments, using a method that approximates a level yield.

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

Note 1. Summary of Significant Accounting Policies, Continued

Troubled debt restructurings ("TDRs"):

The Company designates loan modifications as TDRs when, for economic or legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of modification are initially classified as accruing TDRs at the date of modification, if the note is reasonably assured of repayment and performance is in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the modification date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. Nonaccrual TDRs are returned to accrual status when there is economic substance to the restructuring, there is well documented credit valuation of the borrower's financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months).

Allowance for loan losses:

The provision for loan losses charged to operating expenses reflects the amount deemed appropriate by management to establish an adequate reserve to meet the probable loan losses present in the current portfolio. Management's judgment is based on periodic and regular evaluation of individual loans, the overall risk characteristics of the various portfolio segments, and prevailing economic conditions. Loans that are determined to be uncollectable are charged against the allowance. Provisions for loan losses and recoveries on loans previously charged off are added to the allowance.

While management uses the best information available to make evaluations, future adjustments may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. The allowance for loan losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

Business combinations and method of accounting for loans acquired:

The Company accounts for its acquisitions under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, Business Combinations, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk. As provided for under GAAP, management has up to twelve months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities. Once management has finalized the fair values of acquired assets and assumed liabilities within this twelve month period, management considers such values to be the Day 1 fair values ("Day 1 Fair Values").

Note 1. Summary of Significant Accounting Policies, Continued

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

There are two methods to account for acquired loans as part of a business combination. Acquired loans that contain evidence of credit deterioration on the date of purchase are carried at the net present value of expected future proceeds in accordance with ASC 310-30. All other acquired loans are recorded at their initial fair value, adjusted for subsequent advances, pay downs, amortization or accretion of any premium or discount on purchase, charge-offs and any other adjustment to carrying value in accordance with ASC 310-20.

In determining the Day 1 Fair Values of acquired loans without evidence of credit deterioration at the date of acquisition, management includes (i) no carryover of any previously recorded allowance for loan losses and (ii) an adjustment of the unpaid principal balance to reflect an appropriate market rate of interest, given the risk profile and grade assigned to each loan. This adjustment will be accreted into earnings as a yield adjustment, using the effective yield method, over the remaining life of each loan.

To the extent that current information indicates it is probable that the Company will collect all amounts according to the contractual terms thereof, such loan is not considered impaired and is not considered in the determination of the required allowance for loan losses. To the extent that current information indicates it is probable that the Company will not be able to collect all amounts according to the contractual terms thereon, such loan is considered impaired and is considered in the determination of the required level of allowance for loan and lease losses.

Subsequent to the acquisition date, increases in cash flows expected to be received in excess of the Company's initial estimates are reclassified from nonaccretable difference to accretable yield and are accreted into interest income on a level-yield basis over the remaining life of the loan. Decreases in cash flows expected to be collected are recognized as impairment through the provision for loan losses.

Goodwill and core deposit intangible:

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill is not amortized but instead is subject to review for impairment annually, or more frequently if deemed necessary. Also in connection with business combinations, the Company records core deposit intangibles, representing the value of the acquired core deposit base. Core deposit intangibles are amortized over their estimated useful lives ranging up to 10 years.

Premises and equipment:

Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings and improvements of 40 years, for furniture and equipment of five to 10 years and for software of three years. Leasehold improvements are amortized over the life of each respective lease. The cost of assets sold or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and the resulting gains or losses are reflected in the income statement when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized.

Note 1. Summary of Significant Accounting Policies, Continued

Other real estate owned:

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost. After foreclosure, valuations are periodically performed by management and are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amount to fair value less estimated costs to dispose are recorded as necessary. Revenue and expense from the operations of foreclosed assets and changes in the valuation allowances are included in net expenses from foreclosed assets in other operating expenses.

Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". Under ASC 740, deferred tax assets or liabilities are computed based upon the difference between financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. The Company has provided a valuation allowance on its net deferred tax assets where it is more likely than not such assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. See Note 11, "Income Taxes" for additional information. The Company records any penalties and interest attributed to uncertain tax positions as a component of income tax expense.

Advertising expense:

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Income per share:

Basic income per share represents income available to shareholders divided by the weighted-average number of common shares outstanding during the period. Dilutive income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. The only potential common share equivalents are those related to stock options and warrants. Stock options and warrants which are anti-dilutive are excluded from the calculation of diluted net income per share. The dilutive effect of options and warrants outstanding under the Company's stock compensation plan is reflected in diluted earnings per share by the application of the treasury stock method. Retroactive recognition has been given for the effects of all stock dividends.

Note 1. Summary of Significant Accounting Policies, Continued

Stock-based compensation:

The Company accounts for stock options and warrants under the fair value recognition provisions of FASB ASC 718, Stock Based Compensation. Compensation expense is recognized as salaries and benefits in the consolidated statements of income.

Merchant fee income:

Merchant fee income represents fees received by the Bank related to credit card processing. These fees are recorded on the accrual basis of accounting.

Statement of cash flows:

For purposes of reporting cash flows in the financial statements, the Company considers certain highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, federal funds sold, and interest bearing deposits. Generally, federal funds are sold for one-day periods.

Changes in the valuation account of securities available-for-sale, including the deferred tax effects, are considered non-cash transactions for purposes of the statement of cash flows and are presented in detail in the notes to the consolidated financial statements.

Off-balance-sheet financial instruments:

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

Recently adopted accounting pronouncements:

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments were effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the amendments on the required effective date of January 1, 2018. The amendments included within this standard, which were applied on a prospective basis, required the Company to measure the fair value of financial instruments measured at amortized cost on the balance sheet using an exit price notion. Prior to adopting the amendments included in the standard, the Company was allowed to measure fair value of these instruments under an entry price notion. Refer to Note 21 – Fair Value of Financial Instruments for additional detail.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718). ASU 2017-09 provides clarity when applying guidance to a change to the terms or conditions of a share-based payment award. The amendments were effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted ASU No. 2017-09 and its related amendments on its required

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued

effective date of January 1, 2018. The amendments have been applied to awards modified on or after the adoption date. The Company has determined that this guidance did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations. The updates to the principal versus agent guidance: (i) require an entity to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or services) to be provided to the customer; (ii) illustrate how an entity that is a principal might apply the control principle to goods, services, or rights to services, when another party is involved in providing goods or services to a customer and (iii) clarify that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer, provide more specific guidance on how the indicators should be considered, and clarify that their relevance will vary depending on the facts and circumstances. The Company's revenue is primarily comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. A description of the Company's revenue streams accounted for under ASC 606, Revenue from contracts with customers follows:

Deposit service charges: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Debit and credit card income: The Company earns interchange fees from debit and credit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, with the transaction processing services provided to the cardholder. Fees are recognized on a daily basis.

The Company evaluated ASU 2016-08 and 2014-09 and determined that this guidance did not have a material impact on the way the Company currently recognizes revenue or the way it recognizes expenses related to those revenue streams. The Company adopted ASU No. 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 applies a right-of-use ("ROU") model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the

Note 1. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncements, continued:

pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. For public business entities, the amendments in ASU 2016-02 were effective for interim and annual periods beginning after December 15, 2018. The Company adopted the guidance using the modified retrospective approach on January 1, 2019 and elected the practical expedients for transition including the transition option provided in ASU 2018-11. The practical expedients allow the Company to largely account for existing operating leases consistent with current guidance except for the incremental balance sheet recognition for leases. The adoption of ASU 2016-02 resulted in the recognition of right-of-use assets and lease liabilities totaling $8.8 million on January 1, 2019. As of December 31, 2019, the balance was $8.1 million. Therefore, as expected, the provisions of ASU No. 2016-02 did not have a material impact on the Company's regulatory capital ratios. Refer to Note 13 – Leases for additional detail.

In March 2017, the FASB amended the requirements in the 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 Company adopted the guidance using the modified retrospective approach on January 1, 2019. The guidance did not have a material effect on the Company's financial statements.

In May 2018, the FASB amended the Financial Services—Depository and Lending Topic of the Accounting Standards Codification to remove outdated guidance related to Circular 202. The amendments were effective upon issuance and did not have a material effect on the financial statements.

Recently issued accounting pronouncements:

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

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is evaluating the impact of the ASU on the consolidated financial statements. The Company expects the ASU will have no material impact on the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

In January 2017, the FASB amended the Goodwill and Other Topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

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

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

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

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

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

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

Risks and uncertainties:

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

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

Reclassifications:

Certain captions and amounts in the 2018 consolidated financial statements were reclassified to conform with the 2019 presentation. Any such reclassifications had no impact of net income, earnings per common share, or shareholders’ equity.

Note 2. Business Combinations

Acquisition of Atlantic Bancshares, Inc.

On April 2, 2018, the Company acquired all of the common stock of Atlantic Bancshares, Inc., the holding company for Atlantic Community Bank, ("Atlantic Community"). Under the terms of the merger agreement, each share of Atlantic Community common stock was converted into 0.2452 shares of the Company's common stock.

The following table presents a summary of total consideration paid by the Company at the acquisition date.

Common stock issued (1,062,731 @ $15.25 per share)	$ 16,206,648
Cash paid in lieu of fractional shares	2,220
Total consideration paid	$ 16,208,868

The assets acquired and liabilities assumed from Atlantic Community were recorded at their fair value as of the closing date of the merger. Goodwill of $5,348,699 was recorded at the time of the acquisition. A goodwill evaluation was conducted as of December 31, 2019, to test for impairment. No impairment was detected. The following table summarizes the consideration paid by the Company in the merger with Atlantic Community and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

April 2, 2018	As Reported by Atlantic Community	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$ 14,306,919	$ -		$ 14,306,919
Securities available-for-sale	712,397	(29,676)	(a)	682,721
Loans	64,983,111	(1,879,715)	(b)	63,103,396
Allowance for loan losses	(796,185)	796,185	(c)	-
Fixed assets	170,337	-		170,337
OREO, net of allowance	183,774	(183,774)	(d)	-
Accrued interest receivable	131,488	(14,697)	(e)	116,791
Core deposit intangible	-	1,630,000	(f)	1,630,000
Deferred tax asset	1,561,635	56,061	(g)	1,617,696
Other assets	171,883	60,001	(h)	231,884
Total assets acquired	$ 81,425,359	$ 434,385		$ 81,859,744
Liabilities				
Deposits	$ 70,634,306	$ 13,304	(i)	$ 70,647,610
Accrued interest payable	23,098	-		23,098
Other liabilities	69,928	258,939	(j)	328,867
Total liabilities assumed	$ 70,727,332	$ 272,243		$ 70,999,575
Net identifiable assets acquired over liabilities assumed				$ 10,860,169
Total consideration paid				16,208,868
Goodwill				$ 5,348,699

Note 2. Business Combinations, Continued

Explanation of fair value adjustments:

(a) Adjustment reflects opening fair value of securities portfolio, which was established as the new book basis of the portfolio.
(b) Adjustment represents the amount necessary to adjust loans to their fair value due to interest rate and credit factors, based on the Company's third party valuation report.
(c) Adjustment reflects the elimination of Atlantic Community's historical allowance for loan losses.
(d) Adjustment reflects the elimination of Atlantic Community's OREO and the historical allowance for OREO.
(e) Adjustment reflects the impact of acquisition accounting fair value adjustments.
(f) Adjustment reflects the fair value adjustment to record the estimated core deposit intangible based on the Company's third party valuation report.
(g) Adjustment reflects the tax impact of acquisition accounting fair value adjustments.
(h) Adjustment reflects the fair value adjustment based on the Company's evaluation of acquired other assets.
(i) Adjustment represents the fair value adjustment due to interest rate factors, based on the Company's third party valuation report.
(j) Adjustment represents the fair value adjustment based on the Company's third party valuation of acquired other liabilities.

The table below summarizes the total contractually required principal and interest payments, management's estimate of expected total cash payments and fair value of loans as of April 2, 2018 for purchased credit impaired ("PCI") loans. Contractually required principal and interest payments have been adjusted for estimated payments.

Contractual principal and interest at acquisition	$ 6,598,025
Nonaccretable difference	(986,167)
Expected cash flows at acquisition	5,611,858
Accretable yield	(742,182)
Basis in PCI loans at acquisition - estimated fair value	$ 4,869,676

Note 3. Core Deposit Intangibles

In connection with the business combination, the Company recorded core deposit intangibles, representing the value of the acquired core deposit base. As of December 31, 2019 and 2018, respectively, core deposit intangible was $1,111,364 and $1,395,602. The estimated future amortization is subject to change to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful life of the core deposit intangibles.

Amortization expense for core deposit intangible is expected to be as follows.

Year 1	$ 251,909
Year 2	219,579
Year 3	187,248
Year 4	154,917
Year 5	122,587
Thereafter	175,124
Total	$ 1,111,364

Note 3. Core Deposit Intangibles, Continued

Amortization expense of $284,238 and $234,398 related to the core deposit intangible was recognized in 2019 and 2018, respectively.

Note 4. Investment Securities

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

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 46,712,414	$ 576,907	$ 175,836	$ 47,113,485
SBA loan pools	8,164,285	149,693	40,829	8,273,149
SBA asset-backed securities	1,760,847	19,003	-	1,779,850
Obligations of state and local governments	11,845,088	1,027,227	42,739	12,829,576
Corporate debt securities	6,400,000	2,500	-	6,402,500
	$ 74,882,634	$ 1,775,330	$ 259,404	$ 76,398,560

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 21,469,084	$ 14,514	$ 532,368	$ 20,951,230
SBA loan pools	1,750,853	-	23,891	1,726,962
SBA asset-backed securities	483,178	9,144	-	492,322
Obligations of state and local governments	24,078,054	294,327	702,601	23,669,780
Corporate debt securities	2,400,000	-	-	2,400,000
	$ 50,181,169	$ 317,985	$ 1,258,860	$ 49,240,294

The following is a summary of maturities of securities available-for-sale as of December 31, 2019. The amortized cost and estimated fair values are based on the contractual maturity dates except for mortgage-backed securities.

	Securities Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due after one year but within five years	$ 8,195,593	$ 8,348,831
Due after five years but within ten years	12,969,739	13,075,226
Due after ten years	7,004,888	7,861,018
Mortgage-backed securities	46,712,414	47,113,485
Total	$ 74,882,634	$ 76,398,560

Note 4. Investment 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.

	December 31, 2019					
	Less than twelve months		Twelve months or more		Total	
Available-for-sale:	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities	$ 17,893,532	$ 175,836	$ -	$ -	$ 17,893,532	$ 175,836
SBA loan pools	1,704,169	25,370	492,309	15,459	2,196,478	40,829
Obligations of state and local governments	1,871,556	42,739	-	-	1,871,556	42,739
	$ 21,469,257	$ 243,945	$ 492,309	$ 15,459	$ 21,961,566	$ 259,404

	December 31, 2018					
	Less than twelve months		Twelve months or more		Total	
Available-for-sale:	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities	$ 9,708,710	$ 85,977	$ 8,737,701	$ 446,391	$ 18,446,411	$ 532,368
SBA loan pools	1,216,105	3,187	510,857	20,704	1,726,962	23,891
Obligations of state and local governments	2,301,120	15,264	14,892,410	687,337	17,193,530	702,601
	$ 13,225,935	$ 104,428	$ 24,140,968	$ 1,154,432	$ 37,366,903	$ 1,258,860

There was one security with an unrealized loss for greater than twelve months at December 31, 2019 and twenty-three at December 31, 2018.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

Note 4. Investment Securities, Continued

Sales of investment securities available-for-sale for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Proceeds	$ 34,150,206	$ -
Realized gains	556,074	-
Realized losses	147,279	-
Total investment securities gains, net	$ 408,795	$ -

At December 31, 2019, a security with a book value of $313,980 and a market value of $383,569 was pledged to secure public funds. At December 31, 2018, a security with a book value of $465,723 and market value of $498,659 was pledged to secure public funds.

Note 5. Loans Receivable

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

	2019	2018
All Loans:		
Commercial	$ 44,331,270	$ 40,684,299
Commercial real estate	370,856,416	327,526,926
Consumer	8,619,148	8,791,851
Consumer real estate	151,874,214	154,092,067
Total gross loans receivable	575,681,048	531,095,143
Net unearned origination (fees) costs	40,322	(60,225)
Allowance for loan losses	(5,237,127)	(4,399,945)
Loans, net	$ 570,484,243	$ 526,634,973

Loans receivable, net at December 31, 2019 and 2018 for purchased non-credit impaired loans and nonacquired loans are summarized by category as follows:

	2019	2018
Purchased Non-Credit Impaired Loans (ASC 310-20) and Nonacquired Loans:		
Commercial	$ 44,297,887	$ 40,554,881
Commercial real estate	368,943,941	325,517,519
Consumer	8,601,888	8,750,871
Consumer real estate	151,339,676	153,520,066
Total gross loans receivable	573,183,392	528,343,337
Net unearned origination (fees) costs	40,322	(60,225)
Allowance for loan losses	(5,237,127)	(4,399,945)
Loans, net	$ 567,986,587	$ 523,883,167

Note 5. Loans Receivable, Continued

Loans receivable, net at December 31, 2019 and 2018 for purchased credit impaired loans are summarized by category as follows:

	2019	2018
Purchased Credit Impaired Loans (ASC 310-30):		
Commercial	$ 33,383	$ 129,418
Commercial real estate	1,912,475	2,009,407
Consumer	17,260	40,980
Consumer real estate	534,538	572,001
Total gross loans receivable	2,497,656	2,751,806
Net unearned origination (fees) costs	-	-
Allowance for loan losses	-	-
Loans, net	$ 2,497,656	$ 2,751,806

Included in the loan totals at December 31, 2019 was $28,840,720 in purchased loans. No allowance for loan losses related to the purchased loans is recorded on the acquisition date because the fair value of the loans purchased incorporates assumptions regarding credit risk. Subsequent to the purchase date and after any credit discounts have been fully used, the methods utilized to estimate the required allowance for loan losses are the same as originated loans.

There are two methods to account for purchased loans as part of a business combination. Purchased loans that contain evidence of credit deterioration on the date of purchase are carried at the net present value of expected future proceeds in accordance with ASC 310-30 and are considered purchased credit impaired ("PCI") loans. All other purchased loans are recorded at their initial fair value, adjusted for subsequent advances, pay downs, amortization or accretion of any premium or discount on purchase, chargeoffs and any other adjustment to carrying value in accordance with ASC 310-20.

PCI loans are aggregated into pools of loans based on common risk characteristics such as the type of loan, payment status, or collateral type. The Company estimates the amount and timing of expected cash flows for each purchased loan pool and the expected cash flows in excess of the amount paid are recorded as interest income over the remaining life of the pool (accretable yield). The excess of the pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

At December 31, 2019, the outstanding balance and recorded investment of PCI loans was $2.5 million. At December 31, 2018, the outstanding balance and recorded investment of PCI loans was $2.8 million.

Note 5. Loans Receivable, Continued

The table below presents changes in the value of PCI loans for the year ended December 31, 2019.

Balance at the beginning of period	$ 2,751,806
Net reductions for payments, foreclosures, and accretion	254,150
Balance at end of period, net of allowance for loan losses on PCI loans	$ 2,497,656

The table below presents changes in the value of the accretable yield for PCI loans as of December 31:

	2019	2018
Accretable yield, beginning of period	$ 550,171	$ -
Additions	-	742,182
Accretion	(250,852)	(192,011)
Reclassification to nonaccretable balance, net (a)	(276,761)	-
Other changes, net (b)	569,177	-
Accretable yield, end of period	$ 591,735	$ 550,171

(a) Reclassifications from the nonaccretable balance in the year ended December 31, 2019 were driven by changes in credit mark, offset by impairment.
(b) Other changes, net for the year ended December 31, 2019 include the impact of changes in expectations of cash flows, which may vary from period to period due to the impact of modifications and changes to prepayments assumptions, as well as the impact of changes interest rates on variable loans.

The following is a summary of information pertaining to our allowance for loan losses (by purpose code) as of and for the year ended December 31, 2019. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Allowance for loan losses:					
Beginning balance	$ 385,067	$ 2,688,777	$ 67,332	$ 1,258,769	$ 4,399,945
Charge-offs	-	-	(7,982)	-	(7,982)
Recoveries	21,200	2,239	10,558	1,167	35,164
Provisions	34,230	671,710	7,006	97,054	810,000
Ending balance	$ 440,497	$ 3,362,726	$ 76,914	$ 1,356,990	$ 5,237,127
Ending balances:					
Individually evaluated for impairment	$ 23,996	$ -	$ 6,097	$ -	$ 30,093
Collectively evaluated for impairment	$ 416,501	$ 3,362,726	$ 70,817	$ 1,356,990	$ 5,207,034
Loans receivable:					
Ending balance - total	$ 44,331,270	$ 370,856,416	$ 8,619,148	$ 151,874,214	$ 575,681,048
Ending balances:					
Individually evaluated for impairment	$ 23,996	$ 4,360	$ 32,518	$ 593,809	$ 654,683
Collectively evaluated for impairment	$ 44,307,274	$ 370,852,056	$ 8,586,630	$ 151,280,405	$ 575,026,365
Purchased credit impaired loans	$ 33,383	$ 1,912,475	$ 17,260	$ 534,538	$ 2,497,656

Note 5. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses (by purpose code) as of and for the year ended December 31, 2018. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Allowance for loan losses:					
Beginning balance	$ 273,947	$ 2,281,289	$ 35,491	$ 1,157,781	$ 3,748,508
Charge-offs	-	(74,577)	(18,858)	-	(93,435)
Recoveries	24,600	1,922	8,350	-	34,872
Provisions	86,520	480,143	42,349	100,988	710,000
Ending balance	$ 385,067	$ 2,688,777	$ 67,332	$ 1,258,769	$ 4,399,945
Ending balances:					
Individually evaluated for impairment	$ 27,756	$ -	$ 38,707	$ 43,393	$ 109,856
Collectively evaluated for impairment	$ 357,311	$ 2,688,777	$ 28,625	$ 1,215,376	$ 4,290,089
Loans receivable:					
Ending balance - total	$ 40,684,299	$ 327,526,926	$ 8,791,851	$ 154,092,067	$ 531,095,143
Ending balances:					
Individually evaluated for impairment	$ 27,756	$ 156,092	$ 38,707	$ 499,450	$ 722,005
Collectively evaluated for impairment	$ 40,656,543	$ 327,370,834	$ 8,753,144	$ 153,592,617	$ 530,373,138
Purchased credit impaired loans	$ 129,418	$ 2,009,407	$ 40,980	$ 572,001	$ 2,751,806

Credit Quality Indicators

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

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

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

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

Loss - Loans classified as loss are considered uncollectable.

Note 5. Loans Receivable, Continued

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

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

All Loans:	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	$ 44,268,704	$ 369,358,321	$ 8,569,228	$ 150,766,423	$ 572,962,676
Special mention	18,379	1,413,981	17,402	397,404	1,847,166
Substandard	44,187	84,114	32,518	710,387	871,206
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 44,331,270	$ 370,856,416	$ 8,619,148	$ 151,874,214	$ 575,681,048
Purchased non-credit impaired loans (ASC 310-20) and nonacquired loans:					
Grade:					
Pass	$ 44,262,064	$ 367,684,090	$ 8,551,968	$ 150,461,437	$ 570,959,559
Special mention	2,704	1,175,737	17,402	245,620	1,441,463
Substandard	33,119	84,114	32,518	632,619	782,370
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 44,297,887	$ 368,943,941	$ 8,601,888	$ 151,339,676	$ 573,183,392
Purchased credit impaired loans (ASC 310-30):					
Grade:					
Pass	$ 6,640	$ 1,674,231	$ 17,260	$ 304,986	$ 2,003,117
Special mention	15,675	238,244	-	151,784	405,703
Substandard	11,068	-	-	77,768	88,836
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 33,383	$ 1,912,475	$ 17,260	$ 534,538	$ 2,497,656

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2018:

All Loans:	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	$ 40,544,839	$ 320,538,565	$ 8,724,730	$ 153,054,188	$ 522,862,322
Special mention	111,705	6,408,991	20,228	410,206	6,905,130
Substandard	27,755	579,370	46,893	627,673	1,281,691
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 40,684,299	$ 327,526,926	$ 8,791,851	$ 154,092,067	$ 531,095,143

Note 5. Loans Receivable, Continued

Purchased non-credit impaired loans (ASC 310-20) and nonacquired loans:	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	$ 40,544,839	$ 318,795,545	$ 8,690,040	$ 152,728,718	$ 520,759,142
Special mention	-	6,142,604	19,440	249,689	6,411,733
Substandard	10,042	579,370	41,391	541,659	1,172,462
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 40,554,881	$ 325,517,519	$ 8,750,871	$ 153,520,066	$ 528,343,337
Purchased credit impaired loans (ASC 310-30):					
Grade:					
Pass	$ -	$ 1,743,020	$ 34,690	$ 325,470	$ 2,103,180
Special mention	111,705	266,387	788	160,517	539,397
Substandard	17,713	-	5,502	86,014	109,229
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 129,418	$ 2,009,407	$ 40,980	$ 572,001	$ 2,751,806

The following is a past due aging analysis of our loan portfolio at December 31, 2019:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment> 90 Days and Accruing
All Loans:							
Commercial	$ -	$ -	$ -	$ -	$ 44,331,270	$ 44,331,270	$ -
Commercial real estate	-	-	-	-	370,856,416	370,856,416	-
Consumer	-	-	-	-	8,619,148	8,619,148	-
Consumer real estate	-	-	530,577	530,577	151,343,637	151,874,214	-
Total	$ -	$ -	$ 530,577	$ 530,577	$ 575,150,471	$ 575,681,048	$ -
Purchased non-credit impaired Loans (ASC 310-20) and nonacquired loans:							
Commercial	$ -	$ -	$ -	$ -	$ 44,297,887	$ 44,297,887	$ -
Commercial real estate	-	-	-	-	368,943,941	368,943,941	-
Consumer	-	-	-	-	8,601,888	8,601,888	-
Consumer real estate	-	-	530,577	530,577	150,809,099	151,339,676	-
Total	$ -	$ -	$ 530,577	$ 530,577	$ 572,652,815	$ 573,183,392	$ -
Purchased credit impaired loans (ASC 310-30):							
Commercial	$ -	$ -	$ -	$ -	$ 33,383	$ 33,383	$ -
Commercial real estate	-	-	-	-	1,912,475	1,912,475	-
Consumer	-	-	-	-	17,260	17,260	-
Consumer real estate	-	-	-	-	534,538	534,538	-
Total	$ -	$ -	$ -	$ -	$ 2,497,656	$ 2,497,656	$ -

Note 5. Loans Receivable, Continued

The following is a past due aging analysis of our loan portfolio at December 31, 2018:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment> 90 Days and Accruing
All Loans:							
Commercial	$ -	$ -	$ -	$ -	$ 40,684,299	$ 40,684,299	$ -
Commercial real estate	-	-	139,301	139,301	327,387,625	327,526,926	-
Consumer	-	-	-	-	8,791,851	8,791,851	-
Consumer real estate	-	-	-	-	154,092,067	154,092,067	-
Total	$ -	$ -	$ 139,301	$ 139,301	$ 530,955,842	$ 531,095,143	$ -
Purchased non-credit impaired Loans (ASC 310-20) and nonacquired loans:							
Commercial	$ -	$ -	$ -	$ -	$ 40,554,881	$ 40,554,881	$ -
Commercial real estate	-	-	139,301	139,301	325,378,218	325,517,519	-
Consumer	-	-	-	-	8,750,871	8,750,871	-
Consumer real estate	-	-	-	-	153,520,066	153,520,066	-
Total	$ -	$ -	$ 139,301	$ 139,301	$ 528,204,036	$ 528,343,337	$ -
Purchased credit impaired loans (ASC 310-30):							
Commercial	$ -	$ -	$ -	$ -	$ 129,418	$ 129,418	$ -
Commercial real estate	-	-	-	-	2,009,407	2,009,407	-
Consumer	-	-	-	-	40,980	40,980	-
Consumer real estate	-	-	-	-	572,001	572,001	-
Total	$ -	$ -	$ -	$ -	$ 2,751,806	$ 2,751,806	$ -

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	4,360	4,360	-	13,005	936
Consumer	-	-	-	-	-
Consumer real estate	593,809	593,809	-	610,694	10,694
	598,169	598,169	-	623,699	11,630
With an allowance recorded:					
Commercial	$ 23,996	23,996	23,996	25,745	2,246
Commercial real estate	-	-	-	-	-
Consumer	32,518	32,518	6,097	35,386	1,323
Consumer real estate	-	-	-	-	-
	56,514	56,514	30,093	61,131	3,569
Total:					
Commercial	$ 23,996	$ 23,996	$ 23,996	$ 25,745	$ 2,246
Commercial real estate	4,360	4,360	-	13,005	936
Consumer	32,518	32,518	6,097	35,386	1,323
Consumer real estate	593,809	593,809	-	610,694	10,694
	$ 654,683	$ 654,683	$ 30,093	$ 684,830	$ 15,199

Note 5. Loans Receivable, Continued

The following is an analysis of our impaired loan (including nonaccrual loans) portfolio detailing the related allowance recorded at December 31, 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	156,092	156,092	-	366,980	13,386
Consumer	-	-	-	-	-
Consumer real estate	456,057	475,639	-	456,108	13,458
	612,149	631,731	-	823,088	26,844
With an allowance recorded:					
Commercial	$ 27,756	$ 27,756	$ 27,756	$ 29,076	$ 2,499
Commercial real estate	-	-	-	-	-
Consumer	38,707	38,707	38,707	41,861	1,574
Consumer real estate	43,393	128,160	43,393	41,040	1,481
	109,856	194,623	109,856	111,977	5,554
Total:					
Commercial	$ 27,756	$ 27,756	$ 27,756	$ 29,076	$ 2,499
Commercial real estate	156,092	156,092	-	366,980	13,386
Consumer	38,707	38,707	38,707	41,861	1,574
Consumer real estate	499,450	603,799	43,393	497,148	14,939
	$ 722,005	$ 826,354	$ 109,856	$ 935,065	$ 32,398

The following is an analysis of our nonaccrual loan portfolio recorded at December 31, 2019 and 2018:

	2019	2018
Commercial Real Estate	$ -	$ 139,301
Consumer Real Estate	530,577	420,433
Total	$ 530,577	$ 559,734

Troubled Debt Restructurings

The following table summarizes the carrying balance of troubled debt restructurings ("TDRs") as of December 31, 2019 and 2018:

	2019	2018
Performing TDRs	$ 124,106	$ 162,272
Nonperforming TDRs	-	-
	$ 124,106	$ 162,272

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

Note 5. Loans Receivable, Continued

There were no new TDRs identified during the year ended December 31, 2019. During the year ended December 31, 2018, the Bank modified one commercial loan that was considered to be a TDR. The loan was originally a revolving line of credit restructured to a six-year fixed rate loan. The pre-modification and post-modification recorded investment was $27,756.

No loans previously identified as TDRs went into default (as defined by non-accrual classification) during the year ended December 31, 2019.

Note 6. Premises, Furniture and Equipment

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

	2019	2018
Land	$ 7,421,993	$ 5,421,993
Buildings and leasehold improvements	13,450,433	11,399,858
Furniture and equipment	5,112,578	4,640,123
Software	824,141	750,401
Automobile	32,895	32,895
Construction in progress	827,816	55,200
Total	27,669,856	22,300,470
Less accumulated depreciation	7,193,552	6,197,575
Premises, furniture and equipment, net	$ 20,476,304	$ 16,102,895

Depreciation expense for the years ended December 31, 2019 and 2018 was $995,977 and $933,991, respectively.

Note 7. Deposits

At December 31, 2019, the scheduled maturities of time deposits are as follows:

2020	$ 110,564,966
2021	7,837,551
2022	4,040,104
2023	705,166
2024	8,325,988
Total	$ 131,473,775

The Bank had brokered deposits of $5,000,000 as of December 31, 2019 and December 31, 2018. Interest expense on time deposits that meet or exceed the FDIC insurance limit of $250,000 was $1,323,394 and $695,601 for the years ended December 31, 2019 and 2018, respectively.

Note 8. Advances from Federal Home Loan Bank

Advances from the Federal Home Loan Bank (FHLB) consisted of the following at December 31:

Description	Current Interest Rate	2019	2018
FHLB advances maturing:			
March 22, 2019	2.54%	$ -	$ 5,000,000
Total		$ -	$ 5,000,000

Pursuant to collateral agreements with the FHLB, advances are secured by stock in the FHLB and by qualifying first mortgage, home equity lines of credit and commercial real estate loans. As of December 31, 2019, the pledged collateral totaled approximately $35.7 million. Certain advances are subject to prepayment penalties.

Note 9. Stock Compensation Plan

The Company has adopted a 2007 Stock Incentive Plan and a 2017 Stock Incentive Plan, under which an aggregate of 659,130 and 575,000 shares of common stock, respectively, have been reserved for issuance as stock options by the Company. The options are granted at an exercise price at least equal to the fair value of the common stock at the date of grant and expire ten years from the date of the grant. The vesting period for option grants will vary based on the timing of the grant. Options that expire without issuance, forfeitures, shares used as partial payment to the Company for the purchase price of the award, or an award settled in cash, including for payroll taxes, are added back to the shares available to be awarded under the plan. As of December 31, 2019, a total of 242 and 554,500 shares were remaining in the plans to be issued.

In connection with the merger of Atlantic Community, the Company assumed the obligations of Atlantic Bancshares, Inc. which included five different Incentive Stock Option plans. As a result, the Company registered an aggregate 115,612 shares of common stock related to these plans. There are no additional shares available to be awarded under any of the Plans. All options were fully vested at the time of the merger.

Activity in the Company's stock option plans is summarized in the following table.

	2019		2018	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1,	205,220	$ 9.05	98,120	$ 10.12
Granted	39,000	12.50	9,000	12.05
Acquired in a merger	-	-	115,612	7.92
Exercised	-	-	(17,512)	9.12
Forfeited/Expired	(6,300)	12.10	-	-
Outstanding at December 31,	237,920	$ 9.53	205,220	$ 9.05
Exercisable at December 31,	66,630	$ 8.66	139,896	$ 8.31

Note 9. Stock Compensation Plan, Continued

The aggregate intrinsic value of the 237,920 and 205,220 stock options outstanding at December 31, 2019 and 2018 was $732,936 and $396,424, respectively. The aggregate intrinsic value of 166,630 and 139,896 stock options exercisable at December 31, 2019 and 2018 was $658,023 and $364,284, respectively. Intrinsic value represents the amount by which the fair market value of the underlying stock exceeds the exercise price of the stock option.

The following table summarizes information about stock options outstanding under the Company's Plans at December 31, 2019 and 2018:

	2019	2018
Number of options	237,920	205,220
Weighted average remaining life	7 years	7 years
Weighted average exercise price	$ 9.53	$ 9.05
High exercise price	$ 14.30	$ 14.55
Low exercise price	$ 5.10	$ 5.10
Aggregate intrinsic value	$ 732,936	$ 396,424

During 2019, the Company granted a total of 39,000 stock options. These options ratably vest over the terms below. The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing, resulting in a total expense of $82,728. The Black-Scholes model with assumptions for stock options granted in 2019 are presented below:

	2019	
Grant date	July 18	July 18
Total number of options granted	25,000	14,000
Expected volatility	20.57%	20.57%
Expected term	10 years	10 years
Expected dividend	0.00%	0.00%
Risk-free rate	2.04%	2.04%
Grant date fair value	2.298	2.298
Vesting	5 years	3 years
Exercise Price	$12.50	$12.50

The Black-Scholes model with assumptions for stock options granted in 2018 are presented below:

	2018	
Grant date	October 9	December 18
Total number of options granted	1,500	7,500
Expected volatility	10.11%	10.11%
Expected term	10 years	10 years
Expected dividend	0.00%	0.00%
Risk-free rate	2.45%	2.45%
Grant date fair value	2.191	2.181
Vesting	5 years	3 years
Exercise Price	$14.20	$11.62

Note 9. Stock Compensation Plan, Continued

As of December 31, 2019, there was $264,621 of total unrecognized compensation cost related to non-vested stock option grants under the plans. The cost is expected to be recognized over a weighted-average period of seven years as of December 31, 2019.

Note 10. Stock Warrants

The organizers of the Company received stock warrants giving them the right to purchase one share of common stock for every share they purchased in the initial offering of the Company's common stock up to 13,310 shares at a price of $7.51 per share, as adjusted for the stock dividends. The warrants vest ratably over a five year period and terminate ten years after date of grant. During 2017, the warrants expiration date was extended another ten years. Warrants held by directors of the Company will expire 90 days after the director ceases to be a director or officer of the Company (365 days if due to death or disability).

In 2019 and 2018, no warrants were issued or cancelled. At December 31, 2019, there were 119,790 outstanding and exercisable. These warrants will expire in 2027 unless otherwise extended.

Note 11. Income Taxes

Income tax expense is summarized as follows for the years ended December 31:

	2019	2018
Current income tax expense:		
Federal	$ 1,556,580	$ 873,795
State	45,375	110,412
Total	1,601,955	984,207
Deferred income tax expense (benefit):		
Federal	(98,986)	96,930
State	(62,960)	(169,503)
Total	(161,946)	(72,573)
Income tax expense	$ 1,440,009	$ 911,634

Note 11. Income Taxes, Continued

The gross amounts of deferred tax assets and deferred tax liabilities are as follows as of December 31:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 993,084	$ 790,597
Net operating loss carryforward	1,256,669	1,325,026
Organization and start-up costs	39,817	60,532
Federal and state credits	535,579	527,939
Unrealized loss on securities available-for-sale	-	197,584
Deferred compensation	341,442	253,397
Purchase accounting adjustments	-	26,522
Other	71,183	83,474
Total deferred tax assets	3,237,774	3,265,071
Valuation allowance	(189,930)	(174,062)
Net deferred tax assets	3,047,844	3,091,009

Deferred tax liabilities:	2019	2018
Accumulated depreciation	881,383	928,087
Loan origination costs	257,270	224,945
Prepaid expenses	22,576	21,127
Purchase accounting adjustments	5,403	-
Unrealized gain on securities available for sale	318,344	-
Total deferred tax liabilities	1,484,976	1,174,159
Net deferred tax asset	$ 1,562,868	$ 1,916,850

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. Management's judgment is based on estimates concerning future income earned and positive earnings for the years ended December 31, 2019 and 2018. Management has concluded that sufficient positive evidence exists to overcome any and all negative evidence in order to meet the "more likely than not" standard regarding the realization of the net deferred tax assets. As of December 31, 2019 and 2018 a small valuation allowance in the amount of $189,929 and $174,062, respectively, remains for state holding company losses.

The Company has a federal net operating loss carryforward of $5,197,439 and $5,598,905 as of December 31, 2019 and 2018, respectively. The Company has a state net operating loss carryforward of $4,182,418 and $3,778,631 as of December 31, 2019 and 2018, respectively. These net operating loss carryforwards begin to expire in the year 2028.

Note 11. Income Taxes, Continued

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% in 2018 and 2019, respectively, to income before income taxes follows for the years ended December 31, 2019 and 2018:

	2019	2018
Tax expense at statutory rate	$ 1,576,295	$ 917,508
State income tax, net of federal income tax benefit	(13,892)	(46,682)
Change in valuation allowance	15,868	67,045
Cash surrender value of life insurance	(50,564)	(50,762)
Other municipal income	(97,250)	(142,951)
ISO/NQSO	12,454	14,472
Merger expenses	-	61,766
Other	(2,902)	91,238
Income tax expense	$ 1,440,009	$ 911,634

Tax returns for 2016 and subsequent years are subject to examination by taxing authorities. The Company has analyzed the tax positions taken or expected to be taken on its tax returns and concluded it has no liability related to uncertain tax positions in accordance with ASC Topic 740.

Note 12. Employee Benefits

The Bank sponsors a defined contribution 401(k) plan covering substantially all full-time employees. Under the plan and present policies, participants are permitted to make contributions up to the deferral limits allowed by the Internal Revenue Service. The Company contributes to the Plan annually upon approval by the Board of Directors. The amount of the contributions made is at the discretion of the Board with vesting of these employer contributions occurring over the employees initial five years of employment. During the years ended December 31, 2019 and 2018, the Bank recognized $237,625 and $207,234, respectively, in expenses related to this plan which are included in salaries and employee benefits.

On January 1, 2013, we converted our defined contribution 401(k) contribution plan into a 401(k) Employee Stock Ownership Plan ("KSOP"), which provides a mechanism for Company employees to invest in the Company. Each employee who has attained age twenty-one, employed at least 90 days, has completed at least 500 hours of service in a Plan year, and is employed the last business day of the plan year is eligible to participate in the KSOP. Upon approval of the Board to contribute shares to employees, the Company recognizes the related compensation expense in the year the shares are allocated to employees. For the years ended December 31, 2019 and 2018, there was compensation expense of $315,000 and $312,500 related to contribution of shares to the KSOP, which are included in salaries and employee benefits. 25,000 shares were contributed and allocated to employees for 2019 and 2018, respectively.

Note 12. Employee Benefits, Continued

The Bank has a Salary Continuation Plan (the "Plan") for certain senior officers. The Plan provides an annual post-retirement cash payment beginning after a chosen retirement date for certain officers of the Bank. The officers will receive an annual payment from the Bank equal to the promised benefits. In connection with this plan, life insurance contracts were purchased on the officers. During 2019, an additional $2,000,000 contract was purchased. The cash value of the life insurance contracts increased $240,780 and $241,722 for the years ended December 31, 2019 and 2018, respectively and are included in noninterest income. Cash values of the policies were $11,707,918 and $9,467,137 at December 31, 2019 and 2018, respectively. The corresponding liability associated with the Plan was $1,350,898 and $985,643 at December 31, 2019 and 2018, respectively and is included in other liabilities. Expenses related to the Plan were $365,255 and $380,312 for the years ended December 31, 2019 and 2018, respectively and are included in salaries and employee benefits.

The Bank also has a Director Retirement Plan ("Director Plan") for its Board of Directors. The Director Plan provides an additional source of retirement income to a Director for a period of time upon their separation from the Bank in recognition of their service to the Bank. The corresponding liability associated with the Director Plan was $275,014 and $221,008 for the years ended December 31, 2019 and 2018, respectively, and is included in other liabilities. Expenses related to the Director Plan were $54,006 and $82,087 for the years ended December 31, 2019 and 2018, respectively and are included in other operating expenses.

Note 13. Leases

The Bank has entered into agreements to lease various office facilities under non-cancellable operating lease agreements. Our leases have remaining lease terms of 1 year to 18 years, which include options to extend or terminate the lease. These options to extend or terminate the lease are included when it is reasonably certain that the options will be exercised.

Lease expense totaled $935,029 and $936,353 for the years ended December 31, 2019 and 2018, respectively and is included in net occupancy. We do not apply the recognition requirements of ASC 842 to short-term leases and recognize the lease payments on a straight-line basis over the term of the lease.

Supplemental balance sheet information related to operating leases at December 31, 2019:

Right of use operating lease asset	$ 8,194,535
Right of use operating lease liability	$ 8,194,535
Weighted average remaining lease term (years)	14.9
Weighted average discount rate	3.33%

Note 13. Leases, Continued

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year, for each of the next five years and thereafter in the aggregate are:

2020	$ 878,403
2021	860,920
2022	878,182
2023	699,112
2024 and thereafter	7,661,736
Total	$ 10,978,353

The Company is leasing a portion of its Murrells Inlet location to an unrelated tenant. Lease income generated from this tenant totaled $41,975 and $41,113 during the years ended December 31, 2019 and 2018, respectively and is included in other income.

Note 14. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families, and their business interests) are loan customers of and have other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. As of December 31, 2019 and 2018, the Company had related party loans totaling $10,398,993 and $11,274,189, respectively.

In 2017, three executives of the Bank exercised 402,799 stock options with the Company. A note receivable, in the amount of $3,392,274, was issued for the exercise of the options. The total for the note receivable was determined to be the contractual exercise price of the stock options, adjusted for federal and state income taxes. The note receivable bears an interest rate of 1.15% per annum and is due and payable on demand by the Company, no later than June 8, 2020. During 2018, the loan balance increased $385,000 for tax expenses related to exercised options.

During 2019, the loan balance decreased $725,000 related to a paydown for one of the three executives. The balance as of December 31, 2019 was $3,062,268.

Deposits by directors, including their affiliates and executive officers, were approximately $41,467,393 and $38,197,159 at December 31, 2019 and 2018, respectively.

Note 15. Commitments and Contingencies

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings which would have a material adverse effect on the financial position or operating results of the Company.

Note 16. Income per Share

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted income per share is computed by dividing net income by the weighted-average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock warrants and stock options. Retroactive recognition has been given for the effects of all stock dividends. The effect from stock options on incremental shares from the assumed conversions for basic income per share and diluted income per share are presented below:

	2019	2018
Income per common share - basic computation:		
Net income	$ 6,066,157	$ 3,457,454
Average common shares outstanding - basic	7,504,040	7,176,015
Basic income per common share	$ 0.81	$ 0.48
Income per common share - diluted computation:		
Net income	$ 6,066,157	$ 3,457,454
Average commons shares outstanding - basic	7,504,040	7,176,015
Incremental shares from assumed conversions:		
Stock options and warrants	97,863	131,492
Average common shares outstanding - diluted	7,601,903	7,307,507
Diluted income per common share	$ 0.80	$ 0.47

Note 17. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

The Company and the Bank are also required to maintain capital at a minimum level based on average assets (as defined), which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

Note 17. Regulatory Matters, Continued

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

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank is required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of CET1, but the buffer applies to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer was phased in incrementally over time, beginning January 1, 2016 at 0.625% and became fully effective on January 1, 2019. The capital conservation buffer consists of an additional amount of Tier 1 capital equal to 2.50% of risk-weighted assets, which was in effect for the year ended December 31, 2019.

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

The following table summarizes the capital ratios and the regulatory minimum requirements of the Bank at December 31, 2019 and 2018.

	Actual		For capital adequacy purposes Minimum		To be well-capitalized under prompt corrective action provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Total capital (to risk-weighted assets)	$ 68,958,000	11.91%	46,308,000	8.00%	$ 57,885,000	10.00%
Tier 1 capital (to risk-weighted assets)	63,721,000	11.01%	34,731,000	6.00%	46,308,000	8.00%
Tier 1 capital (to average assets)	63,721,000	9.07%	28,088,000	4.00%	35,110,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	63,721,000	11.01%	26,048,000	4.50%	37,625,000	6.50%
December 31, 2018						
Total capital (to risk-weighted assets)	$ 61,676,000	12.12%	40,712,000	8.00%	$ 50,890,000	10.00%
Tier 1 capital (to risk-weighted assets)	57,276,000	11.25%	30,534,000	6.00%	40,712,000	8.00%
Tier 1 capital (to average assets)	57,276,000	9.36%	24,482,000	4.00%	30,603,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	57,276,000	11.25%	22,901,000	4.50%	33,079,000	6.50%

Note 18. Unused Lines of Credit

As of December 31, 2019, the Company had available lines of credit to purchase federal funds from unrelated banks totaling $45,500,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. As of December 31, 2019, respectively, there was no outstanding balance on the lines of credit for federal funds. As of December 31, 2018, the outstanding balance was $10,453,000.

The Company also has an additional line of credit with the Federal Home Loan Bank with available funds totaling $35,666,501. As of December 31, 2019, there was no outstanding balance on the line. As of December 31, 2018, the balance outstanding on this line was $5,000,000.

Note 19. Shareholders' Equity

The ability of South Atlantic Bancshares, Inc. and Subsidiary to pay cash dividends is dependent upon receiving cash in the form of dividends from its banking subsidiary. However, certain restrictions exist regarding the ability of the subsidiary to transfer funds to South Atlantic Bancshares, Inc. and Subsidiary. The approval of the South Carolina Board of Financial Institutions is required to pay dividends in excess of the Bank's net profits (as defined) for the current year plus retained net profits (as defined) for the preceding two years, less any required transfers to surplus. As of December 31, 2019, the Bank had $16,994,068 in retained earnings available for dividends.

Note 20. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities.

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

The following table summarizes the Bank's off-balance-sheet financial instruments at December 31, 2019 and 2018 whose contract amounts represent credit risk:

	2019	2018
Commitments to extend credit	$ 180,034,832	$ 147,270,990
Letters of credit	1,443,727	822,000
Total	$ 181,478,559	$ 148,092,990

Note 21. Fair Value of Financial Instruments

Accounting standards require disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

The accounting standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasuries, and money market funds.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bonds, corporate debt securities, and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis:

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

Note 21. Fair Value of Financial Instruments, Continued

Mortgage Loans Held-for-Sale - The fair values of mortgages held for sale are derived from an active market of similar loans and as such are classified as Level 2 in the fair value hierarchy.

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

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Obligations of state and local governments	$ 12,829,576	$ -	$ 12,829,576	$ -
Mortgage-backed securities	47,113,485	-	47,113,485	-
SBA loan pools	8,273,149	-	8,273,149	-
SBA asset-backed securities	1,779,850	-	1,779,850	-
Corporate debt securities	6,402,500	-	6,402,500	-
Loans held-for-sale	4,904,195	-	4,904,195	-
Total	$ 81,302,755	$ -	$ 81,302,755	$ -

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Obligations of state and local governments	$ 23,699,780	$ -	$ 23,669,780	$ -
Mortgage-backed securities	20,951,230	-	20,951,230	-
SBA loan pools	1,726,962	-	1,726,962	-
SBA asset-backed securities	492,322	-	492,322	-
Corporate debt securities	2,400,000	-	2,400,000	-
Loans held-for-sale	923,722	-	923,722	-
Total	$ 50,194,016	$ -	$ 50,194,016	$ -

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). Following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a non-recurring basis.

Impaired Loans - The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value 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 and 2018, 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. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Note 21. Fair Value of Financial Instruments, Continued

Other Real Estate Owned - Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company recorded the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3. As of December 31, 2019 and 2018, respectively, the Company had no OREO.

The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy (as described above) as of December 31, 2019 and 2018, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2019 and 2018.

	December 31, 2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Impaired loans				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate	4,360	-	4,360	-
Consumer	26,421	-	26,421	-
Consumer real estate	593,809	-	593,809	-
Total impaired loans	$ 624,590	$ -	$ 624,590	$ -

	December 31, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Impaired loans				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate	156,092	-	156,092	-
Consumer	-	-	-	-
Consumer real estate	456,057	-	456,057	-
Total impaired loans	$ 612,149	$ -	$ 612,149	$ -

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Cash and Due from Banks - The carrying amount is a reasonable estimate of fair value.

Federal Funds Sold and Interest Bearing Deposits - Federal funds are sold for a term of one day, and the carrying amount approximates the fair value.

Note 21. Fair Value of Financial Instruments, Continued

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 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, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Nonmarketable Equity Securities **-** The carrying value of these securities approximates the fair value since no ready market exists for the stocks.

Mortgage Loans Held-for-Sale **-** The carrying value of mortgage loans held for sale approximates fair value.

Loans Receivable - The valuation of loans receivable is estimated using the exit price notion which incorporates factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk as described above.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

Bank Owned Life Insurance - The carrying amount 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 and other time deposits are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities.

Advances from Federal Home Loan Bank - For disclosure purposes, the fair value of the FHLB fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements. The carrying value of advances from Federal Home Loan Bank approximates fair value.

Accrued Interest Receivable and Payable - The carrying value of these instruments is a reasonable estimate of fair value.

Off-Balance Sheet Financial Instruments - Fair values of off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties' credit standing.

Note 21. Fair Value of Financial Instruments, Continued

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2019 and 2018 are as follows:

	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 9,660,999	$ 9,660,999	$ 8,420,048	$ 8,420,048
Federal funds sold and interest bearing deposits	4,043,078	4,043,078	7,380,430	7,380,430
Securities available-for-sale	76,398,560	76,398,560	49,240,294	49,240,294
Nonmarketable equity securities	563,700	563,700	752,500	752,500
Loans held for sale	4,904,195	4,904,195	923,722	923,722
Loans receivable, net	570,484,243	566,526,267	526,634,973	518,042,350
Bank owned life insurance	11,707,918	11,707,918	9,467,137	9,467,137
Accrued interest receivable	2,105,709	2,105,709	1,806,034	1,806,034
Financial Liabilities:				
Demand deposit, interest-bearing transaction, and savings accounts	485,333,039	485,333,039	438,177,460	438,177,460
Certificates of deposit and other time deposits	131,473,775	132,572,716	92,161,292	92,550,666
Advances from Federal Home Loan Bank	-	-	5,000,000	5,000,000
Federal funds purchased	-	-	10,453,000	10,453,000
Accrued interest payable	117,947	117,947	95,520	95,520
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Off-Balance Sheet Financial Instruments:				
Commitments to extend credit	$ 180,034,832	$ -	$ 147,270,990	$ -
Letters of credit	1,443,727	-	822,000	-

Note 22. South Atlantic Bancshares, Inc. and Subsidiary (Parent Company Only)

Following is condensed financial information of South Atlantic Bancshares, Inc. (parent company only) as of and for the years ended December 31:

Condensed Balance Sheets

	2019	2018
Assets		
Cash	$ 14,830,179	$ 13,749,674
Investment in bank subsidiary	72,623,319	64,221,312
Loans	3,062,268	3,787,268
Other assets	373,146	324,746
Total assets	$ 90,888,912	$ 82,083,000
Liabilities and shareholders' equity		
Other liabilities	$ 2,482,638	$ 2,746,555
Shareholders' equity	88,406,274	79,336,445
Total liabilities and shareholders' equity	$ 90,888,912	$ 82,083,000

Condensed Statements of Income

	2019	2018
Income	$ 45,752	$ 39,789
Expenses:		
Salaries and benefits	368,430	421,886
Merger expenses	-	1,252,211
Other	89,968	113,563
Total	458,398	1,787,660
Loss before income taxes and equity in undistributed income of banking subsidiary	(412,646)	(1,747,871)
Income tax benefit	17,669	298,121
Equity in undistributed income of banking subsidiary	6,461,134	4,907,204
Net income	$ 6,066,157	$ 3,457,454

Note 22. South Atlantic Bancshares, Inc. and Subsidiary (Parent Company Only), Continued

Condensed Statements of Cash Flows

	2019	2018
Operating activities		
Net income	$ 6,066,157	$ 3,457,454
Adjustments to reconcile net income to net cash used in operating activities		
Equity in undistributed income of banking subsidiary	(6,461,134)	(4,907,204)
Stock and warrant compensation expense	59,307	104,074
Contribution of treasury stock to ESOP plan	315,045	312,500
Increase (decrease) in accrued expenses and other liabilities	424,530	(117,977)
Increase in other assets	(48,400)	(143,211)
Net cash provided by (used in) operating activities	355,505	(1,294,364)
Investing activities:		
Net (increase) decrease in loans	725,000	(385,000)
Net cash received from acquisitions	-	604,062
Net cash provided by investing activities	725,000	219,062
Financing activities:		
Proceeds from exercise of stock options	-	159,772
Purchase of treasury stock	-	(446,906)
Net cash used in financing activities	-	(287,134)
Net increase (decrease) in cash and cash equivalents	1,080,505	(1,362,436)
Cash, beginning of year	13,749,674	15,112,110
Cash, end of year	$ 14,830,179	$ 13,749,674

Note 23. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 3, 2020, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.