

*South Atlantic Bancshares, Inc.
and Subsidiary*



Report on Consolidated Financial Statements

As of and for the years ended December 31, 2021 and 2020

South Atlantic Bancshares, Inc. and Subsidiary

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of South Atlantic Bancshares, Inc. and its Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



Independent Auditor's Report, Continued

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Elliott Davis, LLC

Columbia, South Carolina
March 8, 2022

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets:		
Cash and cash equivalents:		
Cash and due from banks	\$ 74,345,180	\$ 24,822,506
Federal funds sold and interest-bearing deposits	<u>21,032,780</u>	<u>15,859,937</u>
Total cash and cash equivalents	<u>95,377,960</u>	<u>40,682,443</u>
Trading securities, at fair value	10,055,462	–
Investment securities:		
Securities available-for-sale	324,175,622	125,228,667
Nonmarketable equity securities	<u>471,700</u>	<u>643,000</u>
Total investment securities	<u>324,647,322</u>	<u>125,871,667</u>
Mortgage loans held-for-sale	9,691,530	36,675,792
Loans receivable		
Less allowance for loan losses	733,896,122	686,893,923
Loans, net	<u>8,159,039</u>	<u>6,823,767</u>
	<u>725,737,083</u>	<u>680,070,156</u>
Premises, furniture and equipment, net	19,834,073	20,373,191
Right of use operating lease asset	7,511,629	7,844,894
Bank-owned life insurance	23,838,657	23,214,739
Accrued interest receivable	3,648,671	2,848,274
Deferred tax assets	3,056,965	1,318,215
Goodwill	5,348,699	5,348,699
Core deposit intangible	639,876	859,454
Other assets	<u>2,565,365</u>	<u>1,433,075</u>
Total assets	<u>\$ 1,231,953,292</u>	<u>\$ 946,540,599</u>
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	\$ 346,525,106	\$ 245,321,283
Interest-bearing transaction accounts	158,697,928	108,805,486
Savings and money market accounts	499,946,985	356,949,142
Time deposits \$250,000 and over	47,369,051	51,356,402
Other deposits	<u>29,562,843</u>	<u>72,421,546</u>
Total deposits	<u>1,082,101,913</u>	<u>834,853,859</u>
Right of use operating lease liability	7,778,126	7,873,927
Subordinated debentures	30,000,000	–
Accrued interest payable	64,193	49,946
Other liabilities	<u>6,496,912</u>	<u>5,941,137</u>
Total liabilities	<u>1,126,441,144</u>	<u>848,718,869</u>
Commitments and contingencies (Notes 14, 16, and 19)		
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: 7,577,805 and 7,509,333 shares issued and outstanding at December 31, 2021 and 2020, respectively	7,577,805	7,509,333
Capital surplus	71,171,625	70,695,119
Retained earnings	27,352,297	16,505,514
Accumulated other comprehensive income (loss)	(382,294)	3,569,049
Treasury stock, 20,728 and 45,728 shares at December 31, 2021 and 2020, respectively	<u>(207,285)</u>	<u>(457,285)</u>
Total shareholders' equity	<u>105,512,148</u>	<u>97,821,730</u>
Total liabilities and shareholders' equity	<u>\$ 1,231,953,292</u>	<u>\$ 946,540,599</u>

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Interest income:		
Loans, including fees	\$ 33,024,472	\$ 30,945,462
Securities available-for-sale	4,782,040	2,502,403
Other interest income	179,855	136,340
Total	<u>37,986,367</u>	<u>33,584,205</u>
Interest expense:		
Deposits	2,150,135	3,545,036
Other borrowings	48,266	11,506
Total	<u>2,198,401</u>	<u>3,556,542</u>
Net interest income	35,787,965	30,027,663
Provision for loan losses	<u>1,324,220</u>	<u>1,685,000</u>
Net interest income after provision for loan losses	<u>34,463,745</u>	<u>28,342,663</u>
Noninterest income:		
Mortgage origination income	5,347,615	4,151,094
Debit card income	1,220,887	874,144
Merchant fee income	761,657	529,337
Service charges on deposit accounts	293,759	271,157
Net gains on sale of trading securities	55,462	-
Net gains on sale of investment securities	1,066,480	1,052,223
Bank-owned life insurance income	623,918	506,821
Other income	469,505	597,326
Total noninterest income	<u>9,839,283</u>	<u>7,982,102</u>
Noninterest expenses:		
Salaries and employee benefits	19,298,851	17,144,107
Net occupancy	2,727,148	2,397,300
Furniture and equipment	1,162,626	818,428
FDIC banking assessments	725,182	560,662
Advertising	1,021,497	843,935
Data processing fees	1,266,888	1,081,400
Software maintenance	603,946	539,845
Other operating expenses	3,916,348	4,111,609
Total noninterest expenses	<u>30,722,486</u>	<u>27,497,286</u>
Income before income taxes	13,580,543	8,827,479
Income taxes	<u>2,733,760</u>	<u>1,631,428</u>
Net income	<u>\$ 10,846,783</u>	<u>\$ 7,196,051</u>
Income per common share		
Basic income per common share	<u>\$ 1.45</u>	<u>\$ 0.96</u>
Average common shares outstanding - basic	<u>7,492,737</u>	<u>7,478,203</u>
Diluted income per common share	<u>\$ 1.43</u>	<u>\$ 0.96</u>
Average common shares outstanding - diluted	<u>7,607,050</u>	<u>7,526,804</u>

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net income	\$ 10,846,783	\$ 7,196,051
Other comprehensive income:		
Unrealized gains (losses) arising during the period on securities available-for-sale	(4,170,902)	4,266,960
Reclassification adjustment for net gains realized in net income	<u>(1,066,480)</u>	<u>(1,052,223)</u>
Net unrealized gains (losses) on securities	(5,237,382)	3,214,737
Net effect of taxes	<u>1,286,039</u>	<u>(843,270)</u>
Other comprehensive income (loss)	<u>(3,951,343)</u>	<u>2,371,467</u>
Comprehensive income	<u>\$ 6,895,440</u>	<u>\$ 9,567,518</u>

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, 2021 and 2020

	<u>Common Stock</u>		<u>Capital surplus</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Treasury stock</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
Balance, December 31, 2019	7,504,040	\$ 7,504,040	\$ 70,693,055	\$ 9,309,463	\$ 1,197,582	\$ (297,866)	\$ 88,406,274
Net income	-	-	-	7,196,051	-	-	7,196,051
Other comprehensive income, net of tax expense of \$843,270	-	-	-	-	2,371,467	-	2,371,467
Stock and warrant compensation expense	-	-	41,688	-	-	-	41,688
Adjustment to common stock related to ACB stock conversion	5,293	5,293	(5,293)	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	(500,000)	(500,000)
Contribution of treasury stock to KSOP plan	-	-	(34,331)	-	-	340,581	306,250
Balance, December 31, 2020	7,509,333	7,509,333	70,695,119	16,505,514	3,569,049	(457,285)	97,821,730
Net income	-	-	-	10,846,783	-	-	10,846,783
Other comprehensive income, net of tax benefit of \$1,286,039	-	-	-	-	(3,951,343)	-	(3,951,343)
Proceeds from exercise of stock options	48,956	48,956	316,787	-	-	-	365,743
Stock and warrant compensation expense	-	-	43,235	-	-	-	43,235
Adjustment to common stock related to ACB stock conversion	19,516	19,516	(19,516)	-	-	-	-
Contribution of treasury stock to KSOP plan	-	-	136,000	-	-	250,000	386,000
Balance, December 31, 2021	<u>7,577,805</u>	<u>\$ 7,577,805</u>	<u>\$ 71,171,625</u>	<u>\$ 27,352,297</u>	<u>\$ (382,294)</u>	<u>\$ (207,285)</u>	<u>\$ 105,512,148</u>

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 10,846,783	\$ 7,196,051
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	1,324,220	1,685,000
Depreciation expense	1,260,606	1,014,372
Discount accretion and premium amortization	779,256	297,838
Amortization of core deposit intangibles	219,578	251,910
Stock and warrant compensation expense	43,235	41,688
Gain on sale of trading securities	(55,462)	-
Gain on sale of AFS securities	(1,066,480)	(1,052,223)
Contribution of treasury stock to KSOP plan	386,000	306,250
Deferred income tax benefit	(452,710)	(598,617)
Accretion on acquired loans	(306,836)	(348,822)
Amortization of deferred loan costs and fees, net	(822,772)	54,427
Origination of loans held-for-sale	(275,127,945)	(389,787,020)
Proceeds from sale of loans held-for-sale	307,459,822	362,169,517
Net gain on sale of loans	(5,347,615)	(4,154,094)
Increase in cash surrender value of BOLI	(623,918)	(506,821)
Increase in accrued interest receivable	(800,397)	(742,565)
Increase (decrease) in accrued interest payable	14,247	(68,001)
Net (increase) decrease in other assets and right of use operating lease asset	(799,026)	756,603
Net increase in other liabilities and operating lease liability	<u>459,974</u>	<u>743,892</u>
Net cash provided by (used in) operating activities	<u>37,390,560</u>	<u>(22,740,615)</u>
Investing activities:		
Purchase of trading securities	(10,000,000)	-
Purchase of securities available-for-sale	(301,684,645)	(88,907,268)
Proceeds from sales of securities available-for-sale	88,820,348	37,255,382
Proceeds from maturities, calls, and paydowns of securities available-for-sale	8,967,184	6,790,901
(Purchases) sales of nonmarketable equity securities	171,300	(79,300)
Net increase in loans to customers	(45,862,439)	(110,976,518)
Purchases of premises, furniture and equipment	(721,488)	(911,259)
Purchase of BOLI	-	<u>(11,000,000)</u>
Net cash used in investing activities	<u>(260,309,740)</u>	<u>(167,828,062)</u>
Financing activities:		
Increase in noninterest-bearing deposits	101,203,823	88,852,457
Increase in interest-bearing deposits	146,044,231	129,194,586
Proceeds from issuance of subordinated debt	30,000,000	-
Decrease in loans at holding company	900	-
Proceeds from exercise of stock options	365,743	-
Purchase of treasury stock	-	<u>(500,000)</u>
Net cash provided by financing activities	<u>277,614,697</u>	<u>217,547,043</u>
Net increase in cash and cash equivalents	<u>54,695,517</u>	<u>26,978,366</u>
Cash and cash equivalents, beginning of year	<u>40,682,443</u>	<u>13,704,077</u>
Cash and cash equivalents, end of year	<u>\$ 95,377,960</u>	<u>\$ 40,682,443</u>
Cash paid during the year for:		
Interest	\$ 2,184,154	\$ 3,624,543
Income taxes	2,410,000	1,980,000
Noncash investing and financing activities:		
Unrealized gain (loss) on securities available-for-sale	(5,237,382)	3,214,737

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies

Organization:

South Atlantic Bancshares, Inc. was incorporated to serve as a bank holding company for its subsidiary, South Atlantic Bank (the “Bank”, together referred to as the “Company”). 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. The Company operates as one business segment.

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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

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 consist 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 not subject to any cash reserve balances.

Trading securities:

The Company entered into a managed trading securities portfolio in July 2021 with an initial investment of \$10 million. A third party engages in trading activities for the Company. The Company cannot withdraw the initial investment for a period of one year. Securities classified as trading are held principally for resale in the near term and are recorded at fair value with changes in fair value included in earnings. For this portfolio, realized and unrealized gains and losses are included in other non-interest income.

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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Securities available-for-sale, continued :

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sale are recorded on the trade date and determined using the specific identification method.

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, 2021 and 2020, the investment in Federal Home Loan Bank stock was \$471,700 and \$643,000, respectively. Dividends received on the stock are included in interest income.

Mortgage 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. The commitments to originate fixed rate mortgage loans and the commitments to sell these loans to a third party are both derivative contracts. The fair value of these derivative contracts is immaterial and has no effect on the recorded amounts in the financial statements. Funded residential mortgages held temporarily for sale to investors are recorded at the lower of cost or estimated 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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Loans receivable, continued:

The Company identifies impaired loans through its normal internal loan review process. Loans on the Company's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether 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.

Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the collateral less estimated selling costs if the loan is collateral dependent. Impairment is recorded as a specific reserve within the allowance for loan losses.

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 allowance for loan losses is based on management's ongoing evaluation of the loan portfolio and reflects an amount that, in management's opinion, is adequate to absorb losses in the existing portfolio. In evaluating the portfolio, management takes into consideration numerous factors, including current economic conditions, prior loan loss experience, the composition of the loan portfolio, and management's estimate of anticipated credit 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. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Loans 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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

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).

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:

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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Goodwill and core deposit intangible, continued:

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. The Company reviews the carrying value of goodwill on an annual basis and on an interim basis if certain events or circumstances indicate that an impairment loss may have been incurred. An impairment charge is recognized if the carrying value of the reporting unit's goodwill exceeds its implied fair value. During the fourth quarter of 2020, as a result of market volatility caused by the COVID-19 pandemic, the Company determined that it did not satisfy the more likely than not qualitative assessment that the fair value of the reporting unit exceeded its carrying value, including goodwill. As a result, the Company elected to perform a quantitative assessment in which the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Premises and equipment:

Premises, furniture and equipment are stated at cost, less accumulated depreciation. Depreciation expense 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.

Right of use operating lease assets and liabilities:

The Company determines if a lease is present at the inception of an agreement. Operating leases are capitalized at commencement and are discounted using the Company's FHLB borrowing rate for a similar term borrowing unless the lease defines an implicit rate within the contract. Leases with original terms of less than 12 months are not capitalized.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right-of-use assets and operating lease liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent future rental expenses associated with operating leases and the borrowing rates are based on publicly available interest rates.

The lease term frequently includes options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis and adjustments are made to the right-of-use asset and lease liability if the Company is reasonably certain that an option will be exercised and will be expensed on a straight-line basis. Right-of-use assets and lease liabilities arising from operating leases are included within Right of use operating lease asset and Right of use operating lease liability, respectively, on the Consolidated Balance Sheets.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

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. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management with the property carried at the lower of cost or fair value less estimated costs of disposal. Revenue and expense from the operations of foreclosed assets and changes in the valuation allowances are included in net 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 provides 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 12 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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

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.

Revenue recognition:

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

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

Service charges on deposit accounts: The 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 card income: The Company earns interchange fees from debit 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.

Merchant fee income: The Company earns fee revenue for credit card processing services. The Company provides these services to merchant businesses and earns fee revenue as the merchant's customers make purchases.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

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.

Comprehensive income:

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

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.

Reclassifications:

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

Recently adopted accounting pronouncements:

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 adopted this guidance as of January 1, 2020. The amendments did not have a material effect on the Company's financial statements.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements:

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. 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.

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

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments affect a variety of Topics in the Accounting Standards Codification. For entities that have not yet adopted the amendments in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. The Company is currently evaluating the impact of adoption of this guidance 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, 2021, and interim periods within annual reporting periods beginning after December 15, 2022. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the current expected credit losses (CECL) guidance issued in 2016. The amendments related to conforming amendments: For public business entities, the amendments are effective upon issuance of this final ASU. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

Early application is permitted. The effective date of the amendments to ASU 2016-01 is for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All other entities should adopt the amendments in ASU 2016-13 during 2023. Early adoption will continue to be permitted. For entities that have not yet adopted the guidance in ASU 2016-13, the effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in ASU 2016-13. The Company does not expect these amendments to have a material effect on its financial statements.

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.

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates declined significantly. The federal banking agencies encouraged financial institutions to prudently work with borrowers and passed legislation to provide relief from reporting loan classifications due to modifications related to the COVID-19 outbreak. The spread of COVID-19 has caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. The rapid development and fluidity of this situation precludes any predication as to the ultimate impact of the COVID-19 outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Company, its performance, and its financial results.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 2. Core Deposit Intangibles

In connection with prior business combinations, the Company recorded core deposit intangibles, representing the value of the acquired core deposit base. As of December 31, 2021 and 2020, respectively, core deposit intangible was \$639,876 and \$859,454. 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	\$ 187,248
Year 2	154,917
Year 3	122,587
Year 4	90,256
Year 5	57,926
Thereafter	<u>26,942</u>
Total	<u>\$ 639,876</u>

Amortization expense of \$219,578 and \$251,910 related to the core deposit intangible was recognized in 2021 and 2020, respectively.

Note 3. Trading Securities

In July 2021, the bank invested \$10 million in a managed trading account. The Company has committed these funds for a period of at least 12 months with the earliest withdrawal available during July 2022. The account is marked to fair value monthly. Realized and unrealized gains and losses are included in noninterest income. Securities purchased for this portfolio have primarily been municipal securities.

At December 31, 2021, the managed trading account was comprised of the following:

Municipal Bonds	\$ 5,914,976
Government Bonds	2,999,970
FDIC Insured Deposits	1,086,434
Net Cash Balance	<u>20,866</u>
Ending Account Value	\$10,022,246
Accrued Interest	<u>51,703</u>
Gross Portfolio Value	\$10,073,949
Less Accrued Management Fee	<u>18,487</u>
Net Portfolio Value	<u>\$10,055,462</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 4. Investment Securities

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

	December 31, 2021			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government sponsored agencies	\$ 1,733,021	\$ 5,105	\$ –	\$ 1,738,126
SBA loan pools	659,970	15,096	–	675,066
SBA asset-backed securities	4,977,686	74,566	1,166	5,051,086
Tax exempt municipal securities	48,269,582	2,198,032	110,413	50,357,201
Taxable municipal securities	131,863,019	446,269	1,708,037	130,601,251
Mortgage-backed securities	117,529,065	262,181	1,817,178	115,974,068
Corporate debt securities	<u>19,650,000</u>	<u>211,468</u>	<u>82,644</u>	<u>19,778,824</u>
	<u>\$ 324,682,341</u>	<u>\$ 3,212,719</u>	<u>\$ 3,719,438</u>	<u>\$ 324,175,622</u>

	December 31, 2020			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
SBA loan pools	\$ 7,059,649	\$ 165,186	\$ 10,306	\$ 7,214,529
SBA asset-backed securities	17,766,983	521,806	650	18,288,139
Tax exempt municipal securities	28,547,127	3,035,516	–	31,582,643
Taxable municipal securities	31,969,438	224,753	233,870	31,960,321
Mortgage-backed securities	28,754,807	1,003,356	19,995	29,738,168
Corporate debt securities	<u>6,400,000</u>	<u>87,762</u>	<u>42,896</u>	<u>6,444,866</u>
	<u>\$ 120,498,004</u>	<u>\$ 5,038,379</u>	<u>\$ 307,716</u>	<u>\$ 125,228,667</u>

The following is a summary of maturities of securities available-for-sale as of December 31, 2021. The amortized cost and estimated fair values are based on the contractual maturity dates except for mortgage-backed securities, which may mature earlier than their contractual maturity dates due to principal prepayments.

	Securities Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due after one year but within five years	\$ 14,502,410	\$ 14,723,957
Due after five years but within ten years	131,161,743	132,252,345
Due after ten years	61,489,120	61,225,252
Mortgage-backed securities	<u>117,529,065</u>	<u>115,974,068</u>
Total	<u>\$ 324,682,341</u>	<u>\$ 324,175,622</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

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.

	December 31, 2021					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
SBA asset-backed securities	744,781	1,166	–	–	744,781	1,166
Tax exempt municipal securities	13,489,124	110,413	–	–	13,489,124	110,413
Taxable municipal securities	87,162,396	1,609,908	1,621,611	98,129	88,784,007	1,708,037
Mortgage-backed securities	88,029,033	1,763,461	1,124,213	53,717	89,153,246	1,817,178
Corporate debt securities	7,417,356	82,644	–	–	7,417,356	82,644
	<u>\$ 196,842,690</u>	<u>\$ 3,567,591</u>	<u>\$ 2,745,824</u>	<u>\$ 151,846</u>	<u>\$ 199,588,514</u>	<u>\$ 3,719,438</u>

	December 31, 2020					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
SBA loan pools	\$ –	\$ –	\$ 385,501	\$ 10,306	\$ 385,501	\$ 10,306
SBA asset-backed securities	1,039,586	650	–	–	1,039,586	650
Tax exempt municipal securities	–	–	–	–	–	–
Taxable municipal securities	12,026,396	233,869	–	–	12,026,396	233,869
Mortgage-backed securities	3,388,481	19,995	–	–	3,388,481	19,995
Corporate debt securities	2,957,104	42,896	–	–	2,957,104	42,896
	<u>\$ 19,411,567</u>	<u>\$ 297,410</u>	<u>\$ 385,501</u>	<u>\$ 10,306</u>	<u>\$ 19,797,068</u>	<u>\$ 307,716</u>

There were 113 securities with an unrealized loss at December 31, 2021. Of those, two has an unrealized loss for greater than twelve months. At December 31, 2020, there were 15 securities with an unrealized loss. Of those, there was one security with an unrealized loss for greater than twelve months.

Management evaluates securities for other-than-temporary impairment 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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 4. Investment Securities, Continued

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

	<u>2021</u>	<u>2020</u>
Proceeds	\$ 88,820,348	\$ 37,255,382
Realized gains	1,657,436	1,364,275
Realized losses	<u>590,956</u>	<u>312,052</u>
Total investment securities gains, net	<u>\$ 1,066,480</u>	<u>\$ 1,052,223</u>

At December 31, 2021, there were three securities with a book value of \$2,441,655 and a market value of \$2,404,191 pledged to secure public funds. At December 31, 2020, securities with a book value of \$32,548,446 and a fair value of \$33,917,280 were pledged to secure a line with Federal Reserve Discount Window. Also, there were two securities with a book value of \$1,367,222 and a market value of \$1,462,127 pledged to secure public funds.

Note 5. Loans Receivable

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

	<u>2021</u>	<u>2020</u>
All Loans:		
Commercial	\$ 69,021,305	\$ 113,900,921
Commercial real estate	501,108,879	415,526,524
Consumer	11,731,001	9,355,637
Consumer real estate	<u>153,771,003</u>	<u>150,189,111</u>
Total gross loans receivable	735,632,188	688,972,193
Net unearned origination (fees) costs	(1,736,066)	(2,078,270)
Allowance for loan losses	<u>(8,159,039)</u>	<u>(6,823,767)</u>
Loans, net	<u>\$ 725,737,083</u>	<u>\$ 680,070,156</u>

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

	<u>2021</u>	<u>2020</u>
Purchased Non-Credit Impaired Loans		
(ASC 310-20) and Nonacquired Loans:		
Commercial	\$ 69,015,596	\$ 113,891,189
Commercial real estate	500,116,345	413,529,386
Consumer	11,730,063	9,346,839
Consumer real estate	<u>153,459,790</u>	<u>149,715,951</u>
Total gross loans receivable	734,321,794	686,483,365
Net unearned origination (fees) costs	(1,736,064)	(2,078,270)
Allowance for loan losses	<u>(8,159,039)</u>	<u>(6,823,767)</u>
Loans, net	<u>\$ 724,426,691</u>	<u>\$ 677,581,328</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 5. Loans Receivable, Continued

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

	<u>2021</u>	<u>2020</u>
Purchased Credit Impaired Loans		
(ASC 310-30):		
Commercial	\$ 5,709	\$ 9,732
Commercial real estate	992,534	1,997,138
Consumer	938	8,798
Consumer real estate	<u>311,213</u>	<u>473,160</u>
Total gross loans receivable	1,310,394	2,488,828
Net unearned origination (fees) costs	-	-
Allowance for loan losses	<u>-</u>	<u>-</u>
Loans, net	<u>\$ 1,310,394</u>	<u>\$ 2,488,828</u>

Included in the loan totals at December 31, 2021 and 2020 were \$6,548,740 and \$14,308,931 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, charge-offs 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, 2021 and 2020, the outstanding balance and recorded investment of PCI loans was \$1.3 million.

The table below presents changes in the value of PCI loans for the year ended December 31, 2021.

Balance at the beginning of period	\$ 2,488,828
Net reductions for payments, foreclosures, and accretion	<u>1,178,434</u>
Balance at end of period, net of allowance for loan losses on PCI loans	<u>\$ 1,310,394</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 5. Loans Receivable, Continued

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

	<u>2021</u>	<u>2020</u>
Accretable yield, beginning of period	\$ 688,254	\$ 591,735
Additions	-	-
Accretion	(312,472)	(352,647)
Reclassification from (to) nonaccretable balance, net (a)	39,532	365,441
Other changes, net (b)	18,355	83,725
Accretable yield, end of period	<u>\$ 433,669</u>	<u>\$ 688,254</u>

(a) Reclassifications from the nonaccretable balance were driven by changes in credit mark, offset by impairment.

(b) Other changes, net 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.

On March 27, 2020, the CARES Act was signed into law, which established the Paycheck Protection Program (PPP). Under the program, the Small Business Administration (SBA) would forgive loans, in whole or in part, made by approved lenders to eligible borrowers for Paycheck and other permitted purposes in accordance with the requirements of the program. These loans carried a fixed rate of 1.00% and a term of two or five years, if not forgiven, in whole or in part. The loans were 100% guaranteed by the SBA and as long as the borrower submitted its loan forgiveness application within ten months of completion of the covered period, the borrower was not required to make any payments until the forgiveness amount was remitted to the lender by the SBA. The Bank received a processing fee ranging from 1% to 5% based on the size of the loan from the SBA. The fees were deferred and amortized over the life of the loans in accordance with ASC 310-20.

The Bank provided \$91.7 million in funding to 1,013 customers through the PPP during 2020. The Bank received \$3.8 million of processing fees and recognized \$1.9 million during the period ended December 31, 2020. The Bank recognized the remaining \$1.9 million of processing fees relating to PPP loans originated in 2020 during the year ended December 31, 2021.

The SBA began accepting PPP Forgiveness Applications on August 10, 2020. Borrowers were required to submit the application within ten months of the completion of the covered period. Once the borrower submitted the application, the Bank had 60 days to review, issue a lender decision, and submit to the SBA. Once the application was submitted, the SBA had 90 days to review and remit the appropriate forgiveness amount to the Bank plus any interest accrued through the date of payment. The Bank received \$17.8 million from the SBA for the forgiveness of 178 PPP loans and \$73.9 million from the SBA for the forgiveness of the 835 loans outstanding for the years ended December 31, 2020 and December 31, 2021, respectively.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 5. Loans Receivable, Continued

On December 27, 2020, the Economic Aid to Hard-Hit Small Business, Nonprofits, and Venues Act (Economic Aid Act) was enacted, which reauthorized lending under the PPP program through March 31, 2021. On March 31, 2021, the PPP Extension Act of 2021 was signed into law, which formally changed the PPP application deadline from March 31, 2021 to May 31, 2021. Under the Economic Aid Act, the SBA will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for payroll and other permitted purposes in accordance with the requirements of the program. These loans carry a fixed rate of 1.00% and a term of five years, if not forgiven, in whole or in part. The loans are 100% guaranteed by the SBA and as long as the borrower submits its loan forgiveness application within ten months of completion of the covered period, the borrower is not required to make any payments until the forgiveness amount is remitted to the lender by the SBA. The Bank will receive a processing fee based on the size of the loan from the SBA, based on a tiered structure. For loans up to \$50,000 in principle, the lender processing fee will be the lesser of 50% of the principal amount or \$2,500. For loans between \$50,000 and \$350,000 in principal, the lender processing fee will be 5% of the principal amount. For loans \$350,000 and above, the lender processing fee will be 3% of the principal amount. For loans of at least \$2.0 million, the lender processing fee will be 1% of the principal amount. The fees are deferred and amortized over the life of the loans in accordance with ASC 310-20. The Bank provided \$54.6 million in funding to 519 customers through the second round of PPP during 2021. The Bank received \$2.7 million of processing fees and recognized \$1.9 million during the period ended December 31, 2021. At December 31, 2021, the Bank had 287 loans outstanding in the amount of \$24.4 million, with \$772 thousand remaining in processing fees to be recognized. Because PPP loans are 100% guaranteed by the SBA and did not undergo the Bank's typical underwriting process, they are not graded and do not have an associated reserve.

Regulatory agencies, as set forth in the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (initially issued on March 22, 2020 and revised on April 7, 2020), have encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. This guidance allows banks to elect not to categorize loan modifications as troubled debt restructurings (TDRs) if the modifications are related to COVID-19, executed on a loan that was not more than 30 days past due as of December 31, 2020, and executed between March 1, 2021 and the earlier of December 31, 2021 or 60 days after the date of termination of the National Emergency. All short term loan modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered TDRs.

Beginning in March 2020, the Bank provided payment accommodations to customers, consisting of real estate, food service, entertainment & recreation and construction loans, to borrowers negatively impacted by COVID-19. The Bank processed principal deferments to 92 customers, with an aggregate loan balance of \$66.2 million, during the period ending December 31, 2020. The principal deferments represented 9.6% of the Bank's total loan portfolio as of December 31, 2020. Borrowers current prior to relief, who were not experiencing financial difficulty prior to COVID-19, were determined not to be considered TDRs. Additionally, of the 92 customers that received payment accommodations only 5 remained deferred as of December 31, 2020. As of December 31, 2021, there were no short-term modifications or deferrals outstanding.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

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, 2021. 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	\$ 571,666	\$ 4,549,168	\$ 102,512	\$ 1,600,421	\$ 6,823,767
Charge-offs	-	-	11,189	-	11,189
Recoveries	-	2,240	-	20,000	22,240
Provisions	185,874	1,031,480	40,869	65,999	1,324,220
Ending balance	<u>\$ 757,540</u>	<u>\$ 5,582,888</u>	<u>\$ 132,192</u>	<u>\$ 1,686,420</u>	<u>\$ 8,159,039</u>
Ending balances:					
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,536</u>	<u>\$ -</u>	<u>\$ 5,536</u>
Collectively evaluated for impairment	<u>\$ 757,540</u>	<u>\$ 5,582,888</u>	<u>\$ 126,656</u>	<u>\$ 1,686,420</u>	<u>\$ 8,153,503</u>
Loans receivable:					
Ending balance – total	<u>\$ 69,021,305</u>	<u>\$ 501,108,879</u>	<u>\$ 11,731,001</u>	<u>\$ 153,771,003</u>	<u>\$ 735,632,188</u>
Ending balances:					
Individually evaluated for impairment	<u>\$ 10,724</u>	<u>\$ 75,475</u>	<u>\$ 20,187</u>	<u>\$ 31,664</u>	<u>\$ 138,050</u>
Collectively evaluated for impairment	<u>\$ 69,010,581</u>	<u>\$ 501,033,404</u>	<u>\$ 11,710,814</u>	<u>\$ 153,739,339</u>	<u>\$ 735,494,138</u>
Purchased credit impaired loans	<u>\$ 5,709</u>	<u>\$ 992,534</u>	<u>\$ 938</u>	<u>\$ 311,213</u>	<u>\$ 1,310,394</u>

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, 2020. 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	\$ 440,497	\$ 3,362,726	\$ 76,914	\$ 1,356,990	\$ 5,237,127
Charge-offs	24,061	-	6,313	89,286	119,660
Recoveries	14,739	1,600	2,229	2,732	21,300
Provisions	140,491	1,184,842	29,682	329,985	1,685,000
Ending balance	<u>\$ 571,666</u>	<u>\$ 4,549,168</u>	<u>\$ 102,512</u>	<u>\$ 1,600,421</u>	<u>\$ 6,823,767</u>
Ending balances:					
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,377</u>	<u>\$ -</u>	<u>\$ 6,377</u>
Collectively evaluated for impairment	<u>\$ 571,666</u>	<u>\$ 4,549,168</u>	<u>\$ 96,135</u>	<u>\$ 1,600,421</u>	<u>\$ 6,817,390</u>
Loans receivable:					
Ending balance – total	<u>\$ 113,900,921</u>	<u>\$ 415,526,524</u>	<u>\$ 9,355,637</u>	<u>\$ 150,189,111</u>	<u>\$ 688,972,193</u>
Ending balances:					
Individually evaluated for impairment	<u>\$ 15,533</u>	<u>\$ -</u>	<u>\$ 27,695</u>	<u>\$ 47,873</u>	<u>\$ 91,101</u>
Collectively evaluated for impairment	<u>\$ 113,885,388</u>	<u>\$ 415,526,524</u>	<u>\$ 9,327,942</u>	<u>\$ 150,141,238</u>	<u>\$ 688,881,092</u>
Purchased credit impaired loans	<u>\$ 9,732</u>	<u>\$ 1,997,138</u>	<u>\$ 8,798</u>	<u>\$ 473,160</u>	<u>\$ 2,488,828</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 5. Loans Receivable, Continued

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.

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, 2021:

All Loans:	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	\$ 69,002,819	\$ 498,460,087	\$ 11,695,486	\$ 152,939,592	\$ 732,097,985
Special mention	7,762	2,441,085	14,452	308,937	2,772,237
Substandard	10,724	207,706	21,063	522,474	761,966
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	<u>\$ 69,021,305</u>	<u>\$ 501,108,879</u>	<u>\$ 11,731,001</u>	<u>\$ 153,771,003</u>	<u>\$ 735,632,188</u>
Purchased non-credit impaired loans (ASC 310-20) and nonacquired loans:					
Grade:					
Pass	\$ 69,002,819	\$ 497,700,767	\$ 11,694,548	\$ 152,773,715	\$ 731,171,850
Special mention	2,053	2,261,598	14,452	210,763	2,488,865
Substandard	10,724	153,980	21,063	475,312	661,079
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	<u>\$ 69,015,596</u>	<u>\$ 500,116,345</u>	<u>\$ 11,730,063</u>	<u>\$ 153,459,790</u>	<u>\$ 734,321,794</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 5. Loans Receivable, Continued

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Purchased credit impaired loans (ASC 310-30):					
Grade:					
Pass	\$ —	\$ 759,320	\$ 938	\$ 165,877	\$ 926,135
Special mention	5,709	179,488	—	98,174	283,371
Substandard	—	53,726	—	47,162	100,888
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
Total	<u>\$ 5,709</u>	<u>\$ 992,534</u>	<u>\$ 938</u>	<u>\$ 311,213</u>	<u>\$ 1,310,394</u>

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

All Loans:	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	\$ 113,863,326	\$ 414,554,638	\$ 9,310,703	\$ 149,224,159	\$ 686,952,826
Special mention	13,165	535,101	16,239	406,782	971,287
Substandard	24,430	436,785	28,695	558,170	1,048,080
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
Total	<u>\$ 113,900,921</u>	<u>\$ 415,526,524</u>	<u>\$ 9,355,637</u>	<u>\$ 150,189,111</u>	<u>\$ 688,972,193</u>

Purchased non-credit impaired loans (ASC 310-20) and nonacquired loans:

Grade:					
Pass	\$ 113,863,326	\$ 413,058,576	\$ 9,301,905	\$ 148,966,496	\$ 685,190,303
Special mention	3,433	323,307	16,239	255,698	598,677
Substandard	24,430	147,503	28,695	493,757	694,385
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
Total	<u>\$ 113,891,189</u>	<u>\$ 413,529,386</u>	<u>\$ 9,346,839</u>	<u>\$ 149,715,951</u>	<u>\$ 686,483,365</u>

Purchased credit impaired loans (ASC 310-30):

Grade:					
Pass	\$ —	\$ 1,496,062	\$ 8,798	\$ 257,663	\$ 1,762,523
Special mention	9,732	211,794	—	151,084	372,610
Substandard	—	289,282	—	64,413	353,695
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
Total	<u>\$ 9,732</u>	<u>\$ 1,997,138</u>	<u>\$ 8,798</u>	<u>\$ 473,160</u>	<u>\$ 2,488,828</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 5. Loans Receivable, Continued

The following is a past due aging analysis of our loan portfolio at December 31, 2021:

	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	\$ -	\$ -	\$ -	\$ -	\$ 69,021,305	\$ 69,021,305	\$ -
Commercial real estate	-	-	75,475	75,475	501,033,404	501,108,879	-
Consumer	-	-	-	-	11,731,001	11,731,001	-
Consumer real estate	-	-	-	-	153,771,003	153,771,003	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,475</u>	<u>\$ 75,475</u>	<u>\$ 735,556,713</u>	<u>\$ 735,632,188</u>	<u>\$ -</u>
Purchased non-credit impaired Loans (ASC 310-20) and nonacquired loans:							
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 69,015,596	\$ 69,015,596	\$ -
Commercial real estate	-	-	75,475	75,475	500,040,870	500,116,345	-
Consumer	-	-	-	-	11,730,063	11,730,063	-
Consumer real estate	-	-	-	-	153,459,790	153,459,790	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,475</u>	<u>\$ 75,475</u>	<u>\$ 734,246,319</u>	<u>\$ 734,321,794</u>	<u>\$ -</u>
Purchased credit impaired loans (ASC 310-30):							
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 5,709	\$ 5,709	\$ -
Commercial real estate	-	-	-	-	992,534	992,534	-
Consumer	-	-	-	-	938	938	-
Consumer real estate	-	-	-	-	311,213	311,213	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,310,394</u>	<u>\$ 1,310,394</u>	<u>\$ -</u>

The following is a past due aging analysis of our loan portfolio at December 31, 2020:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
All Loans:							
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 113,900,921	\$ 113,900,921	\$ -
Commercial real estate	-	-	193,158	193,158	415,333,366	415,526,524	-
Consumer	-	-	-	-	9,355,637	9,355,637	-
Consumer real estate	-	-	-	-	150,189,111	150,189,111	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 193,158</u>	<u>\$ 193,158</u>	<u>\$ 688,779,035</u>	<u>\$ 688,972,193</u>	<u>\$ -</u>
Purchased non-credit impaired Loans (ASC 310-20) and nonacquired loans:							
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 113,891,189	\$ 113,891,189	\$ -
Commercial real estate	-	-	-	-	413,529,386	413,529,386	-
Consumer	-	-	-	-	9,346,839	9,346,839	-
Consumer real estate	-	-	-	-	149,715,951	149,715,951	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 686,483,365</u>	<u>\$ 686,483,365</u>	<u>\$ -</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 5. Loans Receivable, Continued

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Recorded		Total Loans Receivable	Investment > 90 Days and Accruing
				Total Past Due	Current		
Purchased credit impaired loans (ASC 310-30):							
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 9,732	\$ 9,732	\$ -
Commercial real estate	-	-	193,158	193,158	1,803,980	1,997,138	-
Consumer	-	-	-	-	8,798	8,798	-
Consumer real estate	-	-	-	-	473,160	473,160	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 193,158</u>	<u>\$ 193,158</u>	<u>\$ 2,295,670</u>	<u>\$ 2,488,828</u>	<u>\$ -</u>

The following is an analysis of our impaired loan (including nonaccrual loans) portfolio detailing the related allowance recorded at December 31, 2021:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Commercial	\$ 10,724	\$ 10,724	\$ -	\$ 12,925	\$ 1,171
Commercial real estate	75,475	75,475	-	75,551	1,173
Consumer	-	-	-	-	-
Consumer real estate	31,664	31,664	-	33,615	1,130
	<u>117,862</u>	<u>117,862</u>	<u>-</u>	<u>122,091</u>	<u>3,474</u>
With an allowance recorded:					
Commercial	\$ -	-	-	-	-
Commercial real estate	-	-	-	-	-
Consumer	20,187	20,187	5,536	23,652	893
Consumer real estate	-	-	-	-	-
	<u>20,187</u>	<u>20,187</u>	<u>5,536</u>	<u>23,652</u>	<u>893</u>
Total:					
Commercial	\$ 10,724	\$ 10,724	\$ -	\$ 12,925	\$ 1,171
Commercial real estate	75,475	75,475	-	75,551	1,173
Consumer	20,187	20,187	5,536	23,652	893
Consumer real estate	31,664	31,664	-	31,615	1,130
	<u>\$ 138,050</u>	<u>\$ 138,050</u>	<u>\$ 5,536</u>	<u>\$ 145,743</u>	<u>\$ 4,366</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

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, 2020:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance needed:					
Commercial	\$ 15,533	\$ 15,533	\$ -	\$ 17,409	\$ 1,511
Commercial real estate	-	-	-	-	-
Consumer	-	-	-	-	-
Consumer real estate	47,873	47,873	-	54,692	1,356
	<u>63,406</u>	<u>63,406</u>	<u>-</u>	<u>72,101</u>	<u>2,867</u>
With an allowance recorded:					
Commercial	\$ -	-	-	-	-
Commercial real estate	-	-	-	-	-
Consumer	27,695	27,695	6,377	30,117	1,127
Consumer real estate	-	-	-	-	-
	<u>27,695</u>	<u>27,695</u>	<u>6,377</u>	<u>30,117</u>	<u>1,127</u>
Total:					
Commercial	\$ 15,533	\$ 15,533	\$ -	\$ 17,409	\$ 1,511
Commercial real estate	-	-	-	-	-
Consumer	27,695	27,695	6,377	30,117	1,127
Consumer real estate	47,873	47,873	-	54,692	1,356
	<u>\$ 91,101</u>	<u>\$ 91,101</u>	<u>\$ 6,377</u>	<u>\$ 102,218</u>	<u>\$ 3,994</u>

The following is an analysis of our nonaccrual loan portfolio recorded at December 31:

	<u>2021</u>	<u>2020</u>
Commercial real estate	\$ 75,475	\$ 193,158
Consumer real estate	-	-
Total	<u>\$ 75,475</u>	<u>\$ 193,158</u>

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

	<u>2021</u>	<u>2020</u>
Performing TDRs	\$ 62,575	\$ 91,101
Nonperforming TDRs	-	-
Total	<u>\$ 62,575</u>	<u>\$ 91,101</u>

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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 5. Loans Receivable, Continued

During the year ended December 31, 2021, there were no new TDRs identified. During the year ended December 31, 2020, the Bank modified one commercial loan that was considered to be a TDR. The loan was originally a commercial line of credit restructured to interest only and lowered payment amount. The pre-modification investment and post-modification investment was \$15,533.

No loans previously identified as TDRs went into default (as defined by non-accrual classification) during the year ended December 31, 2021.

Note 6. Premises, Furniture and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 7,421,993	\$ 7,421,993
Buildings and leasehold improvements	14,561,322	14,320,630
Furniture and equipment	6,048,915	5,475,805
Software	897,039	841,841
Automobile	32,895	32,895
Construction in progress	<u>131,317</u>	<u>278,829</u>
Total	29,093,481	28,371,993
Less accumulated depreciation	<u>9,259,408</u>	<u>7,998,802</u>
Premises, furniture and equipment, net	<u>\$ 19,834,073</u>	<u>\$ 20,373,191</u>

Depreciation expense for the years ended December 31, 2021 and 2020 was \$1,260,606 and \$1,014,372, respectively.

Note 7. Deposits

At December 31, 2021, the scheduled maturities of time deposits are as follows:

2022	\$ 51,421,344
2023	5,833,835
2024	17,497,719
2025	753,728
2026	423,646
Thereafter	<u>1,001,622</u>
Total	<u>\$ 76,931,894</u>

As of December 31, 2021, the Bank did not have any brokered deposits. The Bank had brokered deposits of \$22,008,000 as of December 31, 2020.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 8. Advances from Federal Home Loan Bank

As of December 31, 2021, and 2020, respectively, there were no outstanding advances from the Federal Home Loan Bank (FHLB).

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, 2021, the pledged collateral totaled approximately \$24.2 million.

Note 9. Subordinated Debentures

On December 16, 2021, the Company sold and issued to certain institutional investors \$30 million in aggregate principal amount of 3.25% fixed-to-floating rate subordinated notes (the "Notes") due 2031. The Notes have a stated maturity of 2031, and bear interest at a fixed rate of 3.25% per year, from and including December 16, 2021, but excluding December 16, 2026. From and including December 16, 2026, to but excluding the maturity date or early redemption date, the interest rate shall reset semi-annually to an interest rate equal to the then-current three-month SOFR rate. The Notes are payable quarterly in arrears on April 15, July 15, October 15 and January 15 of each year commencing April 15, 2022.

The Notes are not subject to redemption at the option of the holder and may be redeemed by the Company only under certain limited circumstances prior to December 16, 2026. The Company may redeem the Notes at its option, in whole at any time, or in part from time to time, after December 16, 2026. The Notes are unsecured, subordinated obligations of the Company and rank junior in right to payment to the Company's current and future senior indebtedness, and each Note is equal in right to payment with respect to the other Notes.

The Notes have been structured to qualify as Tier 2 capital for the Company under applicable regulatory guidelines. The Company used \$10 million of the net proceeds from the sale of the Notes to increase equity at the Bank. The remaining \$20 million will be used for general corporate purposes to support future growth.

Note 10. 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, 2021, a total of 13,142 and 485,000 shares were remaining in the plans to be issued.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 10. Stock Compensation Plan, Continued

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.

	2021		2020	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1,	231,320	\$ 9.51	237,920	\$ 9.53
Granted	67,500	15.40	–	–
Exercised	(48,956)	7.53	–	–
Forfeited/Expired	(1,000)	12.50	(6,600)	10.32
Outstanding at December 31,	<u>248,864</u>	<u>\$ 11.50</u>	<u>231,320</u>	<u>\$ 9.51</u>
Exercisable at December 31,	<u>161,745</u>	<u>\$ 9.75</u>	<u>196,691</u>	<u>\$ 9.04</u>

The aggregate intrinsic value of the 248,864 and 231,320 stock options outstanding at December 31, 2021 and 2020 was \$980,924 and \$646,669, respectively. The aggregate intrinsic value of 161,745 and 196,691 stock options exercisable at December 31, 2021 and 2020 was \$916,884 and \$636,805, 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:

	2021	2020
Number of options	248,864	231,320
Weighted average remaining life	8 years	6 years
Weighted average exercise price	\$ 11.50	\$ 9.51
High exercise price	\$ 15.40	\$ 14.30
Low exercise price	\$ 9.77	\$ 5.10
Aggregate intrinsic value	\$ 980,924	\$ 646,669

During 2021, the Company granted 67,500 stock options. No options were granted during 2020. Options granted 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 \$258,390. The Black-Scholes model with assumptions for stock options granted in 2021 are presented below:

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 10. Stock Compensation Plan, Continued

Grant date	<u>Dec 17</u>
Total number of options granted	67,500
Expected volatility	10.11%
Expected term	10 years
Expected dividend	0.00%
Risk-free rate	2.45%
Grant date fair value	3.828
Vesting	3 years
Exercise Price	\$15.40

As of December 31, 2021, there was \$386,449 of total unrecognized compensation cost related to non-vested stock option grants under the plan. The cost is expected to be recognized over a weighted-average period of three years as of December 31, 2021.

During 2020, the Company did not grant any stock options. During 2019, options granted 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:

Grant date	<u>July 18</u>	<u>July 18</u>
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

As of December 31, 2020, there was \$128,826 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 six years as of December 31, 2020.

Note 11. 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).

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 11. Stock Warrants, Continued

In 2021 and 2020, no warrants were issued or cancelled. At December 31, 2021 and 2020, there were 119,790 outstanding and exercisable. These warrants will expire in 2027 unless otherwise extended.

Note 12. Income Taxes

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

	<u>2021</u>	<u>2020</u>
Current income tax expense:		
Federal	\$ 3,032,156	\$ 2,160,219
State	154,314	69,827
Total	<u>3,186,470</u>	<u>2,230,046</u>
Deferred income tax expense (benefit):		
Federal	(311,237)	(376,942)
State	<u>(141,474)</u>	<u>(221,676)</u>
Total	<u>(452,710)</u>	<u>(598,618)</u>
Income tax expense	<u>\$ 2,733,760</u>	<u>\$ 1,631,428</u>

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

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,713,398	\$ 1,394,527
Net operating loss carryforward	1,146,010	1,188,036
Unrealized loss on securities available for sale	124,425	-
Organization and start-up costs	8,723	19,190
Federal and state credits	780,662	695,196
Stock based compensation	53,336	153,321
Deferred compensation	796,725	513,321
Other	<u>84,400</u>	<u>22,267</u>
Total deferred tax assets	4,707,679	3,986,071
Valuation allowance	<u>(231,735)</u>	<u>(205,437)</u>
Net deferred tax assets	<u>4,475,944</u>	<u>3,780,634</u>
Deferred tax liabilities:	<u>2021</u>	<u>2020</u>
Accumulated depreciation	\$ 1,122,443	994,227
Loan origination costs	227,833	268,699
Prepaid expenses	24,081	22,576
Purchase accounting adjustments	44,622	15,302
Unrealized gain on securities available-for-sale	-	<u>1,161,615</u>
Total deferred tax liabilities	<u>1,418,979</u>	<u>2,462,419</u>
Net deferred tax asset	<u>\$ 3,056,965</u>	<u>\$ 1,318,215</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 12. Income Taxes, Continued

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the 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, 2021 and 2020. 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, 2021 and 2020, a valuation allowance in the amount of \$231,735 and \$205,437, respectively, remains for state holding company losses.

The Company has a federal net operating loss carryforward of \$4,394,507 and \$4,795,973 as of December 31, 2021 and 2020, respectively. The Company has a state net operating loss carryforward of \$5,649,688 and \$4,579,272 as of December 31, 2021 and 2020, respectively. These net operating loss carryforwards begin to expire in the year 2028.

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% in 2021 and 2020, respectively, to income before income taxes follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Tax expense at statutory rate	\$ 2,851,914	\$ 1,853,770
State income tax, net of federal income tax benefit	10,144	(119,961)
Change in valuation allowance	26,298	15,507
Cash surrender value of life insurance	(131,023)	(106,432)
Other municipal income	(164,880)	(105,701)
ISO/NQSO	(3,842)	8,754
Other	<u>145,149</u>	<u>85,491</u>
Income tax expense	<u>\$ 2,733,760</u>	<u>\$ 1,631,428</u>

Tax returns for 2018 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 13. 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 each employee's initial five years of employment. During the years ended December 31, 2021 and 2020, the Bank recognized \$246,391 and \$276,359, respectively, in expenses related to this plan which are included in salaries and employee benefits.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 13. Employee Benefits, Continued

On January 1, 2013, the Company converted the 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 21, is 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, 2021 and 2020, there was compensation expense of \$386,000 and \$306,250 related to contribution of shares to the KSOP, which is included in salaries and employee benefits. Twenty-five thousand shares were contributed and allocated to employees for 2021 and 2020, respectively.

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 2020, an additional \$11,000,000 contract was purchased. The cash value of the life insurance contracts increased \$623,918 and \$506,821 for the years ended December 31, 2021 and 2020, respectively and are included in noninterest income. Cash values of the policies were \$23,838,657 and \$23,214,739 at December 31, 2021 and 2020, respectively. The corresponding liability associated with the Plan was \$3,365,642 and \$2,153,302 at December 31, 2021 and 2020, respectively and is included in other liabilities. Expenses related to the Plan were \$1,212,340 and \$802,404 for the years ended December 31, 2021 and 2020, 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 \$428,288 and \$292,098 for the years ended December 31, 2021 and 2020, respectively, and is included in other liabilities. Expenses related to the Director Plan were \$136,190 and \$167,084 for the years ended December 31, 2021 and 2020, respectively and are included in other operating expenses.

Note 14. Leases

The Bank has entered into agreements to lease various office facilities under non-cancellable operating lease agreements. At December 31, 2021, the Company’s leases had remaining lease terms of one year to 17 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 \$1,237,650 and \$934,721 for the years ended December 31, 2021 and 2020, 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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 14. Leases, Continued

Supplemental balance sheet information related to operating leases at December 31;

	<u>2021</u>	<u>2020</u>
Right of use operating lease asset	\$ 7,511,629	\$ 7,844,894
Right of use operating lease liability	7,778,126	7,873,927
Weighted average remaining lease term	11.59	15.12
Weighted average discount rate	3.13%	3.35%

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:

2022	\$ 841,037
2023	632,852
2024	661,968
2025	657,149
2026 and thereafter	<u>7,175,159</u>
Total	<u>\$ 9,968,165</u>

Effective January 1, 2021, the Company entered into a lease agreement to lease a new branch location on Hilton Head Island. The lease had an initial term of ten years, with additional options to extend for two additional five-year periods. In connection with this lease, the Bank will record right of use operating assets and liabilities of approximately \$583,000 at inception. These assets and liabilities were calculated using a discount rate of 1.32 percent. Future rental payments related to this lease are included in the schedule above.

The Company is leasing a portion of its Murrells Inlet and Mount Pleasant locations to unrelated tenants. Lease income generated from these tenants totaled \$138,468 and \$127,169 during the years ended December 31, 2021 and 2020, respectively and is included in other income.

Note 15. 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, 2021 and 2020, the Company had related party loans totaling \$9,348,300 and \$9,816,025, 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. During 2021, the note was renewed with an interest rate of 0.18% per annum and is due and payable on demand by the Company,

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 15. Related Party Transactions, Continued

no later than June 8, 2023. The balance as of December 31, 2021 and 2020 respectively was \$3,061,368 and \$3,062,268.

Deposits by directors, including their affiliates and executive officers, were approximately \$72,236,312 and \$49,699,755 at December 31, 2021 and 2020, respectively.

Note 16. 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 17. 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. 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:

	<u>2021</u>	<u>2020</u>
Income per common share – basic computation:		
Net income	\$ 10,846,783	\$ 7,196,051
Average common shares outstanding – basic	<u>7,492,737</u>	<u>7,478,203</u>
Basic income per common share	<u>\$ 1.45</u>	<u>\$ 0.96</u>
Income per common share – diluted computation:		
Net income	\$ 10,846,783	\$ 7,196,051
Average common shares outstanding – basic	7,492,737	7,478,203
Incremental shares from assumed conversions:		
Stock options and warrants	<u>114,313</u>	<u>48,601</u>
Average common shares outstanding – diluted	<u>7,607,050</u>	<u>7,526,804</u>
Diluted income per common share	<u>\$ 1.43</u>	<u>\$ 0.96</u>

At December 31, 2021, the Company excluded 91,660 potentially dilutive shares of common stock issuable upon exercise of stock options with a weighted average exercise price of \$15.36 from the computation of dilutive income per common share because of their antidilutive effect. At December 31, 2020, the Company excluded 115,916 potentially dilutive shares of common stock issuable upon exercise of stock options with a weighted average exercise price of \$11.15 from the computation of dilutive income per common share because of their antidilutive effect.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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Note 18. 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.

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 becoming 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, 2021.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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Note 18. Regulatory Matters, Continued

As of its most recent regulatory examination, the Bank was deemed well-capitalized under the regulatory framework for prompt corrective action. To be categorized as 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:

	<u>Actual</u>		<u>For capital adequacy purposes</u>		<u>To be well-capitalized under prompt corrective action provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Minimum</u>	<u>Ratio</u>	<u>Minimum</u>	<u>Ratio</u>
December 31, 2021						
Total capital (to risk-weighted assets)	\$ 108,681,000	12.99%	66,933,000	8.00%	\$ 83,666,000	10.00%
Tier 1 capital (to risk-weighted assets)	100,522,000	12.01%	50,199,000	6.00%	66,933,000	8.00%
Tier 1 capital (to average assets)	100,522,000	8.38%	47,994,000	4.00%	59,993,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	100,522,000	12.01%	37,650,000	4.50%	54,383,000	6.50%
December 31, 2020						
Total capital (to risk-weighted assets)	\$ 81,701,000	12.18%	53,657,000	8.00%	67,071,000	10.00%
Tier 1 capital (to risk-weighted assets)	74,877,000	11.16%	40,243,000	6.00%	53,657,000	8.00%
Tier 1 capital (to average assets)	74,877,000	8.08%	37,090,000	4.00%	46,363,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	74,877,000	11.16%	30,182,000	4.50%	43,596,000	6.50%

Note 19. Unused Lines of Credit

As of December 31, 2021, 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, 2021 and 2020, respectively, there was no outstanding balance on the lines of credit for federal funds.

The Company also has an additional line of credit with the Federal Home Loan Bank with available funds totaling \$24,233,390. As of December 31, 2021 and 2020, respectively, there was no outstanding balance on the line.

Note 20. Restrictions on Dividends

The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from its banking subsidiary. Federal and state banking regulations restrict the amount of dividends that can be paid. Dividends are payable only from the retained earnings of the banking subsidiary and may be limited to the amount of current year earnings without prior regulatory approval. The retained earnings of the banking subsidiary were approximately \$34,844,842 and \$24,541,964 at December 31, 2021 and 2020, respectively.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

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Note 21. 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 whose contract amounts represent credit risk at December 31:

	<u>2021</u>	<u>2020</u>
Commitments to extend credit	\$ 224,452,555	\$ 166,935,223
Letters of credit	<u>914,517</u>	<u>1,171,069</u>
Total	<u>\$ 225,367,072</u>	<u>\$ 168,106,292</u>

Note 22. 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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 22. Fair Value of Financial Instruments, Continued

- 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:

Trading Securities – Trading securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices and are classified as Level 1 securities. 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.

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.

Mortgage Loans Held-for-Sale – The fair values of mortgage loans 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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 22. Fair Value of Financial Instruments, Continued

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, 2021			
	Total	Level 1	Level 2	Level 3
Trading securities	\$ 10,055,462	\$10,055,462	\$ –	\$ –
U.S. Government sponsored agencies	1,738,126	–	1,738,126	–
Tax exempt municipal securities	50,357,201	–	50,357,201	–
Taxable municipal securities	130,601,251	–	130,601,251	–
Mortgage-backed securities	115,974,068	–	115,974,068	–
SBA loan pools	675,066	–	675,066	–
SBA asset-backed securities	5,051,086	–	5,051,086	–
Corporate debt securities	19,778,824	–	19,778,824	–
Mortgage loans held-for-sale	9,691,530	–	9,691,530	–
Total	<u>\$ 343,922,613</u>	<u>\$10,055,462</u>	<u>\$ 333,867,151</u>	<u>\$ –</u>

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Tax exempt municipal securities	\$ 31,582,643	\$ –	\$ 31,582,643	\$ –
Taxable municipal securities	31,960,321	–	31,960,321	–
Mortgage-backed securities	29,738,168	–	29,738,168	–
SBA loan pools	7,214,529	–	7,214,529	–
SBA asset-backed securities	18,288,139	–	18,288,139	–
Corporate debt securities	6,444,866	–	6,444,866	–
Mortgage loans held-for-sale	36,675,792	–	36,675,792	–
Total	<u>\$ 161,904,458</u>	<u>\$ –</u>	<u>\$ 161,904,458</u>	<u>\$ –</u>

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, 2021 and 2020, 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

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 22. Fair Value of Financial Instruments, Continued

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.

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, 2021 and 2020, 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, for which a nonrecurring change in fair value has been recorded during the years ended December 31.

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Impaired loans				
Commercial	\$ 10,724	\$ –	\$ 10,724	\$ –
Commercial real estate	75,475	–	75,475	–
Consumer	14,651	–	14,651	–
Consumer real estate	31,664	–	31,664	–
Total impaired loans	<u>\$ 132,514</u>	<u>\$ –</u>	<u>\$ 132,514</u>	<u>\$ –</u>
	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Impaired loans				
Commercial	\$ 15,533	\$ –	\$ 15,533	\$ –
Commercial real estate	–	–	–	–
Consumer	21,318	–	21,318	–
Consumer real estate	47,873	–	47,873	–
Total impaired loans	<u>\$ 84,724</u>	<u>\$ –</u>	<u>\$ 84,724</u>	<u>\$ –</u>

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.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 22. Fair Value of Financial Instruments, Continued

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.

Trading Securities - Trading securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices.

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.

Subordinated debentures – The fair value is estimated by discounting the future cash flows using the current rates at which similar debenture offerings with similar terms and maturities would be issued by similar institutions. As discount rates are based on current debenture rates as well as management estimates, the fair values presented may not be indicative of the value negotiated in an actual sale.

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 22. Fair Value of Financial Instruments, Continued

Advances from Federal Home Loan Bank (FHLB) – 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.

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

	2021		2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and due from banks	\$ 74,345,180	\$ 74,345,180	\$ 24,822,506	\$ 24,822,506
Federal funds sold and interest bearing deposits	21,032,780	21,032,780	15,859,937	15,859,937
Trading securities	10,055,462	10,055,462	–	–
Securities available-for-sale	324,175,622	324,175,622	125,228,667	125,228,667
Nonmarketable equity securities	471,700	471,700	643,000	643,000
Loans held-for-sale	9,691,530	9,691,530	36,675,792	36,675,792
Loans receivable, net	725,737,083	721,876,208	680,070,156	679,555,264
Bank-owned life insurance	23,838,657	23,838,657	23,214,739	23,214,739
Accrued interest receivable	3,648,671	3,648,671	2,848,274	2,848,274
Financial Liabilities:				
Demand deposit, interest-bearing transaction, and savings accounts	1,005,170,019	1,005,170,019	711,075,911	711,075,911
Certificates of deposit and other time deposits	76,931,894	78,513,829	123,777,948	125,549,196
Subordinated debentures	30,000,000	30,111,797	–	–
Accrued interest payable	64,193	64,193	49,946	49,946
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Off-Balance Sheet Financial Instruments:				
Commitments to extend credit	\$ 224,452,555	\$ –	\$ 166,935,223	\$ –
Letters of credit	914,517	–	1,171,069	–

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 23. 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

	<u>2021</u>	<u>2020</u>
Assets		
Cash	\$ 26,216,613	\$ 10,839,967
Investment in bank subsidiary	107,594,217	86,042,681
Loans	3,061,368	3,062,268
Other assets	357,753	366,547
Total assets	<u>\$ 137,229,951</u>	<u>\$ 100,311,463</u>
Liabilities and shareholders' equity		
Other liabilities	\$ 1,717,803	\$ 2,489,733
Long-term debt	30,000,000	-
Shareholders' equity	<u>105,512,148</u>	<u>97,821,730</u>
Total liabilities and shareholders' equity	<u>\$ 137,229,951</u>	<u>\$ 100,311,463</u>

Condensed Statements of Income

Income	\$ 5,507	\$ 23,232
Expenses:		
Salaries and benefits	418,234	350,438
Other	234,764	107,086
Total	<u>652,998</u>	<u>457,524</u>
Loss before income taxes and equity in undistributed income of banking subsidiary	(647,491)	(434,292)
Income tax benefit	191,396	82,447
Equity in income of banking subsidiary	<u>11,302,878</u>	<u>7,547,896</u>
Net income	<u>\$ 10,846,783</u>	<u>\$ 7,196,051</u>

South Atlantic Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Note 23. South Atlantic Bancshares, Inc. and Subsidiary (Parent Company Only), Continued

Condensed Statements of Cash Flows

	<u>2021</u>	<u>2020</u>
Operating activities		
Net income	\$ 10,846,783	\$ 7,196,051
Adjustments to reconcile net income to net cash used in operating activities		
Equity in undistributed income of banking subsidiary	(11,302,878)	(7,547,896)
Stock and warrant compensation expense	43,235	41,688
Contribution of treasury stock to ESOP plan	386,000	306,250
Increase in accrued expenses and other liabilities	(771,930)	7,096
Decrease in other assets	8,794	6,599
Net cash provided by (used in) operating activities	<u>(789,997)</u>	<u>9,788</u>
Investing activities:		
Net increase in investment in bank	(14,200,000)	(3,500,000)
Net decrease in loans	900	-
Net cash used in investing activities	<u>(14,199,100)</u>	<u>(3,500,000)</u>
Financing activities:		
Proceeds from exercise of stock options	365,743	-
Issuance of subordinated debt	30,000,000	-
Purchase of treasury stock	-	(500,000)
Net cash provided by (used in) financing activities	<u>30,365,743</u>	<u>(500,000)</u>
Net increase (decrease) in cash and cash equivalents	15,376,646	(3,990,212)
Cash, beginning of year	<u>10,839,967</u>	<u>14,830,179</u>
Cash, end of year	<u>\$ 26,216,613</u>	<u>\$ 10,839,967</u>

Note 24. 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. Non-recognized 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 8, 2022, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

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