South Atlantic Bancshares, Inc.
and Subsidiary

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2022 and 2021

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Independent Auditor’s Report

Board of Directors
South Atlantic Bancshares, Inc. and Subsidiary

Report on the Audit of the Financial Statements

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, 2022 and 2021, 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, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 10, 2023 expressed an unmodified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with 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.

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.

- 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Elliott Davis, LLC

Columbia, South Carolina
March 10, 2023

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2022 and 2021

	2022	2021
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 14,029,816	$ 74,345,180
Federal funds sold and interest-bearing deposits	1,821,435	21,032,780
Total cash and cash equivalents	15,851,251	95,377,960
Trading securities, at fair value	-	10,055,462
Investment securities:		
Securities available-for-sale	222,756,800	324,175,622
Securities held-to-maturity (Fair Value of $72,100,950 and $0 at December 31, 2022 and December 31, 2021, respectively)	94,787,669	-
Nonmarketable equity securities	651,900	471,700
Total investment securities	318,196,369	324,647,322
Mortgage loans held-for-sale	676,706	9,691,530
Loans receivable	1,002,632,622	733,896,122
Less allowance for loan losses	10,110,619	8,159,039
Loans, net	992,522,003	725,737,083
Premises, furniture and equipment, net	20,131,979	19,834,073
Right of use operating lease asset	6,916,562	7,511,629
Bank-owned life insurance	29,524,342	23,838,657
Accrued interest receivable	4,898,723	3,648,671
Deferred tax assets	12,319,000	3,056,965
Goodwill	5,348,699	5,348,699
Core deposit intangible	452,628	639,876
Other assets	2,754,394	2,565,365
Total assets	$ 1,409,592,656	$ 1,231,953,292
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 371,411,955	$ 346,525,106
Interest-bearing transaction accounts	149,374,718	158,697,928
Savings and money market accounts	580,967,025	499,946,985
Time deposits $250,000 and over	59,560,868	47,369,051
Other time deposits	55,447,278	29,562,843
Total deposits	1,216,761,844	1,082,101,913
Lease liability	7,247,332	7,778,126
Subordinated debentures	30,000,000	30,000,000
Federal Reserve Bank advances	56,000,000	-
Accrued interest payable	147,962	64,193
Other liabilities	8,897,045	6,496,912
Total liabilities	1,319,054,183	1,126,441,144
Commitments and contingencies (Notes 17, 20 and 22)		
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: 7,596,198 and 7,577,805 shares issued and outstanding at December 31, 2022 and 2021, respectively	7,596,198	7,577,805
Capital surplus	71,581,401	71,171,625
Retained earnings	39,445,798	27,352,297
Accumulated other comprehensive loss	(27,815,211)	(382,294)
Treasury stock, 17,582 and 20,728 shares at December 31, 2022 and 2021, respectively	(269,713)	(207,285)
Total shareholders' equity	90,538,473	105,512,148
Total liabilities and shareholders' equity	$ 1,409,592,656	$ 1,231,953,292

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2022 and 2021

	2022	2021
Interest income:		
Loans, including fees	$ 39,612,480	$ 33,024,472
Securities available-for-sale	6,267,959	4,782,040
Securities held-to-maturity	2,130,875	-
Other interest income	821,569	179,855
Total	48,832,883	37,986,367
Interest expense:		
Deposits	2,869,197	2,150,135
Other borrowings	1,326,687	48,266
Total	4,195,884	2,198,401
Net interest income	44,636,999	35,787,966
Provision for loan losses	1,950,000	1,324,220
Net interest income after provision for loan losses	42,686,999	34,463,746
Noninterest income:		
Mortgage origination income	1,878,337	5,347,615
Debit card income	1,400,020	1,220,887
Merchant fee income	754,033	761,657
Service charges on deposit accounts	325,921	293,759
Net (losses) gains on sale of trading securities	(726,421)	55,462
Net gain on sale of investment securities	-	1,066,480
Bank-owned life insurance income	685,685	623,918
Other income	621,133	469,505
Total noninterest income	4,938,708	9,839,283
Noninterest expenses:		
Salaries and employee benefits	20,085,031	19,298,851
Net occupancy	2,633,812	2,727,148
Furniture and equipment	833,172	1,162,626
FDIC banking assessments	874,033	725,182
Advertising	1,261,332	1,021,497
Data processing fees	1,465,125	1,266,888
Software maintenance	807,175	603,946
Other operating expenses	4,582,347	3,916,348
Total noninterest expenses	32,542,027	30,722,486
Income before income taxes	15,083,680	13,580,543
Income taxes	2,990,179	2,733,760
Net income	$ 12,093,501	$ 10,846,783
Income per common share		
Basic income per common share	$ 1.60	$ 1.45
Average common shares outstanding - basic	7,568,717	7,492,737
Diluted income per common share	$ 1.58	$ 1.43
Average common shares outstanding - diluted	7,668,383	7,607,050

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2022 and 2021

	2022	2021
Net income	$ 12,093,501	$ 10,846,783
Other comprehensive income (loss):		
Unrealized losses arising during the period on securities available-for-sale	(35,658,135)	(4,170,902)
Reclassification adjustment for net gains realized in net income	-	(1,066,480)
Unrealized losses arising during the period on securities available-for-sale transferred to held-to-maturity	(474,505)	-
Reclassification adjustment for amortization of unrealized losses on securities available-for-sale transferred to held-to-maturity	7,485	-
Net unrealized losses on securities	(36,125,155)	(5,237,382)
Net effect of taxes	8,692,238	1,286,039
Other comprehensive loss	(27,432,917)	(3,951,343)
Comprehensive (loss) income	$ (15,339,416)	$ 6,895,440

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, 2022 and 2021

	Common Stock		Capital	Retained	Accumulated other comprehensive	Treasury	
	Shares	Amount	surplus	earnings	income (loss)	stock	Total
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 loss, 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	7,577,805	7,577,805	71,171,625	27,352,297	(382,294)	(207,285)	105,512,148
Net income	–	–	–	12,093,501	–	–	12,093,501
Other comprehensive loss, net of tax benefit of $8,692,238	–	–	–	–	(27,432,917)	–	(27,432,917)
Proceeds from exercise of stock options	18,393	18,393	266,121	–	–	–	284,514
Purchase of treasury stock	–	–	–	–	–	(411,940)	(411,940)
Stock and warrant compensation expense	–	–	101,367	–	–	–	101,367
Contribution of treasury stock to KSOP plan	–	–	42,288	–	–	349,512	391,800
Balance, December 31, 2022	7,596,198	$ 7,596,198	$ 71,581,401	$ 39,445,798	$ (27,815,211)	$ (269,713)	$ 90,538,473

See Notes to Consolidated Financial Statements

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income	$ 12,093,501	$ 10,846,783
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,950,000	1,324,220
Depreciation expense	963,827	1,260,606
Discount accretion and premium amortization on investment securities	1,418,567	779,256
Amortization of core deposit intangibles	187,248	219,578
Stock and warrant compensation expense	101,367	43,235
Net losses (gains) on sale of trading securities	726,421	(55,462)
Net gain on sale of AFS securities	-	(1,066,480)
Contribution of treasury stock to KSOP plan	391,800	386,000
Deferred income tax benefit	(566,767)	(452,710)
Accretion on acquired loans	(187,435)	(306,836)
Accretion of deferred loan costs and fees, net	(654,279)	(822,772)
Origination of loans held-for-sale	(48,824,279)	(275,127,945)
Proceeds from sale of loans held-for-sale	59,717,440	307,459,822
Net gain on sale of loans	(1,878,337)	(5,347,615)
Increase in cash surrender value of bank-owned life insurance	(685,685)	(623,918)
Increase in accrued interest receivable	(1,250,052)	(800,397)
Increase in accrued interest payable	83,769	14,247
Net decrease (increase) in other assets and right of use operating lease asset	403,008	(799,026)
Net increase in other liabilities and operating lease liability	1,869,339	459,974
Net cash provided by operating activities	25,859,453	37,390,560
Investing activities:		
Purchase of trading securities	-	(10,000,000)
Purchase of securities available-for-sale	(35,267,992)	(301,684,645)
Proceeds from sales of trading securities	6,236,941	-
Proceeds from sales of securities available-for-sale	-	88,820,348
Net proceeds from maturities, calls, pay-ups, and paydowns of securities available-for-sale	7,088,347	8,967,184
Proceeds from maturities of securities held-to-maturity	359,176	-
(Purchases) sales of nonmarketable equity securities	(180,200)	171,300
Net increase in loans to customers	(268,195,348)	(45,862,439)
Purchases of premises, furniture, and equipment	(1,261,733)	(721,488)
Purchase of bank-owned life insurance	(5,000,000)	-
Net cash used in investing activities	(296,220,809)	(260,309,740)
Financing activities:		
Increase in noninterest-bearing deposits	24,886,849	101,203,823
Increase in interest-bearing deposits	109,773,082	146,044,231
Proceeds from Federal Reserve advances	196,000,000	-
Repayment of Federal Reserve advances	(140,000,000)	-
Proceeds from issuance of subordinated debt	-	30,000,000
Decrease in loans at holding company	302,142	900
Proceeds from exercise of stock options	284,514	365,743
Purchase of treasury stock	(411,940)	-
Net cash provided by financing activities	190,834,647	277,614,697
Net (decrease) increase in cash and cash equivalents	(79,526,709)	54,695,517
Cash and cash equivalents, beginning of year	95,377,960	40,682,443
Cash and cash equivalents, end of year	$ 15,851,251	$ 95,377,960
Cash paid during the year for:		
Interest	$ 4,112,115	$ 2,184,154
Income taxes	2,618,158	2,410,000
Noncash investing and financing activities:		
Unrealized loss on securities available-for-sale	(35,658,135)	(5,237,382)
Unrealized loss on securities held-to-maturity, net	(467,020)	-
Transfer of trading securities to investment securities available-for-sale	3,092,100	-
Transfer of investment securities available-for-sale to held-to-maturity	96,073,804	-

See Notes to Consolidated Financial Statements

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, the valuation of investment securities, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

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

Concentrations of credit risk:

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of credit risk, continued:

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

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

Cash and cash equivalents:

Cash and cash equivalents 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 contract with a third party to manage a trading securities portfolio in April 2021. The initial investment of $10 million was made in July 2021. The Company could not withdraw the initial investment for a period of one year from date of contract. Securities were classified as trading, were held principally for resale in the near term and were recorded at fair value with changes in fair value included in earnings. For this portfolio, realized and unrealized gains and losses were included in other non-interest income. During 2022, the Company divested $7.0 million of the trading securities and transferred the remaining trading securities to available-for-sale investments.

Securities available-for-sale:

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

Note 1. Summary of Significant Accounting Policies, Continued

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.

Securities held-to-maturity:

Securities held-to-maturity are carried at amortized cost adjusted for the amortization of premiums and the accretion of discounts. In order to qualify as held-to-maturity, the Company must have the ability and intent to hold the securities to maturity. Security transfers to the held-to-maturity classification are recorded at fair value as of the date of transfer, which becomes the new cost basis for the securities held-to-maturity. Unrealized gains or losses from the transfer of available-for-sale securities continue to be reported in cumulative OCI and are amortized into earnings over the remaining life of the security. Reductions in market value considered by management to be other than temporary are reported as a realized loss and amortized cost is written down to fair value.

Nonmarketable equity securities:

Nonmarketable equity securities include the cost of the Company's investment in the stock of the Federal Home Loan Bank, investment in TIB stock and investment in Wachesaw stock. The FHLB 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, 2022 and 2021, the investment in Federal Home Loan Bank stock was $614,400 and $471,700, respectively. Dividends received on the stock are included in interest income.

The investment in TIB stock was $22,500 and $0 at December 31, 2022 and 2021, respectively. The investment in Wachesaw stock was $15,000 and $0 at December 31, 2022 and 2021, respectively.

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.

Note 1. Summary of Significant Accounting Policies, Continued

Loans receivable. continued:

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

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

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

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.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for loan losses, continued:

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.

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.

Note 1. Summary of Significant Accounting Policies, Continued

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

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.

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 the implied fair value. The annual valuation is performed on December 31 of each year.

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.

Note 1. Summary of Significant Accounting Policies, Continued

Right of use operating lease assets and liabilities, continued:

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 lease liability, respectively, on the Consolidated Balance Sheets.

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.

Federal Reserve Discount Window Advances:

In 2022, the Company established a line of credit with the Federal Reserve Bank's Discount Window by pledging securities as described within Note 9. As of December 31, 2022, the balance available for borrowing was $110.4 million with outstanding advances of $56 million.

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 13 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.

Note 1. Summary of Significant Accounting Policies, Continued

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.

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.

Note 1. Summary of Significant Accounting Policies, Continued

Revenue recognition, continued:

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.

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.

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 Accounting Standards Update (ASU) through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is evaluating the impact of the ASU on the consolidated financial statements. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

The Company is finalizing its evaluation of the adoption of ASU No. 2016-13 "Financial Instruments – Credit Losses (Topic 326)." The Company plans to adopt as of January 1, 2023. The Company to date has engaged a third party model provider for implementation, sourced and reconciled required data from the Company's loan systems, determined appropriate segmentations of its portfolio, developed processes for calculating and supporting qualitative factors, and has performed parallel runs of the model. The Company is currently finalizing conversion date calculations. The Company currently estimates the allowance for loan losses will not increase upon adoption. In addition, the Company expects to recognize a liability for unfunded commitments between $0 and $550,000 upon adoption. The Company also expects to record an allowance for credit losses related to held-to-maturity securities; however, this reserve is expected to be less than $100,000. The Company will finalize the adoption during the first quarter of 2023.

In March 2022, the FASB issued amendments which are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings, and write-offs. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In 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, 2022, 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.

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.

Note 1. Summary of Significant Accounting Policies, Continued

Risks and uncertainties:

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on 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.

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, 2022 and 2021, respectively, core deposit intangible was $452,628 and $639,876. 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.

2023	$ 154,917
2024	122,587
2025	90,256
2026	57,926
2027	25,595
Thereafter	1,347
Total	$ 452,628

Amortization expense of $187,248 and $219,578 related to the core deposit intangible was recognized for the years ended December 31, 2022 and 2021, respectively.

Note 3. Trading Securities

In April 2021, the Company entered a one-year contract with a third party to establish a trading securities account. The bank invested $10 million in the managed trading account in July 2021. The Company committed the funds for a term of the contract with the earliest withdrawal available during April 2022. The account was marked to fair value monthly. Realized and unrealized gains and losses were included in noninterest income. Securities purchased for this portfolio were primarily municipal securities.

Note 3. Trading Securities, Continued

In 2022, the Company divested $7.0 million of the initial $10 million investment. The remaining $3.0 million was transferred to a non-trading portfolio and is comprised of municipal bonds. The non-trading balance is reported with investment securities available-for-sale. Realized losses on the trading securities as of December 31, 2022, totaled $726,421.

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	20,866
Ending Account Value	$10,022,246
Accrued Interest	51,703
Gross Portfolio Value	$10,073,949
Less Accrued Management Fee	18,487
Net Portfolio Value	$10,055,462

Note 4. Investment Securities – Available-For-Sale

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

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasuries	$ 14,921,564	$ –	$ 520,979	$ 14,400,585
U.S. Government sponsored agencies	1,763,702	–	307,777	1,455,925
SBA loan pools	632,759	–	54,111	578,648
SBA asset-backed securities	3,953,008	17,372	85,507	3,884,873
Tax exempt municipal securities	17,860,101	3,160	1,335,053	16,528,208
Taxable municipal securities	73,738,762	–	16,465,437	57,273,325
Mortgage-backed securities	123,151,758	–	15,483,678	107,668,080
Corporate debt securities	22,900,000	–	1,932,844	20,967,156
	$ 258,921,654	$ 20,532	$ 36,185,386	$ 222,756,800

Note 4. Investment Securities – Available-For-Sale, Continued

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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	131,863,017	446,271	1,708,037	130,601,251
Mortgage-backed securities	117,529,065	262,181	1,817,178	115,974,068
Corporate debt securities	19,650,000	211,468	82,644	19,778,824
	$ 324,682,341	$ 3,212,719	$ 3,719,438	$ 324,175,622

The following is a summary of maturities of securities available-for-sale as of December 31, 2022. 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	$ 14,921,564	$ 14,400,585
Due after five years but within ten years	63,583,514	53,520,308
Due after ten years	57,264,818	47,167,827
Mortgage-backed securities	123,151,758	107,668,080
Total	$ 258,921,654	$222,756,800

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, 2022					
	Less than twelve months		Twelve months or more		Total	
Available-for-sale:	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasuries	14,400,585	520,979	–	–	14,400,585	520,979
U.S. Government sponsored agencies	–	–	1,455,925	307,777	1,455,925	307,777
SBA loan pools	578,648	54,111	–	–	578,648	54,111
SBA asset-backed securities	2,157,298	70,831	495,807	14,676	2,653,105	85,507
Tax exempt municipal securities	8,149,762	643,241	5,535,220	691,812	13,684,982	1,335,053
Taxable municipal securities	–	–	57,273,325	16,465,437	57,273,325	16,465,437
Mortgage-backed securities	25,852,162	1,863,641	81,815,918	13,620,037	107,668,080	15,483,678
Corporate debt securities	12,671,674	728,326	8,295,482	1,204,518	20,967,156	1,932,844
	$ 63,810,129	$ 3,881,129	$154,871,677	$ 32,304,257	$ 218,681,806	$ 36,185,386

Note 4. Investment Securities – Available-For-Sale, Continued

	December 31, 2021					
	Less than twelve months		Twelve months or more		Total	
Available-for-sale:	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
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	88,879,007	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
	$ 196,842,690	$ 3,567,591	$ 2,745,824	$ 151,846	$ 199,588,514	$ 3,719,438

There were 132 and 113 securities in an unrealized loss position at December 31, 2022 and 2021, respectively. Of those, 76 and 2 were in an unrealized loss positions for greater than twelve months at December 31, 2022 and 2021, respectively.

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 the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and 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. Management believes the Company 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.

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

	2022	2021
Proceeds	$ -	$ 88,820,348
Realized gains	-	1,657,436
Realized losses	-	590,956
Total investment securities gains, net	$ -	$ 1,066,480

At December 31, 2022 and 2021, respectively, securities with a book value of $153,456,392 and $32,548,446 and a market value of $118,011,858 and $ 33,917,280 were pledged to secure a line of credit with the Federal Reserve Discount Window. Also, there were 3 and 2 securities pledged to secure public funds at December 31, 2022 and 2021, respectively, with a book value of $1,687,497 and $1,367,222 and a market value of $1,495,025 and $1,642,127.

Note 5. Investment Securities – Held-To-Maturity

During the year ended December 31, 2022, the Company reclassified $96.1 million in investments to held-to-maturity from available-for-sale. These securities were transferred at fair value at the time of the transfer, which became the new cost basis for the securities held-to-maturity. The pretax unrealized net holding loss on the available for sale securities on the date of transfer totaled approximately $475 thousand and continued to be reported as a component of accumulated other comprehensive loss. This net unrealized loss is being amortized to interest income over the remaining life of the securities as a yield adjustment. There were no gains or losses recognized as a result of this transfer. The remaining pretax unrealized net holding loss on these investments was $467 thousand at December 31, 2022. Our held-to-maturity investments totaled $94.8 million and represented approximately 29.8% of our total investments at December 31, 2022.

The Company's held-to-maturity portfolio is recorded at amortized cost. The Company has the ability and intent to hold these securities to maturity. At December 31, 2022, the Company's entire held-to-maturity portfolio was comprised of municipal securities. The amortized cost and estimated fair values of securities held to maturity were:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Tax exempt municipal securities	$ 34,140,803	$ –	$ 6,182,327	$ 27,958,476
Taxable municipal securities	60,646,866	–	16,504,392	44,142,474
	$ 94,787,669	$ –	$ 22,686,719	$ 72,100,950

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, 2022					
	Less than twelve months		Twelve months or more		Total	
Held-to-maturity:	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Tax exempt municipal securities	–	–	27,958,476	6,182,327	27,958,476	6,182,327
Taxable municipal securities	–	–	44,142,474	16,504,392	44,142,474	16,504,392
	$ –	$ –	$ 72,100,950	$ 22,686,719	$ 72,100,950	$ 22,686,719

There were 65 securities in an unrealized loss position at December 31, 2022. Of those, 65 were in an unrealized loss position for greater than twelve months at December 31, 2022. The Company did not have any securities designated as held-to-maturity as of December 31, 2021.

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 the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and 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.

Note 5. Investment Securities – Held-To-Maturity, Continued

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 no declines are deemed to be other than temporary.

Note 6. Loans Receivable

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

	2022	2021
All Loans:		
Commercial	$ 65,189,126	$ 69,021,305
Commercial real estate	718,148,241	501,108,879
Consumer	11,265,656	11,731,001
Consumer real estate	209,707,464	153,771,003
Total gross loans receivable	1,004,310,487	735,632,188
Unearned origination fees, net	(1,677,865)	(1,736,066)
Allowance for loan losses	(10,110,619)	(8,159,039)
Loans, net	$ 992,522,003	$ 725,737,083

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

	2022	2021
Purchased Non-Credit Impaired Loans (ASC 310-20) and Nonacquired Loans:		
Commercial	$ 65,187,484	$ 69,015,596
Commercial real estate	717,073,399	500,116,345
Consumer	11,265,656	11,730,063
Consumer real estate	209,509,152	153,459,790
Total gross loans receivable	1,003,035,691	734,321,794
Unearned origination fees, net	(1,677,865)	(1,736,066)
Allowance for loan losses	(10,110,619)	(8,159,039)
Loans, net	$ 991,247,207	$ 724,426,689

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

	2022	2021
Purchased Credit Impaired Loans (ASC 310-30):		
Commercial	$ 1,642	$ 5,709
Commercial real estate	1,074,842	992,534
Consumer	-	938
Consumer real estate	198,312	311,213
Total gross loans receivable	1,274,796	1,310,394
Unearned origination fees, net	–	–
Allowance for loan losses	–	–
Loans, net	$ 1,274,796	$ 1,310,394

Note 6. Loans Receivable, Continued

Included in the loan totals were $3,202,964 and $6,548,740 in purchased non-credit impaired loans at December 31, 2022 and 2021, respectfully. 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, 2022 and 2021, 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, 2022.

Balance at the beginning of period	$ 1,310,394
Net reductions for payments, foreclosures, and accretion	35,598
Balance at end of period, net of allowance for loan losses on PCI loans	$ 1,274,796

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

	2022	2021
Accretable yield, beginning of period	$ 433,669	$ 688,254
Additions	–	–
Accretion	(250,901)	(312,472)
Reclassification from nonaccretable balance, net (a)	9,310	39,532
Other changes, net (b)	68,879	18,355
Accretable yield, end of period	$ 260,957	$ 433,669

(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.

Note 6. Loans Receivable, Continued

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.

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 principal, 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

Note 6. Loans Receivable, Continued

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. At December 31, 2022, all PPP loans originated by the Bank have been forgiven by the SBA or otherwise paid off, and the Bank has accreted to earnings all remaining PPP-related SBA fees.

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. There were no short-term modifications or deferrals outstanding as of December 31, 2022 or 2021.

The following is a summary of information pertaining to our allowance for loan losses as of and for the year ended December 31, 2022. 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	$ 757,540	$ 5,582,888	$ 132,191	$ 1,686,420	$ 8,159,039
Charge-offs	–	–	–	–	–
Recoveries	–	1,580	–	–	1,580
Provisions	(98,099)	1,688,254	(22,694)	382,539	1,950,000
Ending balance	$ 659,441	$ 7,272,722	$ 109,497	$ 2,068,959	$ 10,110,619
Ending balances:					
Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ –
Collectively evaluated for impairment	$ 659,441	$ 7,272,722	$ 109,497	$ 2,068,959	$ 10,110,619

Note 6. Loans Receivable, Continued

Loans receivable:					
Ending balance – total	$ 65,189,126	$ 718,148,241	$ 11,265,656	$ 209,707,464	$ 1,004,310,487
Ending balances:					
Individually evaluated for impairment	$ 5,758	$ –	$ 11,673	$ 27,278	$ 44,709
Collectively evaluated for impairment	$ 65,181,726	$ 717,073,399	$ 11,253,983	$ 209,481,874	$ 1,002,990,982
Purchased credit impaired loans	$ 1,642	$ 1,074,842	$ -	$ 198,312	$ 1,274,796

The following is a summary of information pertaining to our allowance for loan losses 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	–	–	11,188	–	11,188
Recoveries	–	2,240	–	20,000	22,240
Provisions	185,874	1,031,480	40,867	65,999	1,324,220
Ending balance	$ 757,540	$ 5,582,888	$ 132,191	$ 1,686,420	$ 8,159,039
Ending balances:					
Individually evaluated for impairment	$ –	$ –	$ 5,536	$ –	$ 5,536
Collectively evaluated for impairment	$ 757,540	$ 5,582,888	$ 126,655	$ 1,686,420	$ 8,153,503
Loans receivable:					
Ending balance – total	$ 69,021,305	$ 501,108,879	$ 11,731,001	$ 153,771,003	$ 735,632,188
Ending balances:					
Individually evaluated for impairment	$ 10,724	$ 75,475	$ 20,187	$ 31,664	$ 138,050
Collectively evaluated for impairment	$ 69,004,872	$ 500,040,870	$ 11,709,876	$ 153,428,126	$ 734,183,744
Purchased credit impaired loans	$ 5,709	$ 992,534	$ 938	$ 311,213	$ 1,310,394

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.

Note 6. Loans Receivable, Continued

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, 2022:

All Loans:	**Commercial**	**Commercial Real Estate**	**Consumer**	**Consumer Real Estate**	**Total**
Grade:					
Pass	$ 65,181,238	$ 717,813,166	$ 11,201,748	$ 209,108,061	$ 1,003,304,213
Special mention	2,130	206,201	40,813	102,216	351,360
Substandard	5,758	128,874	23,095	497,187	654,914
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	$ 65,189,126	$ 718,148,241	$ 11,265,656	$ 209,707,464	$ 1,004,310,487
Purchased non-credit impaired loans (ASC 310-20) and nonacquired loans:					
Grade:					
Pass	$ 65,181,238	$ 716,982,312	$ 11,201,748	$ 209,062,770	$ 1,002,428,068
Special mention	488	24,642	40,813	–	65,943
Substandard	5,758	66,445	23,095	446,382	541,680
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	$ 65,187,484	$ 717,073,399	$ 11,265,656	$ 209,509,152	$ 1,003,035,691

	Commercial	**Commercial Real Estate**	**Consumer**	**Consumer Real Estate**	**Total**
Purchased credit impaired loans (ASC 310-30):					
Grade:					
Pass	$ –	$ 830,854	$ –	$ 45,291	$ 876,145
Special mention	1,642	181,559	–	102,216	285,417
Substandard	–	62,429	–	50,805	113,234
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	$ 1,642	$ 1,074,842	$ –	$ 198,312	$ 1,274,796

Note 6. Loans Receivable, Continued

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	$ 498,460,088	$ 11,695,486	$ 152,939,592	$ 732,097,985
Special mention	7,762	2,441,085	14,452	308,937	2,772,236
Substandard	10,724	207,706	21,063	522,474	761,967
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	$ 69,021,305	$ 501,108,879	$ 11,731,001	$ 153,771,003	$ 735,632,188
Purchased non-credit impaired loans (ASC 310-20) and nonacquired loans:					
Grade:					
Pass	$ 69,002,819	$ 497,700,768	$ 11,694,548	$ 152,773,715	$ 731,171,850
Special mention	2,053	2,261,597	14,452	210,763	2,488,865
Substandard	10,724	153,980	21,063	475,312	661,079
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	$ 69,015,596	$ 500,116,345	$ 11,730,063	$ 153,459,790	$ 734,321,794
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	$ 5,709	$ 992,534	$ 938	$ 311,213	$ 1,310,394

The following is a past due aging analysis of our loan portfolio at December 31, 2022:

	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	$ 5,758	$ –	$ –	$ –	$ 65,183,368	$ 65,189,126	$ –
Commercial real estate	–	–	–	–	718,148,241	718,148,241	–
Consumer	–	–	–	–	11,265,656	11,265,656	–
Consumer real estate	–	–	–	–	209,707,464	209,707,464	–
Total	$ 5,758	$ –	$ –	$ –	$1,004,304,729	$1,004,310,487	$ –
Purchased non-credit impaired Loans (ASC 310-20) and nonacquired loans:							
Commercial	$ 5,758	$ –	$ –	$ –	$ 65,181,726	$ 65,187,484	$ –
Commercial real estate	–	–	–	–	717,073,399	717,073,399	–
Consumer	–	–	–	–	11,265,656	11,265,656	–
Consumer real estate	–	–	–	–	209,509,152	209,509,152	–
Total	$ 5,758	$ –	$ –	$ –	$1,003,029,933	$1,003,035,691	$

Note 6. Loans Receivable, Continued

	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
Purchased credit impaired loans (ASC 310-30):							
Commercial	$ –	$ –	$ –	$ –	$ 1,642	$ 1,642	$ –
Commercial real estate	–	–	–	–	1,074,842	1,074,842	–
Consumer	–	–	–	–	–	–	–
Consumer real estate	–	–	–	–	198,312	198,312	–
Total	$ –	$ –	$ –	$ –	$ 1,274,796	$ 1,274,796	$ –

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	$ –	$ –	$ 75,475	$ 75,475	$ 735,556,713	$ 735,632,188	$ –
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	$ –	$ –	$ 75,475	$ 75,475	$ 734,246,319	$ 734,321,794	$ –

	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
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	$ –	$ –	$ –	$ –	$ 1,310,394	$ 1,310,394	$ –

Note 6. Loans Receivable, Continued

The following is an analysis of our impaired loan (including nonaccrual loans) portfolio detailing the related allowance recorded at December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Commercial	$ 5,758	$ 5,758	$ –	$ 8,020	$ 732
Commercial real estate	–	–	–	–	–
Consumer	11,673	11,673	–	15,340	661
Consumer real estate	27,278	27,278	–	29,295	967
	44,709	44,709	–	52,655	2,360
With an allowance recorded:					
Commercial	$ –	–	–	–	–
Commercial real estate	–	–	–	–	–
Consumer	–	–	–	–	–
Consumer real estate	–	–	–	–	–
	–	–	–	–	–
Total:					
Commercial	$ 5,758	$ 5,758	$ –	$ 8,020	$ 732
Commercial real estate	–	–	–	–	–
Consumer	11,673	11,673	–	15,340	661
Consumer real estate	27,278	27,278	–	29,295	967
	$ 44,709	$ 44,709	$ –	$ 52,655	$ 2,360

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
	117,863	117,863	–	122,091	3,474
With an allowance recorded:					
Commercial	$ –	–	–	–	–
Commercial real estate	–	–	–	–	–
Consumer	20,187	20,187	5,536	23,652	893
Consumer real estate	–	–	–	–	–
	20,187	20,187	5,536	23,652	893
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	–	33,615	1,130
	$ 138,050	$ 138,050	$ 5,536	$ 145,743	$ 4,367

Note 6. Loans Receivable, Continued

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

	2022	2021
Commercial real estate	–	75,475
Total	$ –	$ 75,475

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

	2022	2021
Performing TDRs	$ 44,709	$ 62,575
Nonperforming TDRs	–	–
Total	$ 44,709	$ 62,575

Loans classified as TDRs may be removed from this status 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.

During the year ended December 31, 2022, there were no new TDRs identified. During the year ended December 31, 2021, 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.

None of the loans previously identified as TDRs went into default (as defined by non-accrual classification) during the years ended December 31, 2022 or December 31, 2021.

Note 7. Premises, Furniture and Equipment

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

	2022	2021
Land	$ 7,421,993	$ 7,421,993
Buildings and leasehold improvements	14,585,965	14,561,322
Furniture and equipment	6,258,651	6,048,915
Software	1,126,677	897,039
Automobile	69,466	32,895
Construction in progress	859,566	131,317
Total	30,322,318	29,093,481
Less accumulated depreciation	10,190,339	9,259,408
Premises, furniture and equipment, net	$ 20,131,979	$ 19,834,073

Depreciation expense for the years ended December 31, 2022 and 2021 was $963,827 and $1,260,606, respectively.

Note 8. Deposits

At December 31, 2022, the scheduled maturities of time deposits are as follows:

2023	$ 74,837,504
2024	22,420,546
2025	2,541,007
2026	10,865,032
2027	4,344,057
Total	$ 115,008,146

As of December 31, 2022 and 2021, respectively, the Bank had brokered deposits of $25,981,000 and $22,008,000.

Note 9. Borrowings

As of December 31, 2022, and 2021, 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, 2022, the pledged collateral totaled approximately $28.0 million.

In 2022, the Company established a line of credit with the Federal Reserve Bank's Discount Window by pledging securities with available funds totaling $110.4 million. As of December 31, 2022, the outstanding balance on the line of credit was $56.0 million.

Note 10. 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. The balance of the subordinated debentures was $30 million at December 31, 2022 and 2021.

Note 11. 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, 2022, a total of 22,042 and 430,000 shares were remaining in the plans to be issued.

In connection with the merger of Atlantic Community Bank in April 2018, 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. This table does not include warrants that were exercised and forfeited during the years ended December 31, 2022 and 2021.

	2022		2021	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1,	248,864	$ 11.50	231,320	$ 9.51
Granted	55,000	13.50	67,500	15.40
Exercised	(5,083)	8.91	(48,956)	7.53
Forfeited/Expired	(18,500)	12.65	(1,000)	12.50
Outstanding at December 31,	280,281	$ 11.86	248,864	$ 11.50
Exercisable at December 31,	176,705	$ 10.51	161,745	$ 9.75

The aggregate intrinsic value of the 280,281 and 248,864 stock options outstanding at December 31, 2022 and 2021 was $598,153 and $980,924, respectively. The aggregate intrinsic value of 176,705 and 161,745 stock options exercisable at December 31, 2022 and 2021 was $584,293 and $916,884, 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:

	2022	2021
Number of options	280,281	248,864
Weighted average remaining life	6 years	8 years
Weighted average exercise price	$ 11.86	$ 11.50
High exercise price	$ 15.40	$ 15.40
Low exercise price	$ 8.16	$ 9.77
Aggregate intrinsic value	$ 598,153	$ 980,924

Note 11. Stock Compensation Plan, Continued

During 2022, the Company granted 55,000 stock options. 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 $211,695.

The Black-Scholes model with assumptions for stock options granted in 2022 are presented below:

Grant date	Dec 15
Total number of options granted	55,000
Expected volatility	35.06%
Expected term	3 years
Expected dividend	0.00%
Risk-free rate	3.96%
Grant date fair value	3.849
Vesting	3 years
Exercise Price	$13.50

As of December 31, 2022, there was $398,360 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, 2022.

During 2021, the Company granted 67,500 stock options. 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:

Grant date	Dec 17
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.

Note 12. 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).

At December 31, 2022 there were 93,170 shares outstanding and exercisable. During the year ended December 31, 2022 there were 13,310 shares exercised and 13,310 that were cancelled. At December 31, 2021 there were 119,790 shares outstanding and exercisable. There were no shares exercised or cancelled during the year ended December 31, 2021. All warrants outstanding will expire on November 28, 2027 unless otherwise extended.

Note 13. Income Taxes

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

	2022	2021
Current income tax expense:		
Federal	$ 3,354,168	$ 3,032,156
State	202,778	154,314
Total	3,556,946	3,186,470
Deferred income tax expense (benefit):		
Federal	(354,264)	(311,236)
State	(212,503)	(141,474)
Total	(566,767)	(452,710)
Income tax expense	$ 2,990,179	$ 2,733,760

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

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 2,102,407	$ 1,713,398
Net operating loss carryforward	1,110,654	1,146,010
Unrealized loss on securities available for sale	8,819,693	124,425
Organization and start-up costs	–	8,723
Federal and state credits	899,713	780,662
Stock based compensation	53,336	53,336
Deferred compensation	1,014,714	796,725
Other	65,972	84,400
Total deferred tax assets	14,066,489	4,707,679
Valuation allowance	(280,559)	(231,735)
Net deferred tax assets	13,785,930	4,475,944

Note 13. Income Taxes, Continued

Deferred tax liabilities:	**2022**	**2021**
Accumulated depreciation	$ 1,080,920	1,122,443
Loan origination costs	318,939	227,833
Prepaid expenses	24,083	24,081
Purchase accounting adjustments	42,988	44,622
Total deferred tax liabilities	1,466,930	1,418,979
Net deferred tax asset	$ 12,319,000	$ 3,056,965

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, 2022 and 2021. 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, 2022 and 2021, a valuation allowance in the amount of $280,559 and $231,735, respectively, remains for state holding company losses.

The Company has a federal net operating loss carryforward of $3,993,041 and $4,394,507 as of December 31, 2022 and 2021, respectively. The Company has a state net operating loss carryforward of $6,888,975 and $5,649,688 as of December 31, 2022 and 2021, 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 2022 and 2021, respectively, to income before income taxes follows for the years ended December 31:

	2022	**2021**
Tax expense at statutory rate	$ 3,167,573	$ 2,851,914
State income tax, net of federal income tax benefit	(7,683)	10,144
Change in valuation allowance	48,824	26,298
Cash surrender value of life insurance	(143,994)	(131,023)
Tax exempt interest	(187,028)	(164,880)
Stock compensation	16,485	(3,842)
Other	96,002	145,149
Income tax expense	$ 2,990,179	$ 2,733,760

Tax returns for 2019 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 14. 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

Note 14. Employee Benefits, Continued

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, 2022 and 2021, the Company recognized $301,473 and $246,391, respectively, in expenses related to this plan which are included in salaries and employee benefits.

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, 2022 and 2021, there was compensation expense of $391,800 and $386,000 related to contribution of shares to the KSOP, which is included in salaries and employee benefits. Thirty thousand and twenty-five thousand shares were contributed and allocated to employees for 2022 and 2021, 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 2022, an additional $5,000,000 contract was purchased. The cash value of the life insurance contracts increased $685,685 and $623,918 for the years ended December 31, 2022 and 2021, respectively and are included in noninterest income. Cash values of the policies were $29,524,342 and $23,838,657 at December 31, 2022 and 2021, respectively. The corresponding liability associated with the Plan was $4,266,670 and $3,365,642 at December 31, 2022 and 2021, respectively and is included in other liabilities. Expenses related to the Plan were $901,028 and $1,212,340 for the years ended December 31, 2022 and 2021, 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 $565,301 and $428,288 for the years ended December 31, 2022 and 2021, respectively, and is included in other liabilities. The liability is calculated by the third party that manages the Director Plan. Expenses related to the Director Plan were $137,013 and $136,190 for the years ended December 31, 2022 and 2021, respectively and are included in other operating expenses.

Note 15. Leases

The Bank has entered into agreements to lease various office facilities under non-cancellable operating lease agreements. At December 31, 2022, the Company's leases had remaining lease terms of one year to 16 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.

Note 15. Leases, Continued

Lease expense totaled $1,141,840 and $1,237,650 for the years ended December 31, 2022 and 2021, respectively and is included in net occupancy. We do not apply the recognition requirements of ASC 842 to short-term leases (i.e., less than 12 months), and recognize the lease payments on a straight-line basis over the term of the lease.

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

	2022	2021
Right of use operating lease asset	$ 6,916,562	$ 7,511,629
Operating lease liability	7,247,332	7,778,126
Weighted average remaining lease term	11.30	11.59
Weighted average discount rate	3.15%	3.13%

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:

2023	$ 668,472
2024	674,646
2025	657,149
2026	669,191
2027 and thereafter	6,505,967
Total	$ 9,175,425
Less: effect of discount	1,928,093
Lease Liability	$ 7,247,332

The Company is leasing a portion of its Murrells Inlet and Mount Pleasant locations to unrelated tenants. Lease income generated from these tenants totaled $244,287 and $139,468 during the years ended December 31, 2022 and 2021, respectively and is included in other income.

Note 16. 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, 2022 and 2021, the Company had related party loans totaling $1,123,902 and $2,170,615, respectively. There were also outstanding lines of credit available to related parties with available balances of $4,669,243 and $4,116,316 at December 31, 2022 and 2021, respectively.

In 2017, three executives of the Bank exercised 402,799 stock options with the Company. Notes receivables in the total amount of $3,392,274, were 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.

Note 16. Related Party Transactions, Continued

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, no later than June 8, 2023. During 2022, one of the three executives satisfied the outstanding balance due from the loan. The remaining balance of the notes receivables was $2,759,226 and $3,061,368 as of December 31, 2022 and 2021 respectively.

Deposits by directors, including their affiliates and executive officers, were approximately $83,722,545 and $72,236,312 at December 31, 2022 and 2021, respectively.

Note 17. 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 18. 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:

	2022	2021
Income per common share – basic computation:		
Net income	$ 12,093,501	$ 10,846,783
Average common shares outstanding – basic	7,568,717	7,492,737
Basic income per common share	$ 1.60	$ 1.45
Income per common share – diluted computation:		
Net income	$ 12,093,501	$ 10,846,783
Average commons shares outstanding – basic	7,568,717	7,492,737
Incremental shares from assumed conversions:		
Stock options and warrants	99,666	114,313
Average common shares outstanding – diluted	7,668,383	7,607,050
Diluted income per common share	$ 1.58	$ 1.43

At December 31, 2022, the Company excluded 61,000 potentially dilutive shares of common stock issuable upon exercise of stock options with a weighted average exercise price of $15.40 from the computation of dilutive income per common share because of their antidilutive effect. 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.

Note 19. 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, 2022.

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.

Note 19. Regulatory Matters, Continued

The following table summarizes the capital ratios and the regulatory minimum requirements of the Bank at December 31:

	Actual		For capital adequacy purposes Minimum		To be well-capitalized under prompt corrective action provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Total capital (to risk-weighted assets)	$ 130,529,000	12.12%	86,157,000	8.00%	$ 107,696,000	10.00%
Tier 1 capital (to risk-weighted assets)	120,418,000	11.18%	64,618,000	6.00%	86,157,000	8.00%
Tier 1 capital (to average assets)	120,418,000	8.56%	56,285,000	4.00%	70,356,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	120,418,000	11.18%	48,463,000	4.50%	70,002,000	6.50%
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%

Note 20. Unused Lines of Credit

As of December 31, 2022, the Company had available lines of credit to purchase federal funds from unrelated banks totaling $54,000,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. As of December 31, 2022 and 2021, 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 $20,475,118. As of December 31, 2022 and 2021, respectively, there was no outstanding balance on the line.

In 2022, the Company established a line of credit with the Federal Reserve Discount Window with available funds totaling $110,388,013. As of December 31, 2022, the outstanding balance on the line of credit was $56,000,000.

Note 21. 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 $49,307,000 and $35,844,842 at December 31, 2022 and 2021, respectively.

Note 22. 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:

	2022	2021
Commitments to extend credit	$ 324,723,353	$ 224,452,555
Letters of credit	3,884,638	914,517
Total	$ 328,607,991	$ 225,367,072

Note 23. 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.

Note 23. 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.

Note 23. 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, 2022			
	Total	Level 1	Level 2	Level 3
U.S. Treasuries	$ 14,400,585	$14,400,585	$ –	$ –
U.S. Government sponsored agencies	1,455,925	–	1,455,925	–
Tax exempt municipal securities	16,528,208	–	16,528,208	–
Taxable municipal securities	57,273,325	–	57,273,325	–
Mortgage-backed securities	107,668,080	–	107,668,080	–
SBA loan pools	578,648	–	578,648	–
SBA asset-backed securities	3,884,873	–	3,884,873	–
Corporate debt securities	20,967,156	–	20,967,156	–
Mortgage loans held-for-sale	676,706	–	676,706	–
Total	$ 223,433,506	$14,400,585	$ 209,032,921	$ –

	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	$ 343,922,613	$10,055,462	$ 333,867,151	$ –

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, 2022 and 2021, 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

Note 23. 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 records 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, 2022 and 2021, 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, 2022			
	Total	Level 1	Level 2	Level 3
Impaired loans				
Commercial	$ 5,758	$ –	$ 5,758	$ –
Commercial real estate	–	–	–	–
Consumer	11,673	–	11,673	–
Consumer real estate	27,278	–	27,278	–
Total impaired loans	$ 44,709	$ –	$ 44,709	$ –

	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	$ 132,514	$ –	$ 132,514	$ –

Note 23. Fair Value of Financial Instruments, Continued

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

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

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

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.

Note 23. Fair Value of Financial Instruments, Continued

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.

Advances from Federal Reserve Discount Window – For disclosure purposes, the fair value of the fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest Receivable and Payable – The carrying value of these instruments is a reasonable estimate of fair value. As current rates are based on daily advance rates, the carrying amount is deemed to be 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:

	2022		2021	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial Assets:				
Cash and due from banks	$ 14,029,816	$ 14,029,816	$ 74,345,180	$ 74,345,180
Federal funds sold and interest bearing deposits	1,821,435	1,821,435	21,032,780	21,032,780
Trading securities	-	-	10,055,462	10,055,462
Securities available-for-sale	222,756,800	222,756,800	324,175,622	324,175,622
Securities held-to-maturity	94,787,669	72,100,950	-	-
Nonmarketable equity securities	651,900	651,900	471,700	471,700
Loans held-for-sale	676,706	676,706	9,691,530	9,691,530
Loans receivable, net	992,522,003	952,500,615	725,737,083	721,876,208
Bank-owned life insurance	29,524,342	29,524,342	23,838,657	23,838,657
Accrued interest receivable	4,898,723	4,898,723	3,648,671	3,648,671
Financial Liabilities:				
Demand deposit, interest-bearing transaction, and savings accounts	1,101,753,698	1,101,753,698	1,005,170,019	1,005,170,019
Certificates of deposit and other time deposits	115,008,146	116,295,390	76,931,894	78,513,829
Subordinated debentures	30,000,000	22,800,000	30,000,000	30,111,797
Advances from FRB	56,000,000	56,000,000	-	-
Accrued interest payable	147,962	147,962	64,193	64,193
Commitments to extend credit	324,723,353	–	224,452,555	–
Letters of credit	3,884,638	–	914,517	–

Note 24. South Atlantic Bancshares, Inc. (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

	2022	2021
Assets		
Cash	$ 19,555,892	$ 26,216,613
Investment in bank subsidiary	99,623,458	107,594,217
Loans	2,759,226	3,061,368
Other assets	312,768	357,753
Total assets	$ 122,251,344	$ 137,229,951
Liabilities and shareholders' equity		
Other liabilities	$ 1,712,871	$ 1,717,803
Long-term debt	30,000,000	30,000,000
Shareholders' equity	90,538,473	105,512,148
Total liabilities and shareholders' equity	$ 122,251,344	$ 137,229,951

Condensed Statements of Income

	2022	2021
Income	$ 5,277	$ 5,507
Expenses:		
Salaries and benefits	478,501	418,234
Other	1,280,492	234,764
Total	1,758,993	652,998
Loss before income taxes and equity in undistributed income of banking subsidiary	(1,753,716)	(647,491)
Income tax benefit	385,059	191,396
Equity in income of banking subsidiary	13,462,158	11,302,878
Net income	$ 12,093,501	$ 10,846,783

Note 24. South Atlantic Bancshares, Inc. (Parent Company Only), Continued

Condensed Statements of Cash Flows

	2022	2021
Operating activities		
Net income	$ 12,093,501	$ 10,846,783
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed income of banking subsidiary	(13,462,158)	(11,302,878)
Stock and warrant compensation expense	101,367	43,235
Contribution of treasury stock to ESOP plan	391,800	386,000
Decrease in accrued expenses and other liabilities	(4,932)	(771,930)
Decrease in other assets	44,985	8,793
Net cash used in operating activities	(835,437)	(789,997)
Investing activities:		
Net increase in investment in bank	(6,000,000)	(14,200,000)
Net decrease in loans	302,142	900
Net cash used in investing activities	(5,697,858)	(14,199,100)
Financing activities:		
Proceeds from exercise of stock options	284,514	365,743
Issuance of subordinated debt	–	30,000,000
Purchase of treasury stock	(411,940)	–
Net cash (used in) provided by financing activities	(127,426)	30,365,743
Net (decrease) increase in cash and cash equivalents	(6,660,721)	15,376,646
Cash, beginning of year	26,216,613	10,839,967
Cash, end of year	$ 19,555,892	$ 26,216,613

Note 25. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. 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 10, 2023, the date the financial statements were available to be issued, and on January 19, 2023, the Company declared a dividend payable of $0.10 per share on common stock on February 15, 2023 to shareholders of record as of February 1, 2023. No other subsequent events occurred requiring accrual or disclosure.