THE QUEENSBOROUGH COMPANY

# 2020 ANNUAL REPORT

Cover Photography taken by Donnie Smith in Bartow, Georgia

# TO OUR OWNERS

March 15, 2021

**Last year, 2020, saw unusual activity in so many areas I am hard pressed to report the more significant events and their lasting effects on your bank. Let me focus first on the financial results which you can read in the accompanying annual report.**

At first glance you can see that our size as measured by total assets jumped significantly from $1.22 billion to $1.65 billion, an increase of approximately 37%. This remarkable increase comes despite the pandemic and despite our branch doors being locked. Much of the growth comes from the several federal stimulus bills and especially from the Payroll Protection Program. But more importantly, we found many businesses who needed our help with the PPP process and most of those businesses from Savannah to Atlanta are now our newest customers. Let me give you an idea of how remarkable this growth truly is — our average branch has about $45 million in assets, thus our organic growth approximates some 10 new branches. And yet we have no new locations. A remarkable change due entirely to the efficiency and dedication of our many talented staff members.

You will next see that our loans increased more than 20% which is also very unusual. This increase is due primarily to the PPP program. You can read a more complete description of our participation in that much welcomed program in Footnote 3 on page 29 of this annual report.

Finally, you may see that our profits are down some 15%. This time last year I reported that the pandemic would likely have a significantly negative effect on our customers and perhaps cause losses in our loan portfolio. In anticipation, we increased our loan reserves by $4.1 million or 32%. I am pleased to report that, thus far, we have not seen the need to increase these reserves further as our Covid-related losses, thanks in large part to the federal stimulus bills, have been minimal.

Beyond our balance sheet and income statement, the pandemic brought in and accelerated other business and cultural changes, not the least of which is working from home. At the height of the pandemic fully 1/3 of our employees, some 125 people, worked remotely thus protecting themselves, their families and others. Additionally, our customers learned to use our mobile banking technologies, and starting this January, learned how to complete transactions via our Integrated Teller Machines, or as we call it, the QNBT*NOW* team.

A remarkable year, 2020 — the year of Covid. At the moment, millions of people are receiving the vaccine every day, including me. Cases of the disease are down significantly and folks are looking past the pandemic with the usual American fervor for the future. It is hard not to be optimistic about the coming months of recovery and economic growth. I know I am ready!

Please feel free to call me if you want to discuss banking in general or Queensborough in particular.

Sincerely,

William F. Easterlin, III *President*
bill@qnbtrust.bank | 478.494.0614


Photo by Bonnie Smith

# TABLE *of* CONTENTS



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Newsweek
AMERICA'S BEST BANKS 2021
POWERED BY LendingTree

# GEORGIA'S BEST

*QUEENSBOROUGH NAMED BEST SMALL BANK IN GEORGIA BY NEWSWEEK*

In November, we were named Georgia's Best Small Bank by Newsweek. This announcement comes with Newsweek's first-ever ranking of the financial institutions that are working to meet the needs of customers during these unprecedented times.

“Like virtually every other aspect of our lives – work, school, shopping, entertainment, you name it – the pandemic is changing the way Americans bank,” said Diane Harris, Newsweek's deputy editor-in-chief. “And those changes, in turn, are creating a new set of challenges and opportunities when it comes to picking the financial institution that best suits our banking needs.”

With more than 2,500 FDIC-insured institutions, U.S. banks were assessed based on 55 factors to develop a best-in-class option for 19 categories, including the Best Small Bank in every state.

“Queensborough is committed to the communities we serve to provide great service and uncomplicated banking since 1902,” said Bill Easterlin, Queensborough's President and CEO. “We are delighted to provide the professional banker expertise you need with the personal banker attitude you want.”

# COVID-19 RESPONSE

*2020 BROUGHT UNPRECEDENTED CHALLENGES AND WITH IT NEW OPPORTUNITIES FOR GROWTH.*

By late 2019, the novel coronavirus or COVID-19 came into our peripheral vision as it started spreading through Asia and began dominating the new cycles. By February 2020, it became clear that the pandemic was going to have a significant impact on the world including the United States and our local communities.

As the virus spread across Europe and found its way to the western United States, it became clear the difficult decisions that leaders of all levels would soon face. How would we balance the physical health of our community members and employees against the economic health of our company and the surrounding businesses?

## FIRST, COMMUNICATION.

With immediate effect, the bank formed a committee comprising all executive committee members, regional managers and other essential personnel. The committee met three times a week to review COVID rates in our regions, discuss the impact on daily operations, staffing levels, and in-progress projects, hear feedback and concerns from employees and customers, share what competitors in each market are doing, hear updates on the Payroll Protection Program roll-out and determine what actions may be required to remain flexible and responsive in an ever-changing environment.

With the growth of the bank and the spread of our workforce footprint, this meeting continues to ensure our ability to stay connected and informed.

## SECOND, DISPERSING AND PROTECTING THE WORKFORCE.

By May of 2020, one-third of our workforce was working remotely. We also created Secondary Workforce Dispersal Sites (SWDS). The SWDS are used to split teams into two or more groups when remote work wasn't feasible. SWDSs prevented that entire team from being quarantined should a team member be exposed.

By mid-June we made the difficult decision to close all lobbies to walk-in traffic, instead directing customers to our drive-thru's, mobile banking options and by-appointment meetings. Though the closing certainly felt strange and has been somewhat sad, we were pleased to see relatively little disruption to our customers and our ability to serve their needs.

## THIRD, AGGRESSIVELY PURSUING THE PAYROLL PROTECTION PROGRAM (PPP).

The PPP program proved instrumental in protecting the livelihood of our business clients. The speed with which we were able to digest the new regulation, establish the technology and processes, and work with customers to get the funds deployed highlighted the benefits of banking with a community bank. Our bankers are accessible to our customers and, in these uncertain times, that became a big differentiator for us.

## FINALLY, MONITOR, EDUCATE, AND CONTINUE ALL OF THE ABOVE.

Unfortunately, the coronavirus remains a significant concern. We continue to monitor case rates in our communities. After a brief attempt to reopen lobbies in late 2020, we reversed course as infection rates continued to increase day over day. We continue to meet twice weekly and focus our communications on staying the course and educating ourselves about the vaccine.

United Way of the CSRA

$25,308 was donated to **UNITED WAY OF THE CSRA**.

# IN THE COMMUNITY


Our staff hosted seven Manna Trucks (Mobile Food Pantries) for **GOLDEN HARVEST FOOD BANK.**


Four branches offered free **COMMUNITY SHRED EVENTS.**

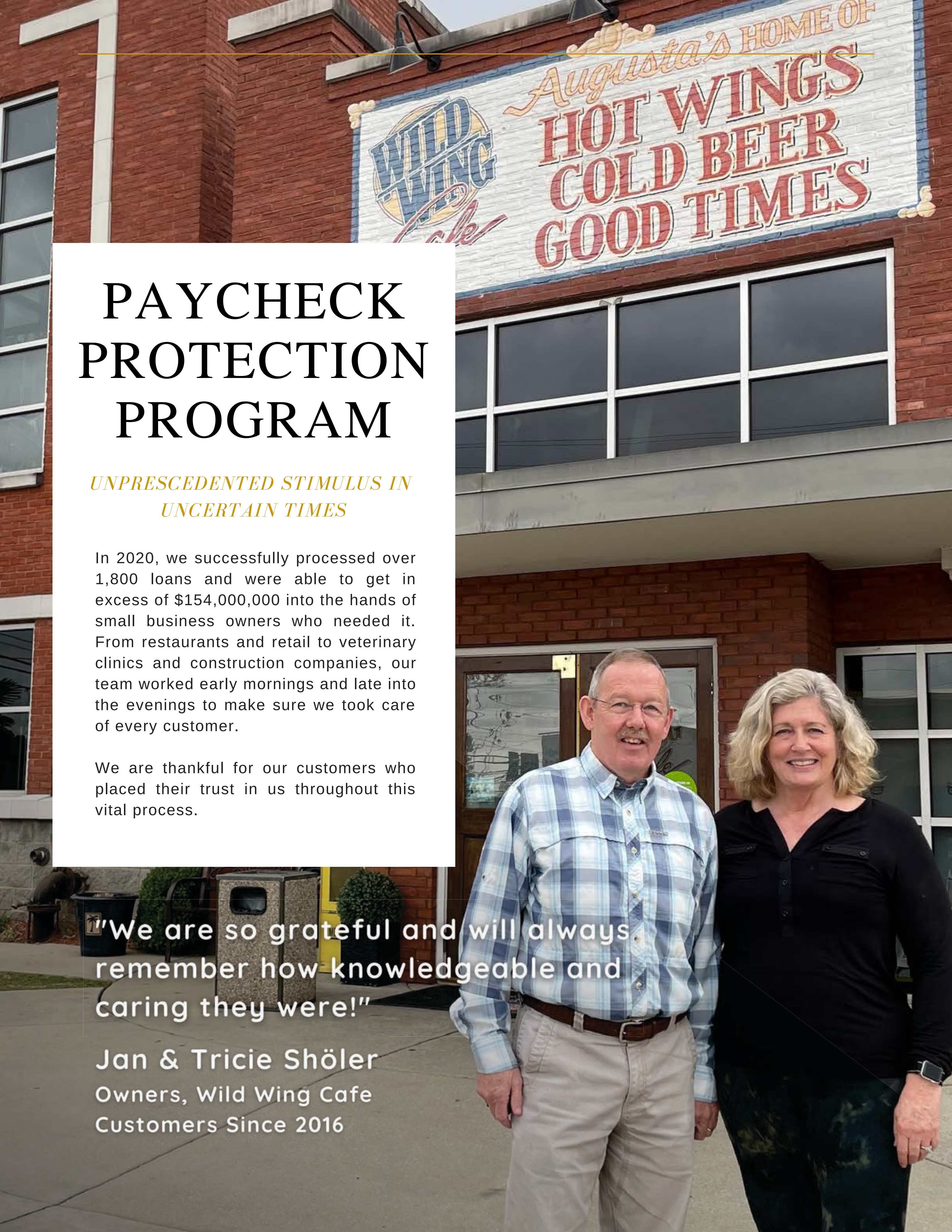

Despite the ride being cancelled, our team raised $5,827 for **PACELINE** to fight cancer.

Waynesboro's annual **GUNS VS. HOSES BATTLE** garnered 107 blood donors.


Q employees read books on social media for kids.


Cameron Evans was awarded the 2020 Qmmunity Bank Scholarship.

Employees collected toys for **THE SALVATION ARMY ANGEL TREE**.




# PAYCHECK PROTECTION PROGRAM

*UNPRESCEDENTED STIMULUS IN UNCERTAIN TIMES*

In 2020, we successfully processed over 1,800 loans and were able to get in excess of $154,000,000 into the hands of small business owners who needed it. From restaurants and retail to veterinary clinics and construction companies, our team worked early mornings and late into the evenings to make sure we took care of every customer.

We are thankful for our customers who placed their trust in us throughout this vital process.

"We are so grateful and will always remember how knowledgeable and caring they were!"

**Jan & Tricie Shöler**
Owners, Wild Wing Cafe
Customers Since 2016

"The team at Queensborough made the SBA PPP loan process painless. Thank you for your commitment to your customers."

Claudia Jones

Owner, Universal Plumbing Inc.

Customer Since 2014

# BRANCHING OUT

*A GROUNDBREAKING YEAR*

In September of 2020, we broke ground on our 27th location.

Located at 1559 Pooler Parkway, the branch will feature an open-concept lobby while incorporating the latest banking technology for enhanced transactions and service. The lobby will also include a large digital display for financial education and community messages.

Because the bank will be staffed with universal bankers rather than traditional tellers and customer service representatives, customers will be able to complete most transactions, including opening new accounts, with one person. A commercial banker and mortgage and financial advisers will also be on staff.

"...THIS IS THE IDEAL LOCATION FROM WHICH TO SERVE OUR CUSTOMERS AND ATTRACT NEW BUSINESS WITH OUR STYLE OF COMMUNITY BANKING."

"Expanding into Pooler is a natural progression of our local growth plan. This level of investment is a demonstration of our long-term commitment to the community," said Mike English, Senior Vice President and Coastal Region Manager. "We already have a number of customers in Pooler, and this is the ideal location from which to serve our customers and attract new business with our style of community banking."

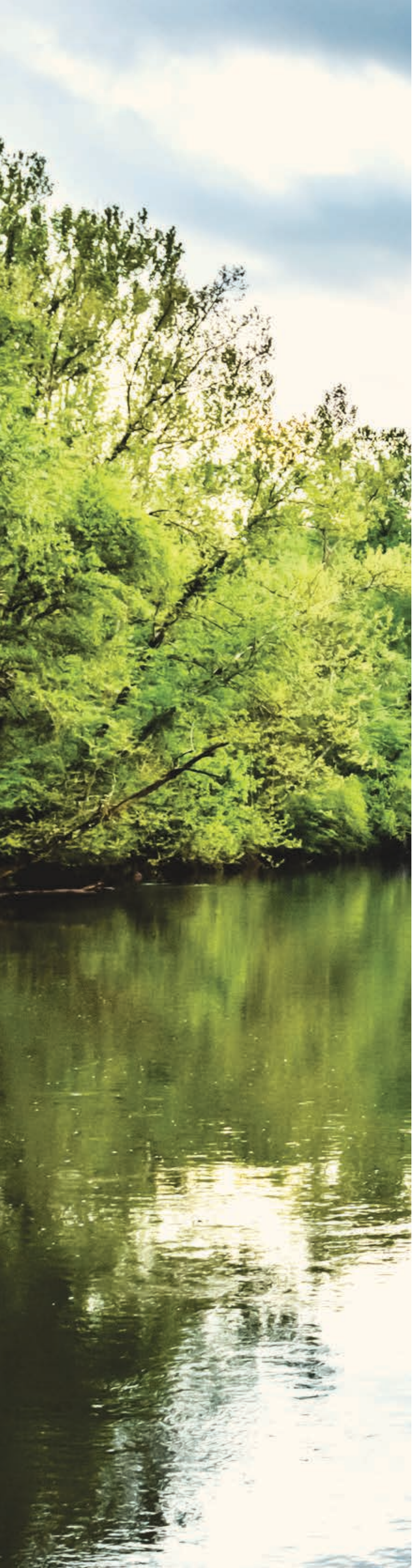
By Pooler's opening in 2021, we will have launched QNBT*NOW*, a centralized customer care center and team of tellers. Housed in the Augusta Operations Center and led by EVP and Chief Operations Officer, Kim Kirk, the QNBT*NOW* team handled nearly **81,000 customer calls in 2020**. The Customer Care Team is increasing efficiencies within the bank and are becoming known for their helpfulness and hospitality.

QNBT*NOW* Integrated Teller Machines (ITMs) allow us to service our customers by utilizing a centralized team of tellers, who can process teller transactions during extended hours including Saturdays.

"ITMS ARE A GREAT WAY TO ALLOW CUSTOMERS TO DO BUSINESS WITH US DURING EXTENDED HOURS IN A COVID-FRIENDLY WAY."

In 2021, we will remain focused on utilizing technology to improve our customer experience and serve our customers better. "ITMs are a great way to allow customers to do business with us during extended hours in a COVID-friendly way," says Kirk. Throughout the year we will be rolling out more ITMs across our footprint.


**Real. Convenient. Banking.**
The drive-thru of the Pooler location will house two ITMs. These QNBT*NOW* ITMs feature teller assistance via live video stream. In addition to normal ATM functions, customers can make deposits of cash or checks, cash checks, make loan and credit card payments, withdraw funds, transfer funds, and more.



# BOARD *of* DIRECTORS

## QUEENSBOROUGH NATIONAL BANK & TRUST COMPANY

J. Thomas Battle
L.J. Bowles, III
Gretchen B. Caughman, PhD
W. Abbot Easterlin
William F. Easterlin, III
Thomas W. Jones, CPA
Charles Troy Jordan
Sam S. Pennington
D. Phil Polhill, CPA
R. Joseph Pollock
Charles E. Smith, Jr.
Paul G. Trotter, DDS
W. Jeffrey Weichsel

## THE QUEENSBOROUGH COMPANY

Louisa Abbot
J. Thomas Battle
L. J. Bowles, III
Gretchen B. Caughman, PhD
W. Abbot Easterlin
William F. Easterlin, III
Thomas W. Jones, CPA
Charles Troy Jordan
Sam S. Pennington
D. Phil Polhill, CPA
R. Joseph Pollock
Charles E. Smith, Jr.
Paul G. Trotter, DDS
W. Jeffrey Weichsel

#### COASTAL ADVISORY BOARD

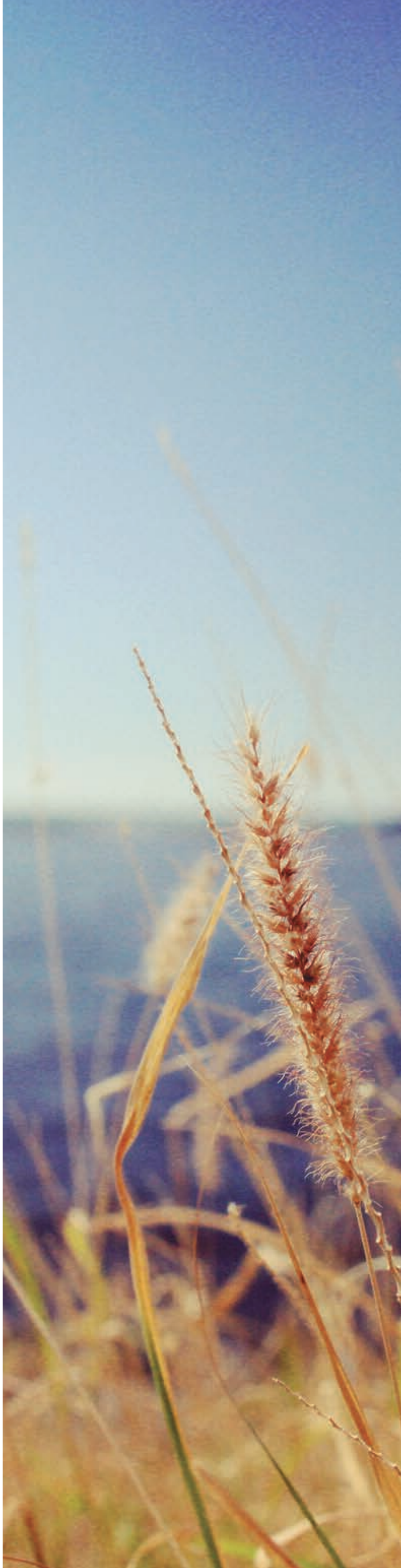
Troy R. Baird
Rebecca Benton
Amy Brock
Wallace "Miller" Glover, Jr.
Timothy "Brett" Goodwin, Jr.
Laura A. Judge
Joseph C. Marchese
Kathryn A. Murph
Scott Rasplicka
Gary R. Wiggin
Mathew M. McCoy

#### HONORARY DIRECTORS

John Roy Clifton, Jr.
Joseph B. Culvern
Wiley C. Evans, III
J. Dudley Gunn
Roy M. Hayes
William C. McMaster, Jr.
H.G. Thomas New
James B. Polhill, IV
Edith W. Pundt
R. Hubert Reeves, III
E.C. Smith, III
Henderson C. Upchurch

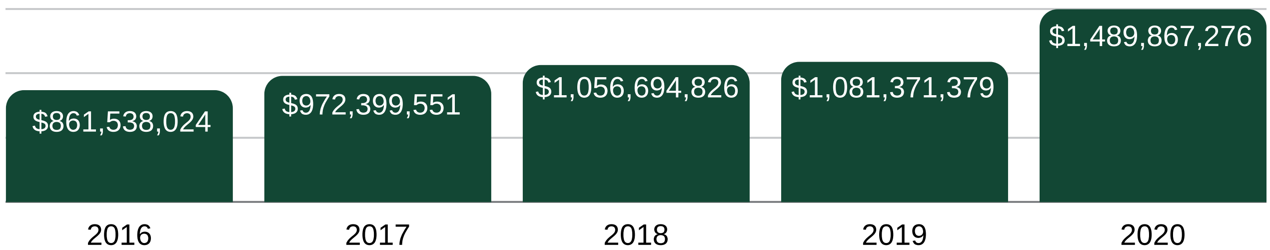
# EXECUTIVE MANAGEMENT

William F. Easterlin, III *President, Chief Executive Officer*
D. Phil Polhill, CPA *Chief Financial Officer*
Kimberly S. Kirk *Chief Operations Officer*
Richard H. Peacock *Chief Credit Officer*
Sheryl R. Reed, SPHR, SHRM-SCP *Chief Human Resource Officer*
William R. Thompson *Chief Lending Officer*
Julie W. Evans *Corporate Secretary*

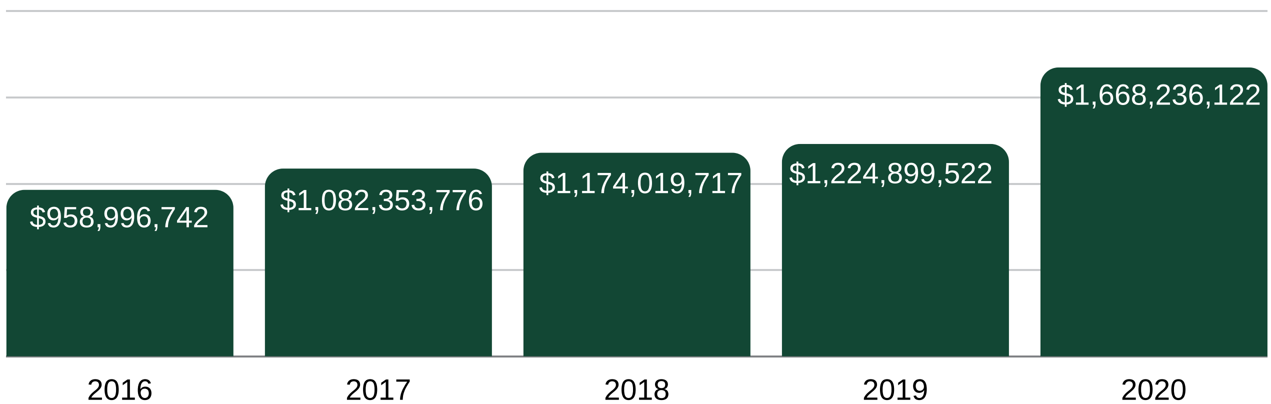


# VISUAL REPRESENTATIONS

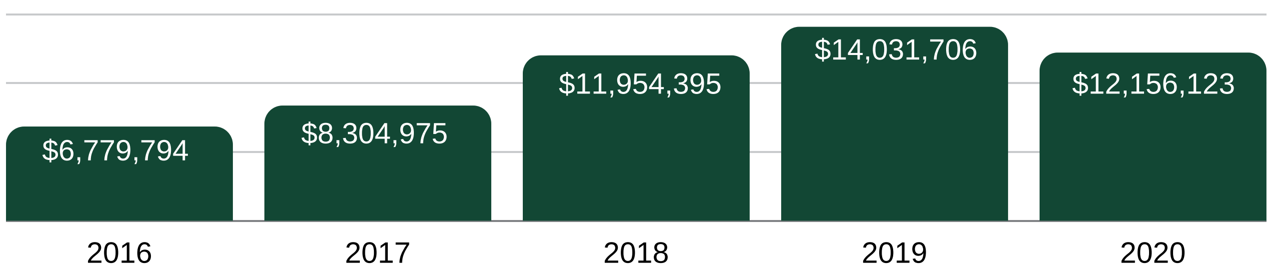
## *TOTAL DEPOSITS*




## *TOTAL ASSETS*




## *NET INCOME*




## *NET INCOME PER SHARE OF COMMON STOCK*

elliott davis

## Independent Auditor's Report

The Board of Directors and Shareholders
The Queensborough Company
Louisville, Georgia

**Report on the Financial Statements**
We have audited the accompanying consolidated financial statements of The Queensborough Company and its Subsidiary (the "Company") which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the financial statements.

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Queensborough Company and its Subsidiary as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**
We have also audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2020, 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 19, 2020, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Elliott Davis, LLC

Columbia, South Carolina
March 19, 2021

# CONSOLIDATED BALANCE SHEETS

*DECEMBER 31, 2020 AND 2019*

| Assets | 2020 | 2019 |
|---|---|---|
| Cash and due from banks, including reserve requirements of $0 and $1,613,000, respectively | $ 40,288,061 | 21,155,064 |
| Interest-bearing deposits with banks | 73,247,913 | 72,922,088 |
| Federal funds sold | 10,000,000 | 10,000,000 |
| Cash and cash equivalents | 123,535,974 | 104,077,152 |
| Certificates of deposit with other banks | - | 1,960,000 |
| Investment securities available for sale | 309,233,175 | 157,937,874 |
| Investments securities held to maturity (fair value of $141,110,552 and $78,075,926, respectively) | 139,230,933 | 77,832,047 |
| Other investments | 3,263,790 | 2,794,390 |
| Loans held for sale | 47,754,467 | 13,254,727 |
| Loans, less allowance for loan losses of $14,670,424 and $11,070,125, respectively | 961,938,777 | 796,690,702 |
| Premises and equipment, net | 32,097,677 | 29,776,866 |
| Goodwill and core deposit intangible | 3,556,594 | 3,643,546 |
| Other real estate | 9,901,069 | 3,885,496 |
| Cash surrender value of life insurance | 19,615,758 | 19,204,185 |
| Accrued interest receivable and other assets | 18,107,908 | 13,842,537 |
| Total assets | $ 1,668,236,122 | 1,224,899,522 |
| **Liabilities and Shareholders' Equity** | | |
| Deposits: | | |
| Noninterest-bearing | $ 588,662,627 | 353,556,720 |
| NOW and money market accounts | 606,181,289 | 436,015,661 |
| Savings | 75,941,359 | 59,475,044 |
| Time deposits, $250,000 or more | 59,274,796 | 60,149,170 |
| Other time deposits | 159,807,205 | 172,174,784 |
| Total deposits | 1,489,867,276 | 1,081,371,379 |
| Federal Home Loan Bank advances | 20,000,000 | 10,000,000 |
| Subordinated debentures | 23,325,628 | - |
| Junior subordinated debentures | 12,372,000 | 12,372,000 |
| Accrued interest payable and other liabilities | 10,979,166 | 9,135,257 |
| Total liabilities | 1,556,544,070 | 1,112,878,636 |
| Commitments and Contingencies (See Notes 11 and 17) | | |
| Shareholders' equity: | | |
| Preferred stock, no par value, $12,350,000 liquidation value; 10,000,000 shares authorized; | | |
| Series A; 0 and 11,750 shares issued and outstanding at December 31, 2020 and 2019 respectively | - | 11,750,000 |
| Series B; 0 and 600 shares issued and outstanding at December 31, 2020 and 2019 respectively | - | 600,000 |
| Common stock, $1 par value; 10,000,000 shares authorized; 1,322,485 and 1,319,587 shares issued and outstanding at December 31, 2020 and 2019 respectively | 1,322,485 | 1,319,587 |
| Additional paid-in capital | 9,573,625 | 9,404,049 |
| Retained earnings | 97,652,674 | 88,400,375 |
| Accumulated other comprehensive income | 3,143,268 | 546,875 |
| Total shareholders' equity | 111,692,052 | 112,020,886 |
| Total liabilities and shareholders' equity | $ 1,668,236,122 | 1,224,899,522 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF EARNINGS

*FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019*

| | | 2020 | 2019 |
|---|---|---|---|
| Interest income: | | | |
| Interest and fees on loans | $ | 47,154,204 | 43,973,757 |
| Interest on investment securities: | | | |
| Taxable | | 5,252,657 | 5,996,003 |
| Tax exempt | | 224,722 | 177,818 |
| Other investments | | 157,891 | 148,296 |
| Interest on federal funds sold and interest-bearing deposits with banks | | 450,986 | 1,175,184 |
| Total interest income | | 53,240,460 | 51,471,058 |
| Interest expense: | | | |
| Deposits: | | | |
| NOW and money market accounts | | 1,875,186 | 2,983,615 |
| Savings | | 26,685 | 31,477 |
| Time | | 3,090,677 | 3,460,588 |
| Borrowed funds | | 283,775 | 107,099 |
| Subordinated debentures | | 330,740 | - |
| Junior subordinated debentures | | 374,365 | 575,785 |
| Total interest expense | | 5,981,428 | 7,158,564 |
| Net interest income | | 47,259,032 | 44,312,494 |
| Provision (recovery) for loan losses | | 4,100,000 | (250,000) |
| Net interest income after recovery of loan losses | | 43,159,032 | 44,562,494 |
| Other income: | | | |
| Service charges on deposit accounts | | 7,203,401 | 8,000,967 |
| Mortgage origination fees | | 11,280,292 | 5,932,618 |
| Gain on sale of securities | | 35,793 | - |
| Net gains on sale of other real estate | | 22,110 | 13,974 |
| Investment management fees | | 1,008,361 | 889,206 |
| Other | | 1,725,276 | 1,683,306 |
| Total other income | | 21,275,233 | 16,520,071 |
| Other expenses: | | | |
| Salaries and employee benefits | | 30,814,095 | 26,476,340 |
| Occupancy and equipment | | 3,158,150 | 3,052,662 |
| Federal deposit insurance assessment | | 717,876 | 299,092 |
| Loan expense | | 2,199,567 | 690,444 |
| Data processing | | 2,055,417 | 2,069,289 |
| Other | | 9,894,203 | 10,282,502 |
| Total other expenses | | 48,839,308 | 42,870,329 |
| Earnings before income taxes | | 15,594,957 | 18,212,236 |
| Income tax expense | | 3,438,834 | 4,180,530 |
| Net earnings | | 12,156,123 | 14,031,706 |
| Preferred stock dividends | | 920,107 | 1,111,500 |
| Net earnings available to common shareholders | $ | 11,236,016 | 12,920,206 |
| Net earnings per share: | | | |
| Basic | $ | 8.50 | 9.82 |
| Diluted | $ | 8.46 | 9.79 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019*

| | 2020 | 2019 |
|---|---|---|
| Net earnings | $ 12,156,123 | 14,031,706 |
| Other comprehensive income, net of income taxes: | | |
| Unrealized gains on investment securities available for sale: | | |
| Holding gains arising during period, net of tax expense of $899,961 and $1,288,324 in 2020 and 2019, respectively | 2,632,186 | 3,716,817 |
| Reclassification adjustment for realized gains included in earnings, net of tax expense $8,729 | 35,793 | - |
| Total other comprehensive income | 2,596,393 | 3,716,817 |
| Comprehensive income | $ 14,752,516 | 17,748,523 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019*

| | | Series A Preferred Stock | Series B Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2018 | $ | 11,750,000 | 600,000 | 1,320,488 | 9,836,015 | 77,459,901 | (3,169,942) | 97,796,462 |
| Preferred dividends | | - | - | - | - | (1,111,500) | - | (1,111,500) |
| Common dividends | | - | - | - | - | (1,979,732) | - | (1,979,732) |
| Exercise of warrants for 13,986 shares | | - | - | 13,986 | 580,350 | - | - | 594,336 |
| Common stock redeemed, 14,887 shares | | - | - | (14,887) | (1,012,316) | - | - | (1,027,203) |
| Other comprehensive income, net | | - | - | - | - | - | 3,716,817 | 3,716,817 |
| Net earnings | | - | - | - | - | 14,031,706 | - | 14,031,706 |
| Balance, December 31, 2019 | $ | 11,750,000 | 600,000 | 1,319,587 | 9,404,049 | 88,400,375 | 546,875 | 112,020,886 |
| Preferred dividends | | - | - | - | - | (920,107) | - | (920,107) |
| Common dividends | | - | - | - | - | (1,983,717) | - | (1,983,717) |
| Exercise of warrants for 2,898 shares | | - | - | 2,898 | 169,576 | - | - | 172,474 |
| Preferred stock redeemed, 12,350,000 shares | | (11,750,000) | (600,000) | - | - | - | - | (12,350,000) |
| Other comprehensive income, net | | - | - | - | - | - | 2,596,393 | 2,596,393 |
| Net earnings | | - | - | | | 12,156,123 | - | 12,156,123 |
| Balance, December 31, 2020 | $ | - | - | 1,322,485 | 9,573,625 | 97,652,674 | 3,143,268 | 111,692,052 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019*

| | | 2020 | 2019 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net earnings | $ | 12,156,123 | 14,031,706 |
| Adjustments to reconcile net earnings to net (used) cash provided by operating activities: | | | |
| Depreciation, amortization and accretion | | 3,780,330 | 2,657,405 |
| Amortization of intangible assets | | 86,952 | 86,952 |
| Provision for deferred income tax expense (benefit) | | (1,019,428) | 492,201 |
| Provision (recovery) of loan losses | | 4,100,000 | (250,000) |
| Gain on sale of securities | | (35,793) | - |
| Loss (gain) on sale of fixed assets | | - | 11,157 |
| Net loss (gain) on sales of other real estate | | 22,110 | (13,974) |
| Write down of other real estate owned | | 1,334,477 | - |
| Change in: | | | |
| Loans held for sale | | (34,499,740) | (8,132,257) |
| Accrued interest receivable and other assets | | (4,557,477) | (2,783,865) |
| Accrued interest payable and other liabilities | | 4,442,119 | 2,478,828 |
| Net cash (used) provided by operating activities | | (14,190,327) | 8,578,153 |
| Cash flows from investing activities: | | | |
| Maturities of certificates of deposit with other banks | | 1,960,000 | 8,085,000 |
| Proceeds from pay downs, calls and maturities of securities available for sale | | 67,392,928 | 35,880,618 |
| Proceeds from pay downs, calls and maturities of securities held to maturity | | 31,791,171 | 22,955,454 |
| Purchases of securities available for sale | | (228,574,228) | (28,758,321) |
| Purchases of securities held to maturity | | (94,019,887) | - |
| Proceeds from sale of securities available for sale | | 11,725,457 | - |
| Purchase of bank owned life insurance | | - | (451,995) |
| Purchases of other investments | | (469,400) | (487,400) |
| Net increase in loans | | (182,879,706) | (48,730,396) |
| Purchases of premises and equipment | | (3,622,842) | (1,890,158) |
| Proceeds from sale of other real estate | | 3,605,481 | 627,272 |
| Net cash used in investing activities | | (393,091,026) | (12,769,926) |
| Cash flows from financing activities: | | | |
| Net increase in deposits | | 408,495,897 | 24,676,553 |
| Redeem and retire preferred stock | | (12,350,000) | - |
| Redeem and retire common stock | | - | (1,027,203) |
| Proceeds from subordinated debt | | 24,000,000 | - |
| Debt issuance costs | | (674,372) | - |
| Proceeds from borrowings | | 10,000,000 | 9,500,000 |
| Exercise of warrants | | 172,474 | 594,336 |
| Cash dividends paid | | (2,903,824) | (3,091,232) |
| Net cash provided by financing activities | | 426,740,175 | 30,652,454 |
| Net change in cash and cash equivalents | | 19,458,822 | 26,460,681 |
| Cash and cash equivalents at beginning of year | | 104,077,152 | 77,616,471 |
| Cash and cash equivalents at end of year | $ | 123,535,974 | 104,077,152 |
| Supplemental schedule of non-cash financing and investing activities: | | | |
| Change in unrealized gain on securities available for sale, net of tax | $ | 2,596,393 | 3,716,817 |
| Loans transferred to other real estate | | 11,676,421 | 875,778 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | | 6,427,668 | 6,850,145 |
| Cash paid for income taxes | | 4,475,000 | 3,926,287 |

See accompanying notes to consolidated financial statements.

**(1) Summary of Significant Accounting Policies**

Basis of Presentation

The consolidated financial statements include the accounts of The Queensborough Company ("Queensborough") and its wholly owned subsidiary, Queensborough National Bank and Trust Company (the "Bank") (collectively the "Company"). The accounts of Queensborough National Bank and Trust Company include the accounts of the Bank and its wholly owned subsidiary, Queensborough Insurance Agency, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company's primary market is comprised of Jefferson, Bulloch, Burke, Candler, Chatham, Columbia, Effingham, Emanuel, Jenkins, McDuffie, Richmond, Screven, Washington and contiguous counties of east central and southeast Georgia. Queensborough National Bank and Trust has its home office in Louisville, Georgia with branch banks in Augusta, Evans, Garden City, Grovetown, Hephzibah, Martinez, Metter, Midville, Millen, Rincon, Sandersville, Savannah, Statesboro, Swainsboro, Sylvania, Thomson, Wadley, Waynesboro and Wrens, Georgia.

The Bank commenced business in 1902 upon receipt of its banking charter from the Office of the Comptroller of the Currency (the "OCC"). The Bank is primarily regulated by the OCC and undergoes periodic examinations by this regulatory agency. The Company is regulated by the Federal Reserve Bank and is also subject to periodic examinations. The Bank provides a full range of commercial and consumer banking services throughout its Georgia trade area.

The accounting principles followed by the Company, and the methods of applying these principles, conform with accounting principles generally accepted in the United States of America ("GAAP") and with general practices in the banking industry. In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from these estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of collateral dependent impaired loans, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans and valuation allowances associated with the realization of deferred tax assets which are based on future taxable income.

Cash and Cash Equivalents

Cash equivalents include due from banks, interest-bearing deposits with banks, time deposits with banks and federal funds sold. Generally, federal funds are sold for one to three day periods and interest-bearing deposits have maturities less than 90 days.

Certificates of Deposit with Other Banks

Certificates of deposit with other banks are certificates of deposits obtained from other financial institutions with maturities greater than 90 days.

Investment Securities

The Company may classify its securities in one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which the Company has the ability and intent to hold the securities until maturity. All other securities not included in trading or held to maturity are classified as available for sale. At December 31, 2020 and 2019, there were no trading securities.

**(1) Summary of Significant Accounting Policies, continued**

Investment Securities, continued

Available for sale securities are recorded at fair value. Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on securities available for sale are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer.

Management evaluates investment securities for other-than-temporary impairment on an annual basis. A decline in the market value of any investment below cost that is deemed other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income.

Premiums and discounts are amortized or accreted over the life of the related securities as adjustments to the yield. Realized gains and losses for securities classified as available for sale and held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Other Investments

Other investments include equity investments in the Federal Home Loan Bank ("FHLB"), the Federal Reserve Bank and other equity securities with no readily determinable market value. These investments are carried at cost, which approximates market value.

Loans, Interest Income and Allowance for Loan Losses

Loans are stated at principal amount outstanding, net of unearned interest and charge offs. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Payments on nonaccrual loans are generally recorded as reductions against the principal balance outstanding. When a borrower has demonstrated the capacity to service the debt for a reasonable period of time, management may elect to resume the accrual of interest on the loan.

A loan is considered impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price, or at the fair value of the collateral of the loan if the loan is collateral dependent. Impaired loans below the threshold for individual evaluation for impairment are reserved for using a general allocation. Interest income on accruing impaired loans is accrued according to the contractual terms of the loan agreement, while interest payments on nonaccrual impaired loans are applied to principal.

The allowance for loan losses is established through a provision for loan losses. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectable.

**(1) Summary of Significant Accounting Policies, continued**

Loans and Interest Income, continued

Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality and review of specific problem loans. In determining the adequacy of the allowance for loan losses, management estimates the probable losses in the existing portfolio through consideration of factors including, but not limited to, past loan loss experience, estimated losses in significant credits, current national and local economic conditions, including unemployment rates, and the ability and experience of lending management and collections personnel. The allowance is composed of general and specific allocations of the allowance for loan losses. General allocations are determined by applying loss percentages to segments of the portfolio. The loss percentages are based on each segment's most recent eight quarter historical loss experience and adjustment factors for conditions in the Company's internal and external environment. All loans considered to be impaired are evaluated on an individual basis. The combination of these results are compared quarterly to the recorded allowance for loan losses and material differences are adjusted by increasing or decreasing the provision for loan losses. Management uses an external loan reviewer to challenge and corroborate the loan grading system and provide additional analysis in determining the adequacy of the allowance for loan losses and the future provisions for estimated loan losses.

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgments different than those of management.

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

Loans Held for Sale and Mortgage Origination Fees

The Company originates mortgage loans on behalf of third parties. Such loans are originated pursuant to commitments from third parties to acquire the loans that are in place prior to extension of a commitment to make the loan. These loans are carried at the lower of aggregate cost or market value. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes, if any, in the valuation allowance are included in the determination of net earnings in the period in which the change occurs. As of December 31, 2020 and 2019, the Company has recorded no valuation allowance related to its mortgage loans held for sale as their cost approximates market value. The Company receives revenue from the charges and fees generated in making these loans to borrowers. Gains and losses from the sale of loans are determined using the specific identification method.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Significant additions and improvements are capitalized. Maintenance and repairs are charged to expense. The range of estimated useful lives for premises and equipment are:

| | |
|---|---|
| Buildings and improvement | 10-40 years |
| Furniture and fixtures | 5-30 years |

Goodwill and Core Deposit Intangible

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill is not amortized but tested for impairment on an annual basis, or more often, if events or circumstances indicate there may be an impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value, which is determined through initially a qualitative assessment, and following that a quantitative assessment if required.

**(1) Summary of Significant Accounting Policies, continued**

Goodwill and Core Deposit Intangible, continued

If the fair value of the reporting unit exceeds its carrying value, no further testing is required. If the carrying value exceeds the fair value, further analysis is required to determine whether an impairment charge must be recorded based upon the implied fair value of goodwill and, if so, the amount of such charge. The Company performs its Goodwill testing at least on an annual basis unless it's determined that conditions exists to indicate impairment.

For the Company's annual goodwill impairment evaluation, management bypassed the qualitative assessment for each respective reporting unit and performed Step 1 of the goodwill impairment test. Step 1 of the goodwill impairment test requires a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. Accordingly, management determined the fair value of the reporting unit and compared the fair value to the reporting unit's carrying amount. Management determined that the reporting unit's fair value exceeded its carrying amount and therefore goodwill was not impaired. No events occurred since the last annual goodwill impairment assessment as of December 31, 2020 that would necessitate an interim goodwill impairment assessment.

The core deposit intangible represents the value of the acquired core deposit base related to branch acquisitions. Core deposit intangibles are amortized over the estimated useful life of the deposit base, generally on a straight-line basis.

The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant revision of the remaining period of amortization. Core deposit intangible amortization expense is included in other noninterest expense.

Other Real Estate

Other real estate represents properties acquired through or in lieu of loan foreclosure and is initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate is charged to the allowance for loan losses. Write-downs for a decline in fair value less estimated costs to sell subsequent to acquisition are charged to earnings. Costs of improvements are capitalized, whereas costs relating to holding other real estate are expensed.

Cash Surrender Value of Life Insurance

Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the beneficiary of these policies. These contracts are reported at their cash surrender value and changes in the cash surrender value are included in other noninterest income.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, the recognition of future tax benefits, such as net operating loss and tax credit carryforwards, is required to the extent that the realization of such benefits is more likely than not to occur. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the assets and liabilities result in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies.

The Company currently evaluates income tax positions judged to be uncertain. GAAP requires that a loss contingency reserve be accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred, and the amount of such loss can be reasonably estimated.

**(1) Summary of Significant Accounting Policies, continued**

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") 805, Business Combinations. The Company recognizes the full fair value of the assets acquired and liabilities assumed and immediately expenses transaction costs. There is no separate recognition of the acquired allowance for loan losses on the acquirer's balance sheet, as credit-related factors are incorporated directly into the fair value of the net tangible and intangible assets acquired. If the amount of consideration exceeds the fair value of assets purchased less the fair value of liabilities assumed, goodwill is recorded. Alternatively, if the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid, a gain is recorded. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Results of operations of the acquired business are included in the statement of earnings from the effective date of the acquisition.

Purchased Loans

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date. When the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. The Company must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in expected cash flows result in a reversal of the provision for loan losses to the extent of prior provisions and an adjustment to accretable discount if no prior provisions have been made. This increase in accretable discount will have a positive impact on interest income. In addition, purchased loans without evidence of credit deterioration are also handled under this method.

Accumulated Other Comprehensive Income (Loss)

At December 31, 2020 and 2019, accumulated other comprehensive gain (loss) consisted of net unrealized gain (losses) on investment securities available for sale.

Net Earnings per Share

Net earnings per share is based on the weighted average number of common shares outstanding during the period, while the effects of potential common shares outstanding during the period are included in diluted earnings per share. The average market price during the year is used to compute equivalent shares.

**(1) Summary of Significant Accounting Policies, continued**

Net Earnings per Share, continued

The reconciliations of the amounts used in the computation of both "basic earnings per common share" and "diluted earnings per common share" for the years ended December 31, 2020 and 2019 are as follows

| For the year ended December 31, 2020 | | Net Earnings | Weighted Average Common Shares | Weighted Average Per Share Amount |
|---|---|---|---|---|
| Net earnings | $ | 12,156,123 | - | |
| Preferred stock dividends | | (920,107) | - | |
| Net earnings available to common shareholders for basic earnings per common share | | 11,236,016 | 1,321,216 | $8.50 |
| Effect of dilutive securities – warrants | | - | 6,710 | |
| Diluted earnings per common share | $ | 11,236,016 | 1,327,926 | $8.46 |
| **For the year ended December 31, 2019** | | | | |
| Net earnings | $ | 14,031,706 | | |
| Preferred stock dividends | | (1,111,500) | | |
| Net earnings available to common shareholders for basic earnings per common share | | 12,920,206 | 1,315,225 | $9.82 |
| Effect of dilutive securities – warrants | | - | 4,331 | |
| Diluted earnings per common share | $ | 12,920,206 | 1,319,556 | $9.82 |

Advertising Expenses

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of $1,112,997 and $1,236,662, were included in the Company's results of operations for 2020 and 2019, respectively.

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.

Revenue Recognition

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

**(1) Summary of Significant Accounting Policies, continued**

Revenue Recognition, continued

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Earnings was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. The Company's accounting policies did not change materially since the principles of revenue recognition from the Accounting Standards Update are largely consistent with existing guidance and current practices applied by our business.

Recently issued accounting pronouncements

The following is a summary of recent authoritative pronouncements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company expects to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. The Company has started an initial evaluation of our leasing contracts and activities. The Company has also started developing our methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments. The Company does not expect a material change to the timing of expense recognition, but is early in the implementation process and will continue to evaluate the impact. The Company is evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL) and leases. The new effective dates will be; CECL: fiscal years beginning after December 15, 2022 including interim periods within those fiscal years; Leases: fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company is currently in the process of evaluating the impact of adoption of this guidance on its financial statements.

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

In December 2019, the FASB issued guidance to simplify accounting for income taxes by removing specific technical exceptions that often produce information investors have a hard time understanding. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within annual reporting periods beginning after December 15, 2022. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

**(1) Summary of Significant Accounting Policies, continued**

Recently issued accounting pronouncements, continued

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the current expected credit losses (CECL) guidance issued in 2016. The amendments related to conforming amendments: For public business entities, the amendments are effective upon issuance of this final ASU. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020. Early application is permitted. The effective date of the amendments to ASU 2016-01 is for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All other entities should adopt the amendments in ASU 2016-13 during 2023. Early adoption will continue to be permitted. For entities that have not yet adopted the guidance in ASU 2016-13, the effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in ASU 2016-13. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2020, the FASB issued guidance to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2020, the FASB issued guidance to defer the effective dates for certain companies and organizations which have not yet applied the revenue recognition and leases guidance by one year. The new effective dates for entities that have not already adopted will be: Revenue Recognition: annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020; Leases: fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company implemented the guidance related to revenue recognition during the year ended December 31, 2019. No material changes were identified related to the timing or amount of revenue recognition. The Company does not expect the amendments related to leases to have a material effect on its financial statements.

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

Risks and uncertainties:

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

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

The 2019 novel coronavirus (COVID-19) has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates declined significantly. Such events also may adversely affect business and consumer confidence, generally, and the Company and its customers, and their respective suppliers, vendors and processors may be adversely affected. The full impact of COVID-19 is still uncertain and the effects of the COVID-19 outbreak may adversely affect the Company's financial condition and results of operations.

**(1) Summary of Significant Accounting Policies, continued**

Reclassifications

Certain captions and amounts in the 2019 consolidated financial statements were reclassified to conform with the 2020 presentation. These reclassifications had no effect on the results of operations or shareholders' equity.

**(2) Investment Securities**

Investment securities at December 31, 2020 and 2019 are as follows:

| **Securities Available for Sale**<br>December 31, 2020 | | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| State, county and municipals | $ | 10,358,497 | 219,773 | 16,662 | 10,561,608 |
| Mortgage-backed securities | | 280,179,081 | 4,335,606 | 324,806 | 284,189,881 |
| U. S. Government Agencies | | 14,162,810 | 22,866 | 3,990 | 14,181,686 |
| Trust preferred securities | | 300,000 | - | - | 300,000 |
| Total | $ | 305,000,388 | 4,578,245 | 345,458 | 309,233,175 |
| December 31, 2019 | | | | | |
| State, county and municipals | $ | 2,984,940 | 142,789 | - | 3,127,729 |
| Mortgage-backed securities | | 153,916,501 | 1,246,483 | 652,839 | 154,510,145 |
| Trust preferred securities | | 300,000 | - | - | 300,000 |
| Total | $ | 157,201,441 | 1,389,272 | 652,839 | 157,937,874 |

| **Securities Held to Maturity**<br>December 31, 2020 | | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| State, county and municipals | $ | 26,230,452 | 257,118 | 8,173 | 26,479,397 |
| Mortgage-backed securities | | 101,493,283 | 1,709,214 | 56,229 | 103,146,268 |
| U. S. Government Agencies | | 4,997,493 | - | 17,058 | 4,980,435 |
| Subordinated debentures | | 6,509,705 | - | 5,253 | 6,504,452 |
| Total | $ | 139,230,933 | 1,966,332 | 86,713 | 141,110,552 |
| December 31, 2019 | | | | | |
| Mortgage-backed securities | $ | 74,416,164 | 469,916 | 270,362 | 74,615,718 |
| State, county and municipals | | 3,415,883 | 44,325 | - | 3,460,208 |
| Total | $ | 77,832,047 | 514,241 | 270,362 | 78,075,926 |

**(2) Investment Securities, continued**

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

Details concerning investment securities with unrealized losses as of December 31, 2020 and 2019 are as follows:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2020 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| State, county and municipals | $ 7,530,972 | 24,836 | - | - | 7,530,972 | 24,836 |
| Mortgage-backed securities | 127,856,896 | 381,034 | - | - | 127,856,896 | 381,034 |
| U. S. Government Agencies | 9,976,445 | 21,048 | - | - | 9,976,445 | 21,048 |
| Subordinated debentures | 3,504,453 | 5,253 | - | - | 3,504,453 | 5,253 |
| | $ 148,868,766 | 432,171 | - | - | 148,868,766 | 432,171 |

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2019 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities | $ 18,196,936 | 157,742 | 63,767,816 | 765,459 | 81,964,752 | 923,201 |
| | $ 18,196,936 | 157,742 | 63,767,816 | 765,459 | 81,964,752 | 923,201 |

The market value of investment securities is based on quoted market values and is significantly affected by the interest rate environment. At December 31, 2020, six of 41 securities issued as state, county and municipal securities contained unrealized losses. At December 31, 2020, 25 of 189 securities issued as mortgage-backed securities contained unrealized losses. At December, 31, 2020, two of four securities issued as U.S. government agencies contained unrealized losses. At December 31, 2020, three of six securities issued as subordinated debentures contained unrealized losses. These unrealized losses are considered temporary because of acceptable investment grades on each security and the repayment sources of principal and interest are government backed. The Company has the intent and ability to hold all securities at an unrealized loss position for the foreseeable future and no declines are deemed to be other-than-temporary.

The amortized cost and estimated fair value of investment securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories in the following summary:

| | Investment Securities Held to Maturity | | Investment Securities Available for Sale | |
|---|---|---|---|---|
| Investment Securities with Maturities: | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within 1 year | $ 804,047 | 813,137 | - | - |
| 1 to 5 years | 2,324,677 | 2,384,768 | - | - |
| 5 to 10 years | 12,607,565 | 12,593,857 | 13,909,684 | 13,974,330 |
| Over 10 years | 22,001,361 | 22,172,522 | 10,911,623 | 11,068,964 |
| Mortgage-backed securities | 101,493,283 | 103,146,268 | 280,179,081 | 284,189,881 |
| | $ 139,230,933 | 141,110,552 | 305,000,388 | 309,233,175 |

(2) **Investment Securities, continued**

Proceeds from sales of securities available for sale for 2020 were $11,725,457. Gross gains of $70,958 along with gross losses of $35,165 were realized on those sales. No available for sale securities were sold in 2019.

Securities with market values of approximately $261,269,000 and $196,813,000 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits as required by law and for other purposes.

(3) **Loans and Allowance for Loan Losses**

Major classifications of loans at December 31, 2020 and 2019 are summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| Commercial, financial and agricultural | $ 218,945,557 | 107,100,122 |
| Real estate – construction | 102,633,270 | 68,539,870 |
| Real estate – commercial | 482,026,308 | 455,393,046 |
| Real estate – residential | 151,037,413 | 155,063,036 |
| Installment loans to individuals and others | 21,966,653 | 21,664,753 |
| Total loans | 976,609,201 | 807,760,827 |
| Less allowance for loan losses | 14,670,424 | 11,070,125 |
| | $ 961,938,777 | 796,690,702 |

The Company grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general trade area of Jefferson, Bulloch, Burke, Candler, Chatham, Columbia, Effingham, Emanuel, Jenkins, McDuffie, Richmond, Screven and Washington County, Georgia and contiguous counties of east central and southeast Georgia. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Portfolio segments utilized by the Company are identified above. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law which established the Paycheck Protection Program (PPP). Under the program, the Small Business Administration (SBA) will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for permitted purposes in accordance with the requirements of the program. These loans carry a fixed rate of 1.00% and a term of two or 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 received a processing fee ranging from 1% to 5% based on the size of the loan from the SBA. The fees are deferred and amortized over the life of the loans in accordance with ASC 310-20. The Company received approximately $6,043,000 of processing fees and has recognized approximately $3,445,000 during the year ended December 31, 2020. The Company provided $150,743,898 in funding to 1,776 customers through the PPP during 2020. Because these loans are 100% guaranteed by the SBA and did not undergo the Company's typical underwriting process, they are not graded and do not have an associated reserve. The SBA began accepting PPP forgiveness applications on August 10, 2020. Borrowers must submit the application within ten months of the completion of the covered period. Once the borrower has submitted the application, the Company has 60 days to review, issue a lender decision, and submit to the SBA. Once the application is submitted, the SBA has 90 days to review and remit the appropriate forgiveness amount to the Company plus any interest accrued through the date of the payment. As of December 31, 2020, the Company received $29,037,411 from the SBA for the forgiveness of 75 PPP loans.

**(3) Loans and Allowance for Loan Losses, continued**

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2020 and 2019:

| December 31, 2020 | | Commercial, financial and agricultural | Real estate-construction | Real estate-commercial | Real estate-residential | Installment loans to individuals and others | Total |
|---|---|---|---|---|---|---|---|
| Balance, beginning of year | $ | 2,344,437 | 219,354 | 6,920,931 | 1,030,709 | 554,694 | 11,070,125 |
| Provision | | (627,927) | 79,403 | 4,480,978 | (371,739) | 539,285 | 4,100,000 |
| Loans charged off | | (6,611) | - | (368,001) | (14,165) | (454,234) | (843,011) |
| Recoveries | | 74,030 | 11,230 | 37,217 | 196,973 | 23,860 | 343,310 |
| Balance, end of year | $ | 1,783,929 | 309,987 | 11,071,125 | 841,778 | 663,605 | 14,670,424 |
| Ending balance, individually evaluated for impairment | $ | 340,000 | - | 1,100,000 | - | - | 1,440,000 |
| Ending balance, collectively evaluated for impairment | $ | 1,443,929 | 309,987 | 9,971,125 | 841,778 | 663,605 | 13,230,424 |
| Loans: | | | | | | | |
| Individually evaluated for impairment | $ | 4,143,022 | - | 15,577,605 | 2,143,517 | - | 21,864,144 |
| Collectively evaluated for impairment | $ | 214,802,535 | 102,633,270 | 466,448,703 | 148,893,896 | 21,966,653 | 954,745,057 |
| **December 31, 2019** | | | | | | | |
| Balance, beginning of year | $ | 2,264,099 | 479,084 | 7,577,093 | 1,554,132 | 463,075 | 12,337,483 |
| Recovery | | 76,366 | (226,683) | (327,429) | (637,245) | 864,991 | (250,000) |
| Loans charged off | | (162,284) | (47,048) | (345,000) | (246,490) | (815,190) | (1,616,012) |
| Recoveries | | 166,256 | 14,001 | 16,267 | 360,312 | 41,818 | 598,654 |
| Balance, end of year | $ | 2,344,437 | 219,354 | 6,920,931 | 1,030,709 | 554,694 | 11,070,125 |
| Ending balance, individually evaluated for impairment | $ | 45,000 | - | 400,000 | - | - | 445,000 |
| Ending balance, collectively evaluated for impairment | $ | 2,299,437 | 219,354 | 6,520,931 | 1,030,709 | 554,694 | 10,625,125 |
| Loans: | | | | | | | |
| Individually evaluated for impairment | $ | 2,426,896 | - | 34,473,817 | 1,844,672 | - | 38,745,385 |
| Collectively evaluated for impairment | $ | 104,673,226 | 68,539,870 | 420,919,229 | 153,218,364 | 21,664,753 | 769,015,442 |

Management individually evaluates loans for impairment that are on nonaccrual status with a total relationship balance greater than $500,000. Additionally, all troubled debt restructurings are individually evaluated for impairment. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

**(3) Loans and Allowance for Loan Losses, continued**

The following tables present impaired loans as of December 31, 2020 and 2019:

| December 31, 2020 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans with related allowance: | | | | | |
| Commercial, financial and agricultural | $ 2,062,360 | 2,093,643 | 340,000 | 2,074,117 | - |
| Real estate-commercial | 5,526,481 | 6,156,796 | 1,100,000 | 5,648,539 | - |
| Impaired loans without related allowance: | | | | | |
| Commercial, financial and agricultural | 2,080,662 | 2,354,103 | - | 2,253,917 | 8,778 |
| Real estate-commercial | 10,051,124 | 10,822,214 | - | 10,083,600 | 304,216 |
| Real estate-residential | 2,143,517 | 2,893,556 | - | 2,049,684 | 27,249 |
| Total: | | | | | |
| Commercial, financial and agricultural | 4,143,022 | 4,447,746 | 340,000 | 4,328,034 | 8,778 |
| Real estate-commercial | 15,577,605 | 16,979,010 | 1,100,000 | 15,732,139 | 304,216 |
| Real estate-residential | 2,143,517 | 2,893,556 | - | 2,049,684 | 27,249 |
| | $ 21,864,144 | 24,320,312 | 1,440,000 | 22,109,857 | 340,243 |
| **December 31, 2019** | | | | | |
| Impaired loans with related allowance: | | | | | |
| Commercial, financial and agricultural | $ 1,050,208 | 1,075,197 | 45,000 | 1,087,659 | 62,189 |
| Real estate-commercial | 5,025,178 | 5,028,369 | 400,000 | 5,031,410 | - |
| Impaired loans without related allowance: | | | | | |
| Commercial, financial and agricultural | 1,376,688 | 1,615,883 | - | 1,460,462 | 7,487 |
| Real estate-commercial | 29,448,639 | 32,148,156 | - | 30,785,037 | 322,862 |
| Real estate-residential | 1,844,672 | 2,750,055 | - | 2,023,966 | 49,908 |
| Total: | | | | | |
| Commercial, financial and agricultural | 2,426,896 | 2,691,080 | 45,000 | 2,548,121 | 69,676 |
| Real estate-commercial | 34,473,817 | 37,176,525 | 400,000 | 35,816,447 | 322,862 |
| Real estate-residential | 1,844,672 | 2,750,055 | - | 2,023,966 | 49,908 |
| | $ 38,745,385 | 42,617,660 | 445,000 | 40,388,534 | 442,446 |

**(3) Loans and Allowance for Loan Losses, continued**

The following tables present the aging of the recorded investment in past due loans and nonaccrual loans as of December 31, 2020 and 2019 by class of loans:

| December 31, 2020 | 30–89 Days Past Due | > 90 Days Past Due | Total Past Due | Current | Total | Non-Accrual | Recorded Investment > 90 days and Accruing |
|---|---|---|---|---|---|---|---|
| Commercial, financial and agricultural | $ 341,021 | 4,865,971 | 5,206,992 | 213,738,565 | 218,945,557 | 4,029,769 | 2,082,941 |
| Real estate-construction | 512,799 | - | 512,799 | 102,120,471 | 102,633,270 | - | - |
| Real estate-commercial | 3,102,816 | 9,151,866 | 12,254,682 | 469,771,626 | 482,026,308 | 10,530,939 | 1,297,197 |
| Real estate-residential | 2,091,062 | 1,342,529 | 3,433,591 | 147,603,822 | 151,037,413 | 1,733,821 | 645,459 |
| Installment loans to individuals and others | 208,608 | 19,045 | 227,653 | 21,739,000 | 21,966,653 | - | 19,045 |
| | $ 6,256,306 | 15,379,411 | 21,635,717 | 954,973,484 | 976,609,201 | 16,294,529 | 4,044,642 |
| **December 31, 2019** | | | | | | | |
| Commercial, financial and agricultural | $ 1,277,862 | 3,629,367 | 4,907,229 | 102,192,893 | 107,100,122 | 1,431,462 | 2,498,928 |
| Real estate-construction | 2,335,272 | 1,477 | 2,336,749 | 66,203,121 | 68,539,870 | - | 1,477 |
| Real estate-commercial | 12,035,262 | 18,017,854 | 30,053,116 | 425,339,930 | 455,393,046 | 27,902,618 | 1,584,601 |
| Real estate-residential | 3,285,070 | 1,455,290 | 4,740,360 | 150,322,676 | 155,063,036 | 1,043,578 | 1,146,231 |
| Installment loans to individuals and others | 211,532 | 60,293 | 271,825 | 21,392,928 | 21,664,753 | - | 60,293 |
| | $ 19,144,998 | 23,164,281 | 42,309,279 | 765,451,548 | 807,760,827 | 30,377,658 | 5,291,530 |

Of the loans 90 days past due and accruing approximately $1,500,000 and $3,000,000, respectively for years ended 2020 and 2019 were 90% guaranteed by government entities.

The following table presents information on troubled debt restructurings that were modified during the year ended December 31, 2019, including the number of loan contracts restructured and the pre- and post-modification recorded investment. There were no troubled debt restructurings modifed in 2020. The troubled debt restructurings in 2019 resulted from extensions of maturity dates.

| During the year ended December 31, 2019 | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Real estate-commercial | 2 | $ 4,688,555 | 4,688,555 |

**(3) Loans and Allowance for Loan Losses, continued**

The tables below present information on troubled debt restructurings as of December 31, 2020 and 2019.

| December 31, 2020 | | Performing | Nonperforming |
|---|---|---|---|
| Commercial, financial and agricultural | $ | - | 906,698 |
| Real estate-commercial | | 4,257,896 | 439,901 |
| Real estate-residential | | 266,428 | 213,902 |
| | $ | 4,524,324 | 1,560,501 |
| **December 31, 2019** | | | |
| Commercial, financial and agricultural | $ | 906,698 | - |
| Real estate-commercial | | 430,659 | 4,779,085 |
| Real estate-residential | | - | 528,686 |
| | $ | 1,337,357 | 5,307,771 |

The Company has allocated approximately $45,000 of specific allowances to customers whose loan terms have been modified in a troubled debt restructuring as of December 31, 2020 and 2019. During 2020 and 2019, there were no troubled debt restructurings modified within the previous twelve months that subsequently defaulted. The Bank has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The Company categorizes loans 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 Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Company uses the following definitions for its risk ratings:

**Other Assets Especially Mentioned**

Weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

**Substandard**

Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts may be experiencing overdrafts. Immediate corrective action is necessary.

**Doubtful**

Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

**Loss**

Loans categorized as Loss have the same characteristics as Doubtful; however, probability of loss is certain. Loans classified as such are generally charged-off.

**(3) Loans and Allowance for Loan Losses, continued**

Loans not meeting the criteria above, and that are analyzed individually as part of the above described process, are considered to be pass rated loans. As of December 31, 2020 and 2019, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| December 31, 2020 | Pass | Special Mention | Substandard | Doubtful/ Loss | Total |
|---|---|---|---|---|---|
| Commercial, financial and agricultural | $ 214,951,190 | 151,715 | 3,842,652 | - | 218,945,557 |
| Real estate-construction | 102,633,270 | - | - | - | 102,633,270 |
| Real estate-commercial | 460,906,953 | 9,799,646 | 11,319,709 | - | 482,026,308 |
| Real estate-residential | 148,733,478 | 426,845 | 1,877,090 | - | 151,037,413 |
| Installment loans to individuals and others | 21,966,653 | - | - | - | 21,966,653 |
| | $ 949,191,544 | 10,378,206 | 17,039,451 | - | 976,609,201 |
| **December 31, 2019** | | | | | |
| Commercial, financial and agricultural | $ 104,195,465 | 787,831 | 2,116,826 | - | 107,100,122 |
| Real estate-construction | 68,539,870 | - | - | - | 68,539,870 |
| Real estate-commercial | 416,935,600 | 4,414,289 | 34,043,157 | - | 455,393,046 |
| Real estate-residential | 152,463,735 | 1,048,294 | 1,551,007 | - | 155,063,036 |
| Installment loans to individuals and others | 21,664,753 | - | - | - | 21,664,753 |
| | $ 763,799,423 | 6,250,414 | 37,710,990 | - | 807,760,827 |

Regulatory agencies, as set forth in the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (initially issued on March 22, 2020 and revised on April 7, 2020), have encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. This guidance allows banks to elect not to categorize loan modifications as troubled debt restructurings (TDRs) if the modifications are related to COVID-19 and executed on a loan that was not more than 30 days past due as of December 31, 2019. All short term loan modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered TDRs. Beginning in March 2020, the Company provided payment accommodations to customers, consisting of 60-day principal deferral to 413 customers, with an aggregate loan balance of approximately $141,000,000, during the year ending December 31, 2020. The principal deferments represented approximately 14% of the Bank's total loan portfolio as of December 31, 2020. Borrowers who were current prior to relief and not experiencing financial difficulty prior to COVID-19 were determined not to be considered TDRs. Of the 413 customers that received payment accommodations, there were 12 customers in deferral as of December 31, 2020.

**(4) Premises and Equipment**

Major classifications of premises and equipment are summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| Land | $ 9,863,635 | 8,714,044 |
| Buildings and improvements | 27,362,132 | 26,188,615 |
| Furniture and fixtures | 13,744,801 | 12,445,067 |
| | 50,970,568 | 47,347,726 |
| Less accumulated depreciation | 18,872,891 | 17,570,860 |
| | $ 32,097,677 | 29,776,866 |

Depreciation expense amounted to $1,302,031 and $1,247,002 in 2020 and 2019, respectively.

## (5) Goodwill and Core Deposit Intangible

The following table presents information about our intangible assets at December 31:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Indefinite lived intangible asset: | | | | |
| Goodwill | $ 3,388,930 | $ - | $ 3,388,930 | $ - |
| Finite lived intangible asset: | | | | |
| Core deposit intangibles | $ 608,290 | $ 440,626 | $ 608,290 | $ 353,674 |

Based on the core deposit intangibles as of December 31, 2020, the following table presents the expected aggregate amortization expense for each of the succeeding years ending December 31:

| | Amount |
|---|---|
| 2021 | $ 86,952 |
| 2022 | 80,712 |
| Total | $ 167,664 |

Amortization expense of $86,952 related to the core deposit intangibles was recognized in 2020 and 2019, respectively.

As of December 31, 2020 and 2019, goodwill totaled $3,388,930. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. As of December 31, 2020 and 2019, management determined that no impairment existed on the goodwill.

## (6) Deposits

Maturities of time deposits at December 31, 2020 are as follows:

| | |
|---|---|
| Year ending December 31, | |
| 2021 | $ 148,923,535 |
| 2022 | 36,952,863 |
| 2023 | 11,396,281 |
| 2024 | 9,475,967 |
| 2025 | 12,295,149 |
| Thereafter | 38,206 |
| | $ 219,082,001 |

Brokered deposits totaled $3,100,000 as of December 31, 2019. The Bank had no brokered deposits as of December 31, 2020.

**(7) Borrowings and Unused Lines of Credit**

The Company is a shareholder of the FHLB and as such has access to borrowings from the FHLB. As of December 31, 2020, loan advances from the FHLB with maturities from 2021 to 2022 totaled $20,000,000 and carried fixed interest rates in the range of 1.09% to 1.85%. At December 31, 2019, the Company had one outstanding loan advance in the amount of $10,000,000 maturing in 2021 with an interest rate of 1.85%. During 2020 the Company borrowed $10,000,000. During 2019 the Company borrowed $10,000,000 and repaid advances totaling $500,000 from the FHLB. The advances were collateralized by a blanket floating lien agreement on all unencumbered first mortgage residential and commercial real estate loans. Loans qualifying as collateral had a discounted value of approximately $47,000,000 at December 31, 2020.

The Company has federal funds accommodations of $44,000,000 at December 31, 2020 with other financial institutions where the Company may borrow funds on a short-term basis at the market rate in effect at the time of borrowing. There were no federal funds purchased outstanding as of December 31, 2020 or 2019.

On October 9, 2020, the Company entered into a subordinated debt agreement that totaled $24,000,000. The debt bears an interest rate at a fixed-to floating rate of 6.00% per annum payable semi-annually in arrears on April 15th and October 15th. The Company may not prepay the debt for five years after issuance and the debt matures on October 15, 2030. The subordinated debt has been structured to fully count as Tier 2 regulatory capital on a consolidated basis. The subordinated debt balance as of December 31, 2020 was $23,325,628.

Issuance costs associated with the debt are netted against the debt outstanding. The costs are being amortized over five years. The unamortized balance of issuance costs totaled $674,372 at December 31, 2020.

**(8) Junior Subordinated Debentures**

In February 2004 and May 2007, Queensborough formed wholly owned Delaware statutory business trusts, Queensborough Capital Trust II ("Trust II") and Queensborough Capital Trust III ("Trust III"), respectively (collectively, the "Trusts"). The Trusts each issued $6 million of guaranteed preferred beneficial interests in Queensborough's junior subordinated deferrable interest debentures that qualify as Tier I Capital under Federal Reserve Board guidelines. Queensborough owns all of the common securities of the Trusts. The debentures relating to Trust II pay interest at a floating rate, equal to three-month LIBOR plus 2.85%. The debentures relating to Trust III pay interest at a floating rate equal to three-month LIBOR plus 1.65%.

The proceeds received by the Company from the sale of the junior subordinated debentures were used to infuse capital into the Bank to improve its capital position and for other general corporate purposes. The debentures represent the sole asset of each of the Trusts. The Trusts are not included in these consolidated financial statements.

The trust preferred securities accrue and pay quarterly distributions based on the liquidation value of $50,000 per capital security at the respective floating or fixed interest rate, which at December 31, 2020 was 3.09% for Trust II and 1.87% for Trust III. The Company has guaranteed distributions and other payments due on the trust preferred securities to the extent the Trusts have funds with which to make the distributions and other payments. The net combined effect of all the documents entered into in connection with the trust preferred securities is that the Company is liable to make the distributions and other payments required on the trust preferred securities.

The trust preferred securities are mandatorily redeemable upon maturity of the debentures on April 7, 2034 for Trust II and June 15, 2037 for Trust III, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the debentures purchased by the Trusts, in whole or in part, at a redemption price equal to the principal amount and any accrued but unpaid interest.

**(9) Income Taxes**

The components of income tax expense in the consolidated statements of operations are as follows:

| | 2020 | 2019 |
|---|---|---|
| Current income tax expense | $ 4,458,262 | 3,688,352 |
| Deferred income tax expense (benefit) | (1,019,428) | 492,178 |
| Total income tax expense | $ 3,438,834 | 4,180,530 |

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate of 21% in 2020 and 2019, respectively, to earnings before income taxes are as follows:

| | 2020 | 2019 |
|---|---|---|
| Pretax income at statutory rate | $ 3,274,941 | 3,824,570 |
| Add (deduct): | | |
| Tax-exempt interest income | (146,406) | (150,511) |
| Non-deductible interest expense | 3,458 | 2,684 |
| State taxes and credits, net of federal benefit | 261,602 | 452,234 |
| Other | 45,239 | 51,553 |
| | $ 3,438,834 | 4,180,530 |

**(9) Income Taxes, continued**

The following summarizes the components of the net deferred tax asset. The deferred tax asset is included as a component of other assets at December 31, 2020 and 2019.

| | 2020 | 2019 |
|---|---|---|
| Deferred income tax assets: | | |
| Allowance for loan losses | $ 3,746,827 | 2,827,310 |
| Other than temporary impairment loss on securities available for sale | 48,526 | 48,526 |
| Stock benefit plan | 214,877 | 81,847 |
| Other real estate owned | 340,825 | - |
| Total gross deferred income tax assets | 4,351,055 | 2,957,683 |
| Deferred income tax liabilities: | | |
| Premises and equipment | (2,023,381) | (1,656,849) |
| Net unrealized gain on securities available for sale | (1,089,519) | (189,558) |
| Intangible asset | (383,390) | (375,978) |
| Total gross deferred income tax liabilities | (3,496,290) | (2,222,385) |
| Net deferred income tax asset | $ 854,765 | 735,298 |

**(10) Related Party Transactions**

The Company has entered into transactions with certain directors, executive officers and their affiliates. The following summary reflects related party loan activity during the years ended December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Beginning balance | $ 17,492,134 | 11,288,543 |
| New loans | 20,704,055 | 16,059,712 |
| Repayments | (28,424,376) | (9,856,121) |
| Ending balance | $ 9,771,813 | 17,492,134 |

The Company had deposits from related parties totaling approximately $17,704,000 and $14,608,000 as of December 31, 2020 and 2019, respectively.

The Bank leases office space from a company that has several common shareholders with the Company under an annual lease arrangement. Rent expense for 2020 and 2019, which is deemed to approximate the normal market rate, was approximately $88,000 for each year. The lease is renewed annually and is approved by the Board of Directors of the Company for each annual renewal.

**(11) Commitments**

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 include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

In most cases, the Company does require collateral to support financial instruments with credit risk.

| | Contractual Amount | |
|---|---|---|
| | 2020 | 2019 |
| Financial instruments whose contract amounts represent credit risk: | | |
| Commitments to extend credit | $ 217,864,000 | 196,297,000 |
| Standby letters of credit | $ 4,332,000 | 4,434,000 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit or personal property.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting these commitments for which collateral is deemed necessary.

**(12) Preferred Stock**

On January 9, 2009, the Company sold 12,000 shares of Series A preferred stock with a warrant to purchase 600 shares of the Company's Series B preferred stock (which was immediately exercised), to the U. S. Treasury under the Treasury's Capital Purchase Program. In March, 2013, the U. S. Treasury sold all of the Series A and Series B Preferred Stock to private investors.

The Series A preferred stock and the Series B preferred stock qualifies as Tier I capital and pay cumulative dividends at a rate of 9% per annum. Both series of the preferred stock are redeemable at any time at $1,000 per share plus any accrued and unpaid dividends with the consent of the Company's primary federal regulator.

During 2020, 11,750 shares of Series A preferred stock and 600 shares of Series B preferred stock were redeemed. During 2016, 250 shares of Series A preferred stock were redeemed. No shares of preferred stock remain as of December 31, 2020. No shares were redeemed in 2019.

**(13) Stock Options, Warrants, and Repurchase**

In 1998, the Company adopted The Queensborough Company Stock Incentive Plan, which provides that certain officers, key employees, directors and consultants of the Company may be granted stock options to purchase shares of common stock of the Company. The plan limits the total number of shares which may be awarded to 120,000. The options are granted at the market value of the shares on the date of grant, vest over four years and are exercisable within ten years of grant. At December 31, 2020, options for 107,700 shares remain available for future grants.

There were no options granted, forfeited or exercised in 2020 or 2019. As of December 31, 2020 and 2019, there were no stock options outstanding.

In 2011, the Company sold and issued 56,113 shares of common stock to certain directors, officers, and stockholders in its effort to raise capital. Along with the common shares sold and issued, the Company granted warrants for the purchase of the same amount of shares at 60% of book value determined at the time of exercise. During 2020, 1,498 warrants were exercised at a range of $45.32 to $48.56 per share. During 2019, 13,986 warrants were exercised at a range of $36.72 to $45.03 per share. As of December 31, 2020 and 2019, respectively, there were 11,488 and 12,986 warrants outstanding.

In 2017, the Company completed a private placement of its common stock. 62,830 shares were sold and issued at an average price of $55.64 per share for a total of $3,496,000. Along with the common shares there were two warrants issued for every ten shares purchased. The warrants allow the holder to purchase additional common shares of the Company at a price of $72.00 per share through February 1, 2027, at which date the warrants will expire if not exercised. A total of 12,566 warrants were issued. During 2020, 1,400 warrants were exercised at a price of $72.00. As of December 31, 2020, there were 11,166 warrants outstanding.

On March 20, 2019, the Company announced a stock repurchase program approved by its Board of Directors, whereby the Company will purchase and retire up to 14,950 shares of its common stock. Subsequently, the Company notified all common stockholders of its intent to repurchase up to 14,950 shares and prescribed the manner and method for shareholders to participate in the program. The Company repurchased 14,887 shares under the program at $69.00 per share for a total of $1,027,203 in 2019.

**(14) Benefit Plan**

The Company has a 401(k) profit sharing plan which is available to employees subject to certain age and service requirements. The plan covers substantially all employees and allows for employee pre-tax and post-tax contributions. Contributions to the plan by the Company are determined under a matching formula. The Company, at its discretion, may contribute additional amounts. For the years ended December 31, 2020 and 2019, contributions of $747,996 and $668,274, respectively, were expensed to salaries and employee benefits.

**(15) Fair Value of Financial Instruments**

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, impaired loans, real estate acquired in lieu of foreclosure and certain other assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

Investment Securities

Investment securities available for sale are recorded at fair value on a recurring basis. For securities available for sale as well as securities held to maturity, 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, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets and trust preferred securities.

**(15) Fair Value of Financial Instruments, continued**

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 a specific allocation is established within the allowance for loan losses. 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 agreement are considered impaired. Once a loan is identified as individually impaired, management measures the fair value of impaired loans in a relationship with a balance greater than $500,000 by using one of three methods, including collateral value, market value of similar debt and discounted cash flows. Impaired loan relationships below the threshold for individual evaluation for impairment are reserved for using general allocation. Those impaired loans individually evaluated not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investment in such loans. 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, the Company records the impaired loan as nonrecurring Level 2. When the fair value is based on an appraised value, the Company records the impaired loan as nonrecurring Level 3.

Loans Held for Sale

Loans held for sale, generally consisting of first-lien residential mortgages recently originated and intended for sale in the secondary market, are carried at the lower of cost or estimated fair value. The estimated fair value of loans held for sale is approximated by the carrying value, given the short-term nature of the loans and similarity to what secondary markets are currently offering for portfolios of loans with similar characteristics. The Company records loans held for sale as recurring Level 2.

Other Real Estate

Other real estate properties are adjusted to fair value upon transfer of the loans to other real estate. Subsequently, other real estate assets are carried at fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Company records the other real estate as nonrecurring Level 2. When the fair value is based on an appraised value or management's estimation of the value of the collateral, the Company records the other real estate asset as nonrecurring Level 3.

**(15) Fair Value of Financial Instruments, continued**

Assets Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2020 and 2019, respectively.

| Balance at December 31, 2020 | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| State, county and municipals | $ | - | 10,561,608 | - | 10,561,608 |
| Mortgage-backed securities | | - | 284,189,881 | - | 284,189,881 |
| U. S. Government agencies | | - | 14,181,686 | | 14,181,686 |
| Trust preferred securities | | - | - | 300,000 | 300,000 |
| Loans held for sale | | - | 47,754,467 | - | 47,754,467 |
| Total | $ | - | 356,687,642 | 300,000 | 356,987,642 |
| **Balance at December 31, 2019** | | | | | |
| State, county and municipals | $ | - | 3,127,729 | - | 3,127,729 |
| Mortgage-backed securities | | - | 154,510,145 | - | 154,510,145 |
| Trust preferred securities | | - | - | 300,000 | 300,000 |
| Loans held for sale | | - | 13,254,727 | - | 13,254,727 |
| Total | $ | - | 170,892,601 | 300,000 | 171,192,601 |

The following table presents the changes in Level 3 assets measured at fair value on a recurring basis during the years ended December 31:

| | | Trust Preferred Securities | |
|---|---|---|---|
| Level 3 Fair Value Measurements | | 2020 | 2019 |
| Balance at beginning of year | $ | 300,000 | 300,000 |
| (Sales)/purchases | | - | - |
| Net changes in gain/(loss) realized and unrealized | | - | - |
| Transfers out of Level 3 to other investments | | - | - |
| Balance at end of year | $ | 300,000 | 300,000 |

**(15) Fair Value of Financial Instruments, continued**

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of December 31, 2020 and 2019, respectively.

| Balance at December 31, 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Other real estate owned | $ - | - | 9,901,069 | 9,901,069 |
| Impaired loans, net | - | - | 20,424,144 | 20,424,144 |
| Total assets at fair value | $ - | - | 30,325,213 | 30,325,213 |
| **Balance at December 31, 2019** | | | | |
| Other real estate owned | $ - | - | 3,885,496 | 3,885,496 |
| Impaired loans, net | - | - | 38,300,385 | 38,300,385 |
| Total assets at fair value | $ - | - | 42,185,881 | 42,185,881 |

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2020 and December 31, 2019, the significant unobservable inputs used in the fair value measurements were as follows:

| | Fair Value as of December 31, 2020 | Valuation Technique | Significant Observable Inputs | Significant Unobservable Inputs |
|---|---|---|---|---|
| Impaired loans, net of specific reserve | $ 20,424,144 | Appraisal Value | Appraisals and/or sales of comparable properties | Appraisals discounted 15% to 20% for sales commissions and other holding cost |
| Other real estate owned | $ 9,901,069 | Appraisal Value/Comparison Sales/Other estimates | Appraisals and/or sales of comparable properties | Appraisals discounted 15% to 20% for sales commissions and other holding cost |

| | Fair Value as of December 31, 2019 | Valuation Technique | Significant Observable Inputs | Significant Unobservable Inputs |
|---|---|---|---|---|
| Impaired loans, net of specific reserve | $ 38,300,385 | Appraisal Value | Appraisals and/or sales of comparable properties | Appraisals discounted 15% to 20% for sales commissions and other holding cost |
| Other real estate owned | $ 3,885,496 | Appraisal Value/Comparison Sales/Other estimates | Appraisals and/or sales of comparable properties | Appraisals discounted 15% to 20% for sales commissions and other holding cost |

**(16) 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 action by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. These capital requirements were modified in 2013 with the Basel III capital rules, which establish a new comprehensive capital framework for U.S. banking organizations. The Company and the Bank became subject to the new rules on January 1, 2015, with a phase-in period for many new provisions. 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 for their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier I and total capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). It is management's opinion, as of December 31, 2019, that the Company and the Bank meet all applicable capital adequacy requirements.

The Basel III capital rule requires banking organizations to maintain a minimum CET1 ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0% to be considered "adequately capitalized." The Basel III capital rule also includes a capital conservation buffer requirement above the minimum risk-based capital ratio requirements that banking organizations must meet in order to avoid limitations on capital distributions (including dividends and repurchases of any Tier 1 capital instrument, including common and qualifying preferred stock) and certain discretionary incentive compensation payments. The multi-year phase-in of the capital conservation buffer requirement began on January 1, 2016, and, for 2017, banking organizations are required to maintain a CET1 capital ratio of at least 5.125%, a Tier 1 capital ratio of at least 6.625%, and a total capital ratio of at least 8.625% to avoid limitations on capital distributions and certain discretionary incentive compensation payments. When fully phased-in on January 1, 2019, banking organizations must maintain a CET1 capital ratio of at least 7.0%, a Tier 1 capital ratio of at least 8.5%, and a total capital ratio of at least 10.5% to avoid limitations on capital distributions and certain discretionary incentive compensation payments.

As of December 31, 2019, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or event since that notification which management believes have changed the bank's category.

**(16) Regulatory Matters, continued**

The Company's and the Bank's actual capital amounts and ratios are presented in the table below (dollars in thousands).

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2020: | | | | | | |
| Total Capital (to Risk-weighted Assets) | | | | | | |
| Consolidated | 154,206 | 15.15% | 81,451 | 8.00% | N/A | N/A |
| Bank | 148,614 | 14.61% | 81,395 | 8.00% | 101,744 | 10.00% |
| Tier I Capital (to Risk-weighted Assets) | | | | | | |
| Consolidated | 117,479 | 11.54% | 61,089 | 6.00% | N/A | N/A |
| Bank | 135,872 | 13.35% | 61,047 | 6.00% | 81,395 | 8.00% |
| Common Equity Tier 1 capital (to risk-weighted assets) | | | | | | |
| Consolidated | 105,479 | 10.36% | 45,816 | 4.50% | N/A | N/A |
| Bank | 135,872 | 13.35% | 45,785 | 4.50% | 66,134 | 6.50% |
| Tier I Leverage (to Average Assets) | | | | | | |
| Consolidated | 117,479 | 7.18% | 65,487 | 4.00% | N/A | N/A |
| Bank | 135,872 | 8.30% | 65,447 | 4.00% | 81,809 | 5.00% |
| As of December 31, 2019: | | | | | | |
| Total Capital (to Risk-weighted Assets) | | | | | | |
| Consolidated | 131,362 | 14.85% | 70,770 | 8.00% | N/A | N/A |
| Bank | 130,482 | 14.77% | 70,691 | 8.00% | 88,364 | 10.00% |
| Tier I Capital (to Risk-weighted Assets) | | | | | | |
| Consolidated | 120,304 | 13.60% | 53,077 | 6.00% | N/A | N/A |
| Bank | 119,436 | 13.52% | 53,018 | 6.00% | 70,691 | 8.00% |
| Common Equity Tier 1 capital (to risk-weighted assets) | | | | | | |
| Consolidated | 95,954 | 10.85% | 39,808 | 4.50% | N/A | N/A |
| Bank | 119,436 | 13.52% | 39,764 | 4.50% | 57,436 | 6.50% |
| Tier I Leverage (to Average Assets) | | | | | | |
| Consolidated | 120,304 | 9.82% | 48,986 | 4.00% | N/A | N/A |
| Bank | 119,436 | 9.76% | 48,946 | 4.00% | 61,182 | 5.00% |

Dividends paid by the Bank are the primary source of funds available to the Company. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. These restrictions are based on the level of regulatory classified assets, the prior years' net earnings and the ratio of equity capital to total assets.

**(17) Commitments and Contingencies**

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. At December 31, 2020, management, after consultation with legal counsel, is not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, would be material to the financial statements.

**(18) Subsequent Events**

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 19, 2021, the date the financial statements were available to be issued and one subsequent events occurred requiring disclosure.

**(19) The Queensborough Company (Parent Company Only) Financial Information**

**Balance Sheets**

**December 31, 2020 and 2019**

| | 2020 | 2019 |
|---|---|---|
| Assets | | |
| Cash | $ 6,547,264 | 2,529,802 |
| Investment in Bank | 141,568,447 | 122,635,429 |
| Other assets | 1,637,144 | 1,501,634 |
| Total assets | $ 149,752,855 | 126,666,865 |
| Liabilities and Shareholders' Equity | | |
| Other liabilities | $ 379,448 | 294,599 |
| Dividends payable | 1,983,727 | 1,979,380 |
| Senior subordinated debentures | 23,325,628 | - |
| Junior subordinated debentures | 12,372,000 | 12,372,000 |
| Total liabilities | 38,060,803 | 14,645,979 |
| Total shareholders' equity | 111,692,052 | 112,020,886 |
| Total liabilities and shareholders' equity | $ 149,752,855 | 126,666,865 |

## (19) The Queensborough Company (Parent Company Only) Financial Information, continued

### Statements of Earnings

### For the Years Ended December 31, 2020 and 2019

| | | 2020 | 2019 |
|---|---|---|---|
| Dividends from Bank | $ | 1,450,000 | 3,880,000 |
| Other income | | - | 250 |
| Total income | | 1,450,000 | 3,880,250 |
| Interest expense | | 737,400 | 575,785 |
| Other expense | | 106,215 | 114,040 |
| Total expenses | | 843,615 | 689,825 |
| Income before income tax benefit and equity in undistributed earnings of Bank | | 606,385 | 3,190,425 |
| Income tax benefit | | 213,113 | 172,909 |
| Income before equity in undistributed earnings of Bank | | 819,498 | 3,363,334 |
| Equity in undistributed earnings of Bank | | 11,336,625 | 10,668,372 |
| Net earnings | $ | 12,156,123 | 14,031,706 |

### Statements of Cash Flows

### For the Years Ended December 31, 2020 and 2019

| | | 2020 | 2019 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net earnings | $ | 12,156,123 | 14,031,706 |
| Adjustments to reconcile net earnings to net cash (used) provided by operating activities: | | | |
| Equity in earnings of Bank | | (16,336,625) | (10,668,372) |
| Change in other | | (46,313) | 622,989 |
| Net cash (used) provided by operating activities | | (4,226,815) | 3,986,323 |
| Cash flows from financing activities: | | | |
| Dividends paid | | (2,903,825) | (3,420,003) |
| Proceeds from subordinated debt | | 24,000,000 | - |
| Subordinated debt issuance costs | | (674,372) | - |
| Exercise of warrants | | 172,474 | - |
| Redemption of preferred stock | | (12,350,000) | - |
| Redemption and retirement of common stock | | - | (1,027,203) |
| Proceeds from sale of common stock | | - | 594,336 |
| Net cash provided (used) by financing activities | | 8,244,277 | (3,852,870) |
| Net change in cash | | 4,017,462 | 133,453 |
| Cash at beginning of year | | 2,529,802 | 2,396,349 |
| Cash at end of year | $ | 6,547,264 | 2,529,802 |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