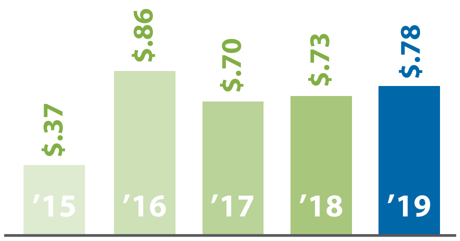
2019 ANNUAL REPORT

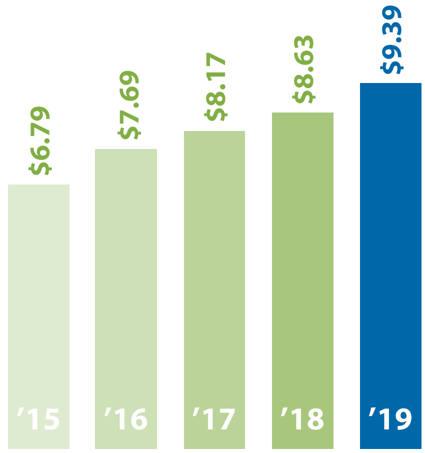
Ready. Set. GROW.

first Community Corporation

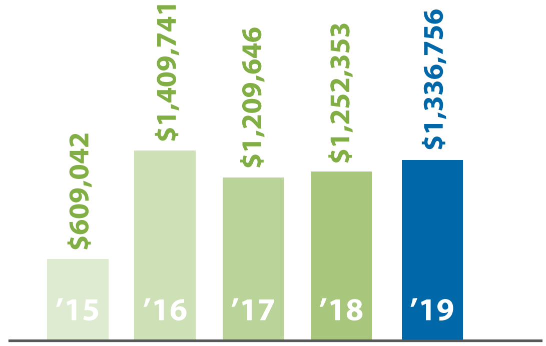
2019 FINANCIAL PERFORMANCE



EARNINGS
PER SHARE

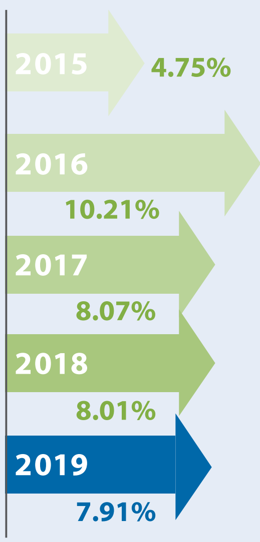


BOOK VALUE
PER SHARE

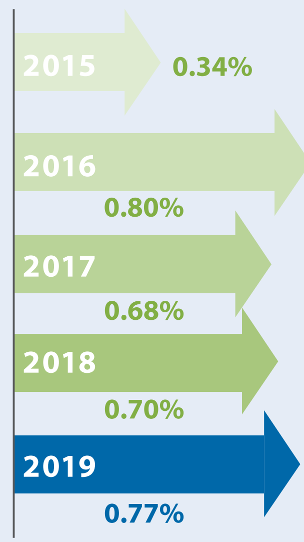


NET INCOME

RETURN ON AVERAGE EQUITY
(ROE)

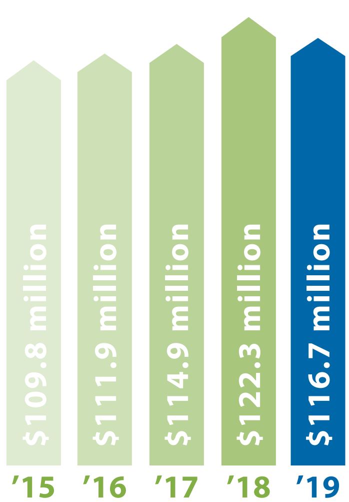


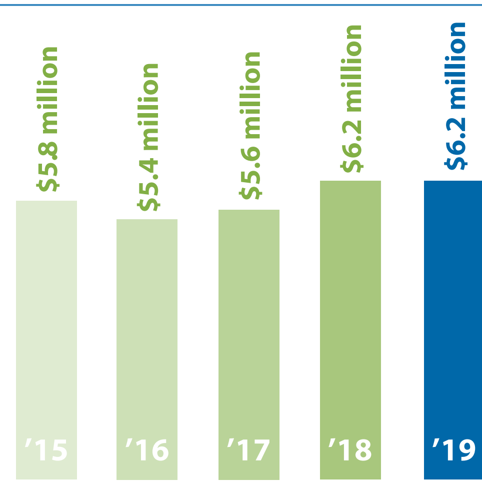
RETURN ON AVERAGE ASSETS
(ROA)



CORE DEPOSIT GROWTH

GROSS LOANS GROWTH





NET INTEREST INCOME

Dear Shareholder:

Ready. Set. Grow. We are proud to announce 2019 has been a year of superior growth for First Community Bank.

In 2019, the corporation earned $1,336,756, an increase of 6.7% over 2018. These earnings equated to $.78 in earnings per share vs. $0.73 in 2018. The book value per share was $9.39 at the end of 2019, an increase of 8.8% over year end 2018 when book value per share equaled $8.63.

We also increased our branch locations. In January 2019, we were able to bring banking back to Surgoinsville, Tenn. Our 290 Bellamy Avenue office in downtown Surgoinsville marks our fifth branch location in Hawkins County and seventh overall.

The community joined us for a ribbon cutting and grand opening celebration of the new full-service branch on Friday, April 5, 2019. The branch is growing steadily each month, and we are excited to see what 2020 brings for Surgoinsville.

We have more branches in Hawkins County than any other financial institution. Serving this region and growing our community remains a top priority of our senior management and board of directors.

In March 2019, we debuted mobile check deposit. This convenient feature of our mobile banking app makes it simple to securely deposit checks using your smartphone or tablet. Every deposit made is password protected and highly encrypted.

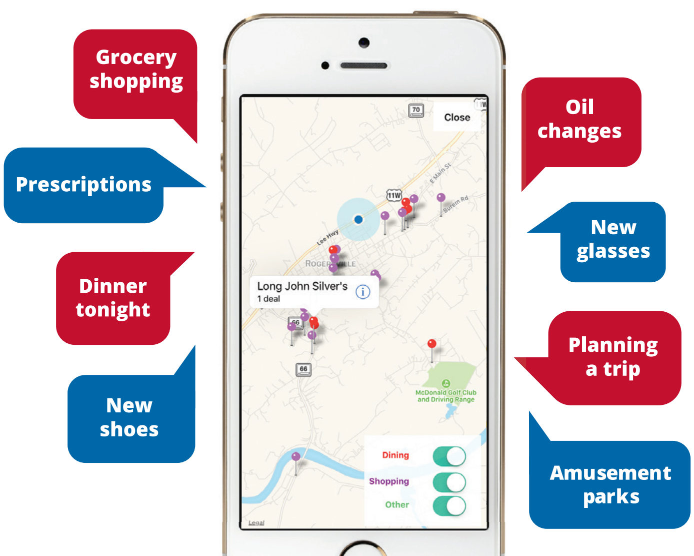
Mobile check deposit lets our customers deposit checks anywhere and anytime. It's the fastest, easiest way for our customers to make a deposit.

In September 2019, we announced upgrades to our Basic Checking account. We renamed the account Extra Checking, updated the qualifiers, and added new benefits including cell phone protection, personal theft benefit, and buyer's protection. We felt these changes would make this account more attractive to cost-conscious consumers as well as the millennial market.

EXTRA CHECKING

We also rolled out new upgrades to our EDGE Checking powered by Bazing account including more cell phone protection, increased roadside assistance coverage, and buyer's protection – all at no additional cost to our customers.

EDGE Checking powered by



Our Edge Checking powered by BaZing accounts offers an app with more than 400,000 discounts on dining, entertainment, shopping, travel, and more. Businesses in our area can offer their own customized deal on the BaZing app for free.

In late September, FCB branch managers along with our BaZing local representative visited area businesses in both the Hawkins County and Sullivan County markets to offer them this free advertising opportunity. Their joint effort resulted in more than 30 businesses signing up to offer our customers local discounts.

As we look towards 2020, we eagerly anticipate growth in even more areas of the bank with the goal of increasing value to our customers, our employees, and to you, our shareholders. Journalist Andy Rooney once said, "Everyone wants to live on top of the mountain, but all the happiness and growth occurs while you're climbing it."

We're thankful to have you on our side as we make the climb higher and higher each year. Together, we will reach the top. Thank you for your commitment to First Community Bank and to the Corporation.

Sincerely,

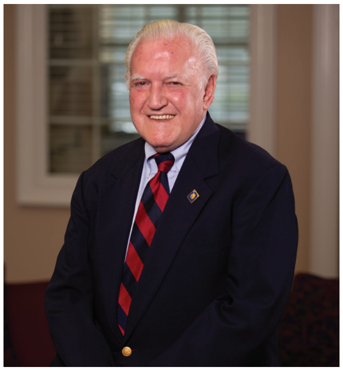
Tommy W. Young
Chairman of
First Community Corporation

Tyler K. Clinch
Chairman of
First Community Bank,
President & CEO

first Community Corporation

Board of Directors and Officers

BOARD OF DIRECTORS



Tommy W. Young
Chairman/Secretary
Vice Chair - Hawkins Co. Industrial Comm.
Commissioner & Sec. - Hawkins Co. Gas Utility
BOD - Wellmont Hawkins Co. Memorial Hosp.

Tyler K. Clinch
CEO & President
First Community Bank of East Tennessee

Steve L. Droke
Executive Vice President & Chief Lending Officer
First Community Bank of East Tennessee

Matthew W. Cleek
President and CEO of Intellithought, Inc.

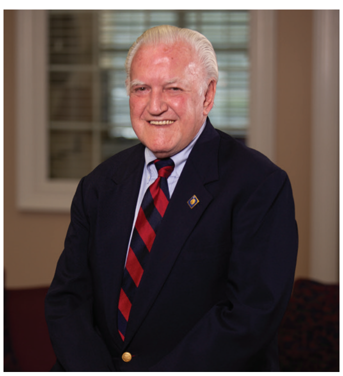
Dr. David R. Johnson
Staff Veterinarian

Sidney K. Lawson
President and CEO of Lawson Construction Company, Inc.

David L. Lunceford
Retired
VP, Board of Directors - Meals on Wheels of Kingsport

Kathy M. Richards
CPA and Business Coach

OFFICERS



Tommy W. Young
Chairman/Secretary
First Community Corporation

Tyler K. Clinch
President
First Community Corporation

James B. Maddox
Treasurer
First Community Corporation

PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Senior Management
First Community Corporation
Rogersville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Community Corporation and First Community Bank of East Tennessee which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Community Corporation and First Community Bank of East Tennessee as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 17, 2020

Member of AICPA

An independently owned member RSM US Alliance

RSM

TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

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FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED BALANCE SHEETS

As of December 31,	2019	2018
ASSETS		
Cash and Cash Equivalents:		
Cash and Due from Banks	$ 11,431,157	$ 12,672,212
Securities Available for Sale, at Fair Value	19,405,678	23,843,355
Loans, Net	115,142,135	120,507,546
Premises and Equipment, Net	4,462,780	4,399,529
Accrued Interest Receivable	383,459	425,659
Restricted Equity Investment, at Cost	1,810,800	1,810,800
Cash Surrender Value of Life Insurance	7,179,948	6,977,939
Foreclosed Real Estate	263,330	766,295
Deferred Income Tax Benefit	1,332,102	1,856,390
Other Assets	894,396	629,538
Total Assets	$ 162,305,785	$ 173,889,263
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 27,449,853	$ 27,014,450
Interest-bearing	105,256,257	113,016,566
Total Deposits	132,706,110	140,031,016
Securities Sold under Agreements to Repurchase	4,162,111	8,705,667
Federal Home Loan Bank Advances	781,234	832,154
Subordinated Debentures	5,217,000	6,217,000
Accrued Interest Payable	158,433	88,348
Other Liabilities	2,083,631	2,053,267
Total Liabilities	145,108,519	157,927,452
SHAREHOLDERS' EQUITY		
Preferred Stock Class A, $8.05 Par Value. Authorized 400,000 Shares; Issued 220,080; Outstanding 211,672 Shares in 2019 and 2018	1,776,474	1,776,474
Preferred Stock Class B, $8.05 Par Value. Authorized 200,000 Shares; Issued 30,071; Outstanding 29,846 Shares in 2019 and 2018	242,072	242,072
Common Stock, No Par Value. Authorized 10,000,000 Shares; Issued 1,679,244; Outstanding 1,630,812 Shares in 2019 and 2018	5,609,699	5,599,948
Treasury Stock, at Cost	(946,998)	(946,998)
Retained Earnings	10,422,780	9,557,499
Accumulated Other Comprehensive Income (Loss)	93,239	(267,184)
Total Shareholders' Equity	17,197,266	15,961,811
Total Liabilities and Shareholders' Equity	$ 162,305,785	$ 173,889,263

The accompanying notes are an integral part of these consolidated financial statements.

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2019	2018
INTEREST INCOME		
Loans, Including Fees	$ 6,116,022	$ 5,879,752
Securities		
Taxable	428,056	384,815
Non-taxable	47,101	63,322
Other	418,688	453,251
Total Interest Income	7,009,867	6,781,140
INTEREST EXPENSE		
Deposits	483,924	301,544
Federal Home Loan Bank Advances	41,608	44,179
Subordinated Debentures	233,551	256,861
Other	32,992	11,690
Total Interest Expense	792,075	614,274
NET INTEREST INCOME	6,217,792	6,166,866
PROVISION FOR LOAN LOSSES	320,000	0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,537,792	6,166,866
NONINTEREST INCOME		
Service Charges on Deposit Accounts	401,011	461,508
Net Gain (Loss) on Sales and Redemptions of Securities Available for Sale	0	1,105
Increase in Cash Surrender Value of Life Insurance	202,009	198,534
Other	453,833	361,467
Total Noninterest Income	1,056,853	1,022,614
NONINTEREST EXPENSE		
Salaries and Employee Benefits	3,420,608	3,285,036
Occupancy	539,130	542,241
Data Processing	430,914	418,521
Furniture and Equipment	190,473	193,385
Advertising and Public Relations	72,470	54,113
Professional Services	147,943	190,435
Foreclosed Real Estate, Net	(80,663)	95,692
Operating Supplies	75,397	55,580
Computer Software Depreciation	12,327	20,494
Software Maintenance	76,073	48,804
Telephone and Data Communications	104,577	89,258
Director and Committee Fees	129,301	108,540
FDIC and State Assessments	38,065	77,880
Cybersecurity	138,958	124,590
Other	569,670	526,640
Total Noninterest Expense	5,865,243	5,831,209
INCOME BEFORE INCOME TAXES	1,729,402	1,358,271
INCOME TAX (EXPENSE) BENEFIT	(392,646)	(105,918)
NET INCOME	$ 1,336,756	$ 1,252,353
EARNINGS PER COMMON SHARE	$ 0.78	$ 0.73
EARNINGS PER COMMON SHARE, ASSUMING DILUTION	$ 0.71	$ 0.67

The accompanying notes are an integral part of these consolidated financial statements.

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,	2019	2018
NET INCOME	$ 1,336,756	$ 1,252,353
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Investment Securities Available for Sale	487,981	(34,261)
Reclassification Adjustment for Realized Gains Included in Net Income (Loss) Above	0	(1,105)
Other Comprehensive Income (Loss) Before Income Taxes	487,981	(35,366)
Income (Taxes) Benefit Related to Items of Other Comprehensive Income	(127,558)	9,261
Other Comprehensive Income (Loss), Net of Income Taxes	360,423	(26,105)
COMPREHENSIVE INCOME	$ 1,697,179	$ 1,226,248

The accompanying notes are an integral part of these consolidated financial statements.

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2019 and 2018

	Preferred Stock A	Preferred Stock B	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCES, JANUARY 1, 2018	$ 1,776,474	$ 242,072	$ 5,599,948	$ (946,998)	$ 8,736,950	$ (201,408)	$ 15,207,038
Preferred Stock Dividends Paid	0	0	0	0	(63,772)	0	(63,772)
Common Stock Dividends Paid	0	0	0	0	(407,703)	0	(407,703)
Net Income	0	0	0	0	1,252,353	0	1,252,353
Other Comprehensive Income (Loss)	0	0	0	0	0	(26,105)	(26,105)
Reclassification of Income Tax Effects of the Tax Cuts and Jobs Act	0	0	0	0	39,671	(39,671)	0
BALANCES, DECEMBER 31, 2018	1,776,474	242,072	5,599,948	(946,998)	9,557,499	(267,184)	15,961,811
Preferred Stock Dividends Paid	0	0	0	0	(63,772)	0	(63,772)
Common Stock Dividends Paid	0	0	0	0	(407,703)	0	(407,703)
Net Income	0	0	0	0	1,336,756	0	1,336,756
Other Comprehensive Income (Loss)	0	0	0	0	0	360,423	360,423
Stock-Based Compensation	0	0	9,751	0	0	0	9,751
BALANCES, DECEMBER 31, 2019	$ 1,776,474	$ 242,072	$ 5,609,699	$ (946,998)	$ 10,422,780	$ 93,239	$ 17,197,266

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2019	2018
Cash Flows from Operating Activities:		
Net Income (Loss)	$ 1,336,756	$ 1,252,353
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	224,909	244,315
Net Amortization of Securities	53,913	97,975
Provision for Loan Losses	(320,000)	0
Stock-Based Compensation	9,751	0
(Gain) Loss of Sales of Foreclosed Real Estate	(189,244)	(32,082)
Write-downs of Foreclosed Real Estate	65,227	82,460
Deferred Income Taxes (Benefit)	396,730	138,304
Gain (Loss) on Sales and Redemptions of Securities Available for Sale	0	(1,105)
(Increase) Decrease in Cash Surrender Value of Company Owned Life Insurance	(202,009)	(198,534)
Change in Accrued Interest Receivable and Other Assets	34,132	(149,464)
Change in Accrued Interest Payable and Other Liabilities	100,449	210,702
Net Cash Provided by (Used in) Operating Activities	1,510,614	1,644,924
Cash Flows from Investing Activities:		
Purchases of Securities Available for Sale	(1,000,000)	(5,966,642)
Proceeds from Maturities, Redemptions, and Paydowns of Securities Available for Sale	5,871,745	6,079,293
Net (Increase) Decrease in Loans	5,360,553	(8,022,367)
Proceeds from Sales of Foreclosed Real Estate	796,592	326,706
Capital Improvements to Foreclosed Real Estate	(101,542)	(211,362)
Purchases of Premises and Equipment	(288,160)	(331,759)
Net Cash Provided by (Used in) Investing Activities	10,639,188	(8,126,131)
Cash Flows from Financing Activities:		
Cash Dividends Paid on Preferred Stock	(63,772)	(63,772)
Cash Dividends Paid on Common Stock	(407,703)	(407,703)
Repayments of FHLB Advances	(50,920)	(48,361)
Repayment of Subordinated Debentures	(1,000,000)	(1,000,000)
Change in Checking, Savings and Money Market Accounts	(8,102,014)	4,522,601
Increase (Decrease) in Time Deposits	777,108	(4,171,725)
Change in Securities Sold under Agreements to Repurchase	(4,543,556)	2,600,682
Net Cash Provided by (Used in) Financing Activities	(13,390,857)	1,431,722
Net Change in Cash and Cash Equivalents	(1,241,055)	(5,049,485)
Cash and Cash Equivalents at Beginning of Period	12,672,212	17,721,697
Cash and Cash Equivalents at End of Period	$ 11,431,157	$ 12,672,212
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	$ 721,990	$ 587,040
Income Taxes	5,156	1,287
Supplemental Noncash Disclosures:		
Transfers from Loans to Foreclosed Real Estate and Repossessed Assets	$ 392,858	$ 589,989
Sales of Foreclosed Real Estate by Origination of Loans	68,000	0
Change in Unrealized Gains/Losses on Securities Available for Sale	487,981	(35,366)
Change in Deferred Income Taxes Associated with Unrealized Gains/Losses on Securities Available for Sale	127,558	(9,261)
Change in Unrealized Gains/Losses on Securities Available for Sale, Net of Deferred Income Taxes	360,423	(26,105)

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: First Community Corporation (the Holding Company), through its wholly owned subsidiary, First Community Bank of East Tennessee (the Bank), provides a variety of banking services to individuals and businesses from its banking offices in Rogersville, Church Hill, Surgoinsville and Kingsport, Tennessee. Its primary deposit products are demand and savings deposits and certificates of deposit, and its primary lending products are commercial, residential real estate and consumer loans. The accounting principles followed and the methods of applying those principles conform with accounting principles generally accepted in the United States of America (GAAP) and to general practices in the banking industry. The significant policies are summarized as follows:

Basis of Presentation: The accompanying consolidated financial statements include the accounts of First Community Corporation, a one-bank holding company and its wholly-owned subsidiary, First Community Bank of East Tennessee, together referred to as “the Company”. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: To prepare consolidated financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, fair values of financial instruments, the valuation of real estate acquired through foreclosures, and deferred compensation related to retirement plan liabilities are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for loan, deposit and securities sold under agreements to repurchase transactions.

Cash and Due from Banks: Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve and other banks. Cash on hand or on deposit with correspondent banks of $1,580,000 and $1,765,000 was required to meet regulatory reserve and clearing requirements at December 31, 2019 and 2018, respectively. These balances do not earn interest. The Bank also maintains cash deposits with the Federal Reserve Bank, which totaled approximately $7,212,000 and $6,928,000 as of December 31, 2019 and 2018, respectively, and with the Federal Home Loan Bank of Cincinnati, which totaled approximately $182,000 and $190,000 as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, balances in correspondent bank accounts in excess of FDIC insurance limits totaled approximately $92,000 and $2,015,000, respectively.

Investment Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss).

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not considered temporary (see Note 2).

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the Company’s ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in the fair value (see Note 2).

Restricted Equity Investment: The Company’s restricted equity investment represents a required investment in the Federal Home Loan Bank (FHLB) of Cincinnati, which is pledged as collateral for FHLB advances (see Note.12). This investment is carried at cost and evaluated for impairment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of an estimated allowance for loan losses.

Interest income is reported on the simple interest accrual method. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to the accrual basis. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Estimated Allowance for Loan Losses: The estimated allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other trends and conditions. The entire estimated allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the estimated allowance when management believes the uncollectibility of a loan balance is confirmed.

A general reserve is established that evaluates unimpaired loans by category. Each loan within a group has similar risk characteristics. When estimating credit losses on each group of loans, management considers the Company's historical loss experience on the group, adjusted for changes in trends, conditions, and other relevant factors that affect repayment of the loans as of the evaluation date. These loans are collectively evaluated for estimated credit losses.

Another component of the ALLL is an allocated reserve on individually evaluated loans, as judgmentally determined by management to be impaired. A loan is considered impaired when based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. If a loan is impaired, an allocated allowance is established so that the loan is reported at the net present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation is computed principally on the straight-line method over the estimated useful lives of the assets, which range as follows: building-40 years, equipment-3 to 15 years. Computer software is amortized using the straight-line method over the useful life of the asset and ranges from 3 to 10 years.

Foreclosed Real Estate: Real estate acquired through or instead of loan foreclosure is initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition that do not increase the property's value are expensed. The Company's current average holding period for such properties is approximately 70 months.

Cash Surrender Value of Life Insurance: The Company has purchased life insurance policies on certain key executives and bank officers. Company owned life insurance is recorded at its net cash surrender value, or the amount that can be realized if surrendered.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities Sold Under Agreements to Repurchase: Repurchase agreements are treated as financing transactions and are carried at the amounts at which the securities will be subsequently reacquired, as specified in the respective agreements. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Stock-Based Compensation: Compensation cost is recognized for stock options issued to employees and directors. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option awards. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Earnings Per Common Share: Basic earnings per common share is net income less preferred stock dividends divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the effect of all dilutive potential common shares that were outstanding during the period. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the consolidated financial statements. See Note 17.

Advertising and Public Relations: Advertising and public relations costs are expensed as incurred.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates.

Employee Benefits: The Company maintains a 401(k) profit-sharing plan that covers substantially all employees. The Company matches a portion of the employee’s contribution and records the expense in the period the employee contribution is withheld. The Company has a non-qualified deferred compensation arrangement with certain current and former officers. A contribution may be made or accrued each year based on future benefits to be paid under the arrangement, at the discretion of the Board of Directors if certain financial goals are met.

Consolidated Statement of Comprehensive Income: The objective of this statement is to report a measure of all changes in equity of an enterprise that results from transactions and other economic events of the period other than transactions with owners. Items included in comprehensive income include revenues, gains and losses that under generally accepted accounting principles are directly charged to equity. Examples include foreign currency translations, pension liability adjustments and unrealized gains and losses on investment securities available for sale. The Company has included its comprehensive income in a separate financial statement as part of its consolidated financial statements.

Off-Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards: During 2019, the Company adopted FASB's Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* and all subsequent amendments to the ASU (collectively, "ASC 842"). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company adopted ASC 842 on January 1, 2019 using the modified retrospective approach to each prior period presented, with application as of the beginning of the earliest period presented, January 1, 2018. The adoption of ASC 842 did not result in a change to the Company's lease expense recognition; as such, no cumulative effect adjustment was recorded. However, the adoption of ASC 842 required the Company to recognize right-of-use assets and lease liabilities totaling $189,172 as of January 1, 2018.

All of the Company's leases are classified as operating leases. Right-of-use assets and lease liabilities are recorded based on the present value of future lease payments, and lease expense is recognized on a straight-line basis over the lives of the leases. As of December 31, 2019 and 2018, the net right-of-use asset and corresponding lease liability totaled $92,415 and $125,758, respectively, and are included on the balance sheet in other assets and other liabilities. Rental expense was $40,085 and $39,395 for the years ended December 31, 2019 and 2018, respectively.

On January 1, 2019, the Company adopted ASU 2017-08, *Receivables–Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* which shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The adoption of this guidance did not result in a material impact on the consolidated financial statements.

Recent Accounting Pronouncements: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The FASB has also since issued several updates to ASU 2016-13. The ASU requires financial assets measured at amortized cost (including loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of ASU 2018-13 is not expected to have a material impact on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for the Company beginning on January 1, 2022. The adoption of ASU 2019-12 is not expected to have a significant impact on the Company's consolidated financial statements.

Evaluation of Subsequent Events: The Company's management has evaluated subsequent events through March 17, 2020, which is the date the financial statements were available to be issued. See subsequent event Note 23.

NOTE 2 - SECURITIES

The fair values of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Securities	$ 1,993,560	$ 48,957	$ (97)	$ 2,042,420
Small Business Admin. Securities	1,830,437	5,563	(21,062)	1,814,938
U.S. Government Agency Securities	8,995,509	105,741	(4,830)	9,096,420
Residential Mortgage-backed Securities	4,085,129	45,965	(64,381)	4,066,713
Tax-Exempt Municipal Securities	2,374,805	10,727	(345)	2,385,187
Total	$ 19,279,440	$ 216,953	$ (90,715)	$ 19,405,678
2018				
U.S. Treasury Securities	$ 1,990,556	$ 17,011	$ (12,217)	$ 1,995,350
Small Business Admin. Securities	2,344,245	6,061	(58,843)	2,291,463
U.S. Government Agency Securities	10,994,666	19,644	(144,105)	10,870,205
Residential Mortgage-backed Securities	5,306,718	19,285	(165,132)	5,160,871
Tax-Exempt Municipal Securities	3,568,913	0	(43,447)	3,525,466
Total	$ 24,205,098	$ 62,001	$ (423,744)	$ 23,843,355

The amortized cost and fair value of securities at December 31, 2019, by contractual maturity is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due through One Year	$ 3,721,967	$ 3,718,516
Due after One through Five Years	8,040,516	8,196,619
Due after Five through Ten Years	1,601,391	1,608,892
Residential Mortgage-backed and SBA Securities	5,915,566	5,881,651
Total	$ 19,279,440	$ 19,405,678

For purposes of the above maturity table, mortgage-backed securities and Small Business Administration securities, which are not due at a single maturity date, are presented on a separate line item.

Proceeds from sales of investment securities available for sale were $0 during the years ended December 31, 2019 and 2018. The Company recognized no gross gains or losses from the sales of investment securities in either year.

Securities pledged to secure public deposits and repurchase agreements at December 31, 2019 and 2018 had a carrying amount of approximately $19,406,000 and $23,843,000, respectively.

NOTE 2 - SECURITIES (Continued)

The following table shows securities with unrealized losses and their fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018:

	Less than 12 Months		12 Months or More		Total	
2019	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury Securities	$ 0	$ 0	$ 999,840	$ (97)	$ 999,840	$ (97)
Small Business Admin. Securities	1,203,230	(21,062)	0	0	1,203,230	(21,062)
U.S. Government Agency Securities	999,870	(130)	1,995,300	(4,700)	2,995,170	(4,830)
Residential Mortgage-backed Securities	169,346	(1,405)	1,669,391	(62,976)	1,838,737	(64,381)
Tax-Exempt Municipal Securities	150,579	(11)	325,254	(334)	475,833	(345)
Total	$ 2,523,025	$ (22,608)	$ 4,989,785	$ (68,107)	$ 7,512,810	$ (90,715)
2018						
U.S. Treasury Securities	0	$ 0	$ 986,290	$ (12,217)	$ 986,290	$ (12,217)
Small Business Admin. Securities	$ 18,637	(122)	1,324,733	(58,721)	1,343,370	(58,843)
U.S. Government Agency Securities	0	0	5,855,895	(144,105)	5,855,895	(144,105)
Residential Mortgage-backed Securities	0	0	3,133,905	(165,132)	3,133,905	(165,132)
Tax-Exempt Municipal Securities	1,388,065	(7,796)	2,137,401	(35,651)	3,525,466	(43,447)
Total	$ 1,406,702	$ (7,918)	$ 13,438,224	$ (415,826)	$ 14,844,926	$ (423,744)

Unrealized losses on securities have not been recognized into income because the issuer(s) securities are of higher credit quality (rated A3 or higher), management has the intent and ability to hold them for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market rates change.

At December 31, 2019, the 17 investment securities in an unrealized loss position have depreciated approximately 1% from the Company's amortized cost basis. This unrealized loss relates principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

NOTE 3 - LOANS

A summary of loans outstanding by category at December 31, 2019 and 2018 follows:

	2019	2018
Secured by Real Estate:		
Commercial - Owner-Occupied	$ 16,687,632	$ 21,393,917
Commercial - Other	24,548,237	29,749,289
Construction, Land Development and Vacant Land	11,196,606	10,991,159
Residential Properties	41,727,816	38,845,088
Commercial, Financial and Agricultural	18,578,125	16,149,111
Consumer	3,955,730	5,175,843
	116,694,146	122,304,407
Less: Allowance for Loan and Lease Losses	(1,552,011)	(1,796,861)
Loans, Net	$ 115,142,135	$ 120,507,546

NOTE 4 - LOAN QUALITY

Management performs a quarterly evaluation of the adequacy of the allowance for loan and lease losses (ALLL). Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, the adequacy of the underlying collateral (if collateral dependent) and other relevant factors. It is management's general practice to obtain a new appraisal or asset valuation for any loan that it has rated as substandard or lower, including loans on nonaccrual of interest. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on other factors including, but not limited to, the economy, maintenance and general condition of the collateral, industry, type of property/equipment/vehicle, and the knowledge management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated when determining the realizable value to the Company.

Certain factors involved in the evaluation are inherently subjective, as they require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

For financial statement presentation, the Company segregates its loan portfolio into the following segments based primarily on the type of supporting collateral: commercial – owner-occupied; commercial – other; construction; residential; commercial, financial and agricultural; and consumer loans. The construction and land development segment contains loans to individuals to construct their own homes as well as loans to contractors and developers to construct homes or buildings for resale or develop residential or commercial real estate. This segment has its own unique risk characteristics including the need to periodically inspect the property during construction to ensure the funds disbursed are used properly and the real estate held for collateral maintains its value in relation to the amount owed on it. The construction and land development segment also has risk characteristics related to the probability of eventual sale of the finished project or the ability to generate sufficient rental income to service the debt. The residential real estate segment is segregated from the commercial real estate segment due to the obvious differences in inherent risks in each of these types of properties and borrower types. Consumer loans have risk characteristics including the volatility of the collateral’s value and the inherent risk of loaning on collateral that is mobile and subject to damage without proper insurance coverage.

The analysis for determining the ALLL is consistent with guidance set forth in generally accepted accounting principles (GAAP) and the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The analysis has two components: specific and general allocations. The specific component addresses specific reserves established for loans that were individually evaluated and deemed to be impaired. For these impairment evaluations, the Company assesses loan relationships with balances exceeding $100,000 that show signs of possible impairment based on the payment status, internal risk ratings, or other credit quality factors. A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement.

Expected cash flow or collateral values discounted for market conditions and selling costs are used to establish specific allocations. Loans measured for the ALLL under the specific allocation method normally tend to be impaired construction, real estate, vehicle or unsecured loans.

The general component addresses the reserves established for pools of homogenous loans, including primarily non-classified loans. The general component includes a quantitative and qualitative analysis. The quantitative analysis includes the Company's historical loan loss experience (weighted towards most recent periods) and other factors derived from economic and market conditions that have been determined to have an effect on the probability and magnitude of a loss. The qualitative analysis utilizes factors such as: loan volume, loan collateral, management characteristics, levels of nonperforming loans, results of the loan review process, specific credit concentrations, and legal and regulatory issues. Input for these factors is determined on the basis of management's observation, judgment and experience. As a result of this input, additional loss percentages can be assigned to each pool of loans.

NOTE 4 - LOAN QUALITY (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Cash payments received on impaired loans on which the accrual of interest has been discontinued are applied to principal until the loans are returned to accrual status.

The following table presents, by loan segment, the ALLL and changes to the ALLL for the years ended December 31, 2019 and 2018 with the ALLL allocated based on the segment loan volumes:

	Secured by Real Estate							
	Commercial - Owner-Occupied	Commercial - Other	Construction, Land Dev. and Vacant Land	Residential Properties	Commercial, Financial and Agricultural	Consumer	Unallocated	Total
Allowance at December 31, 2017	$ 202,827	$ 362,672	$ 507,294	$ 367,566	$ 209,669	$ 54,154	$ 165,087	$ 1,869,269
Provision	(27,363)	(93,316)	(46,076)	6,010	291,652	(5,275)	(125,632)	0
Charge-offs	0	0	(113,564)	0	(912)	(790)	0	(115,266)
Recoveries	21,996	15,039	0	0	3,625	2,198	0	42,858
Allowance at December 31, 2018	197,460	284,395	347,654	373,576	504,034	50,287	39,455	1,796,861
Provision	10,415	(67,466)	(103,177)	162,705	(279,956)	(13,160)	(29,361)	(320,000)
Charge-offs	0	0	0	(37,024)	(3,279)	0	0	(40,303)
Recoveries	0	83,354	0	14,800	5,150	12,149	0	115,453
Allowance at December 31, 2019	$ 207,875	$ 300,283	$ 244,477	$ 514,057	$ 225,949	$ 49,276	$ 10,094	$ 1,552,011

NOTE 4 - LOAN QUALITY (Continued)

The following tables present, by loan segment, loans that were evaluated for the ALLL under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) as of December 31, 2019 and 2018.

	Secured by Real Estate							
	Commercial - Owner-Occupied	Commercial - Other	Construction, Land Dev. and Vacant Land	Residential Properties	Commercial, Financial and Agricultural	Consumer	Unallocated	Total
December 31, 2019								
Loans Evaluated for Allowance:								
Individually	$ 0	$ 442,293	$ 1,078,752	$ 460,676	$ 439,516	$ 0	$ 0	$ 2,421,237
Collectively	16,687,632	24,105,944	10,117,854	41,267,140	18,138,609	3,955,730	0	114,272,909
Total	$ 16,687,632	$ 24,548,237	$ 11,196,606	$ 41,727,816	$ 18,578,125	$ 3,955,730	$ 0	$ 116,694,146
Allowance Established for Loans Evaluated:								
Individually	$ 0	$ 0	$ 118,441	$ 0	$ 0	$ 0	$ 0	$ 118,441
Collectively	207,875	300,283	126,036	514,057	225,949	49,276	10,094	1,433,570
Allowance at December 31, 2019	$ 207,875	$ 300,283	$ 244,477	$ 514,057	$ 225,949	$ 49,276	$ 10,094	$ 1,552,011
December 31, 2018								
Loans Evaluated for Allowance:								
Individually	$ 1,070,622	$ 478,416	$ 904,818	$ 822,589	$ 1,305,201	$ 0	$ 0	$ 4,581,646
Collectively	20,323,295	29,270,873	10,086,341	38,022,499	14,843,910	5,175,843	0	117,722,761
Total	$ 21,393,917	$ 29,749,289	$ 10,991,159	$ 38,845,088	$ 16,149,111	$ 5,175,843	$ 0	$ 122,304,407
Allowance Established for Loans Evaluated:								
Individually	$ 0	$ 0	$ 253,808	$ 0	$ 359,811	$ 0	$ 0	$ 613,619
Collectively	197,460	284,395	93,846	373,576	144,223	50,287	39,455	1,183,242
Allowance at December 31, 2018	$ 197,460	$ 284,395	$ 347,654	$ 373,576	$ 504,034	$ 50,287	$ 39,455	$ 1,796,861

NOTE 4 - LOAN QUALITY (Continued)

The following tables show additional information about those loans considered to be impaired at December 31, 2019 and 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
For the Year Ended December 31, 2019					
Impaired Loans with No Specific Allowance:					
Loans Secured by Real Estate:					
Commercial - Other	$ 442,293	$ 628,489	$ 0	$ 460,354	$ 40,868
Construction, Land Development & Vacant Land	227,528	227,528	0	240,823	13,016
Residential:					
Construction	213,600	213,600		213,600	12,588
Other	460,676	472,829	0	479,145	23,301
Other Loans:					
Commercial, Financial and Agricultural	439,516	439,516	0	776,754	49,971
Total Impaired Loans with No Specific Allowance	$ 1,783,613	$ 1,981,962	$ 0	$ 2,170,676	$ 139,744
Impaired Loans with Specific Allowance:					
Loans Secured by Real Estate:					
Construction, Land Development & Vacant Land	$ 637,624	$ 637,624	$ 118,441	$ 649,556	$ 34,695
Total Impaired Loans with Specific Allowance	$ 637,624	$ 637,624	$ 118,441	$ 649,556	$ 34,695
Total Impaired Loans	$ 2,421,237	$ 2,619,586	$ 118,441	$ 2,820,232	$ 174,439
For the Year Ended December 31, 2018					
Impaired Loans with No Specific Allowance:					
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 1,070,622	$ 1,070,622	$ 0	$ 1,092,142	$ 40,008
Commercial - Other	478,416	653,201	0	489,107	28,171
Construction, Land Development & Vacant Land	245,255	245,255	0	245,255	12,191
Residential:					
1 - 4 Family	427,200	427,200	0	284,240	15,825
Other	395,389	395,389	0	398,007	17,905
Other Loans:					
Commercial, Financial and Agricultural	926,140	926,140	0	943,557	57,325
Total Impaired Loans with No Specific Allowance	$ 3,543,022	$ 3,717,807	$ 0	$ 3,452,308	$ 171,425
Impaired Loans with Specific Allowance:					
Loans Secured by Real Estate:					
Construction, Land Development & Vacant Land	$ 659,563	$ 659,563	$ 253,808	$ 670,824	$ 29,423
Other Loans:					
Commercial, Financial and Agricultural	379,061	379,061	359,811	345,585	33,230
Total Impaired Loans with Specific Allowance	$ 1,038,624	$ 1,038,624	$ 613,619	$ 1,016,409	$ 62,653
Total Impaired Loans	$ 4,581,646	$ 4,756,431	$ 613,619	$ 4,468,717	$ 234,078

NOTE 4 - LOAN QUALITY (Continued)

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. Loans classified as substandard or management watch are reviewed regularly by the Company to determine if appropriately classified or to determine if the loan is impaired. The Company's loan portfolio is reviewed for credit quality with samples being selected based on loan size, credit grades, etc., to ensure that the Company's management is properly applying credit risk management processes.

Loans excluded from the scope of the annual review process are generally classified as pass credit until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to special mention, substandard or doubtful, or could even be considered for charge-off. The Company uses the following definitions for risk ratings:

Pass – Strong credit with no existing or known potential weaknesses deserving management's close attention.

Management Watch – Loans included in this category are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but do not presently expose the Company to a sufficient degree of risk to warrant adverse classification. As a general rule, for the purpose of calculating a loan loss reserve, loans in this category will have the historical loss reserve percentage applied and will remain in a pool with loans that are considered acceptable or better when determining the general valuation reserves. Loans classified as management watch have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable or improbable, based on currently existing facts, condition, and values.

Loss – Loans classified as losses are uncollectible or no longer a bankable asset. This classification does not mean that the asset has absolutely no recoverable value. Certain salvage value is inherent in these loans. Nevertheless, it is not practical or desirable to defer writing off a portion or whole of a perceived asset even though partial recovery may be collected in the future.

NOTE 4 - LOAN QUALITY (Continued)

The following table shows the Company's credit quality indicators by type of loan as of December 31, 2019 and 2018:

As of December 31, 2019	Pass	Management Watch	Substandard	Doubtful	Total Loans
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 16,373,120	$ 314,512	$ 0	$ 0	$ 16,687,632
Commercial - Other	21,029,585	3,518,652	0	0	24,548,237
Construction, Land Development & Vacant Land	10,331,454	0	865,152	0	11,196,606
Residential:					
1 - 4 Family	37,306,753	732,529	984,386	0	39,023,668
Other	2,704,148	0	0	0	2,704,148
Other Loans:					
Commercial, Financial and Agricultural	18,086,620	3,744	487,761	0	18,578,125
Consumer	3,943,236	0	12,494	0	3,955,730
Total Loans	$ 109,774,916	$ 4,569,438	$ 2,349,793	$ 0	$ 116,694,146

As of December 31, 2018	Pass	Management Watch	Substandard	Doubtful	Total Loans
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 16,488,784	$ 3,774,541	$ 1,130,592	$ 0	$ 21,393,917
Commercial - Other	26,110,533	3,638,756	0	0	29,749,289
Construction, Land Development & Vacant Land	10,059,514	0	931,645	0	10,991,159
Residential:					
1 - 4 Family	33,202,008	1,587,531	1,253,802	0	36,043,341
Other	2,801,747	0	0	0	2,801,747
Other Loans:					
Commercial, Financial and Agricultural	14,342,922	432,732	1,373,457	0	16,149,111
Consumer	5,174,715	0	1,128	0	5,175,843
Total Loans	$ 108,180,223	$ 9,433,560	$ 4,690,624	$ 0	$ 122,304,407

NOTE 4 - LOAN QUALITY (Continued)

The following table provides an aging analysis of the Company's loans as of December 31, 2019 and 2018:

	Current	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due and Nonaccrual	Total Loans
As of December 31, 2019						
Loans Secured by Real Estate:						
Commercial - Owner-Occupied	$ 16,590,570	$ 97,062	$ 0	$ 0	$ 97,062	$ 16,687,632
Commercial - Other	24,548,237	0	0	0	0	24,548,237
Construction, Land Development & Vacant Land	10,558,982	637,624	0	0	637,624	11,196,606
Residential:						
1 - 4 Family	38,383,557	88,073	0	552,038	640,111	39,023,668
Other	2,704,148	0	0	0	0	2,704,148
Other:						
Commercial, Financial and Agricultural	18,536,712	0	0	41,413	41,413	18,578,125
Consumer	3,939,536	1,046	2,654	12,494	16,194	3,955,730
Total Loans	$ 115,261,742	$ 823,805	$ 2,654	$ 605,945	$ 1,432,404	$ 116,694,146
As of December 31, 2018						
Loans Secured by Real Estate:						
Commercial - Owner-Occupied	$ 20,382,470	$ 0	$ 21,854	$ 989,593	$ 1,011,447	$ 21,393,917
Commercial - Other	29,749,289	0	0	0	0	29,749,289
Construction, Land Development & Vacant Land	10,388,702	575,629	0	26,828	602,457	10,991,159
Residential:						
1 - 4 Family	34,897,387	485,689	0	660,265	1,145,954	36,043,341
Other	2,801,747	0	0	0	0	2,801,747
Other:						
Commercial, Financial and Agricultural	16,097,142	0	495	51,474	51,969	16,149,111
Consumer	5,169,536	6,307	0	0	6,307	5,175,843
Total Loans	$ 119,486,273	$ 1,067,625	$ 22,349	$ 1,728,160	$ 2,818,134	$ 122,304,407

Certain loan modifications are considered troubled debt restructurings (TDRs) when the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company uses various restructuring techniques, including, but not limited to, deferral of past due interest or principal, implementing A/B note structure, redeeming past due taxes, reduction of interest rates, extending maturities and modification of amortization schedules. The Company typically does not forgive principal balances or past due interest prior to pay off or surrender of the collateral. Loans considered to be TDRs are classified as impaired loans for purposes of determination of the allowance for loans losses, until the Company determines the loans are performing based on terms specified by the restructuring agreements. The allowance for these loans is calculated in the same manner as other impaired loans, as described above. As of December 31, 2019 and 2018, the Company had no commitments to lend funds to borrowers whose terms have been modified as TDRs. Additionally, for the years ending December 31, 2019 and 2018, the Company had no loans modified as TDRs within the previous 12 months for which there was a payment default during the period. The Company did not restructure any loans as troubled debt restructurings during the years ended December 31, 2019 and 2018.

NOTE 5 - PREMISES AND EQUIPMENT

Following is a summary of premises and equipment at December 31:

	2019	2018
Land	$ 1,270,242	$ 1,270,242
Building	6,622,531	6,495,224
Furniture and Equipment	1,752,383	2,009,568
Computer Software	1,099,288	1,108,952
Construction in Process	111,024	57,532
	10,855,468	10,941,518
Less: Accumulated Depreciation and Amortization	(6,392,688)	(6,541,989)
	$ 4,462,780	$ 4,399,529

Depreciation and amortization expense totaled $224,909 and $244,315 for 2019 and 2018.

NOTE 6 - FORECLOSED REAL ESTATE

Foreclosed real estate is carried at estimated fair value less costs to sell the property. An analysis of foreclosed real estate for the years ended December 31, 2019 and 2018 follows:

	2019	2018
Balance at Beginning of Year	$ 766,295	$ 342,028
Additions to Foreclosed Real Estate	237,610	801,351
Foreclosed Real Estate Sold	(675,348)	(294,624)
Write-downs of Foreclosed Real Estate	(65,227)	(82,460)
Balance at End of Year	$ 263,330	$ 766,295

Net expenses (income) applicable to foreclosed real estate for the years ended December 31, 2019 and 2018 include the following:

	2019	2018
Net (Gain) Loss on Sales of Foreclosed Real Estate	$ (189,244)	$ (32,082)
Write-downs of Foreclosed Real Estate	65,227	82,460
Operating Expenses	43,354	45,314
Total	$ (80,663)	$ 95,692

NOTE 7 - DEPOSITS

A summary of deposits at December 31 follows:

	2019	2018
Noninterest-Bearing	$ 27,449,853	$ 27,014,450
NOW & MMDA	53,232,789	60,769,739
Savings	25,108,964	26,109,431
Certificates of Deposit of $250,000 or More	4,480,655	2,595,213
Other Time Deposits	22,433,849	23,542,183
	$ 132,706,110	$ 140,031,016

Scheduled maturities of time deposits for the next five years are as follows at December 31, 2019:

2020	$ 19,675,748
2021	4,249,891
2022	1,392,347
2023	865,908
2024	730,610
	$ 26,914,504

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are financing arrangements that do not have a stated maturity but may be cancelled by either party with a five-day written notice. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2019	2018
Average Daily Balance during the Year	$ 7,934,000	$ 6,977,000
Average Interest Rate during the Year	0.42%	0.17%
Maximum Month-End Balance during the Year	$ 13,157,000	$ 9,420,000
Weighted Average Interest Rate at Year-End	0.50%	0.30%

NOTE 9 - REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income except for gains/losses on sales of foreclosed real estate, which are recorded within net foreclosed real estate expense. A description of the Company's revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts - The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed, as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

NOTE 9 - REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Interchange Income - Interchange income represents fees for standing ready to authorize and providing settlement on credit card and debit card transactions processed through the Visa© interchange network. The levels of service and structure of interchange rates are set by Visa© and can vary based on cardholder purchase volume. The Company recognizes interchange income upon settlement with the interchange network. Based on the Company's underlying contracts, ASC 606 requires reporting network costs associated with debit card and credit card transactions netted against the related fees from such transactions. Interchange network costs reduced interchange income by $117,477 and $100,948 for the years ended December 31, 2019 and 2018, respectively. Net interchange fees totaled $138,825 and $136,602 for the years ended December 31, 2019 and 2018, respectively, and are reported within other income.

Investment Brokerage Fees - The Company earns fees from investment brokerage services provided to its customers by a third-party service provider. The Company receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The fees are recognized and paid monthly. Because the Company (i) acts as an agent in arranging the relationship between the customer and the third-party service provider and (ii) does not control the services rendered to the customers, investment brokerage fees are presented net of related costs, Net brokerage commissions totaled $91,870 and $65,570 for the years ended December 31, 2019 and 2018, respectively, and are reported within other income.

Gains/Losses on Sales of Foreclosed Real Estate - The Company records a gain or loss from the sale of foreclosed real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

NOTE 10 - INCOME TAX EXPENSE (BENEFIT)

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not accrued or expensed any amounts for interest or penalties associated with income taxes for the years ended December 31, 2019 and 2018.

Income tax expense (benefit) as shown in the consolidated statements of operations differs from the amount computed using the statutory federal income tax rate follows:

	2019		2018	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Federal Income Tax at Statutory Rate	$ 363,174	21.0 %	$ 285,237	21.0 %
State Income Tax, Net	83,159	4.8	55,262	4.1
Tax Exempt Interest	(21,230)	-1.2	(25,157)	-1.9
Other Nontaxable Income	(42,394)	-2.5	(17,656)	-1.3
Nondeductible Expenses	2,212	0.1	3,874	0.3
Credits and Other, Net	7,725	0.4	(12,178)	-0.9
Change in Valuation Allowance	0	0.0	(183,464)	-13.5
	$ 392,646	22.7 %	$ 105,918	7.8 %

	2019	2018
Income Taxes (Benefit) Consist of:		
Current (Benefit)	$ (4,084)	$ (32,386)
Deferred (Benefit)	396,730	138,304
	$ 392,646	$ 105,918

The deferred tax assets shown below relate primarily to unrealized losses on foreclosed real estate, deferred compensation, and net operating loss carryforwards. The deferred tax liabilities relate primarily to the provision for loan losses, depreciation of fixed assets, FHLB stock dividends and certain prepaid expenses.

	2019	2018
Deferred Tax Assets	$ 1,901,313	$ 2,283,367
Deferred Tax Liabilities	(569,211)	(426,977)
Net Deferred Tax Assets (Liabilities)	$ 1,332,102	$ 1,856,390

Included in the 2019 deferred tax liabilities above is $32,998 of deferred tax effect on the net unrealized loss on securities available for sale ($94,560 in deferred tax assets on the net unrealized loss in 2018).

Federal net operating loss carry-forwards are approximately $4 million, which expire at various dates from 2032 to 2035, and state net operating loss carry-forwards are approximately $4 million at December 31, 2019, which expire at various dates from 2027 to 2030.

NOTE 10 - INCOME TAX EXPENSE (BENEFIT) (Continued)

In 2018, The Company adopted Accounting Standards Update No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The guidance requires that an entity reclassify the effect of remeasuring deferred tax liabilities and assets related to items within accumulated other comprehensive income to retained earnings resulting from the establishment of the 21% U.S. federal corporate income tax rate by the Tax Cuts and Jobs Act of 2017. The amount of that reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted 21% U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. The amount of this reclassification was $39,671 for the year ended December 31, 2018.

NOTE 11 - RELATED PARTY TRANSACTIONS

The amount of loans to principal officers, directors, and their affiliates at December 31, 2019 and 2018 totaled approximately $30,000 and $76,000, respectively.

Deposit account balances owned by principal officers, directors, and their affiliates at December 31, 2019 and 2018 were approximately $2,174,000 and $4,330,000, respectively.

NOTE 12 - FEDERAL HOME LOAN BANK ADVANCES

The following table is a maturity schedule of advances from the Federal Home Loan Bank as of December 31, 2019:

Date of Advance	Interest Rate	Final Maturity Date	Amount Outstanding at 12/31/19
12/21/05	5.17%	01/01/31	$ 781,234

Interest expense associated with the advances from the FHLB totaled $41,608 for the year ended December 31, 2019 ($44,179 in 2018). Pursuant to collateral agreements with the FHLB, the advances are secured by the Company's FHLB stock and certain qualifying residential first mortgage loans totaling approximately $26,000,000 as of December 31, 2019 ($21,300,000 in 2018), and commercial real estate loans totaling approximately $9,500,000 as of December 31, 2019 ($13,000,000 in 2018). All of the fixed rate advances have a prepayment penalty. The prepayment penalty would be based on the market rates and the length of time remaining until maturity at the time of payoff.

Additionally, the Company maintains a line of credit advance agreement with the FHLB which allows borrowings up to $13,000,000. This line was undrawn as of December 31, 2019 and 2018. The Company also maintains a letter of credit line for the collateralization of public unit deposits up to $25,000,000, for which balances outstanding as of December 31, 2019 and 2018 were $8,500,000 and $3,375,000, respectively.

NOTE 13 - SUBORDINATED DEBENTURES AND OTHER DEBT

On September 20, 2004, the Company borrowed $3,000,000 of floating rate mandatory redeemable securities through a special purpose entity, Rogersville Statutory Trust II, as part of a private offering. The rate, which varies quarterly with LIBOR, was 4.45% at December 31, 2019. The securities mature on September 20, 2034; however, the maturity may be shortened on a quarterly basis, subject to approval of a repayment or refinancing plan by the Federal Reserve. $500,000 of these securities were redeemed during both 2019 and 2018. Outstanding securities as of December 31, 2019 and 2018 were $2,000,000 and $2,500,000, respectively.

On December 14, 2006, the Company borrowed $4,000,000 of floating rate mandatory redeemable securities through a special purpose entity, Rogersville Statutory Trust III, as part of a private offering. The rate, which varies quarterly with LIBOR, was 3.81% at December 31, 2019. The securities mature on December 14, 2036; the maturity may be shortened on a quarterly basis, subject to approval of a repayment or refinancing plan by the Federal Reserve. $500,000 of these securities were redeemed during both 2019 and 2018. Outstanding securities as of December 31, 2019 and 2018 were $3,000,000 and $3,500,000, respectively.

The Company has provided a full, irrevocable, and unconditional guarantee on a subordinated basis of the obligations of the Trusts under the preferred securities in the event of a default, as defined in such guarantees. These subordinated debentures allow the Company to defer the payment of quarterly interest payments for up to 20 consecutive quarters without creating an event of default. Pursuant to the debentures, the Company and its affiliates cannot declare or pay any dividends or distributions on their capital stock (other than the payment of dividends or distributions from the Bank to the Holding Company), or repurchase, redeem, or acquire their capital stock during an interest deferred period until the unpaid interest payments have been paid. Accrued but unpaid interest totaled $9,425 at December 31, 2019 ($11,155 at December 31, 2018).

These securities are presented as liabilities on the Company's balance sheet and count as Tier 1 and Tier 2 capital for regulatory capital purposes. In accordance with GAAP, the Trusts are not consolidated with the Company. Accordingly, the Company reports as liabilities the subordinated debentures issued by the Company and held by the Trusts. The Company's equity investment in the Trusts ($217,000) is included in other assets at year-end 2019 and 2018.

The Company also has available federal funds lines (or equivalent thereof) with correspondent banks totaling $21,600,000 and $18,800,000 as of December 31, 2019 and 2018, respectively. None of these lines had balances outstanding as of December 31, 2019 and 2018. No collateral was pledged related to these lines as of December 31, 2019 and 2018.

NOTE 14 - SHAREHOLDERS' EQUITY

As of December 31, 2019 and 2018, the Company's charter authorized the issuance of up to 10,000,000 shares of common stock, no par value, 1,000,000 shares of preferred stock, no par value, and 400,000 shares of Series A and 200,000 shares of Series B Preferred Stock, at a par value of $8.05.

The Series A and Series B preferred stock are noncumulative, have no voting rights, have a dividend and liquidation preference to the common stock, and participate equally with the common stock in a sale or change in control of the Company. Preferred Series A shareholders are entitled to receive a dividend that is 105% of the dividend paid on the common stock. Preferred Series B shareholders are entitled to receive a dividend that is 110% of the dividend paid on the common stock. In the event of a change of control of the corporation, each share of Series A and Series B preferred stock is convertible into one share of common stock. Series A and Series B preferred stock have no redemption rights.

Treasury stock includes 48,432 shares of common stock at a cost of $809,687; 8,408 shares of Series A preferred stock at a cost of $133,742; and 225 shares of Series B preferred stock at a cost of $3,569 at December 31, 2019 and 2018.

NOTE 15 - REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Holding Company to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 Capital (as defined in the regulations) to Risk-Weighted Assets (as defined), Common Equity Tier 1 Capital (as defined) to Total Risk-Weighted Assets (as defined), and of Tier 1 Capital (as defined) to Average Assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Bank and Holding Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2019 and 2018, the Bank is categorized as *well capitalized* under the regulatory framework for prompt corrective action. To be categorized as *well capitalized*, the Bank must maintain minimum Total Risk-Based, Tier I Risk-Based, Common Equity Tier 1 Risk-Based Capital, and Tier I Leverage ratios as set forth in the table below. There are no conditions or events since that date that management believes have changed the Bank’s category.

The Bank and Holding Company must also maintain a capital conservation buffer consisting of additional Common Equity Tier 1 capital greater than 2.5% of risk-weighted assets above the required minimum risk-based capital levels in order to avoid limitations on distributions, including dividend payments, and certain discretionary bonuses to executive officers. At December 31, 2019, the Bank and Holding Company continued to exceed the minimum required capital ratios applicable to them under the capital adequacy guidelines.

In November 2019, the Office of the Comptroller, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) jointly issued a final rule that provides for a simple measure of capital adequacy for qualifying community banking organizations, consistent with section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Under the final rule, depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9%, will be eligible to opt into the community bank leverage ratio (CBLR) framework. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the risk-based and leverage capital requirements in the agencies’ generally applicable capital rule and will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. The final rule is effective on January 1, 2020. Management anticipates they will qualify for and opt in to the new CBLR framework for both the Bank and the Holding Company for the quarter ending March 31, 2020.

NOTE 15 - REGULATORY CAPITAL REQUIREMENTS (Continued)

The Holding Company's and Bank's actual capital amounts and ratios as of December 31, 2019 and 2018, are also presented in the following table. All dollar amounts are in thousands of dollars.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 22,827	18.75%	$ 9,741	8.00%	N/A	N/A
Bank	$ 22,433	18.42%	$ 9,741	8.00%	$ 12,176	10.00%
Common Equity Tier I Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 14,425	11.85%	$ 5,479	4.50%	N/A	N/A
Bank	$ 20,911	17.17%	$ 5,479	4.50%	$ 7,915	6.50%
Tier I Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 20,581	16.90%	$ 7,306	6.00%	N/A	N/A
Bank	$ 20,911	17.17%	$ 7,306	6.00%	$ 9,741	8.00%
Tier I Capital (to Average Assets):						
Holding Company (Consolidated)	$ 20,581	12.66%	$ 6,504	4.00%	N/A	N/A
Bank	$ 20,911	12.86%	$ 6,503	4.00%	$ 8,129	5.00%
As of December 31, 2018						
Total Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 22,707	17.38%	$ 10,453	8.00%	N/A	N/A
Bank	$ 21,004	16.08%	$ 10,447	8.00%	$ 13,058	10.00%
Common Equity Tier I Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 13,192	10.10%	$ 5,880	4.50%	N/A	N/A
Bank	$ 19,369	14.83%	$ 5,876	4.50%	$ 8,488	6.50%
Tier I Capital (to Risk-Weighted Assets):						
Holding Company (Consolidated)	$ 19,129	14.64%	$ 7,840	6.00%	N/A	N/A
Bank	$ 19,369	14.83%	$ 7,835	6.00%	$ 10,447	8.00%
Tier I Capital (to Average Assets):						
Holding Company (Consolidated)	$ 19,129	11.06%	$ 6,919	4.00%	N/A	N/A
Bank	$ 19,369	11.20%	$ 6,915	4.00%	$ 8,644	5.00%

The Bank and Holding Company are also subject to federal and state regulations restricting the amount of dividends paid.

NOTE 16 - STOCK COMPENSATION PLANS

The Company has two stock-based compensation plans, the 1994 Employee Stock Option Plan (the employee plan), and the 1994 Outside Directors' Stock Option Plan (the directors' plan), which are described below. The stock-based compensation cost that has been charged against income for those plans was $9,751 and $0 for the years ending December 31, 2019 and 2018, respectively. The total related income tax benefit recognized was $2,549 and $0 for 2019 and 2018, respectively.

1994 Employee Stock Option Plan - This plan provides for the granting of options to purchase up to 475,000 shares of common stock by officers and key employees of the Company. No options were granted under the plan in 2019 or 2018. As of December 31, 2019, there are 142,000 options remaining to be granted under this plan.

NOTE 16 - STOCK COMPENSATION PLANS (Continued)

1994 Outside Directors' Stock Option Plan – This plan provides for the granting of options to purchase up to 225,000 shares of common stock by non-employee directors of the Company. This Plan has been amended to extend through June 30, 2026. 64,500 options were granted under this plan during the year ended December 31, 2019 (none in 2018), of which 9,000 have been forfeited. As of December 31, 2019, there are 67,500 options remaining to be granted under this plan.

Under both plans, option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; these option awards vest based on five years of continuous service and have ten-year contractual terms. Share awards vest at a rate of 20% per year over a five-year period.

The fair value of each option award is estimated on the date of grant using a Black-Scholes valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock over similar terms. The expected term of options granted is based on the contractual terms and estimates of the period that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The significant assumptions used during the year to estimate the fair value of stock-based compensation awards are as follows:

	2019	2018
Expected volatility	36.51%	N/A
Expected dividend rate	3.78%	N/A
Expected term (in years)	10	N/A
Risk-free rate	2.03%	N/A

A summary of option activity under the Company's stock-based compensation plans as of December 31, 2019 and changes during the year then ended is presented below.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2019	20,000	$ 4.75		
Granted	64,500	6.61		
Exercised	0			
Forfeited	(9,000)	6.61		
Expired	0			
Outstanding at December 31, 2019	75,500	$ 6.12	7.43	$ 74,195
Exercisable at December 31, 2019	20,000	$ 4.75	1.67	$ 47,000

The weighted-average grant-date fair value of options granted during the year ended December 31, 2019 was $1.76 (none granted during 2018). No options were exercised during the years ended December 31, 2019 or 2018.

A summary of the status of the Company's nonvested shares as of December 31, 2019 and changes during the year then ended is presented below:

Options	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2019	0	$
Granted	64,500	1.76
Vested	0	
Forfeited	(9,000)	1.76
Nonvested at December 31, 2019	55,500	$ 1.76

As of December 31, 2019, there was $87,764 of total unrecognized compensation cost related to nonvested stock-based compensation arrangements granted under the Company's plans. That cost is expected to be recognized over a weighted-average period of 4.5 years. No shares were vested during the years ended December 31, 2019 or 2018.

NOTE 17 - EARNINGS PER SHARE

The following table illustrates the computation of basic and diluted earnings per share of common stock for the years ended December 31, 2019 and 2018.

	2019			2018		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
Net Income	$ 1,336,756			$ 1,252,353		
Less: Dividends Paid to Preferred Shareholders	(63,772)			(63,772)		
Basic Earnings Per Share						
Net Income Available to Common Shareholders	1,272,984	1,630,812	$ 0.78	1,188,581	1,630,812	$ 0.73
Effect of Dilutive Securities						
Incremental Shares - Exercise of Stock Options		6,463			6,050	
Convertible Preferred Stock	63,772	241,518		63,772	241,518	
Diluted Earnings per Share						
Net Income Available to Common Shareholders Plus Assumed Conversions	$ 1,336,756	1,878,793	$ 0.71	$ 1,252,353	1,878,380	$ 0.67

NOTE 18 - EMPLOYEE BENEFITS

The Company maintains a 401(k) plan for all employees who have attained the age of 21 and have at least three months of service. The plan provides for a discretionary employer matching contribution, in which the employee is 100% vested. The Company may also make additional discretionary contributions (qualified non-elective or profit-sharing contributions) as determined by the Board of Directors. For these contributions, employees begin to vest in the second year and are fully vested after six years. The Company's employer matching contribution to the 401(k) plan amounted to $46,267 in 2019 and $43,974 in 2018.

The Company is providing post-retirement pension benefits to a former employee. A present value-based charge, which is included in non-interest expense, is made each year based on the future benefits to be paid to the employee (or beneficiary) under the plan. Total amounts paid or accrued during the year under such arrangements amounted to $20,337 and $19,801 in both 2019 and 2018.

The Company has a Supplemental Executive Retirement Plan which provides retirement benefits to several retired officers. In addition, the Company also has an Executive Deferred Compensation Plan which provides deferred compensation benefits for certain key officers. The accrued retirement liability for these plans was $1,580,174 at December 31, 2019 ($1,521,436 at December 31, 2018). Expense related to these plans was $195,071 in 2019 and $190,461 in 2018, and is included in salaries and employee benefits expense.

The Company also provides life insurance benefits to certain employees under split-dollar insurance contracts. The accrued liability was $244,314 at December 31, 2019 ($241,451 at December 31, 2018). Expense related to this plan was $2,863 in 2019 and $12,433 in 2018, and is included in salaries and employee benefits expense.

NOTE 19 - OFF-BALANCE SHEET ACTIVITIES

Certain financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The approximate contractual amounts of financial instruments with off-balance sheet risk were as follows at December 31:

	2019		2018	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to Make Loans	$ 2,762,000	$ 13,785,000	$ 3,928,000	$ 11,417,000
Unused Letters of Credit	0	228,000	0	149,000

Commitments to make loans are generally made for periods of 1 year or less. The fixed rate loan commitments have interest rates ranging from 3.50% to 10.00% and maturities ranging from 1 year to 10 years. Approximately $11,581,000 of the commitments to make loans were collateralized, primarily by real estate, at December 31, 2019 ($11,152,000 at December 31, 2018).

NOTE 20 - FAIR VALUE DISCLOSURES

GAAP establishes a framework for using fair value. It also defines fair value rules as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. The Company did not elect to adopt the fair value option for any financial instruments. However, other accounting pronouncements require the Company to measure certain financial instruments at fair value as described below.

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset and liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

NOTE 20 - FAIR VALUE DISCLOSURES (Continued)

A description of valuation methodologies used for assets and liabilities recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is shown below. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investment Securities Available for Sale - Investment securities available for sale are recorded at fair value in accordance with GAAP on a recurring basis. Fair value measurement for these securities is based upon quoted prices of like or similar securities, utilizing Level 2 inputs. These measurements are obtained from a service provider who considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things.

Impaired Loans - The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired in accordance with GAAP and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. The fair value of individually identified impaired loans is measured based on the present value of expected payments or the collateral value if the loan is collateral dependent. Impaired loans are classified within Level 3 of the valuation hierarchy.

Foreclosed Real Estate - Foreclosed real estate is recorded at fair value on a nonrecurring basis. Fair value measurement is based on management's estimate of the amount that will be realized when the property is sold and is classified within Level 3 of the valuation hierarchy.

Assets Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets measured at fair value:

		Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2019				
U.S. Treasury Securities	$ 2,042,420	$ 2,042,420	$ 0	$ 0
Small Business Admin. Securities	1,814,938	0	1,814,938	0
U.S. Government Agency Securities	9,096,420	0	9,096,420	0
Residential Mortgage-backed Securities	4,066,713	0	4,066,713	0
Tax Exempt Municipal Securities	2,385,187	0	2,385,187	0
Investment Securities Available for Sale	$ 19,405,678	$ 2,042,420	$ 17,363,258	$ 0
As of December 31, 2018				
U.S. Treasury Securities	$ 1,995,350	$ 1,995,350	$ 0	$ 0
Small Business Admin. Securities	2,291,463	0	2,291,463	0
U.S. Government Agency Securities	10,870,205	0	10,870,205	0
Residential Mortgage-backed Securities	5,160,871	0	5,160,871	0
Tax Exempt Municipal Securities	3,525,466	0	3,525,466	0
Investment Securities Available for Sale	$ 23,843,355	$ 1,995,350	$ 21,848,005	$ 0

NOTE 20 - FAIR VALUE DISCLOSURES (Continued)

Assets Recorded at Fair Value on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis are included in the table below.

	Carrying Amount in the Balance Sheet	Fair Value Measurements Using: Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2019				
Impaired Loans, Net of Specific Allowance	$ 2,302,796	$ 0	$ 0	$ 2,302,796
Foreclosed Real Estate	263,330	0	0	263,330
	$ 2,566,126	$ 0	$ 0	$ 2,566,126
As of December 31, 2018				
Impaired Loans, Net of Specific Allowance	$ 3,968,027	$ 0	$ 0	$ 3,968,027
Foreclosed Real Estate	766,295	0	0	766,295
	$ 4,734,322	$ 0	$ 0	$ 4,734,322

The following table presents the carrying amounts, estimated fair value and placement in the fair value hierarchy of the Company's financial instruments that are not carried at fair value at December 31, 2019 and 2018.

	Carrying Amount in the Balance Sheet	Estimated Fair Value	Fair Value Measurements Using: Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2019					
Financial Assets:					
Cash and Cash Equivalents	$ 11,431,157	$ 11,431,157	$ 11,431,157	$ 0	$ 0
Loans, Net	115,142,135	115,219,707	0	0	115,219,707
Cash Surrender Value of Life Insurance	7,179,948	7,179,948	0	0	7,179,948
Financial Liabilities:					
Deposits	132,706,110	132,624,110	0	0	132,624,110
Securities Sold Under Agreements to Repurchase	4,162,111	4,162,111	0	0	4,162,111
Federal Home Loan Bank Advances	781,234	781,234	0	0	781,234
Subordinated Debentures	5,217,000	5,217,000	0	0	5,217,000
As of December 31, 2018					
Financial Assets:					
Cash and Cash Equivalents	$ 12,672,212	$ 12,672,212	$ 12,672,212	$ 0	$ 0
Loans, Net	120,507,546	119,367,935	0	0	119,367,935
Cash Surrender Value of Life Insurance	6,977,939	6,977,939	0	0	6,977,939
Financial Liabilities:					
Deposits	140,031,016	139,624,016	0	0	139,624,016
Securities Sold Under Agreements to Repurchase	8,705,667	8,705,667	0	0	8,705,667
Federal Home Loan Bank Advances	832,154	917,154	0	0	917,154
Subordinated Debentures	6,217,000	6,217,000	0	0	6,217,000

NOTE 20 - FAIR VALUE DISCLOSURES (Continued)

The methods and assumptions used to estimate fair value are described as follows.

The carrying amount approximates the estimated fair value for cash and cash equivalents, short-term borrowings, demand deposits and securities sold under agreements to repurchase. The fair value of loans is estimated with a discounted cash flow approach using market rates and incorporates a credit risk factor to determine the exit price. For time deposits fair value is based on discounted cash flows using current market rates. Recorded book value of cash surrender value of life insurance is a reasonable estimate of fair value. Fair value of FHLB advances and subordinated debentures is based on current rates for similar financing. The fair value of off-balance sheet loan commitments is considered nominal and not disclosed above. Management does not consider it practicable to estimate the fair value of equity investments carried at cost. Therefore, no estimate of fair value for these investments is disclosed.

Much of the information as well as the amounts disclosed above are highly subjective and judgmental in nature. The subjective factors include estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Because the fair value is estimated as of December 31, 2019 and 2018, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

NOTE 21 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Company's business activity is with customers located within East Tennessee. As of December 31, 2019 and 2018, the Company had concentrations of loans in residential real estate, commercial real estate and commercial lending. Generally, these loans are secured by the underlying real estate or commercial assets. The usual risks associated with such concentrations are generally mitigated by being spread over numerous borrowers and by adequate loan to collateral value ratios. The Company has concentrations in U.S. Government agency and residential mortgage-backed securities that are guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Association, the Federal Farm Credit Company and the Federal Home Loan Bank. The Company also has a concentration in municipal bonds, which are issued by instrumentalities across the State of Tennessee.

NOTE 22 - COMMITMENTS AND CONTINGENCIES

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Company.

NOTE 23 - SUBSEQUENT EVENT

On January 30, 2020, the World Health Organization declared a public health emergency for an outbreak of coronavirus (COVID-19), which was declared a pandemic on March 11, 2020. The pandemic has caused significant market volatility and widespread business disruption. In addition, the Federal Reserve has decreased the federal funds rate 1.50% since December 31, 2019 to a target range of 0 to 0.25% in an attempt to mitigate the economic effects of the outbreak. The duration and full effects of the COVID-19 outbreak are yet unknown but will likely have a significant impact on the Company's financial statements in 2020 and beyond.

Shareholder Information

www.fcbanktn.bank

423-272-5800

(Ask for Jim Maddox for Shareholder Support)

Stock Transfer Agent

Pacific Stock Transfer Company (PSTC)

If you have any questions regarding address changes, transfers, receiving duplicate 1099s, direct deposit set up, etc., please contact PSTC at:

Contact: **Shareholder Services**
PH: **800-785-7782**
EMAIL: info@pacificstocktransfer.com

MAIL:
Pacific Stock Transfer Company
Global Operations
6725 Via Austi Pkwy, Suite 300
Las Vegas, Nevada 89119

PH: 800-785-7782

WEB: www.pacificstocktransfer.com

Raymond James

Market Maker for First Community Corporation stock:

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Lou C. Coines
Financial Institutions Sales & Trading
222 South Riverside Plaza, 7th Floor
Chicago, Illinois 60606
(800) 800-4693
Lou.Coines@raymondjames.com

OTCMarkets

OTCMarkets contains information about First Community Corporation stock (Profile, Prices, etc.)

http://www.otcmarkets.com/home

Stock Symbols

FCCT	First Community Corporation (Common)
FCCTP	First Community Corporation (Preferred A)
FCCTO	First Community Corporation (Preferred B)

FIRST COMMUNITY CORPORATION
COMMON STOCK AND DIVIDEND INFORMATION
Years Ended December 31, 2018 and 2019

First Community Corporation (the "Corporation") has only one class of common stock authorized, issued and outstanding. In December 2006, the Corporation listed its stock on the Over-The-Counter Bulletin Board (OTCBB) quotation service. This company transitioned to the OTC Markets Group quotation service in early 2012. The Corporation has appointed Raymond James & Associates, Inc. as the principal market maker for the stock. Information about the stock may be obtained at the OTC Markets Group website at www.otcmarkets.com, under the symbol FCCT. In addition, anyone wishing to buy or sell shares of Corporation stock may contact Raymond James & Associates at 1-800-800-4693. However, there can be no assurance that, at any given time, any persons will be interested in acquiring shares of the Corporation's common stock.

On February 23, 2007, the Shareholders of the Corporation approved a reclassification transaction whereby holders of fewer than 1,500 shares of common stock had their shares exchanged for either Series A Preferred or Series B Preferred stock. An amendment to the Corporation's Charter was also filed on February 23, 2007, creating these two new classes of stock.

The Corporation pays dividends from time to time on the outstanding shares of our stock as determined by the Board of Directors in its discretion based on the Corporation's financial performance and condition. Future dividends will depend upon earnings, financial position, cash requirements and such other factors as the Board of Directors may deem relevant. The following table sets forth the cash dividends declared per share of the Corporation's common stock and the highest and lowest per share prices at which the Corporation's common stock has actually traded in private transactions during the periods indicated. To the best of management's knowledge, such prices do not include any retail mark-up, mark-down or commission. Shares may have been sold in transactions, the price and terms of which are not known to the Corporation. Therefore, the per share prices at which the Corporation's common stock has previously traded may not necessarily be indicative of the true market value of the shares.

2019	High	Low	Dividends per share
First quarter	$ 7.25	6.30	.00
Second quarter	6.95	6.50	.00
Third quarter	6.85	6.60	.00
Fourth quarter	7.25	6.76	.25

2018	High	Low	Dividends per share
First quarter	$ 6.28	6.28	.00
Second quarter	6.85	6.30	.00
Third quarter	7.05	6.70	.00
Fourth quarter	7.25	6.60	.25

The authorized common stock of the Corporation consists of 10,000,000 shares of common stock, no par value per share, of which 1,630,812 were outstanding at December 31, 2019. There were 75,500 shares of the Corporation's common stock that are subject to outstanding options, warrants or securities convertible into common stock. The Corporation had approximately 260 common shareholders of record as of December 31, 2019.

First Community Bank of East Tennessee

Board of Directors, Officers & Staff

As of March 01, 2020

Board of Directors

Tyler K. Clinch, Chairman and President
Tommy W. Young, Secretary
Matthew W. Cleek
Steve L. Droke
Dr. David R. Johnson
Sidney K. Lawson
David L. Lunceford
Kathy M. Richards

Executive Officers

Tyler K. Clinch
Chief Executive Officer and President

Steve L. Droke
Executive Vice President and Chief Lending Officer
Director of Special Assets

James B. Maddox
Senior Vice President and
Chief Financial Officer

Officers

Miranda G. Cooper
Senior Vice President and
Retail Banking & Marketing

Todd G. Brown
Vice President
Retail Lending

Beverly A. Oxford
Vice President and
Loan Operations Manager

Stephanie M. Potts
Vice President and
Security Officer

Douglas Lynn Salyers
Vice President and
Commercial Lender & Administration

Kristin M. Waddle
Vice President and
BSA & Compliance Officer

Ashley D. Lawson
Assistant Vice President and
Branch Manager/Lender - W. Main Street Office

Cathy D. Trent
Assistant Vice President and
Controller

Allison M. Ball
Banking Officer and
BSA Compliance Specialist & Teller Trainer

Robin L. Carter
Banking Officer and
Commercial Loan Portfolio Specialist

Tammy F. Hobbs
Banking Officer and
Commercial Loan Portfolio Specialist

Paul G. Penland
Senior Vice President and
Chief Credit Officer

Matthew R. Cradic
Vice President and
Senior Credit Analyst & Administration

Dana L. Parkinson
Vice President and
Commercial Lending Officer

Debbie G. Price
Vice President and
Branch Manager - East Main Office, Rogersville

Miles R. Snider
Vice President and
Senior Credit Analyst

Jordan P. Key
Banking Officer and
System and Security Administrator

Emily N. Reese
Assistant Vice President and
Technology Operations Manager

B. Evelyn Anderson
Banking Officer and
Human Resources Director

Mark A. Borghetti
Banking Officer and
Branch Manager/Lender - Surgoinsville Office

Debbie A. Helton
Banking Officer and
Branch Manager/Lender - Walmart Office

Jamie L. Ward
Banking Officer and
Branch Manager/Lender - Church Hill Office

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Stacci Baker
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Christopher Bowman
Angie Burr
Mollie Carr
Susan Cashion
Tammy Cassidy
Melissa Collier
Brooke Cope
Madeline Davis
Tina Dunn
Cody Ferrell
Tricia Guidry
Vicky Higgenbottom
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