Section 1: 10-Q (10-Q)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d)**
of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2020

or

☐ Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the transition period ended from ______ to______

Commission File Number 000-50400

Select Bancorp, Inc.

(Exact name of Registrant as specified in its charter)

North Carolina	20-0218264
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 W. Cumberland Street Dunn, North Carolina	28334
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (910) 892-7080

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $1.00 per share	**SLCT**	**The NASDAQ Stock Market LLC**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 30, 2020, the registrant had outstanding 17,786,552 shares of Common Stock, $1.00 par value per share.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SELECT BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

		September 30, 2020 (unaudited)	
		(In thousands, except s and per share data	
ASSETS			
Cash and due from banks	$	25,068	$
Interest-earning deposits in other banks		249,541	
Federal funds sold		8,046	
Investment securities available for sale, at fair value		87,434	
Loans held for sale		2,945	
Loans		1,283,457	
Allowance for loan losses		(13,561)	
NET LOANS		1,269,896	
Accrued interest receivable		4,486	
Stock in Federal Home Loan Bank of Atlanta (“FHLB”), at cost		3,059	
Other non-marketable securities		718	
Foreclosed real estate		3,237	
Premises and equipment, net		20,883	
Right of use lease asset		8,756	
Bank owned life insurance		30,271	
Goodwill		41,914	
Core deposit intangible (“CDI”)		1,677	
Other assets		14,015	
TOTAL ASSETS	$	1,771,946	$
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Deposits:			
Demand	$	408,209	$
Savings		51,629	
Money market and NOW		610,275	
Time		402,667	
TOTAL DEPOSITS		1,472,780	
Short-term debt		20,000	
Long-term debt		37,372	
Lease liability		9,089	
Accrued interest payable		449	
Accrued expenses and other liabilities		18,889	
TOTAL LIABILITIES		1,558,579	
Shareholders’ Equity			
Preferred stock, no par value, 5,000,000 shares authorized; no preferred shares were issued and outstanding at September 30, 2020 and December 31, 2019		—	
Common stock, $1 par value, 50,000,000 shares authorized; 17,786,552 and 18,330,058 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively		17,787	
Additional paid-in capital		137,130	
Retained earnings		56,917	
Common stock issued to deferred compensation trust, at cost; 263,377 and 319,753 shares outstanding at September 30, 2020 and December 31, 2019, respectively		(2,352)	
Directors’ Deferred Compensation Plan Rabbi Trust		2,352	
Accumulated other comprehensive income		1,533	
TOTAL SHAREHOLDERS’ EQUITY		213,367	
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$	1,771,946	$

* Derived from audited consolidated financial statements.

See accompanying notes.

SELECT BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended September 30,		Nine Months September	
	2020	2019	2020	
	(In thousands, except share and per share data)		(In thousands, except sha data)	
INTEREST INCOME				
Loans	$ 15,404	$ 13,924	$ 43,079	$
Federal funds sold and interest-earning deposits in other banks	54	581	255	
Investments	367	503	1,169	
TOTAL INTEREST INCOME	15,825	15,008	44,503	
INTEREST EXPENSE				
Money market, NOW and savings deposits	891	433	1,887	
Time deposits	1,415	2,248	4,922	
Short-term debt	145	4	373	
Long-term debt	263	455	896	
TOTAL INTEREST EXPENSE	2,714	3,140	8,078	
NET INTEREST INCOME	13,111	11,868	36,425	
PROVISION FOR LOAN LOSSES	1,638	231	5,844	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,473	11,637	30,581	
NON-INTEREST INCOME				
Gain on the sale of securities	—	48	—	
Service charges on deposit accounts	257	308	801	
Fees from the sale of mortgages	517	218	1,165	
Other fees and income	950	874	2,613	
TOTAL NON-INTEREST INCOME	1,724	1,448	4,579	
NON-INTEREST EXPENSE				
Personnel	5,742	5,124	17,160	
Occupancy and equipment	1,008	1,073	2,925	
Deposit insurance	370	(30)	434	
Professional fees	399	518	1,222	
Core deposit intangible amortization	179	208	553	
Merger/acquisition related expenses	7	128	755	
Information systems	1,043	852	3,053	
Foreclosure-related expenses	228	(9)	420	
Other	1,091	1,067	3,294	
TOTAL NON-INTEREST EXPENSE	10,067	8,931	29,816	
INCOME BEFORE INCOME TAX	3,130	4,154	5,344	
INCOME TAX	673	915	1,102	
NET INCOME	2,457	3,239	4,242	
Basic	$ 0.14	$ 0.17	$ 0.24	$
Diluted	$ 0.14	$ 0.17	$ 0.23	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	17,847,913	19,028,572	18,038,345	
Diluted	17,866,822	19,073,235	18,062,170	

See accompanying notes.

SELECT BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30,		Nine Mor Septem
	2020	**2019**	**2020**
	(In thousands)		
Net income	$ 2,457	$ 3,239	$ 4,242
Other comprehensive income (loss):			
Unrealized gains (loss) on investment securities-available for sale	(161)	196	822
Tax effect	38	(48)	(189)
Total	(123)	148	633
Reclassification adjustment for (gains) included in net income	—	(48)	—
Tax effect	—	11	—
	—	(37)	—
Total	(123)	111	633
Total comprehensive income	$ 2,334	$ 3,350	$ 4,875

See accompanying notes.

SELECT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

	Preferred Stock		Common Stock		Additional paid-in	Retained	Deferred	Common Stock Issued to Deferred Compensation	Accumulated Other Comprehensive
	Shares	Amount	Shares	Amount	Capital	Earnings	Comp Plan	Trust	Income
Balance at December 31, 2019	—	$ —	18,330,058	$ 18,330	$ 140,870	$ 52,675	$ (2,815)	$ 2,815	$ 90
Net income	—	—	—	—	—	1,104	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	—	56
Stock repurchases	—	—	(275,366)	(275)	(2,193)	—	—	—	—
Stock option exercises	—	—	1,000	1	6	—	—	—	—
Directors' equity incentive plan, net	—	—	—	—	—	—	24	(24)	—
Stock-based compensation	—	—	—	—	105	—	—	—	—
Balance at March 31, 2020	—	$ —	18,055,692	$ 18,056	$ 138,788	$ 53,779	$ (2,791)	$ 2,791	$ 1,46
Net income	—	—	—	—	—	681	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	—	19
Stock repurchases	—	—	(193,138)	(193)	(1,328)	—	—	—	—
Stock option exercises	—	—	—	—	—	—	—	—	—
Directors' equity incentive plan, net	—	—	—	—	—	—	238	(238)	—
Stock-based compensation	—	—	—	—	99	—	—	—	—
Balance at June 30, 2020	—	$ —	17,862,554	$ 17,863	$ 137,559	$ 54,460	$ (2,553)	$ 2,553	$ 1,65
Net income	—	—	—	—	—	2,457	—	—	—
Other comprehensive (loss)	—	—	—	—	—	—	—	—	(12
Stock repurchases	—	—	(76,002)	(76)	(490)	—	—	—	—
Directors' equity incentive plan, net	—	—	—	—	—	—	201	(201)	—
Stock based compensation	—	—	—	—	61	—	—	—	—
Balance at September 30, 2020	—	$ —	17,786,552	$ 17,787	$ 137,130	$ 56,917	$ (2,352)	$ 2,352	$ 1,53
Balance at December 31, 2018	—	—	19,311,505	19,312	150,718	39,640	(2,615)	2,615	(5
Net income	—	—	—	—	—	3,307	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	—	36
Stock option exercises	—	—	14,980	14	100	—	—	—	—
Directors' equity incentive plan, net	—	—	—	—	—	—	(37)	37	—
Stock based compensation	—	—	—	—	59	—	—	—	—
Balance at March 31, 2019	—	—	19,326,485	19,326	150,877	42,947	(2,652)	2,652	30
Net income	—	—	—	—	—	3,448	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	—	61
Stock repurchases	—	—	(64,496)	(64)	(662)	—	—	—	—
Stock option exercises	—	—	—	—	—	—	—	—	—
Stock based compensation	—	—	—	—	60	—	—	—	—
Balance at June 30, 2019	—	—	19,261,989	19,262	150,275	46,395	(2,652)	2,652	91
Net income	—	—	—	—	—	3,239	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	—	11
Stock repurchases	—	—	(748,911)	(749)	(7,456)	—	—	—	—
Stock option exercises		—	—	—	—	—	—	—	—
Directors' equity incentive plan, net	—	—	—	—	—	—	(78)	78	—
Stock based compensation	—	—	—	—	59	—	—	—	—
Balance at September 30, 2019	—	$ —	18,513,078	$ 18,513	$ 142,878	$ 49,634	$ (2,730)	$ 2,730	$ 1,02

See accompanying notes.

[redacted]

SELECT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
	2020	
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,242	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,844	
Depreciation and amortization of premises and equipment	1,335	
Amortization and accretion of investment securities	436	
Amortization of right of use asset	941	
Accretion of deferred loan fees and costs	(688)	
Amortization of core deposit intangible	553	
Accretion of acquisition premium on time deposits	(206)	
Deferred income taxes	283	
Stock-based compensation	265	
Accretion on acquired loans	(1,075)	
Increase in cash surrender value of bank owned life insurance	(482)	
Proceeds from loans held for sale	43,904	
Originations of loans held for sale	(44,756)	
Gain on sales of loans held for sale	(1,165)	
Net loss on sale and write-downs of foreclosed real estate	390	
Fees on sale of mortgages	—	
Gain on the sale of securities	—	
Loss (gain) on sale of premises and equipment	—	
Loss on assets held for sale	—	
Change in assets and liabilities:		
Net change in accrued interest receivable	41	
Net change in other assets	(6,312)	
Net change in accrued expenses and other liabilities	15,887	
NET CASH PROVIDED BY OPERATING ACTIVITIES	19,437	
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption (purchase) of FHLB stock	(14)	
Redemption of non-marketable security	1	
Purchase of investment securities available for sale	(39,794)	
Maturities of investment securities available for sale	10,511	
Cash received from branch acquisition	60,234	
Mortgage-backed securities pay-downs	14,602	
Proceeds from sale of investment securities available for sale	—	
Net change in loans outstanding	(149,341)	
Proceeds from sale of foreclosed real estate	180	
Proceeds from sale of premises and equipment	—	
Purchases of premises and equipment	(1,531)	
NET CASH USED IN INVESTING ACTIVITIES	(105,152)	

See accompanying notes.

SELECT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

	Nine Months Ende September 30,	
	2020	
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	$ 294,665	$
Repayments of short-term debt	—	
Repayment of lease liability	(825)	
Repurchase of common stock	(4,556)	
Proceeds from stock options exercised	7	
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	289,291	
NET CHANGE IN CASH AND CASH EQUIVALENTS	203,578	
CASH AND CASH EQUIVALENTS, BEGINNING	79,077	
CASH AND CASH EQUIVALENTS, ENDING	$ 282,655	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest paid	$ 8,207	$
Income taxes paid	3,202	
Non-cash transactions:		
Change in fair value of investment securities available for sale, net of tax	633	
Transfer from loans to foreclosed real estate	274	
Acquisition:		
Assets acquired (excluding goodwill)	170,914	
Liabilities assumed	186,416	
Goodwill recorded	17,335	

See accompanying notes.

SELECT BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

NOTE A - BASIS OF PRESENTATION

Select Bancorp, Inc. (the "Company") is a bank holding company whose principal business activity consists of ownership of Select Bank & Trust Company (referred to as the "Bank"). In 2004, the Company formed New Century Statutory Trust I, which issued trust preferred securities to provide additional capital for general corporate purposes, including the current and future expansion of the Company. New Century Statutory Trust I is not a consolidated subsidiary of the Company. On July 25, 2014, the Company changed its name from New Century Bancorp, Inc. to Select Bancorp, Inc. following its acquisition by merger of Select Bancorp, Inc., Greenville, North Carolina (which we refer to herein as "Legacy Select"). The Company is subject to the rules and regulations of the Board of Governors of the Federal Reserve System and the North Carolina Commissioner of Banks.

The Bank was originally incorporated as New Century Bank on May 19, 2000 and began banking operations on May 24, 2000. On July 25, 2014, the Company acquired Select Bank & Trust Company, Greenville, North Carolina, and changed the Bank's legal name to Select Bank & Trust Company. On December 15, 2017, the Company acquired Premara Financial, Inc. ("Premara") and its subsidiary Carolina Premier Bank ("Carolina Premier") through the merger of Premara with and into the Company, followed immediately by the merger of Carolina Premier with and into the Bank. The Bank continues as the only banking subsidiary of the Company with its headquarters and operations center located in Dunn, North Carolina. The Bank is engaged in general commercial and retail banking in the State of North Carolina, northwest South Carolina, and the Virginia Beach-Norfolk-Newport News, VA-NC, metropolitan statistical area. The Bank is subject to the supervision and regulation of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks.

All significant inter-company transactions and balances have been eliminated in consolidation. In management's opinion, the financial information, which is unaudited, reflects all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the financial information as of and for the three and nine months ended September 30, 2020 and 2019, in conformity with accounting principles generally accepted in the United States of America ("GAAP").

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements, as well as the amounts of income and expense during the reporting period. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2020.

The organization and business of the Company, accounting policies followed by the Company and other relevant information are contained in the notes to the financial statements filed as part of the Company's 2019 Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on March 11, 2020. This quarterly report should be read in conjunction with the Annual Report.

Certain reclassifications of the information in prior periods were made to conform to the September 30, 2020 presentation. Such reclassifications had no effect on shareholders' equity or net income as previously reported.

COVID-19. The Company has evaluated for potential recognition and/or disclosure through the date the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q were issued. On March 11, 2020, the World Health Organization declared the outbreak of the disease caused by a novel coronavirus ("COVID-19") as a global pandemic, which continues to spread throughout the United States and around the world. The declaration of a global pandemic indicates that almost all public commerce and related business activities must be, to varying degrees, curtailed with the goal of decreasing the rate of new infections. The outbreak of COVID-19 could adversely impact a broad range of industries in which the Company's customers operate and impair their ability to fulfill their financial obligations to the Company. Several programs are available to businesses impacted by COVID-19 such as loans available through the Paycheck Protection Program, deferrals on loan payments on existing loans and a reduced interest rate program available to financial institutions through the Federal Reserve Bank. On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate by 50 basis points to 1.00% to 1.25%. This rate was further reduced to a target range of 0% to 0.25% on March 16, 2020. These reductions in interest rates and other effects of the COVID-19 outbreak may adversely affect the Company’s financial condition and results of operations. As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact net interest income and noninterest income. Other financial impact could occur though such potential impact is unknown at this time.

NOTE B - PER SHARE RESULTS

Basic net income per share is computed based upon the weighted average number of shares of common stock outstanding during the period. Diluted net income per share includes the dilutive effect of stock options outstanding during the period. At September 30, 2020 and 2019 there were 243,120 and 172,120 anti-dilutive stock options outstanding, respectively.

	Three Months Ended September 30,		Nine Months September
	2020	**2019**	**2020**
Weighted average number of common shares used in computing basic net income per share	17,847,913	19,028,572	18,038,345
Effect of dilutive stock options	18,909	44,663	23,825
Weighted average number of common shares and dilutive potential common shares used in computing diluted net income per share	17,866,822	19,073,235	18,062,170

NOTE C - RECENT ACCOUNTING PRONOUNCEMENTS

The following summarizes recent accounting pronouncements and their expected impact on the Company:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, including loans and available-for-sale debt securities. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. On October 16, 2019, the FASB voted to delay implementation of CECL until January 2023 for certain companies, including smaller reporting companies (as defined by the SEC). The Company currently qualifies as a smaller reporting company and is still assessing the impact that this new guidance will have on its consolidated financial statements.

In August 2018, the FASB amended ASU 2018-13 - *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* topic of the Accounting Standards Codification. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The adoption of these amendments did not have a material effect on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This ASU eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative test. The Company adopted this ASU during the first quarter of 2020 with no impact to the consolidated financial position as a result of the adoption.

In March 2020, the FASB issued Accounting Standards Update ("ASU") 2020-04 - *Reference Rate Reform (Topic 848)* - Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This ASU provides for temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, reference rate reform on financial reporting. The provisions of this ASU are elective and applicable to all entities that have contracts, hedging relationships and other transactions, subject to certain criteria, that reference LIBOR or another reference rate to be discontinued because of reference rate reform. There are practical expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedge accounting relationships affected by reference rate reform in order to facilitate a smoother transition to new reference rates. For contracts meeting certain criteria, a change in the contract's reference interest rate would be accounted for as a continuation of that contract rather than the creation of a new contract. This provision applies to loans, debt, leases, and other arrangements. An entity will also be permitted to preserve its hedge accounting when updating its hedging strategies in response to reference rate reform. The guidance will only apply to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. This ASU is effective for March 12, 2020 through December 31, 2022. The Company is still assessing this ASU but is not expecting it to have an impact to the consolidated financial position.

From time to time, the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Company and monitors the status of changes to and proposed effective dates of exposure drafts.

NOTE D - FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("ASC") 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements, but clarifies and standardizes some divergent practices that have emerged since prior guidance was issued. ASC 820 creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation.

Fair value estimates are made at a specific moment in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument.

SELECT BANCORP, INC.

Notes to Consolidated Financial Statements (Unaudited)

Because no active market readily exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Fair Value Hierarchy

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

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

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

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

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis.

Investment Securities Available-for-Sale ("AFS")

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include U.S. government agencies, mortgage-backed securities issued by government sponsored entities, and municipal bonds. There have been no changes in valuation techniques for the three and nine months ended September 30, 2020. Valuation techniques are consistent with techniques used in prior periods.

The following tables summarize quantitative disclosures about the fair value measurement for each category of assets carried at fair value on a recurring basis as of September 30, 2020 and December 31, 2019 (in thousands):

Investment securities available for sale September 30, 2020	Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	U In
U.S. government agencies – GSE’s	$ 11,760	$ —	$ 11,760	$
Mortgage-backed securities – GSE’s	41,670	—	41,670	
Corporate Bonds	2,103	—	2,103	
Municipal bonds	31,901	—	31,901	
Total investment available for sale	$ 87,434	$ —	$ 87,434	$

Investment securities available for sale December 31, 2019	Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	U In
U.S. government agencies – GSE’s	$ 9,996	$ —	$ 9,996	$
Mortgage-backed securities – GSE’s	47,743	—	47,743	
Corporate Bonds	2,299	—	2,299	
Municipal bonds	12,329	—	12,329	
Total investment available for sale	$ 72,367	$ —	$ 72,367	$

The following is a description of valuation methodologies used for assets recorded at fair value on a non-recurring basis.

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific reserve in the 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. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC 310, “Receivables”. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, or liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2020 and December 31, 2019, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where a specific reserve is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as non-recurring Level 3. The significant unobservable input used in the fair value measurement of the Company’s impaired loans is the discount applied to appraised values to account for expected liquidation and selling costs. At September 30, 2020, the

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discounts used are weighted between 3% and 50%. There were no transfers between levels from the prior reporting periods, and there have been no changes in valuation techniques for the three and nine months ended September 30, 2020.

Foreclosed Real Estate

Foreclosed real estate are properties recorded at the balance of the loan or an estimated fair value of the real estate collateral less estimated selling costs, whichever is less. Inputs include appraised values on the properties or recent sales activity for similar assets in the property's market. Therefore, foreclosed real estate is classified within Level 3 of the hierarchy. The significant unobservable input used in the fair value measurement of the Company's foreclosed real estate is the discount applied to appraised values to account for expected liquidation and selling costs. At September 30, 2020, the discounts used ranged between 6% and 10%. There have been no changes in valuation techniques for the three and nine months ended September 30, 2020.

Loans held for sale

The Company originates fixed and variable rate residential mortgage loans on a service-release basis in the secondary market. Loans closed but not yet settled with an investor are carried in our loans held for sale portfolio. Virtually all of these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with our customers. Therefore, these loans present very little market risk. The Company usually delivers to, and receives funding from, the investor within 30 to 60 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a "best efforts" basis. The Company is not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. Because of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is materially the same as the value of the loan amount at its origination.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations as a component of mortgage banking income. Gains or losses on sales of loans are recognized when control over these assets are surrendered and are included in mortgage banking income in the consolidated statements of income.

The following tables summarize quantitative disclosures about the fair value measurement for each category of assets carried at fair value on a non-recurring basis as of September 30, 2020 and December 31, 2019 (in thousands):

Asset Category September 30, 2020	**Fair value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**U In**
Impaired loans	$ 7,695	$ —	$ —	$
Foreclosed real estate	3,237	—	—	
Total	$ 10,932	$ —	$ —	$

Asset Category December 31, 2019	**Fair value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**U In**
Impaired loans	$ 5,941	$ —	$ —	$
Foreclosed real estate	3,533	—	—	
Total	$ 9,474	$ —	$ —	$

SELECT BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

The following table presents the carrying values and estimated fair values of the Company’s financial instruments at September 30, 2020 and December 31, 2019:

	September 30, 2020				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	
	(dollars in thousands)				
Financial assets:					
Cash and due from banks	$ 25,068	$ 25,068	$ 25,068	$ —	$
Interest-earning deposits in other banks	249,541	249,541	249,541	—	
Federal funds sold	8,046	8,046	8,046	—	
Investment securities available for sale	87,434	87,434	—	87,434	
Loans held for sale	2,945	2,945	—	2,945	
Loans, net	1,269,896	1,279,096	—	—	
Accrued interest receivable	4,486	4,486	—	4,486	
Stock in the FHLB	3,059	3,059	—	—	
Other non-marketable securities	718	718	—	—	
Financial liabilities:					
Deposits	$ 1,472,780	$ 1,476,441	$ —	$ —	$
Short-term debt	20,000	20,000	—	20,000	
Long-term debt	37,372	34,163	—	34,163	
Accrued interest payable	449	449	—	449	

	December 31, 2019				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	
	(dollars in thousands)				
Financial assets:					
Cash and due from banks	$ 19,110	$ 19,110	$ 19,110	$ —	$
Interest-earning deposits in other banks	50,920	50,920	50,920	—	
Federal funds sold	9,047	9,047	9,047	—	
Investment securities available for sale	72,367	72,367	—	72,367	
Loans held for sale	928	928	—	928	
Loans, net	1,021,651	1,016,239	—	—	
Accrued interest receivable	4,189	4,189	—	4,189	
Stock in the FHLB	3,045	3,045	—	—	
Other non-marketable securities	719	719	—	—	
Financial liabilities:					
Deposits	$ 992,838	$ 995,056	$ —	$ 995,056	$
Long-term debt	57,372	55,729	—	55,729	
Accrued interest payable	578	578	—	578	

NOTE E - INVESTMENT SECURITIES

The amortized cost and fair value of available for sale ("AFS") investments, with gross unrealized gains and losses, follow:

	September 30, 2020		
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**
	(dollars in thousands)		
Securities available for sale:			
U.S. government agencies – GSE's	$ 11,508	$ 276	$ (24)
Mortgage-backed securities – GSE's	40,195	1,528	(53)
Corporate bonds	2,101	7	(5)
Municipal bonds	31,639	333	(71)
	$ 85,443	$ 2,144	$ (153)

As of September 30, 2020, accumulated other comprehensive income included net unrealized gains totaling $2.0 million. Deferred tax assets resulting from these net unrealized losses totaled $458,000.

The amortized cost and fair value of "AFS" investments, with gross unrealized gains and losses, follow:

	December 31, 2019		
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**
	(dollars in thousands)		
Securities available for sale:			
U.S. government agencies – GSE's	$ 9,839	$ 159	$ (2)
Mortgage-backed securities – GSE's	46,926	830	(13)
Corporate bonds	2,282	17	—
Municipal bonds	12,152	177	—
	$ 71,199	$ 1,183	$ (15)

As of December 31, 2019, accumulated other comprehensive income included net unrealized gains totaling $1.2 million. Deferred tax liabilities resulting from these net unrealized gains totaled $269,000.

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The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses, follow:

	September 30, 2020		
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**
	(dollars in thousands)		
Securities available for sale:			
Due within one year	$ 2,757	$ 8	$ (1)
Due after one but within five years	26,947	1,268	(1)
Due after five but within ten years	5,565	81	(7)
Due after ten years	50,174	787	(144)
	$ 85,443	$ 2,144	$ (153)

	December 31, 2019		
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**
	(dollars in thousands)		
Securities available for sale:			
Due within one year	$ 8,901	$ 19	$ (6)
Due after one but within five years	40,954	695	(7)
Due after five but within ten years	4,568	94	(1)
Due after ten years	16,776	375	(1)
	$ 71,199	$ 1,183	$ (15)

Securities with a carrying value of $48.1 million and $18.4 million at September 30, 2020 and December 31, 2019, respectively, were pledged to secure public monies on deposit as required by law, customer repurchase agreements, and access to the Federal Reserve Discount Window.

None of the unrealized losses relate to the liquidity of the securities or the issuer's ability to honor redemption obligations. The Company has the intent and ability to hold these securities to recovery. No other than temporary impairments were identified for these investments having unrealized losses for the periods ended September 30, 2020 and December 31, 2019. The Company has not incurred any losses related to securities sales in the first nine months of 2020 or during the year ended December 31, 2019.

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The following tables show the gross unrealized losses and fair value of the Company’s investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at September 30, 2020 and December 31, 2019.

	September 30, 2020					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	
	(dollars in thousands)					
Securities available for sale:						
U.S. government agencies – GSE’s	$ 3,478	$ (22)	$ 479	$ (2)	$ 3,957	$
Mortgage-backed securities–GSE’s	8,044	(51)	1,999	(2)	10,043	
Corporate bonds	753	(5)	—	—	753	
Municipal bonds	10,578	(71)	—	—	10,578	
Total temporarily impaired securities	$ 22,853	$ (149)	$ 2,478	$ (4)	$ 25,331	$

At September 30, 2020, the Company had three securities with an unrealized loss for more than twelve months of $4,000 which consisted of two U.S. government agencies-GSEs and one mortgage-backed - GSE bond. Fifteen securities had unrealized losses for less than twelve months totaling $149,000 at September 30, 2020, which consisted of nine Municipal bonds, one corporate bond, one U.S. government agencies - GSEs and four mortgage-backed - GSE bonds. All unrealized losses are attributable to the general trend of interest rates.

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	
	(dollars in thousands)					
Securities available for sale:						
U.S. government agencies – GSE’s	$ 872	$ —	$ 621	$ (2)	$ 1,493	$
Mortgage-backed securities–GSE’s	2,672	(3)	3,774	(10)	6,446	
Corporate bonds	—	—	—	—	—	
Municipal bonds	—	—	—	—	—	
Total temporarily impaired securities	$ 3,544	$ (3)	$ 4,395	$ (12)	$ 7,939	$

At December 31, 2019, the Company had one mortgage-backed GSE and one U.S Government agency – GSE with an unrealized loss for twelve or more consecutive months totaling $12,000. The Company had three securities with a loss for twelve months or less at December 31, 2019. One U.S. government agency GSE and two mortgage-backed GSE’s had unrealized losses for less than twelve months totaling $3,000 at December 31, 2019. All unrealized losses are attributable to the general trend of interest rates.

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NOTE F - LOANS

Following is a summary of the composition of the Company's loan portfolio at September 30, 2020 and December 31, 2019:

	September 30, 2020			Decembe 201
	Amount	Percent of total		Amount
	(dollars in thousands)			
Real estate loans:				
1-to-4 family residential	$ 195,174	15.21 %	$	151,697
Commercial real estate	537,087	41.85 %		459,115
Multi-family residential	79,697	6.21 %		69,124
Construction	255,718	19.92 %		221,878
Home equity lines of credit ("HELOC")	48,395	3.77 %		44,514
Total real estate loans	1,116,071	86.96 %		946,328
Other loans:				
Commercial and industrial	165,766	12.91 %		75,748
Loans to individuals	7,017	0.55 %		9,779
Overdrafts	80	0.01 %		234
Total other loans	172,863	13.47 %		85,761
Gross loans	1,288,934			1,032,089
Less deferred loan origination fees, net	(5,477)	(0.43)%		(2,114)
Total loans	1,283,457	100.00 %		1,029,975
Allowance for loan losses	(13,561)			(8,324)
Total loans, net	$ 1,269,896		$	1,021,651

For Purchased Credit Impaired, or PCI loans, the contractually required payments including principal and interest, cash flows expected to be collected and fair values as of September 30, 2020 and December 31, 2019 were:

	September 30, 2020	December 31, 2019
Contractually required payments	$ 38,279	$ 20,598
Nonaccretable difference	3,401	1,694
Cash flows expected to be collected	34,878	18,904
Accretable yield	4,891	3,191
Carrying value	$ 29,987	$ 15,713

Loans are primarily secured by real estate located in the State of North Carolina, southeastern Virginia and northwestern South Carolina. Real estate loans can be affected by the condition of the local real estate market and by local economic conditions.

At September 30, 2020, the Company had pre-approved but unused lines of credit for customers totaling $230.2 million. In management's opinion, these commitments, and undisbursed proceeds on loans reflected above, represent no more than normal lending risk to the Company and will be funded from normal sources of liquidity.

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Notes to Consolidated Financial Statements (Unaudited)

The Bank has originated 1,249 loans amounting to $97.0 million during 2020 under the Paycheck Protection Program ("PPP") which are classified as Commercial and industrial loans in the loan portfolio. As of September 30, 2020 the Bank has 1,242 PPP loans amounting to $95.3 million. The PPP loan program is sponsored by the Small Business Administration (SBA) to primarily facilitate the continuation of paychecks to employees of businesses impacted by the COVID-19 pandemic. These loans are guaranteed by the SBA and can be forgiven and paid off by the SBA if all conditions of the program are met. Loans that do not meet the conditions of the PPP loan program could result in the Bank incurring a charge-off. The extent of this potential loss to the Bank is not known since the conditions of the program have changed and are subject to future changes.

A floating lien of $112.6 million of loans was pledged to the FHLB to secure borrowings at September 30, 2020.

The following tables present an age analysis of past due loans, segregated by class of loans as of September 30, 2020 and December 31, 2019, respectively:

	September 30, 2020						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Accruing	Non-Accrual Loans	Total Past Due	Total Current	
	(dollars in thousands)						
Commercial and industrial	$ 2	$ 105	$ 543	$ 3,687	$ 4,337	$ 161,429	$
Construction	—	—	—	161	161	255,557	
Multi-family residential	—	—	—	—	—	79,697	
Commercial real estate	210	—	336	2,489	3,035	534,052	
Loans to individuals & overdrafts	9	—	—	145	154	6,943	
1-to-4 family residential	200	13	669	950	1,832	193,342	
HELOC	95	31	—	263	389	48,006	
Deferred loan (fees) cost, net	—	—	—	—	—	—	
	$ 516	$ 149	$ 1,548	$ 7,695	$ 9,908	$ 1,279,026	$

	December 31, 2019						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Accruing	Non-Accrual Loans	Total Past Due	Current	
	(dollars in thousands)						
Commercial and industrial	$ 1,108	$ 34	$ 46	$ 2,824	$ 4,012	$ 71,736	$
Construction	—	—	—	181	181	221,697	
Multi-family residential	—	—	—	—	—	69,124	
Commercial real estate	393	82	321	1,832	2,628	456,487	
Loans to individuals & overdrafts	5	—	—	155	160	9,853	
1-to-4 family residential	859	810	864	505	3,038	148,659	
HELOC	168	—	—	444	612	43,902	
Deferred loan (fees) cost, net	—	—	—	—	—	—	
	$ 2,533	$ 926	$ 1,231	$ 5,941	$ 10,631	$ 1,021,458	$

Impaired Loans

The following tables present information on loans that were considered to be impaired as of September 30, 2020 and December 31, 2019:

	As of September 30, 2020			Three Months Ended September 30, 2020		Nine Mont September	
	Recorded Investment	Contractual Unpaid Principal Balance	Related Allowance for Loan Losses	Average Recorded Investment	Interest Income Recognized on Impaired Loans	Average Recorded Investment	
			(dollars in thousands)				
2020 :							
With no related allowance recorded:							
Commercial and industrial	$ 3,635	$ 5,466	$ —	$ 4,818	$ 25	$ 4,475	$
Construction	262	366	—	345	6	291	
Commercial real estate	5,175	5,448	—	5,265	38	5,661	
Loans to individuals & overdrafts	261	279	—	271	—	273	
Multi-family residential	—	—	—	—	—	99	
HELOC	411	553	—	453	2	575	
1-to-4 family residential	197	207	—	202	22	292	
Subtotal:	9,941	12,319	—	11,354	93	11,666	
With an allowance recorded:							
Commercial and industrial	502	521	162	576	19	576	
Construction	—	—	—	—	—	—	
Commercial real estate	977	1,032	325	986	15	208	
Loans to individuals & overdrafts	—	—	—	—	—	—	
Multi-family Residential	—	—	—	—	—	—	
HELOC	119	150	9	122	5	264	
1-to-4 family residential	39	107	10	103	—	64	
Subtotal:	1,637	1,810	506	1,787	39	1,112	
Totals:							
Commercial	10,551	12,833	487	11,990	103	11,310	
Consumer	261	279	—	271	—	273	
Residential	766	1,017	19	880	29	1,195	
Grand Total:	$ 11,578	$ 14,129	$ 506	$ 13,141	$ 132	$ 12,778	$

Impaired loans at September 30, 2020 were approximately $11.6 million and were composed of $7.7 million in non-accrual loans and $3.9 million in loans that were still accruing interest. Recorded investment represents the current principal balance of the loan. Approximately $1.6 million in impaired loans had specific allowances provided for them while the remaining $9.9 million had no specific allowances recorded at September 30, 2020. Of the $9.9 million with no allowance recorded, $307,000 of those loans have had partial charge-offs recorded.

	As of December 31, 2019			Three Months Ended September 30, 2019		Nine Montl September	
	Recorded Investment	Contractual Unpaid Principal Balance	Related Allowance for Loan Losses	Average Recorded Investment	Interest Income Recognized on Impaired Loans	Average Recorded Investment	
			(dollars in thousands)				
2019 :							
With no related allowance recorded:							
Commercial and industrial	$ 2,796	$ 4,051	$ —	$ 4,010	$ 32	$ 4,397	$
Construction	440	537	—	2,413	12	1,546	
Commercial real estate	5,585	6,750	—	7,167	70	6,022	
Loans to individuals & overdrafts	197	197	—	84	6	93	
Multi-family residential	284	293	—	205	3	209	
HELOC	543	678	—	1,205	21	1,202	
1-to-4 family residential	395	1,816	—	861	11	944	
Subtotal:	10,240	14,322	—	15,945	155	14,413	
With an allowance recorded:							
Commercial and industrial	731	1,056	403	882	1	572	
Construction	—	—	—	—	—	13	
Commercial real estate	—	—	—	—	—	—	
Loans to individuals & overdrafts	—	—	—	—	—	—	
Multi-family Residential	—	—	—	—	—	—	
HELOC	160	222	—	546	14	563	
1-to-4 family residential	81	94	10	162	4	212	
Subtotal:	972	1,372	413	1,590	19	1,360	
Totals:							
Commercial	9,749	12,591	403	14,677	118	12,759	
Consumer	284	293	—	84	6	93	
Residential	1,179	2,810	10	2,774	50	2,921	
Grand Total:	$ 11,212	$ 15,694	$ 413	$ 17,535	$ 174	$ 15,773	$

Impaired loans at December 31, 2019 were approximately $11.2 million and included $5.9 million in non-accrual loans and $6.2 million in loans still in accruing status. Recorded investment represents the current principal balance for the loan. Approximately $972,000 of the $11.2 million in impaired loans at December 31, 2019 had specific allowances aggregating $413,000 while the remaining $10.2 million had no specific allowances recorded. Of the $10.2 million with no allowance recorded, partial charge-offs through December 31, 2019 amounted to $438,000.

Loans are placed on non-accrual status when it has been determined that all contractual principal and interest will not be received. Any payments received on these loans are applied to principal first and then to interest only after all principal has been collected. In the case of an impaired loan that is still on accrual basis, payments are applied to both principal and interest.

Troubled Debt Restructurings

The following table presents loans that were modified as troubled debt restructurings ("TDRs") with a breakdown of the types of concessions made by loan class during the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 202		
	Number of loans	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments	Number of loans	Pre-Modification Outstanding Recorded Investments	Po
		(dollars in thousands)			(dollars in thousands)	
Extended payment terms:						
1-to-4 family residential	2	$ 339	$ 325	6	$ 797	$
Construction	—	—	—	1	157	
HELOC	—	—	—	2	240	
Commercial & industrial	2	146	139	4	1,091	
Loans to individuals	—	—	—	1	14	
Total	4	$ 485	$ 464	14	$ 2,299	$

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 201		
	Number of loans	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments	Number of loans	Pre-Modification Outstanding Recorded Investments	Po
		(dollars in thousands)			(dollars in thousands)	
Extended payment terms:						
Commercial and industrial	1	$ 103	$ 71	4	$ 931	$
Commercial real estate	—	—	—	1	752	
Construction	1	259	259	1	259	
1-to-4 family residential	1	174	173	3	233	
Total	3	$ 536	$ 503	9	$ 2,175	$

The following table presents loans that were modified as TDRs within the past twelve months with a breakdown of the types for which there was a payment default during that period together with concessions made by loan class during the twelve month periods ended September 30, 2020 and 2019:

	Twelve months ended September 30, 2020		Twelve mo Septembe
	Number of loans	Recorded investment	Number of loans
	(dollars in thousands)		(dollars in
Extended payment terms:			
Commercial and industrial	4	$ 2,203	—
Construction	2	208	—
1-to-4 family residential	1	10	1
Total	7	$ 2,421	1

At September 30, 2020, the Bank had forty-nine loans with an aggregate balance of $10.3 million that were considered to be troubled debt restructurings. Of those TDRs, thirty-two loans with a balance totaling $3.9 million were still accruing as of September 30, 2020. The remaining TDRs with balances totaling $6.4 million as of September 30, 2020 were in non-accrual status. In response to the impact of COVID-19, payment deferrals were granted on 497 loans totaling $252.3

million through September 30, 2020 of which 114 loans amounting to $65.6 million remained on deferral at quarter end. The Bank has chosen to apply the CARES Act election for the accounting of TDRs. As permitted by applicable regulatory guidance, these loans were not classified as TDRs at September 30, 2020.

At September 30, 2019, the Bank had forty-one loans with an aggregate balance of $8.2 million that were considered to be troubled debt restructurings. Of those TDRs, twenty-eight loans with a balance totaling $6.5 million were still accruing as of September 30, 2019. The remaining TDRs with balances totaling $1.7 million as of September 30, 2019 were in non-accrual status.

The following tables present information on risk ratings of the commercial and consumer loan portfolios, segregated by loan class as of September 30, 2020 and December 31, 2019, respectively:

Total loans:

	September 30, 2020			
Commercial Credit Exposure By Internally Assigned Grade	**Commercial and industrial**	**Construction**	**Commercial real estate**	**Multi-family residential**
	(dollars in thousands)			
Superior	$ 96,415	$ —	$ 76	$ —
Very good	368	162	7,812	—
Good	5,538	2,196	67,996	4,866
Acceptable	22,173	24,718	270,857	50,771
Acceptable with care	35,331	228,132	181,384	24,060
Special mention	390	349	2,363	—
Substandard	5,551	161	6,599	—
Doubtful	—	—	—	—
Loss	—	—	—	—
	$ 165,766	$ 255,718	$ 537,087	$ 79,697

Consumer Credit Exposure By Internally Assigned Grade	**1-to-4 family residential**	**HELOC**
Pass	$ 191,984	$ 47,300
Special mention	445	205
Substandard	2,745	890
	$ 195,174	$ 48,395

Consumer Credit Exposure Based On Payment Activity		Loans to individuals & overdrafts
Pass	$	6,806
Special mention		291
	$	7,097

Total Loans:

	December 31, 2019						
Commercial Credit Exposure By Internally Assigned Grade		Commercial and industrial (dollars in thousands)		Construction		Commercial real estate	
Superior	$	4,014	$	—	$	337	$
Very good		349		110		1,245	
Good		5,976		8,674		62,643	
Acceptable		19,197		16,249		255,751	
Acceptable with care		40,579		196,228		133,190	
Special mention		242		436		1,490	
Substandard		5,391		181		4,459	
Doubtful		—		—		—	
Loss		—		—		—	
	$	75,748	$	221,878	$	459,115	$

Consumer Credit Exposure By Internally Assigned Grade		1-to-4 family residential		HELOC
Pass	$	147,958	$	43,585
Special mention		1,246		76
Substandard		2,493		853
	$	151,697	$	44,514

SELECT BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

Consumer Credit Exposure Based On Payment Activity		**Loans to individuals & overdrafts**
Pass	$	9,727
Special mention		286
	$	10,013

Determining the fair value of PCI loans at acquisition required the Company to estimate cash flows expected to result from those loans and to discount those cash flows at appropriate rates of interest. For such loans, the excess of cash flows expected to be collected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans and is called the accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and is called the nonaccretable difference. In accordance with GAAP, there was no carry-over of previously established allowance for credit losses from the acquired company.

The following table documents changes to the amount of the accretable yield on PCI loans for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,				**Nine Month Septembe**	
	2020		**2019**		**2020**	
	(dollars in thousands)				**(dollars in th**	
Accretable yield, beginning of period	$	5,661	$	3,481	$	3,191
Additions		—		—		2,949
Accretion		(487)		(277)		(1,209)
Reclassification from nonaccretable difference		24		45		67
Other changes, net		(307)		56		(107)
Accretable yield, end of period	$	4,891	$	3,305	$	4,891

SELECT BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

The following tables present a roll forward of the Company's allowance for loan losses by loan class for the three and nine month periods ended September 30, 2020 and September 30, 2019, respectively (dollars in thousands):

	Three Months Ended September 30, 2020						
2020	**Commercial and industrial**	**Construction**	**Commercial real estate**	**1 to 4 family residential**	**HELOC**	**Loans to individuals & overdrafts**	**Multi-family residential**
Allowance for loan losses							
Loans – excluding PCI							
Balance, beginning of period 07/01/2020	$ 2,623	$ 2,284	$ 4,184	$ 1,671	$ 388	$ 108	$ 621
Provision for (recovery of) loan losses	1,568	212	325	(570)	(49)	4	84
Loans charged-off	(98)	—	(70)	—	—	(23)	—
Recoveries	40	—	1	7	1	7	4
Balance, end of period 9/30/2020	$ 4,133	$ 2,496	$ 4,440	$ 1,108	$ 340	$ 96	$ 709
PCI Loans							
Balance, beginning of period 07/01/2020	$ 23	$ 11	$ 44	$ 75	$ 9	$ 4	$ 9
Provision for (recovery of) loan losses	(23)	(11)	(44)	164	(9)	(4)	(9)
Loans charged-off	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—
Balance, end of period 9/30/2020	$ —	$ —	$ —	$ 239	$ —	$ —	$ —
Total Loans							
Balance, beginning of period 07/01/2020	$ 2,646	$ 2,295	$ 4,228	$ 1,746	$ 397	$ 112	$ 630
Provision for (recovery of) loan losses	1,545	201	281	(406)	(58)	—	75
Loans charged-off	(98)	—	(70)	—	—	(23)	—
Recoveries	40	—	1	7	1	7	4
Balance, end of period 9/30/2020	$ 4,133	$ 2,496	$ 4,440	$ 1,347	$ 340	$ 96	$ 709
Ending Balance: individually evaluated for impairment	$ 162	$ —	$ 325	$ 10	$ 9	$ —	$ —
Ending Balance: collectively evaluated for impairment	$ 3,971	$ 2,496	$ 4,115	$ 1,337	$ 331	$ 96	$ 709
Loans:							
Ending Balance: collectively evaluated for impairment non PCI loans	$ 159,585	$ 253,851	$ 518,462	$ 182,926	$ 47,190	$ 6,709	$ 78,646
Ending Balance: collectively evaluated for impairment PCI loans	$ 1,557	$ 1,605	$ 12,959	$ 12,013	$ 675	$ 127	$ 1,051
Ending Balance: individually evaluated for impairment	$ 4,624	$ 262	$ 5,666	$ 235	$ 530	$ 261	$ —
Ending Balance	$ 165,766	$ 255,718	$ 537,087	$ 195,174	$ 48,395	$ 7,097	$ 79,697

SELECT BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

2020	Commercial and industrial	Construction	Commercial real estate	1 to 4 family residential	HELOC	Loans to individuals & overdrafts	Multi-family residentia
	Nine Months Ended September 30, 2020						
Allowance for loan losses							
Loans – excluding PCI							
Balance, beginning of period 01/01/2020	$ 1,127	$ 1,731	$ 2,837	$ 1,437	$ 329	$ 175	$
Provision for (recovery of) loan losses	3,591	765	1,670	(352)	(31)	(55)	
Loans charged-off	(628)	—	(70)	—	—	(42)	
Recoveries	43	—	3	23	42	18	
Balance, end of period 9/30/2020	$ 4,133	$ 2,496	$ 4,440	$ 1,108	$ 340	$ 96	$
PCI Loans							
Balance, beginning of period 01/01/2020	$ 178	$ 6	$ 14	$ 56	$ —	$ —	$
Provision for (recovery of) loan losses	(178)	(6)	(14)	183	—	—	
Loans charged-off	—	—	—	—	—	—	
Recoveries	—	—	—	—	—	—	
Balance, end of period 9/30/2020	$ —	$ —	$ —	$ 239	$ —	$ —	$
Total Loans							
Balance, beginning of period 01/01/2020	$ 1,305	$ 1,737	$ 2,851	$ 1,493	$ 329	$ 175	$
Provision for (recovery of) loan losses	3,413	759	1,656	(169)	(31)	(55)	
Loans charged-off	(628)	—	(70)	—	—	(42)	
Recoveries	43	—	3	23	42	18	
Balance, end of period 9/30/2020	$ 4,133	$ 2,496	$ 4,440	$ 1,347	$ 340	$ 96	$

SELECT BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

2019	Three Months Ended September 30, 2019 Commercial and industrial	Construction	Commercial real estate	1 to 4 family residential	HELOC	Loans to individuals & overdrafts	Multi-family residential
Allowance for loan losses							
Loans – excluding PCI							
Balance, beginning of period 07/01/2019	$ 814	$ 1,487	$ 2,818	$ 1,543	$ 432	$ 309	$ 383
Provision for (recovery of) loan losses	123	212	(44)	(111)	18	9	11
Loans charged-off	(48)	—	—	—	(50)	(155)	—
Recoveries	2	—	1	8	21	5	—
Balance, end of period 9/30/2019	$ 891	$ 1,699	$ 2,775	$ 1,440	$ 421	$ 168	$ 394
PCI Loans							
Balance, beginning of period 07/01/2019	$ 298	$ 6	$ 142	$ 62	$ 1	$ —	$ 8
Provision for (recovery of) loan losses	10	—	—	(10)	—	13	—
Loans charged-off	(249)	—	—	—	—	(13)	—
Recoveries	—	—	—	—	—	—	—
Balance, end of period 9/30/2019	$ 59	$ 6	$ 142	$ 52	$ 1	$ —	$ 8
Total Loans							
Balance, beginning of period 07/01/2019	$ 1,112	$ 1,493	$ 2,960	$ 1,605	$ 433	$ 309	$ 391
Provision for (recovery of) loan losses	133	212	(44)	(121)	18	22	11
Loans charged-off	(297)	—	—	—	(50)	(168)	—
Recoveries	2	—	1	8	21	5	—
Balance, end of period 9/30/2019	$ 950	$ 1,705	$ 2,917	$ 1,492	$ 422	$ 168	$ 402
Ending Balance: individually evaluated for impairment	$ 230	$ —	$ —	$ 6	$ 48	$ —	$ —
Ending Balance: collectively evaluated for impairment	$ 720	$ 1,705	$ 2,917	$ 1,486	$ 374	$ 168	$ 402
Loans:							
Ending Balance: collectively evaluated for impairment non PCI loans	$ 74,658	$ 209,464	$ 440,244	$ 145,645	$ 45,170	$ 9,634	$ 60,970
Ending Balance: collectively evaluated for impairment PCI loans	$ 1,154	$ 682	$ 6,033	$ 7,479	$ 47	$ —	$ 908
Ending Balance: individually evaluated for impairment	$ 3,874	$ 2,531	$ 6,367	$ 738	$ 1,004	$ 85	$ 202
Ending Balance	$ 79,686	$ 212,677	$ 452,644	$ 153,862	$ 46,221	$ 9,719	$ 62,080

SELECT BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

	Nine Months Ended September 30, 2019						
2019	Commercial and industrial	Construction	Commercial real estate	1 to 4 family residential	HELOC	Loans to individuals & overdrafts	Multi-family residentia
Allowance for loan losses							
Loans – excluding PCI							
Balance, beginning of period 01/01/2019	$ 762	$ 1,385	$ 3,024	$ 1,663	$ 555	$ 206	$
Provision for (recovery of) loan losses	422	296	(289)	(248)	(18)	123	
Loans charged-off	(305)	—	(10)	—	(150)	(179)	
Recoveries	12	18	50	25	34	18	
Balance, end of period 9/30/2019	$ 891	$ 1,699	$ 2,775	$ 1,440	$ 421	$ 168	$
PCI Loans							
Balance, beginning of period 01/01/2019	$ 214	$ —	$ 385	$ 4	$ —	$ —	$
Provision for (recovery of) loan losses	94	6	(243)	48	1	13	
Loans charged-off	(249)	—	—	—	—	(13)	
Recoveries	—	—	—	—	—	—	
Balance, end of period 9/30/2019	$ 59	$ 6	$ 142	$ 52	$ 1	$ —	$
Total Loans							
Balance, beginning of period 01/01/2019	$ 976	$ 1,385	$ 3,409	$ 1,667	$ 555	$ 206	$
Provision for (recovery of) loan losses	516	302	(532)	(200)	(17)	136	
Loans charged-off	(554)	—	(10)	—	(150)	(192)	
Recoveries	12	18	50	25	34	18	
Balance, end of period 9/30/2019	$ 950	$ 1,705	$ 2,917	$ 1,492	$ 422	$ 168	$

NOTE G – LOANS HELD FOR SALE

The Company originates fixed and variable rate residential mortgage loans on a service release basis in the secondary market. Loans closed but not yet settled with an investor are carried in loans held for sale portfolio. Virtually all of these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with customers. Therefore, these loans present very little market risk. The Company usually delivers to, and receive funding from, the investor within 30 to 60 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a "best efforts" basis. The Company is not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. Because of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is materially the same as the value of the loan amount at its origination.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations as a component of mortgage banking income. Gains or losses on sales of loans are recognized when control over these assets are surrendered and are included in mortgage banking income in the consolidated statements of operations.

NOTE H –BUSINESS COMBINATIONS

On December 20, 2019, the Bank entered into a Branch Purchase and Assumption Agreement (the "Purchase Agreement") with Entegra Bank ("Entegra"), by which the Bank assumed the deposits and acquired the majority of the loans, property, equipment and other selected assets associated with three existing Entegra branch offices. Entegra was merged with and into First-Citizens Bank & Trust Company (“First-Citizens Bank”) on December 31, 2019, and First-Citizens Bank assumed the rights and obligations of Entegra under the Purchase Agreement with the Bank.

On April 17, 2020, the Bank completed the acquisition of the three branches located in western North Carolina and pursuant to the terms of the Purchase Agreement. The branches had approximately $170.9 million in assets and $186.4 million in liabilities as of the acquisition date, April 17, 2020. The purchase expanded the Bank’s North Carolina presence with branches in Sylva, Franklin and Highlands, North Carolina.

The purchase of the branches was accounted for under the acquisition method. The assets and liabilities of the branches, as of the effective date of the acquisition, are recorded at their respective fair values. For the acquisition of the branches, estimated fair values of assets acquired and liabilities assumed are based on the information that is available, and the Company believes this information provides a reasonable basis for determining fair values.

The following table provides the carrying value of acquired assets and assumed liabilities, as recorded by the Company, the fair value adjustments calculated at the time of the merger and the resulting fair value recorded by the Company.

	April 17, 2020	
(Dollars in thousands)	As recorded by First Citizens	Fair Value adjustments
Assets		
Cash and cash equivalents	$ 60,234	$ —
Loans	108,236	(4,977)
Premises and equipment	2,106	790
Accrued interest receivable	338	—
Core deposit intangible	—	620
Other assets	—	974
Total assets acquired	$ 170,914	$ (2,593)
Liabilities		
Deposits:		
Noninterest-bearing	$ 41,398	$ —
Interest-bearing	144,845	(760)
Total deposits	186,243	(760)
Other liabilities	173	—
Total liabilities assumed	$ 186,416	$ (760)
Goodwill recorded for branches acquisition		

Goodwill recorded for the branches represents future revenues to be derived from the existing customer base, including efficiencies that will result from combining operations. The fair value adjustments remain subject to adjustment within the one year measurement period if there happens to be notable changes in the factors determining the fair value of the assets or liabilities.

In determining the acquisition date fair value of purchased credit-impaired (“PCI”) loans, and in subsequent accounting, the Company generally aggregates loans into pools of loans with common risk characteristics. Expected cash flows at the

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acquisition date in excess of the fair value of loans are referred to as the “accretable yield” and recorded as interest income prospectively.

PCI loans acquired totaled $17.0 million at estimated fair value and acquired performing loans totaling $86.2 million at estimated fair value. For PCI loans acquired from First-Citizens Bank, the contractually required payments including principal and interest, cash flows expected to be collected and fair values as of the closing date of the merger were:

(Dollars in thousands)		A
Contractually required payments	$	
Nonaccretable difference		
Cash flow expected to be collected		
Accretable yield		
Fair value at acquisition date	$	

Merger-related expense in 2020 totaled $755,000 which were recorded as noninterest expense as incurred.

The following tables reflect the pro forma total net interest income, noninterest income and net income for the nine months ended September 30, 2020 and 2019 as though the acquisition of the branches had taken place on January 1, 2019. The pro forma results have not been adjusted to remove non-recurring acquisition-related expenses, and are not necessarily indicative of the results of operations that would have occurred had the acquisition actually taken place on January 1, 2019, nor of future results of operations.

	Nine Months Ended September 3			
		2020		2
	(Dollars in thousands, except per sh			
Net interest income	$	38,130	$	
Non-interest income		4,717		
Net income available to common shareholders		4,834		
Earnings per share, basic	$	0.27	$	
Earnings per share, diluted	$	0.27	$	
Weighted average common shares outstanding, basic		18,038,345		
Weighted average common shares outstanding, diluted		18,062,170		

SELECT BANCORP, INC.
Notes to Consolidated Financial Statements (Unaudited)

NOTE I – OTHER REAL ESTATE OWNED

The following table explains changes in other real estate owned, or OREO, during the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30, 2020	S
	(Dollars in thousan	
Beginning balance January 1	$ 3,533	$
Sales	(180)	
Write-downs and loss on sales	(390)	
Transfers	274	
Ending balance	$ 3,237	$

At September 30, 2020 and December 31, 2019, the Company had $3.2 million and $3.5 million, respectively, of which $379,000 is foreclosed residential real estate property in OREO. The Company had two loans with a recorded investment in consumer mortgage loans collateralized by residential real estate property in the process of foreclosure in the aggregate amount of $428,000 at September 30, 2020. At December 31, 2019, the Company had 3 loans with recorded investment in the amount of $114,000 in consumer mortgage loans collateralized by residential real estate property in the process of foreclosure.

NOTE J – SUBSEQUENT EVENTS

The Company has evaluated for subsequent events through the date and time the financial statements were issued and has determined there are no reportable subsequent events.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Management’s discussion and analysis is intended to assist readers in the understanding and evaluation of the financial condition and results of operations of Select Bancorp, Inc. (the “Company”). This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 relating to, without limitation, our future economic performance, plans and objectives for future operations, and projections of revenues and other financial items that are based on our beliefs, as well as assumptions made by, and information currently available to us. The words “may,” “will,” “anticipate,” “should,” “would,” “believe,” “contemplate,” “could,” “project,” “predict,” “expect,” “estimate,” “continue,” and “intend,” as well as other similar words and expressions of the future, are intended to identify forward-looking statements. Our actual results, performance or achievements may differ materially from the results expressed or implied by our forward-looking statements. Factors that could influence actual results, performance or achievements include, among other things: the impact of the novel coronavirus and the associated COVID-19 disease pandemic on the business, financial condition and results of operations of the Company and its customers, changes in national, regional and local market conditions; changes in legislative and regulatory conditions, changes in the interest rate environment, breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats; and adverse changes in credit quality trends.

Overview

The Company is a commercial bank holding company and has one banking subsidiary, Select Bank & Trust Company (referred to as the “Bank”), and one unconsolidated subsidiary, New Century Statutory Trust I, which issued trust preferred securities in 2004 to provide additional capital for general corporate purposes. The Company’s only business activity is the ownership of the Bank and New Century Statutory Trust I. This discussion focuses primarily on the financial condition and operating results of the Bank.

The Bank’s lending activities are oriented to the consumer/retail customer as well as to the small- to medium-sized businesses located in Harnett, Brunswick, New Hanover, Carteret, Cumberland, Jackson, Johnston, Macon, Mecklenburg, Pitt, Robeson, Sampson, Wake, Pasquotank, Alamance, and Wayne counties in North Carolina, York and Cherokee counties in South Carolina, and Virginia Beach, Virginia. The Bank offers the standard complement of commercial, consumer, and mortgage lending products, as well as the ability to structure products to fit specialized needs. The deposit services offered by the Bank include small business and personal checking accounts, savings accounts, and certificates of deposit. The Bank concentrates on customer relationships in building its customer deposit base and competes aggressively in the area of transaction accounts.

The Company was formerly known as New Century Bancorp, Inc. On July 25, 2014, New Century Bancorp, Inc. acquired Select Bancorp, Inc. (“Legacy Select”) by merger. The combined company is now known as Select Bancorp, Inc., which we refer to in this report as the Company. Legacy Select was a bank holding company headquartered in Greenville, North Carolina, whose wholly owned subsidiary, Select Bank & Trust Company, was a state-chartered commercial bank with approximately $276.9 million in assets. The merger expanded the Company’s North Carolina presence with the addition of six branches located in Greenville (two), Elizabeth City, Washington, Gibsonville, and Burlington. During 2015, the Gibsonville and Burlington branches were combined into a new location in Burlington. On December 15, 2017, the Company acquired Premara Financial, Inc. ("Premara") and its banking subsidiary Carolina Premier Bank ("Carolina Premier") headquartered in Charlotte, North Carolina. At the time of the acquisition, Carolina Premier had approximately $279 million in assets and four-full service offices, including a presence in upstate South Carolina. The Bank acquired three branches located in the cities of Sylva, Franklin and Highlands, North Carolina on April 17, 2020. The acquisition of these branches, which were acquired from First-Citizens Bank & Trust Company, Raleigh, North Carolina, added approximately $103 million in loans and $185 million in deposits as of the acquisition date.

Comparison of Financial Condition at
September 30, 2020 and December 31, 2019

During the first nine months of 2020, total assets increased by $496.9 million to $1.8 billion as of September 30, 2020. The increase in assets was due primarily to the acquisition of three branches located in western North Carolina and loans originated by the Bank in connection with its participation in the U.S. Small Business Administration's Paycheck Protection Program ("PPP"). Earning assets at September 30, 2020 totaled $1.6 billion and consisted of $1.3 billion in net loans, $87.4 million in investment securities, $274.6 million in cash, overnight investments and interest-bearing deposits in other banks, $8.0 million in federal funds sold and $3.8 million in non-marketable equity securities. Total deposits and shareholders' equity at the end of the third quarter of 2020 were $1.5 billion and $213.4 million, respectively.

Since the end of 2019, gross loans have increased by $253.5 million to $1.3 billion as of September 30, 2020. The increase in gross loans was due primarily to normal customer demand, the PPP loan program and the aforementioned acquisition of branches. At September 30, 2020, gross loans consisted of $165.8 million in commercial and industrial loans (which includes 1,249 PPP loans in the amount of $97.0 million), $537.1 million in commercial real estate loans, $79.7 million in multi-family residential loans, $7.1 million in consumer loans, $195.2 million in residential real estate loans, $48.4 million in HELOCs, and $255.7 million in construction loans. Deferred loan fees, net of costs, on these loans were $5.5 million (which includes $3.1 million in net fees related to PPP loans) at September 30, 2020.

At September 30, 2020 the Company held $8.0 million in federal funds sold compared to $9.0 million in federal funds sold at December 31, 2019. Interest-earning deposits in other banks were $249.5 million at September 30, 2020, a $198.6 million increase from December 31, 2019. The Company's investment securities at September 30, 2020 were $87.4 million, an increase of $15.1 million from December 31, 2019. The investment portfolio as of September 30, 2020 consisted of $11.8 million in government agency debt securities, $41.7 million in mortgage-backed securities, $2.1 million in corporate bonds and $31.9 million in municipal securities. The net unrealized gain on these securities was $2.0 million as of September 30, 2020.

At September 30, 2020, the Company had an investment of $3.1 million in Federal Home Loan Bank ("FHLB") stock, which increased by $14,000 from December 31, 2019. Also, the Company had $718,000 in other non-marketable securities at September 30, 2020 compared to $719,000 at December 31, 2019.

At September 30, 2020, non-earning assets were $120.0 million, an increase of $33.4 milllion from $86.6 million as of December 31, 2019. Non-earning assets included $25.1 million in cash and due from banks, bank premises and equipment of $20.9 million, goodwill of $41.9 million, core deposit intangible of $1.7 million, accrued interest receivable of $4.5 million, right of use lease asset of $8.8 million, foreclosed real estate of $3.2 million, and other assets totaling $14.0 million, including net deferred taxes of $3.6 million. Since the income on bank-owned life insurance is included in non-interest income, this asset is not included in the Company's calculation of earning assets. The increase in non-earning assets was due primarily to the increase in goodwill, cash and due from banks.

Total deposits at September 30, 2020 were $1.5 billion and consisted of $408.2 million in non-interest-bearing demand deposits, $610.3 million in money market and negotiable order of withdrawal, or NOW, accounts, $51.6 million in savings accounts, and $402.7 million in time deposits. Total deposits increased by $479.9 million from $992.8 million as of December 31, 2019, due primarily to the acquisition of the three branches in western North Carolina and deposits related to the PPP loan program. The Bank had $1.5 million in brokered demand deposits and $3.1 million in brokered time deposits as of September 30, 2020. The Bank had $0 million in brokered demand deposits and $45.0 million in brokered time deposits as of December 31, 2019.

As of September 30, 2020, the Company had $45.0 million (of which $20.0 million is identified as short-term borrowings and $25.0 million is identified as long-term debt) in FHLB borrowings, and $12.4 million in junior subordinated debentures that are classified as long-term debt.

Total shareholders' equity at September 30, 2020 was $213.4 million, an increase of $592,000 from $212.8 million as of December 31, 2019. Accumulated other comprehensive income relating to available for sale securities increased $633,000 during the nine months ended September 30, 2020. Also contributing to the increase in shareholders' equity were net income of $4.2 million and $7,000 from the exercise of stock options, which were offset by stock repurchases totaling $4.4 million.

Past Due Loans, Non-performing Assets, and Asset Quality

At September 30, 2020, the Company had $516,000 in loans that were 30 to 59 days past due and $149,000 in loans that were 30 to 89 days past due. This represented 0.12% of gross loans outstanding on that date. This is a decrease from December 31, 2019 when there were $3.5 million in loans that were 30-89 days past due or 0.34% of gross loans outstanding. Non-accrual loans increased from $5.9 million at December 31, 2019 to $7.7 million at September 30, 2020.

The percentage of non-performing loans (non-accrual loans and accruing troubled debt restructurings) to total loans decreased from 1.18% at December 31, 2019 to 1.07% at September 30, 2020. The Company had an increase of $1.8 million in non-accruals from $5.9 million at December 31, 2019 and a decrease in accruing troubled debt restructurings or TDRs, from $6.2 million at December 31, 2019 to $6.0 million as of September 30, 2020. Of the non-accrual loans as of September 30, 2020, two commercial real estate loans totaled $2.0 million, two construction loans totaled $161,000, twelve commercial loans totaled $4.3 million, five HELOC loans totaled $263,000, eleven 1-to-4 family residential loans totaled $950,000 and consumer made up the remaining balance.

At September 30, 2020, the Bank had forty-nine loans totaling $10.3 million that were considered to be troubled debt restructurings, or TDRs. Thirty-two of these loans totaling $6.4 million were still in accruing status with the remaining TDRs included in non-accrual loans. All TDRs are considered impaired loans regardless of accrual status and have been included as non-performing assets in the table below.

The table below sets forth, for the periods indicated, information about the Company's non-accrual loans, loans past due 90 days or more and still accruing interest, total non-performing loans (non-accrual loans plus accruing TDRs), and total non-performing assets.

	For Periods Ended	
	September 30, 2020	Dec
Non-accrual loans	$ 7,695	$
Accruing TDRs	6,044	
Total non-performing loans	13,739	
Foreclosed real estate	3,237	
Total non-performing assets	$ 16,976	$
Accruing loans past due 90 days or more	$ 1,548	$
Allowance for loan losses	$ 13,561	$
Non-performing loans to period end loans	1.07 %	
Non-performing loans and accruing loans past due 90 days or more to period end loans	1.19 %	
Allowance for loan losses to period end loans	1.06 %	
Allowance for loan losses to non-performing loans	99 %	
Allowance for loan losses to non-performing assets	80 %	
Allowance for loan losses to non-performing assets and accruing loans past due 90 days or more	73 %	
Non-performing assets to total assets	0.96 %	
Non-performing assets and accruing loans past due 90 days or more to total assets	1.05 %	

Total non-performing assets (non-accrual loans, accruing TDRs, and foreclosed real estate) at September 30, 2020 and December 31, 2019 were $17.0 million and $15.7 million, respectively. The allowance for loan losses at September 30, 2020 represented 80% of non-performing assets compared to 53% at December 31, 2019.

Total impaired loans at September 30, 2020 were $11.6 million. This included $7.7 million in loans that were classified as impaired because they were in non-accrual status and $3.9 million in accruing loans. Of these loans, $1.6 million required a specific reserve of $506,000 at September 30, 2020.

Total impaired loans at December 31, 2019 were $11.2 million. This included $5.9 million in loans that were classified as impaired because they were in non-accrual status and $6.2 million in accruing TDRs. Of these loans, $1.0 million required a specific reserve of $413,000 at December 31, 2019.

The allowance for loan losses was $13.6 million at September 30, 2020 or 1.06% of gross loans outstanding as compared to 0.81% reported as a percentage of gross loans at December 31, 2019. This increase resulted primarily from changes in loans requiring a specific reserve plus qualitative factors related to COVID-19 and economic performance indicators. The Legacy Select loans, Carolina Premier and First Citizens Bank loans were recorded at estimated fair value as of the acquisition date and the related credit risk is reflected as a fair value adjustment rather than separately in the allowance for losses as required in acquisition accounting. This required accounting under generally accepted accounting principles has resulted in a lower percentage of the allowance for loan losses to gross loans. The allowance for loan losses at September 30, 2020 represented 99% of non-performing loans compared to 69% at December 31, 2019. It is management's assessment that the allowance for loan losses as of September 30, 2020 is appropriate in light of the risk inherent within the Company's loan portfolio. No assurances, however, can be given that further adjustments to the allowance for loan losses may not be deemed necessary in the future. The current economic and business disruptions in the Bank's markets, and in the national and global markets more generally, are unprecedented, as state, local, and national governing bodies attempt to address the public health emergency caused by COVID-19. Management expects the Company's customers, including its borrowers, will continue to experience the financial impacts of COVID-19 over the balance of the 2020 fiscal year. Depending on the length of financial impact and the effectiveness of the various governmental programs put in place to stabilize economic conditions, the Company's management would expect to see continued volatility in the Company's allowance for loan losses and related provision expense during the remainder of 2020. The CARES Act provided an opportunity for loan customers to request a temporary modification of the payment terms on their loans granting the customer time to address cashflow issues. The Bank entered into modifications on 497 loans amounting to $252.3 million during 2020 of which 114 loans totaling $65.6 million remained on modification as of September 30, 2020. See Item 1A (Risk Factors) later in this report for additional discussion of COVID-19.

Contractual Obligations

The following table presents the Company's significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient. The table excludes liabilities recorded where management cannot reasonably estimate the timing of any payments that may be required in connection with these liabilities.

	Payments Due by Period			
	1 Year or Less	**Over 1 to 3 Years**	**Over 3 to 5 Years**	**More Than 5 years**
(dollars in thousands)			**(dollars in thousands)**	
Time deposits	$ 310,379	$ 82,598	$ 9,612	$ 78
Short-term debt	20,000	—	—	—
Long-term debt	—	—	25,000	12,372
Operating leases	663	1,503	1,466	5,457
Total contractual obligations	$ 331,042	$ 84,101	$ 36,078	$ 17,907

Other Lending Risk Factors

Besides monitoring non-performing loans and past due loans, management also monitors trends in the loan portfolio that may indicate more than normal risk. A discussion of certain other risk factors follows. Some loans or groups of loans may contain one or more of these individual loan risk factors. Therefore, an accumulation of the amounts or percentages of the individual loan risk factors may not necessarily be an indication of the cumulative risk in the total loan portfolio.

Regulatory Loan to Value Ratios

The Company monitors its exposure to loans that exceed the guidelines established by regulators for loan to value ("LTV") ratios.

At September 30, 2020 and December 31, 2019, the Company had $40.4 million and $27.7 million in non-1-to-4 family residential loans that exceeded the regulatory LTV limits, respectively. At September 30, 2020 and December 31, 2019, the Company had $7.8 million and $10.0 million of 1-to-4 family residential loans that exceeded the regulatory LTV limits, respectively. The total amount of these loans represented 28.3% and 23.2% of total risk-based capital as of September 30, 2020 and December 31, 2019, which is less than the 100% maximum allowed. These loans may represent more than ordinary risk to the Company if the real estate market weakens in terms of market activity or collateral valuations.

Business Sector Concentrations

Loan concentrations in certain business sectors can be impacted by lower than normal retail sales, higher unemployment, higher vacancy rates, and a weakening in real estate market conditions. The Company has established an internal commercial real estate guideline of 40% of risk-based capital for any single product line.

At September 30, 2020, the Company had five product type groups which exceeded this guideline: Office Building, which represented 59% of risk-based capital or $100.8 million; Commercial Construction, which represented 79% of risk-based capital or $134.4 million; 1-to-4 Family Rental property, which represented 62% of risk-based capital or $105.7 million; Retail property, which represented 47% of risk-based capital or $80.6 million; and Apartment Complex/Multi-Family, which represented 46% of risk-based capital or $78.3 million. All other commercial real estate groups were at or below the 40% threshold. The internal guideline levels heighten the level of Company monitoring of such loans in underwriting and ongoing servicing activities.

At December 31, 2019, the Company had three product types that exceeded the 40% guideline. The following product types were in excess of the 40% guidelines at such date: apartments, commercial construction and office buildings. All other commercial and residential real estate product types were under the 40% threshold as of such date.

Acquisition, Development, and Construction Loans ("ADC")

The tables below provide information regarding loans the Company originates for the purpose of acquisition, development, and construction of both residential and commercial properties as of September 30, 2020 and December 31, 2019.

Acquisition, Development and Construction Loans
(dollars in thousands)

	September 30, 2020			December 31, 2019		
	Construction	Land and Land Development	Total	Construction	Land and Land Development	
Total ADC loans	$ 219,576	$ 36,142	$ 255,718	$ 186,038	$ 35,840	$
Average Loan Size	$ 315	$ 592		$ 331	$ 607	
Percentage of total loans	17.11 %	2.82 %	19.93 %	18.06 %	3.48 %	
Non-accrual loans	$ 169	$ —	$ 169	$ 181	$ —	$

Management monitors the ADC portfolio by reviewing funding based on project completeness, monthly and quarterly inspections as required by the project, collateral value, geographic concentrations, spec-to-presold ratios and performance of similar loans in the Company's market area.

Geographic Concentrations

Certain risks exist arising from the geographic location of specific types of higher than normal risk real estate loans. Below is a table showing geographic concentrations for ADC and HELOC loans at September 30, 2020 and December 31, 2019.

	September 30, 2020				December 31, 2019		
	ADC Loans	Percent	HELOC	Percent	ADC Loans	Percent	HELOC
	(dollars in thousands)						
Harnett County	$ 8,683	3.40 %	$ 4,528	9.36 %	$ 9,637	4.34 %	$ 5,156
Alamance County	511	0.20 %	1,062	2.20 %	845	0.38 %	1,072
Brunswick County	15,188	5.94 %	1,642	3.39 %	15,456	6.97 %	1,629
Carteret County	4,483	1.75 %	2,242	4.63 %	5,352	2.41 %	2,190
Cherokee County (SC)	—	— %	34	0.07 %	—	— %	22
Cumberland County	25,098	9.83 %	1,975	4.08 %	24,601	11.09 %	2,285
Durham County	6,621	2.59 %	159	0.33 %	—	— %	—
Forsyth County	2,225	0.87 %	—	— %	—	— %	—
Jackson County	4,770	1.87 %	2,106	4.35 %	—	— %	—
Macon County	10,507	4.11 %	4,779	9.87 %	—	— %	—
Mecklenburg County	23,011	9.00 %	4,171	8.62 %	18,142	8.18 %	2,689
New Hanover County	34,737	13.58 %	2,564	5.30 %	40,518	18.26 %	2,885
Pasquotank County	2,978	1.16 %	1,636	3.38 %	1,997	0.90 %	1,693
Pitt County	17,655	6.90 %	3,343	6.91 %	16,098	7.25 %	5,442
Robeson County	35	0.01 %	2,568	5.31 %	1,165	0.53 %	2,939
Sampson County	236	0.09 %	1,841	3.80 %	23	0.01 %	1,743
Virginia Beach County (VA)	3,361	1.31 %	395	0.82 %	142	0.06 %	99
Wake County	21,871	8.55 %	1,541	3.18 %	23,407	10.56 %	1,640
Wayne County	3,207	1.25 %	2,904	6.00 %	1,572	0.71 %	3,183
Wilson County	759	0.30 %	57	0.12 %	477	0.21 %	72
York County (SC)	3,197	1.25 %	1,028	2.12 %	1,931	0.87 %	1,123
All other locations	66,585	26.04 %	7,820	16.16 %	60,515	27.27 %	8,652
		—					
Total	$ 255,718	100.00 %	$ 48,395	100.00 %	$ 221,878	100.00 %	$ 44,514

Interest-Only Payments

Another risk factor that exists in the total loan portfolio pertains to loans with interest-only payment terms. At September 30, 2020, the Company had $300.0 million in loans that had terms permitting interest-only payments. This represented 23.4% of the total loan portfolio. At December 31, 2019, the Company had $249.9 million in loans that had terms permitting interest-only payments. This represented 24.3% of the total loan portfolio. Recognizing the risk inherent with interest-only loans, it is customary and general industry practice that loans in the ADC portfolio permit interest-only payments during the acquisition, development, and construction phases of such projects.

Large Dollar Concentrations

Concentrations of high dollar loans or large customer relationships may pose additional risk in the total loan portfolio. The Company's ten largest loans or lines of credit totaled $85.1 million, or 6.6% of total loans, at September 30, 2020 compared to $82.0 million, or 8.0% of total loans, at December 31, 2019. The Company's ten largest customer relationships totaled $149.8 million, or 11.7% of total loans, at September 30, 2020 compared to $129.5 million, or 12.6% of total loans, at December 31, 2019. Deterioration or loss in any one or more of these high dollar loan or customer concentrations could have an immediate, significant adverse impact on the Company's capital position.

Comparison of Results of Operations for the
Three months ended September 30, 2020 and 2019

General. During the third quarter of 2020, the Company reported net income of $2.5 million as compared with net income of $3.2 million for the third quarter of 2019. Net income per common share for the third quarter of 2020 was $0.14 basic and diluted, compared with net income per common share of $0.17 basic and diluted, for the third quarter of 2019. Results of operations for the third quarter of 2020 were primarily impacted by an increase of $1.2 million in net interest income and an increase in non-interest expense of $1.1 million. The increase in non-interest expense was primarily related to increases in information systems expenses of $191,000, deposit insurance expense of $400,000, foreclosed real estate expense of $237,000, and personnel expense of $618,000, which were offset by a decrease in merger-related expenses of $121,000, occupancy expenses of $65,000 and professional fees of $119,000. The Company recorded a provision for loan losses of $1.6 million for the third quarter of 2020 compared to a provision of $231,000 in the third quarter of 2019, which increased provision expense had a significant impact on the reduced net income reported for the 2020 third quarter as compared to the comparative period in 2019.

Net Interest Income. Net interest income increased by $1.2 million for the third quarter of 2020 from the third quarter of 2019. The Company's total interest income was affected by an increase in earning loans, which was offset by a reduction in earning balances of federal funds sold and investments in addition to the interest rate reductions. Average total interest-earning assets were $1.4 billion in the third quarter of 2020 compared with $1.2 billion during the same period in 2019, while the average yield on those assets decreased 48 basis points from 5.05% to 4.50%, which was primarily due to the reduction of interest rates on loans due to modifications related to COVID-19, reduced rates on overnight interest earning assets and reduced yield on investment securities.

The Company's average interest-bearing liabilities increased by $234.2 million to $1.1 billion for the quarter ended September 30, 2020 from $818.6 million for the same period one year earlier and the cost of those funds decreased from 1.52% to 1.03%, or 49 basis points. The increase in interest-bearing liabilities was a primary result of increased savings, money market and time deposits from the acquisition of three branches offset by a reduction in wholesale deposits. During the third quarter of 2020, the Company's net interest margin was 3.73% and net interest spread was 3.47%. In the same quarter ended one year earlier, net interest margin was 3.94% and net interest spread was 3.46%.

Provision for Loan Losses. Provisions for loan losses are charged to income to bring the allowance for loan losses to a level deemed appropriate by management. In evaluating the allowance for loan losses, management considers factors that include growth, composition and industry diversification of the portfolio, historical loan loss experience, current delinquency levels, adverse situations that may affect a borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions and other relevant factors. In determining the loss history to be applied to its ASC 450 loan pools within the allowance for loan losses, the Company uses loss history based on the weighted average net charge off history for the most recent twelve consecutive quarters, based on the risk-graded pool to which the loss was assigned. Then, using the look back period, loss factors are calculated for each risk-graded pool. During the third quarter of 2020, the Company recorded a provision for loan losses of $1.6 million, as compared to a provision of $231,000 that was recorded in the third quarter of 2019.

Non-Interest Income. Non-interest income for the quarter ended September 30, 2020 was $1.7 million, an increase of $276,000 from the third quarter of 2019. Service charges on deposit accounts decreased $51,000 to $257,000 for the quarter ended September 30, 2020 from $308,000 for the same period in 2019. Other non-deposit fees and income increased $76,000 from the third quarter of 2019 to the third quarter of 2020. Fees from the sale of mortgages increased from $218,000 for the quarter ended September 30, 2019 to $517,000 for the third quarter of 2020 due to increased volume. The Company did not have sales of securities during the three months ended September 30, 2020 and in 2019 sold securities for a gain of $48,000.

Non-Interest Expenses. Non-interest expenses increased by $1.1 million to $10.1 million for the quarter ended September 30, 2020, from $8.9 million for the same period in 2019. In general, most categories of non-interest expenses increased primarily due to changes in the Company's branch network and the acquisition of the branches in western North Carolina. The following are highlights of the significant categories of non-interest expenses during the third quarter of 2020 versus the same period in 2019:

- Personnel expenses increased $618,000 to $5.7 million, due to additional personnel and cost of living increases.
- Occupancy expenses decreased $65,000, primarily due to the reduction in repairs and maintenance which was offset by increased rent expense due to normal rent esc
- Integration-related expenses decreased $121,000.
- CDI expense reduced $29,000 due to amortization.

- Information systems expense increased by $191,000 due to increased expenses related to the new mobile banking platform, increase in customer accounts and securit processing system.
- Professional fees decreased by $119,000 to $399,000.
- Deposit insurance expenses increased by $400,000 due to increased asset base.

Provision for Income Taxes. The Company's effective tax rate was 21.5% and 22.0% for the quarters ended September 30, 2020 and 2019, respectively.

As of September 30, 2020 and December, 31, 2019, the Company had a net deferred tax asset in the amount of $3.6 million and $2.8 million, respectively. In evaluating whether the Company will realize the full benefit of the net deferred tax asset, management considered both positive and negative evidence, including, among other things, recent earnings trends, projected earnings, and asset quality. As of September 30, 2020 and December 31, 2019, management concluded that the net deferred tax assets were fully realizable. The Company will continue to monitor deferred tax assets closely to evaluate whether the full benefit of the net deferred tax asset will require a valuation allowance. Significant negative trends in credit quality or losses from operations, among other trends, could impact the realization of the deferred tax asset in the future.

NET INTEREST INCOME

The following table sets forth, for the periods indicated, information with regard to average balances of assets and liabilities, as well as the total dollar amounts of interest income from interest-earning assets and interest expense on interest-bearing liabilities, resultant yields or costs, net interest income, net interest spread, net interest margin and ratio of average interest-earning assets to average interest-bearing liabilities. Non-accrual loans have been included in determining average loans.

	For the quarter ended September 30, 2020 (dollars in thousands)			For the quarter en September 30, 20	
	Average balance	Interest	Average rate	Average balance	Interest
INTEREST-EARNING ASSETS:					
Loans, gross of allowance	$ 1,255,027	$ 15,415	4.89 %	$ 982,876	$ 13,5
Investment securities	64,685	386	2.37 %	85,781	6
Other interest-earning assets	83,394	54	0.26 %	91,730	4
Total interest-earning assets	1,403,106	15,855	4.50 %	1,160,387	14,6
Other assets	280,068			101,585	
Total assets	$ 1,683,174			$ 1,261,972	
INTEREST-BEARING LIABILITIES:					
Deposits:					
Savings, NOW and money market	$ 602,943	891	0.59 %	$ 314,099	4
Time deposits over $100,000	277,435	1,033	1.48 %	293,635	1,4
Other time deposits	115,042	382	1.32 %	116,167	4
Borrowings	57,372	408	2.83 %	64,196	4
Total interest-bearing liabilities	1,052,792	2,714	1.03 %	788,097	2,8
Non-interest-bearing deposits	404,420			246,117	
Other liabilities	11,685			12,036	
Shareholders' equity	214,277			215,722	
Total liabilities and shareholders' equity	$ 1,683,174			$ 1,261,972	
Net interest income/interest rate spread (taxable-equivalent basis)		$ 13,141	3.47 %		$ 11,7
Net interest margin (taxable-equivalent basis)			3.73 %		
Ratio of interest-earning assets to interest-bearing liabilities	133.27 %			147.24 %	
Reported net interest income					
Net interest income/net interest margin (taxable-equivalent basis)		$ 13,141	3.72 %		$ 11,7
Less:					
taxable-equivalent adjustment		(30)			(
Net Interest Income		$ 13,111			$ 11,7

Comparison of Results of Operations for the
Nine months ended September 30, 2020 and 2019

General. During the first nine months of 2020, the Company reported net income of $4.2 million as compared with net income of $10.0 million for the first nine months of 2019. Net income per common share for the first nine months of 2020 was $0.24 basic and $0.23 diluted, compared with net income per common share of $0.52 basic and diluted, for the first nine months of 2019. Results of operations for the nine months ended September 30, 2020 were primarily impacted by an increase of $1.4 million in net interest income and an increase in non-interest expense of $3.8 million. The increase in non-interest expense was primarily related to increases in occupancy expenses of $203,000, foreclosed real estate expense of $389,000, deposit insurance expense of $131,000, merger-related expenses of $520,000, information systems expenses of $535,000, and personnel expense of $2.0 million, which were offset by a decrease in professional fees of $161,000 and CDI amortization of $79,000. The Company recorded a provision for loan losses of $5.8 million for the first nine months of 2020 compared to $136,000 in the first nine months of 2019, which increased provision expense had a significant impact on the reduced net income reported for the first nine months of 2020 as compared to the comparative period in 2019.

Net Interest Income. Net interest income increased by $1.4 million for the first nine months of 2020 from the first nine months of 2019. The Company's total interest income was affected by an increase in earning loans, which was offset by a reduction in earning balances of federal funds sold and investments in addition to the interest rate reductions. Average total interest-earning assets were $1.3 billion in the first nine months of 2020 compared with $1.2 billion during the same period in 2019, while the average yield on those assets decreased 38 basis points from 5.02% to 4.64%, which was primarily due to the reduction of interest rates on loans, federal funds purchased and reduced investment securities.

The Company's average interest-bearing liabilities increased by $136.0 million to $926.1 million for the nine months ended September 30, 2020 from $793.1 million for the same period one year earlier and the cost of those funds decreased from 1.45% to 1.17%, or 28 basis points. The increase in interest-bearing liabilities was a primary result of increased savings, money market and time deposits acquired in the acquisition of branches offset by reduced wholesale deposits. During the first nine months of 2020, the Company's net interest margin was 3.80% and net interest spread was 3.47%. In the same quarter ended one year earlier, net interest margin was 4.03% and net interest spread was 3.57%.

Provision for Loan Losses. Provisions for loan losses are charged to income to bring the allowance for loan losses to a level deemed appropriate by management. In evaluating the allowance for loan losses, management considers factors that include growth, composition and industry diversification of the portfolio, historical loan loss experience, current delinquency levels, adverse situations that may affect a borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions and other relevant factors. In determining the loss history to be applied to its ASC 450 loan pools within the allowance for loan losses, the Company uses loss history based on the weighted average net charge off history for the most recent twelve consecutive quarters, based on the risk-graded pool to which the loss was assigned. Then, using the back period, loss factors are calculated for each risk-graded pool. During the first nine months of 2020, the Company recorded a provision for loan losses of $5.8 million, as compared to a provision of $136,000 that was recorded in the first nine months of 2019.

Non-Interest Income. Non-interest income for the nine months ended September 30, 2020 was $4.6 million, an increase of $606,000 from the first nine months of 2019. Service charges on deposit accounts decreased $57,000 to $801,000 for the nine months ended September 30, 2020 from $858,000 for the same period in 2019. Other non-deposit fees and income increased $151,000 from the first nine months of 2019 to the first nine months of 2020 due to increases in various items. Fees from the sale of mortgages increased from $605,000 for the nine months ended September 30, 2019 to $1.2 million for the first nine months of 2020. The Company did not have sales of securities during the first nine months of September 30, 2020 and in 2019 sold securities reflecting a gain of $48,000, respectively.

Non-Interest Expenses. Non-interest expenses increased by $3.8 million to $29.8 million for the nine months ended September 30, 2020, from $26.0 million for the same period in 2019. In general, most categories of non-interest expenses increased primarily due to changes in the Company's branch network. The following are highlights of the significant categories of non-interest expenses during the first nine months of 2020 versus the same period in 2019:

- Personnel expenses increased $2.0 million to $17.1 million, due to additional personnel and cost of living increases and acquisition of three branches.
- Occupancy expenses increased $203,000, primarily due to additional branches, repairs and maintenance and increased rent expense due to normal rent escalation.
- Integration-related expenses increased $520,000.
- CDI expense decreased $79,000 due to the amortization.
- Information systems expense increased by $535,000 due to increased expenses related to the new mobile banking platform and security cost for the core processing s
- Professional fees decreased by $161,000 to $1.2 million.
- Deposit insurance expenses increased by $269,000 due to increased asset base.

Provision for Income Taxes. The Company's effective tax rate was 20.6% and 22.0% for the nine months ended September 30, 2020 and 2019, respectively.

As of September 30, 2020 and December, 31, 2019, the Company had a net deferred tax asset in the amount of $3.6 million and $2.8 million, respectively. In evaluating whether the Company will realize the full benefit of the net deferred tax asset, management considered both positive and negative evidence, including among other things recent earnings trends, projected earnings, and asset quality. As of September 30, 2020 and December 31, 2019, management concluded that the net deferred tax assets were fully realizable. The Company will continue to monitor deferred tax assets closely to evaluate whether the full benefit of the net deferred tax asset will require a valuation allowance. Significant negative trends in credit quality or losses from operations, among other trends, could impact the realization of the deferred tax asset in the future.

NET INTEREST INCOME

The following table sets forth, for the periods indicated, information with regard to average balances of assets and liabilities, as well as the total dollar amounts of interest income from interest-earning assets and interest expense on interest-bearing liabilities, resultant yields or costs, net interest income, net interest spread, net interest margin and ratio of average interest-earning assets to average interest-bearing liabilities. Non-accrual loans have been included in determining average loans

	For the nine months ended September 30, 2020 (dollars in thousands)			For the nine month September 30, 2	
	Average balance	Interest	Average rate	Average balance	Interest
INTEREST-EARNING ASSETS:					
Loans, gross of allowance	$ 1,156,906	$ 43,113	4.98 %	$ 988,268	$ 40,51
Investment securities	65,322	1,224	2.50 %	77,674	1,65
Other interest-earning assets	60,857	255	0.56 %	99,966	1,58
Total interest-earning assets	1,283,085	44,592	4.64 %	1,165,908	43,74
Other assets	204,098			101,558	
Total assets	$ 1,487,183			$ 1,267,466	
INTEREST-BEARING LIABILITIES:					
Deposits:					
Savings, NOW and money market	$ 468,630	1,887	0.54 %	$ 315,349	1,19
Time deposits over $100,000	289,516	3,709	1.71 %	299,092	4,51
Other time deposits	110,579	1,213	1.47 %	116,710	1,47
Borrowings	57,394	1,269	2.95 %	61,954	1,42
Total interest-bearing liabilities	926,119	8,078	1.17 %	793,105	8,60
Non-interest-bearing deposits	335,108			247,087	
Other liabilities	11,764			12,452	
Shareholders’ equity	214,192			214,822	
Total liabilities and shareholders’ equity	$ 1,487,183			$ 1,267,466	
Net interest income/interest rate spread (taxable-equivalent basis)		$ 36,514	3.47 %		$ 35,13
Net interest margin (taxable-equivalent basis)			3.80 %		
Ratio of interest-earning assets to interest-bearing liabilities	138.54 %			147.01 %	
Reported net interest income					
Net interest income/net interest margin (taxable-equivalent basis)		$ 36,514	3.79 %		$ 35,13
Less:					
taxable-equivalent adjustment		(89)			(11
Net Interest Income		$ 36,425			$ 35,02

Liquidity

The Company’s liquidity is a measure of its ability to fund loans, withdrawals and maturities of deposits, and other cash outflows in a cost effective manner. The principal sources of liquidity are deposits, scheduled payments and prepayments of loan principal, maturities of investment securities, access to liquid deposits, and funds provided by operations. While scheduled loan payments and maturing investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Liquid assets (consisting of cash and due from banks, interest-earning deposits with other banks, federal funds sold and investment securities classified as available for sale) represented 20.9% of total assets at September 30, 2020 as compared to 11.9% as of December 31, 2019.

The Company has been a net seller of federal funds since its inception and strives to maintain a position of liquidity sufficient to fund future loan demand and to satisfy fluctuations in deposit levels. Should the need arise, the Company would have the capability to sell securities classified as available for sale or to borrow funds as necessary. As of September 30, 2020, the Company had existing credit lines with other financial institutions to purchase up to $243.0 million in federal funds. Also, as a member of the FHLB of Atlanta, the Company may obtain advances of up to 10% of total assets, subject to available collateral. A floating lien of $87.6 million of qualifying loans is pledged to the FHLB to secure borrowings. At September 30, 2020, the Company had $45.0 million in FHLB advances outstanding. Another source of short-term borrowings available to the Bank is securities sold under agreements to repurchase. At September 30, 2020, in addition to FHLB advances, total borrowings consisted of junior subordinated debentures of $12.4 million.

Total deposits were $1.5 billion at September 30, 2020. Time deposits, which are the only deposit accounts that have stated maturity dates, are generally considered to be rate sensitive. Time deposits represented 27.3% of total deposits at September 30, 2020. Time deposits of $250,000 or more represented 9.6% of the Company's total deposits at September 30, 2020. At quarter-end, the Company had $3.1 million in brokered time deposits and $1.5 in brokered demand deposits. Management believes most other time deposits are relationship-oriented. While the Bank will need to pay competitive rates to retain these deposits at their maturities, there are other subjective factors that will determine their continued retention. Based upon prior experience, the Company anticipates that a substantial portion of outstanding certificates of deposit will renew upon maturity.

Management believes that current sources of funds provide adequate liquidity for the Bank's current cash flow needs. The Company maintains cash balances at the parent holding company level. Management believes that the current cash balances will provide adequate liquidity for the Company's current cash flow needs.

Capital Resources

A significant measure of the strength of a financial institution is its capital base. Federal regulations have classified and defined capital into the following components: (1) Tier 1 capital, which includes common shareholders' equity and qualifying preferred equity, and (2) Tier 2 capital, which includes a portion of the allowance for loan losses, certain qualifying long-term debt and preferred stock which does not qualify as Tier 1 capital. The Common Equity Tier 1 risk-based ratio does not include limited life components such as trust preferred securities in this calculation. Minimum capital levels are regulated by risk-based capital adequacy guidelines, which require a financial institution to maintain capital as a percentage of its assets, and certain off-balance sheet items adjusted for predefined credit risk factors (risk-adjusted assets). The Company's equity to assets ratio was 12.04% at September 30, 2020.

As the following table indicates, at September 30, 2020, the Company and the Bank both exceeded minimum regulatory capital requirements as specified below.

	Actual Ratio	Minimum Requirement
Select Bancorp, Inc.		
Total risk-based capital ratio	14.71 %	8.00 %
Tier 1 risk-based capital ratio	13.68 %	6.00 %
Leverage ratio	11.00 %	4.00 %
Common equity Tier 1 risk-based capital ratio	12.77 %	4.50 %

	Actual Ratio	Minimum Requirement	Well-C Requ
Select Bank & Trust			
Total risk-based capital ratio	13.00 %	8.00 %	
Tier 1 risk-based capital ratio	11.97 %	6.00 %	
Leverage ratio	9.58 %	4.00 %	
Common equity Tier 1 risk-based capital ratio	11.97 %	4.50 %	

During 2004, the Company issued $12.4 million of junior subordinated debentures to a newly formed subsidiary, New Century Statutory Trust I, which in turn issued $12.0 million of trust preferred securities. The proceeds from the sale of the trust preferred securities provided additional capital for the growth and expansion of the Bank. Under the current applicable regulatory guidelines, all of the proceeds from the issuance of these trust preferred securities qualify as Tier 1 capital as of September 30, 2020.

Management expects that the Bank will remain “well-capitalized” for regulatory purposes, although there can be no assurance that additional capital will not be required in the future.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company intends to reach its strategic financial objectives through the effective management of market risk. Like many financial institutions, the Company’s most significant market risk exposure is interest rate risk. The Company’s primary goal in managing interest rate risk is to minimize the effect that changes in market interest rates have on earnings and capital. This goal is accomplished through the active management of the balance sheet. The goal of these activities is to structure the maturity and repricing of assets and liabilities to produce stable net interest income despite changing interest rates. The Company’s overall interest rate risk position is governed by policies approved by the Board of Directors and guidelines established and monitored by the Bank’s Asset/Liability Committee (“ALCO”).

To measure, monitor, and report on interest rate risk, the Company begins with two models: (1) net interest income (“NII”) at risk, which measures the impact on NII over the next twelve and twenty-four months to immediate changes in interest rates and (2) net economic value of equity (“EVE”), which measures the impact on the present value of net assets to immediate changes in interest rates. NII at risk is designed to measure the potential short-term impact of changes in interest rates on NII.

EVE is a long-term measure of interest rate risk to the Company's balance sheet, or equity. Gap analysis, which is the difference between the amount of balance sheet assets and liabilities repricing within a specified time period, is used as a secondary measure of the Company's interest rate risk position. All of these models are subject to ALCO guidelines and are monitored regularly.

In calculating NII at risk, the Company begins with a base amount of NII that is projected over the next twelve and twenty-four months, assuming that the balance sheet is static and the yield curve remains unchanged over the period. The current yield curve is then "shocked," or moved immediately, ±1.0 percent, ±2.0 percent, ±3.0 percent and ±4.0 percent in a parallel fashion, or at all points along the yield curve. New twelve-month and twenty four-month NII projections are then developed using the same balance sheet but with the new yield curves, and these results are compared to the base scenario. The Company also models other scenarios to evaluate potential NII at risk such as a gradual ramp in interest rates, a flattening yield curve, a steepening yield curve, and others that management deems appropriate.

EVE at risk is based on the change in the present value of all assets and liabilities under different interest rate scenarios. The present value of existing cash flows with the current yield curve serves as the base case. The Company then applies an immediate parallel shock to that yield curve of ±1.0 percent, ±2.0 percent, ±3.0 percent and ±4.0 percent and recalculates the cash flows and related present values.

Key assumptions used in the models described above include the timing of cash flows, the maturity and repricing of assets and liabilities, changes in market conditions, and interest-rate sensitivities of the Company's non-maturity deposits with respect to interest rates paid and the level of balances. These assumptions are inherently uncertain and, as a result, the models cannot precisely calculate future NII or predict the impact of changes in interest rates on NII and EVE. Actual results could differ from simulated results due to the timing, magnitude and frequency of changes in interest rates and market conditions, changes in spreads and management strategies, among other factors. Projections of NII are assessed as part of the Company's forecasting process.

NII and EVE Analysis. The following table presents the estimated exposure to NII for the next twelve months due to immediate changes in interest rates and the estimated exposure to EVE due to immediate changes in interest rates. All information is presented as of June 30, 2020.

	June 30, 2020	
(Dollars in thousands)	**Estimated Effect on NII**	**Estimated Effect o**
Immediate change in interest rates:		
+ 4.0%	13.1 %	
+ 3.0%	9.0	
+ 2.0%	4.9	
+ 1.0%	2.0	
No change	—	
- 1.0%	1.5	

While the measures presented in the table above are not a prediction of future NII or EVE valuations, they do suggest that if all other variables remained constant, immediate increases in interest rates at all points on the yield curve may produce higher NII in the short term. Other important factors that impact the levels of NII are balance sheet size and mix, interest rate spreads, the slope of the yield curve, the speed of interest rates changes, and management actions taken in response to the preceding conditions.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures. At the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective (1) to provide reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (2) to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

Changes in internal control over financial reporting. Management of the Company has evaluated, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, changes in the Company’s internal controls over financial reporting (as defined in Rule 13a−15(f) and 15d−15(f) of the Exchange Act) during the third quarter of 2020. In connection with such evaluation, the Company has determined that there have been no changes in internal control over financial reporting during the third quarter of 2020 that have materially affected or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not currently engaged in, nor are any of its properties subject to, any material legal proceedings. From time to time, the Bank is a party to legal proceedings in the ordinary course of business wherein it attempts to collect loans, enforce its security interest in loans, or other matters of similar nature.

Item 1A. Risk Factors.

There have been no material changes in the Company’s risk factors from those disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, except as set forth in our Quarterly Report on Form 10-Q for the periods ended March 31, 2020 and June 30, 2020.

The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations and financial condition, and such effects will depend on future developments, which are highly uncertain and are difficult to predict.

Global health concerns relating to the COVID-19 outbreak and related government actions taken to reduce the spread of the virus have been weighing on the macroeconomic environment, and the outbreak has significantly increased economic uncertainty and reduced economic activity. The outbreak has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or total lock-down orders and business limitations and shutdowns. Such measures have significantly contributed to elevated unemployment and negatively impacted consumer and business spending. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the virus, including the passage of the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, but there can be no assurance that such steps will be effective or achieve their desired results in a timely fashion.

The outbreak has adversely impacted and is likely to further adversely impact our workforce and operations and the operations of our borrowers, customers and business partners. In particular, we may experience financial losses due to a number of factors impacting us or our borrowers, customers or business partners, including but not limited to:

- demand for our products and services may decline, making it difficult to grow assets and income;
- if the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- our allowance for loan losses may have to be increased if borrowers experience financial difficulties beyond forbearance periods, which will adversely affect our net inc
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;
- as the result of the decline in the Federal Reserve Board’s target federal funds rate, the yield on our assets may decline to a greater extent than the decline in our cost liabilities, reducing our net interest margin and spread and reducing net income;
- a prolonged weakness in economic conditions resulting in a reduction of future projected earnings could result in our recording a valuation allowance against our c deferred tax assets;

- we rely on third-party vendors for certain services and the unavailability of a critical service (such as information technology network and data processing services) d 19 outbreak could have an adverse effect on us;
- Federal Deposit Insurance Corporation premiums may increase if the agency experiences additional resolution costs;
- operational failures due to changes in our normal business practices necessitated by the outbreak and related governmental actions; and
- increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity.

Additionally, our future success and profitability substantially depends on the management skills of our executive officers and directors, many of whom have held officer and director positions with us for many years. The unanticipated loss or unavailability of key employees due to the outbreak could harm our ability to operate our business or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability.

Any one or a combination of these factors could negatively impact our business, financial condition, and results of operations and prospects. These factors may remain prevalent for a significant period of time and may continue to adversely affect our business, results of operations and financial condition even after the COVID-19 outbreak has subsided.

The spread of COVID-19 has caused us to modify our business practices (including restricting employee travel and developing work-from-home and social distancing plans for our employees), and we may take further actions as may be required by government authorities or as we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to government authorities.

The extent to which the COVID-19 outbreak impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus's global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Set forth in the table below is the Company's repurchase activity during the three month period ended September 30, 2020:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs(2)	Maximum r shares that r purchased t plans or pr
July 2020	—	$ —	468,504	
Beginning Date: 7/1				
Ending Date: 7/31				
August 2020	14,616	7.72	14,616	
Beginning Date: 8/1				
Ending Date: 8/31				
September 2020	61,386	7.37	61,386	
Beginning Date: 9/1				
Ending Date: 9/30				

(1) Reflects the number of shares of the Company's common stock repurchased during the referenced period under both publicly announced repurchase plans or programs and those m publicly announced plans or programs. All repurchases made during the quarterly period were made pursuant to publicly announced repurchased plans.
(2) Reflects aggregate shares repurchased during the referenced period under publicly announced repurchase plans. The Company's 2019 repurchase plan, which was announced on Sept authorized the repurchase of up to 937,438 shares of common stock, terminated during the period covered b the report, as all repurchases had been completed. On September 22, 2020, th announced a new repurchase plan, which authorizes the repurchase of up to 875,000 shares of Company common stock.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Index

		Incorporated by Reference (Unless Otherwise Indicated)		
Exhibit No.	**Description of Exhibit**	**Form**	**Exhibit**	**Filing Date**
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act			Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act			Filed herewith
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act			Furnished herewith
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act			Furnished herewith
101	Interactive data files pursuant to Rule 405 of Regulation S-T, formatted in Inline XBRL: (i) Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019; (ii) Consolidated Statements of Operations for the Three Months and Nine Months ended September 30, 2020 and 2019; (iii) Consolidated Statements of Comprehensive Income for the Three Months and Nine Months ended September 30, 2020 and 2019; (iv) Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended March 31, 2020 and 2019, Three Months Ended June 30, 2020 and 2019 and the Three Months Ended September 30, 2020 and 2019; (v) Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2020 and 2019; and (vi) Notes to Consolidated Financial Statements.			Filed herewith
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)			Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SELECT BANCORP, INC.

Date: November 6, 2020	By:	/s/ William L. Hedgepeth II William L. Hedgepeth II President and Chief Executive Officer
Date: November 6, 2020	By:	/s/ Mark A. Jeffries Mark A. Jeffries Executive Vice President and Chief Financial Officer

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William L. Hedgepeth II, certify that:

(1) I have reviewed this quarterly report for the quarter ended September 30, 2020 on Form 10-Q of Select Bancorp, Inc. (the “Registrant”);

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

(4) The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

(5) The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 6, 2020	By:	/s/ William L. Hedgepeth II William L. Hedgepeth II President and Chief Executive Officer

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark A. Jeffries, certify that:

(1) I have reviewed this quarterly report for the quarter ended September 30, 2020 on Form 10-Q of Select Bancorp, Inc. (the "Registrant");

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

(4) The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

(5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 6, 2020

By: /s/ Mark A. Jeffries
Mark A. Jeffries
Executive Vice President and Chief Financial Officer

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that **(i)** the Form 10-Q filed by Select Bancorp, Inc. (the "Issuer") for the quarter ended September 30, 2020, fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934, and **(ii)** the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

Date: November 6, 2020

By: /s/ William L. Hedgepeth II
William L. Hedgepeth II
President and Chief Executive Officer

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that **(i)** the Form 10-Q filed by Select Bancorp, Inc. (the "Issuer") for the quarter ended September 30, 2020, fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934, and **(ii)** the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

Date: November 6, 2020

By: /s/ Mark A. Jeffries
Mark A. Jeffries
Executive Vice President and Chief Financial Officer

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