First Capital Bancshares, Inc.

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2019 and 2018

Contents

elliott davis

Independent Auditor's Report

The Board of Directors
First Capital Bancshares, Inc.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of First Capital Bancshares, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

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

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

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

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

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

Elliott Davis, LLC

Columbia, South Carolina
March 16, 2020

First Capital Bancshares, Inc.
Consolidated Balance Sheets
As of December 31, 2019 and 2018

	2019	2018
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 17,425,099	$ 2,475,040
Federal funds sold	603,096	18,791,806
Total cash and cash equivalents	18,028,195	21,266,846
Securities available-for-sale	12,258,997	-
Loans receivable	103,428,902	66,995,190
Less allowance for loan losses	(1,561,423)	(929,245)
Loans receivable, net	101,867,479	66,065,945
Premises, furniture and equipment, net	960,965	669,641
Lease right of use asset	1,810,168	-
Deferred tax asset	399,721	120,203
Accrued interest receivable	492,476	423,860
Stock in Federal Home Loan Bank of Atlanta, at cost	505,000	68,300
Other assets	279,712	242,825
Total assets	$ 136,602,713	$ 88,857,620
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 6,141,637	$ 6,058,751
Interest-bearing transaction accounts	41,610,855	20,639,611
Savings	1,798,467	1,580,461
Time deposits	43,126,656	27,544,236
Total deposits	92,677,615	55,823,059
Lease liability	1,820,336	-
Borrowings from Federal Home Loan Bank of Atlanta	10,000,000	-
Accrued interest payable	111,280	53,281
Other liabilities	401,523	326,496
Total liabilities	105,010,754	56,202,836
Shareholders' equity:		
Preferred stock, $.01 par value; 10,000,000 shares authorized and unissued	-	-
Common stock, $.01 par value; 10,000,000 shares authorized; 5,083,936 shares issued and outstanding at December 31, 2019 and 2018	50,836	50,836
Capital surplus	29,559,794	29,357,617
Retained earnings	2,005,194	3,249,831
Treasury stock (350 shares)	(3,500)	(3,500)
Accumulated other comprehensive loss	(20,365)	-
Total shareholders' equity	31,591,959	32,654,784
Total liabilities and shareholders' equity	$ 136,602,713	$ 88,857,620

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Operations

For the years ended December 31, 2019 and 2018

	2019	2018
Interest income:		
Loans, including fees	$ 4,720,153	$ 3,833,036
Investment securities, taxable	60,334	-
Federal funds sold	329,441	416,905
Other	144,734	5,538
Total interest income	5,254,662	4,255,479
Interest expense:		
Deposits	956,463	472,153
Other interest expense	24,518	-
Total interest expense	980,981	472,153
Net interest income	4,273,681	3,783,326
Provision for loan losses	662,606	174,514
Net interest income after provision for loan losses	3,611,075	3,608,812
Noninterest income:		
Service charges on deposit accounts	30,326	42,322
(Loss) gain on sale of other real estate owned and repossessions	(14,490)	1,611
Other	61,615	102,191
Total noninterest income	77,451	146,124
Noninterest expense:		
Salaries and employee benefits	3,113,692	2,201,842
Occupancy	429,518	305,467
Furniture and equipment	215,878	135,763
FDIC deposit insurance	14,684	28,041
Data processing fees	325,765	288,319
Dues and memberships	30,794	31,142
Professional fees	250,833	203,652
Other	823,481	661,205
Total noninterest expense	5,204,645	3,855,431
Loss before income taxes	(1,516,119)	(100,495)
Income tax benefit	271,482	-
Net loss	$ (1,244,637)	$ (100,495)
Net loss per common share	$ (0.24)	$ (0.02)
Weighted average common shares outstanding	5,083,936	5,024,609

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2019 and 2018

	2019	2018
Net loss	$ (1,244,637)	$ (100,495)
Other comprehensive loss		
Unrealized holding losses arising during the period	(25,778)	-
Tax effect	5,413	-
Other comprehensive loss, net of tax	(20,365)	-
Comprehensive loss	$ (1,265,002)	$ (100,495)

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2019 and 2018

	Common Stock		Capital	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Surplus	Earnings	stock	Loss	Total
Balance, December 31, 2017	4,711,611	$ 47,113	$26,869,168	$ 3,350,326	$ (3,500)	$ -	$30,263,107
Net loss	-	-	-	(100,495)	-	-	(100,495)
Stock issuance, net	372,325	3,723	2,488,449	-	-	-	2,492,172
Balance, December 31, 2018	5,083,936	$ 50,836	$29,357,617	$ 3,249,831	$ (3,500)	$ -	$32,654,784
Net loss	-	-	-	(1,244,637)	-	-	(1,244,637)
Other comprehensive loss, net of tax	-	-	-	-	-	(20,365)	(20,365)
Stock based compensation	-	-	202,177	-	-	-	202,177
Balance, December 31, 2019	5,083,936	$ 50,836	$29,559,794	$ 2,005,194	$ (3,500)	$ (20,365)	$31,591,959

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Operating activities:		
Net loss	$ (1,244,637)	$ (100,495)
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	662,606	174,514
Depreciation and amortization expense	142,789	66,870
Discount accretion and premium amortization, net	40,439	-
Deferred income tax	(274,105)	-
Losses (gains) on sales of other real estate owned	14,490	(1,611)
Amortization of operating lease asset	(165,926)	-
Increase in accrued interest receivable	(68,616)	(137,694)
Stock based compensation expense	202,177	-
Amortization of lease liability	155,758	-
Increase in accrued interest payable	57,999	20,915
Decrease (increase)in other assets	(36,887)	82,949
Increase (decrease) in other liabilities	75,027	(127,233)
Net cash used in operating activities	(418,550)	(21,785)
Cash flows from investing activities:		
Net increase in loans	(36,550,767)	(20,498,664)
Purchase of securities available-for-sale	(12,475,456)	-
Proceeds from call, maturities, paydowns of securities available-for-sale	150,242	-
Proceeds from sale of other real estate owned and repossessions	72,137	-
Purchase of premises and equipment	(434,113)	(616,704)
Purchase of Federal Home Loan Bank stock	(436,700)	(19,300)
Net cash used in investing activities	(49,674,657)	(21,134,668)
Cash flows from financing activities:		
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	21,272,136	9,403,719
Net increase in time deposits	15,582,420	1,255,964
Increase in borrowings from Federal Home Loan Bank	10,000,000	-
Proceeds from common stock issuance, net	-	2,492,172
Net cash provided by financing activities	46,854,556	13,151,855
Net decrease in cash and cash equivalents	(3,238,651)	(8,004,598)
Cash and cash equivalents, beginning of year	21,266,846	29,271,444
Cash and cash equivalents, end of year	$ 18,028,195	$ 21,266,846
Cash paid during the year for:		
Interest	$ 922,982	$ 451,238
Income tax	$ 14,328	$ 32,315
Supplemental noncash investing financing activities:		
Transfer of loans receivable to other assets for other real estate owned and repossessions	$ 86,627	$ 163,574
Unrealized loss on securities available for sale, net of tax	$ (20,365)	$ -
Recognition of operating right of use asset	$ 1,976,094	$ -
Recognition of lease liability	$ 1,976,094	$ -

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of presentation and consolidation:

First Capital Bancshares, Inc., (the "Company") was incorporated on December 19, 1997 to organize and own all of the common stock of First Capital Bank (the "Bank"). First Capital Bank, a commercial bank, opened for business on September 27, 1999 with headquarters in Laurinburg, North Carolina. The principal business activity of the Bank is to provide banking services to domestic markets, principally in Charleston and Marlboro Counties, South Carolina and Scotland and Moore Counties, North Carolina. The Bank also operates a loan production office in Moore County, North Carolina. Additionally, Charleston Service Corporation (CHSSC Co.) was incorporated effective January 1, 2019 as a subsidiary of the Company. The purpose of the subsidiary was for conducting intercompany transactions. Effective February 15, 2018, the Company relocated its headquarters to Charleston, South Carolina. The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany balances and transactions have been eliminated in the consolidation.

The accounting and reporting policies of the Company reflect industry practices and conform to generally accepted accounting principles in all material respects.

Management's estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, including valuation allowances for impaired loans, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and valuation of foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

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

Concentrations of credit risk:

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

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of credit risk, continued:

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in Charleston and Marlboro Counties, South Carolina and customers located within Scotland and Moore Counties, North Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

The Company places its deposits and correspondent accounts with high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Statement of cash flows:

For purposes of reporting cash flows, the Company considers certain highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, interest-bearing bank balances, and federal funds sold.

Investment securities:

Investment securities available for sale by the Company are carried at amortized cost and adjusted to their estimated market value. The unrealized gain or loss is recorded in shareholders' equity net of the deferred tax effects. Management does not actively trade securities classified as available-for-sale but intends to hold these securities for an indefinite period of time and may sell them prior to maturity to achieve certain objectives. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis in the security. The adjusted cost basis of securities available for sale is determined by specific identification and is used in computing the realized gain or loss from a sales transaction.

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

Note 1. Summary of Significant Accounting Policies, Continued

Loans receivable:

Interest income on loans receivable is computed based upon the unpaid principal balance, net of charge offs. Interest income is recorded in the period earned.

The accrual of interest income is discontinued when a loan becomes contractually ninety days past due as to principal or interest and unpaid interest is reversed from interest income in the statement of opeartions. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral exceeds the principal balance and accrued interest. Loans are removed from nonaccrual status when they become current as to both principal and interest, when concern no longer exists as to the collectability of the principal and interest, and sufficient history of satisfactory payment performance has been established. Impaired loans are measured based on the present value of discounted expected cash flows, observable market prices, or the fair value of collateral less any adjustments or selling costs. When it is determined that a loan is impaired, a direct charge to bad debt expense is made for the difference between the fair value and the Company's recorded investment in the related loan. The corresponding entry is to a related allowance account. Interest is discontinued on impaired loans when management determines that a borrower may be unable to meet payments as they become due.

Allowance for loan losses:

The allowance for loan losses is established as losses that are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan. The general component covers loans not considered to be impaired and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could effect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for loan losses, continued:

shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral, less any adjustments and selling costs, if the loan is collateral dependent.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring (TDR). A restructuring of debt constitutes a TDR if the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to a borrower that it would not otherwise consider. Concessions granted generally involve forgiving or forbearing a portion of interest or principal on any loans or making loans at a rate that is less than prevailing market rates. Prior to modifying a borrower's loan terms, the Company performs an evaluation of the borrower's financial condition and ability to service the debt under the potential modified loan terms. If a loan is accruing at the time of modification, the loan remains on accrual status and is subject to the Company's charge-off and non-accrual policies. If a loan is on non-accrual before it is determined to be a TDR, then the loan remains on non-accrual. TDRs may be returned to accrual status if there has been a sustained period of repayment performance by the borrower.

Premises, furniture and equipment:

Premises, furniture and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed using the straight-line method allowed for income tax reporting purposes if there are no material differences from generally accepted accounting principles. Rates of depreciation are generally based on the following estimated useful lives: leasehold improvements - 10 to 20 years and furniture and equipment - 5 to 10 years. The cost of assets sold or otherwise disposed of and the related accumulated depreciation is eliminated from the accounts, and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expense as incurred, and the costs of major renewals and improvements are capitalized.

Other real estate owned:

Real estate properties acquired through foreclosure or other proceedings are initially recorded at fair value less cost to sell upon foreclosure. After foreclosure, valuations are performed and the carrying value is reduced with it exceeds fair value, less costs to sell. Any write-down at the time of transfer to foreclosed properties is charged to the allowance for loan losses. Subsequent write-downs are charged to other expenses. Property is evaluated regularly to ensure that the recorded amount is supported by its current fair value. Other real estate owned is included within other assets in the consolidated balance sheets.

Federal Home Loan Bank stock:

As a requirement for membership, the Company invests in stock of the Federal Home Loan Bank of Atlanta (FHLB). This investment is carried at cost because they have no quoted market value and no ready market exists. Dividends and income received from these investments are included as a separate component in interest income. The investment in FHLB stock totaled $505,000 and $68,300 at December 31, 2019 and 2018, respectively.

Note 1. Summary of Significant Accounting Policies, Continued

Income taxes:

Income taxes are the sum of amounts currently payable to taxing authorities and the net changes in income taxes payable or refundable in future years. Income taxes deferred to future years are determined utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with differences between financial accounting and tax bases of certain assets and liabilities which are principally the allowance for loan losses, depreciable premises and equipment, prepaid expenses and loss carryforwards available to offset future state income taxes. Deferred tax assets are offset by a valuation allowance to the extent it is determined to be more likely than not that such deferred tax assets will not be realized.

It is the Company's policy to recognize interest and penalties associated with uncertain tax positions as components of income taxes. The Company did not recognize any interest or penalties related to income tax during the years ended December 31, 2019 and 2018, and did not accrue any interest or penalties as of December 31, 2019 and 2018. The Company did not have an accrual for uncertain tax positions as deductions taken and benefits accrued are based on widely understood administrative practices and procedures, and are based on clear and unambiguous tax law.

Net loss per share:

Basic net loss per share represents income available to shareholders divided by the weighted-average number of common shares outstanding during the period. The Company has no dilutive common equivalent shares outstanding. Dilutive loss per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate solely to outstanding options and are determined using the treasury stock method. Potential common shares are not included in the denominator of the diluted per share computation when inclusion would be anti-dilutive.

Comprehensive loss:

The Company reports other comprehensive income (loss) in accordance with generally accepting accounting principles, which require that all items that are required to be reported under accounting standards as other comprehensive income (loss) be reported in a financial statement that is displayed with the same prominence as other financial statements. The disclosure requirements have been included in the Company’s Consolidated Statements of Comprehensive Loss.

Income and expense recognition:

The accrual method of accounting is used for all significant categories of income and expense. Immaterial amounts of insurance commissions and other miscellaneous fees are reported when received.

Stock-based compensation:

The Company accounts for stock options under the fair value recognition provisions. Compensation expense is recognized as salaries and employee benefits in the statement of operations. In calculating the compensation expense for stock options, the fair value of options granted is estimated as of the date granted using Black-Scholes option pricing model.

Note 1. Summary of Significant Accounting Policies, Continued

Off-balance-sheet financial instruments:

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Revenue Recognition:

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

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

Retirement plan:

The Bank has a profit sharing plan covering all full-time employees with at least six months of service and who have obtained the age of twenty-one. Expenses charged to earnings for the years ended December 31, 2019 and 2018 totaled $57,264 and $37,017, respectively, and are included within salaries and employee benefits.

Risks and uncertainties:

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

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

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements:

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is evaluating the impact of the ASU on the consolidated financial statements. The Company expects the ASU will have no material impact on the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In August 2018, the FASB amended the 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 Company does not expect these amendments to have a material effect on its financial statements.

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

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

Reclassifications:

Certain captions and amounts in the 2018 consolidated financial statements were reclassified to conform with the 2019 presentation. The reclassifications did not have an impact on net loss or shareholders' equity.

Note 2. Cash and Due from Banks

The Company is required to maintain cash balances with their correspondent bank sufficient to cover all cash letter transactions. At December 31, 2019, the requirement was met by the cash balance in the account and by the available federal funds line.

Note 3. Investment Securities Available for Sale

The amortized cost and approximate fair value of investment securities, including maturities, are summarized as follows:

	December 31, 2019			
Available-for-Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Government sponsored enterprises	$ 9,784,775	$ -	$ (28,903)	$ 9,755,872
Corporate debt securities	2,500,000	3,125	-	2,503,125
Total available-for-sale	$ 12,284,775	$ 3,125	$ (28,903)	$ 12,258,997

The Company had no securities available-for-sale as of December 31, 2018.

The following is a summary of maturities of securities available-for-sale as of December 31, 2019. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	Securities Available-For-Sale	
	Amortized Cost	**Estimated Fair Value**
Due in one year or less	$ -	$ -
Due after one year but within five years	9,784,775	9,755,872
Due after five years but within ten years	-	-
Due after ten years	2,500,000	2,503,125
Total	$ 12,284,775	$ 12,258,997

Note 3. Investment Securities Available for Sale, Continued

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

Available-for-Sale	December 31, 2019					
	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government sponsored enterprises	$ 9,755,872	$ (28,903)	$ -	$ -	$ 9,755,872	$ (28,903)
Total	$ 9,755,872	$ (28,903)	$ -	$ -	$ 9,755,872	$ (28,903)

Securities classified as available-for-sale are recorded at fair market value. There were no securities classified as available-for-sale in an unrealized loss position greater than twelve months as of December 31, 2019. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost. The Company believes that the deterioration in value is attributable to changes in market interest rates and the lack of liquidity in individual securities and is not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary.

At December 31, 2019, investment securities with a book value of $9,784,775 and a market value of $9,755,872 were pledged as collateral to secure public deposits and for other purposes as required or permitted by law.

There were no sales of securities available-for-sale for the years ended December 31, 2019 and 2018.

Note 4. Loans Receivable

Loans receivable consisted of the following at December 31, 2019 and 2018:

	2019	2018
Real estate construction	$ 5,632,833	$ 2,731,473
Real estate residential	49,263,320	34,010,664
Real estate commercial	41,950,198	22,670,229
Commercial and industrial	4,495,983	3,874,426
Consumer and other	2,086,568	3,708,398
	103,428,902	66,995,190
Less allowance for loan losses	(1,561,423)	(929,245)
Loans receivable, net	$ 101,867,479	$ 66,065,945

Note 4. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2019:

	Real Estate Construction	Real Estate Residential	Real Estate Commercial	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 14,290	$ 460,062	$ 272,761	$ 120,717	$ 61,415	$ 929,245
Charge-offs	-	(33,532)	-	-	(3,841)	(37,373)
Recoveries	-	6,945	-	-	-	6,945
Provisions	40,691	343,195	222,793	39,743	16,184	662,606
Ending balance	$ 54,981	$ 776,670	$ 495,554	$ 160,460	$ 73,758	$ 1,561,423
Ending balances:						
Individually evaluated for impairment	$ -	$ 35,397	$ 21,420	$ -	$ 2,460	$ 59,277
Collectively evaluated for impairment	$ 54,981	$ 741,273	$ 474,134	$ 160,460	$ 71,298	$ 1,502,146
Loans receivable:						
Ending balance - total	$ 5,632,833	$ 49,263,320	$ 41,950,198	$ 4,495,983	$ 2,086,568	$ 103,428,902
Ending balances:						
Individually evaluated for impairment	$ -	$ 833,425	$ 527,958	$ 963	$ 60,264	$ 1,422,610
Collectively evaluated for impairment	$ 5,632,833	$ 48,429,895	$ 41,422,240	$ 4,495,020	$ 2,026,304	$ 102,006,292

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2018:

	Real Estate Construction	Real Estate Residential	Real Estate Commercial	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 1,144	$ 322,664	$ 140,381	$ 75,697	$ 59,818	$ 599,704
Charge-offs	-	(257,930)	-	-	(16,157)	(274,087)
Recoveries	4,402	199,794	200,901	-	24,017	429,114
Provisions	8,744	195,534	(68,521)	45,020	(6,263)	174,514
Ending balance	$ 14,290	$ 460,062	$ 272,761	$ 120,717	$ 61,415	$ 929,245
Ending balances:						
Individually evaluated for impairment	$ -	$ 32,601	$ -	$ 44,224	$ 9,964	$ 86,789
Collectively evaluated for impairment	$ 14,290	$ 427,461	$ 272,761	$ 76,493	$ 51,451	$ 842,456
Loans receivable:						
Ending balance - total	$ 2,731,473	$ 34,010,664	$ 22,670,229	$ 3,874,426	$ 3,708,398	$ 66,995,190
Ending balances:						
Individually evaluated for impairment	$ -	$ 724,055	$ 221,637	$ 154,724	$ 31,406	$ 1,131,822
Collectively evaluated for impairment	$ 2,731,473	$ 33,286,609	$ 22,448,592	$ 3,719,702	$ 3,676,992	$ 65,863,368

Note 4. Loans Receivable, Continued

Credit Quality Indicators

The Company uses a risk based approach based on the following credit quality measures when analyzing the loan portfolio: pass, watch, special mention, and substandard. These indicators are used to rate the credit quality of loans for the purposes of determining the Company's allowance for loan losses.

Pass Loans are deemed to be loans that are performing and are deemed adequately protected by the net worth of the borrower or the underlying collateral value. These loans are considered the least risky in terms of determining the allowance for loan losses.

Special Mention Loans are deemed to be loans that have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's position at some future date.

Substandard Loans are deemed to be loans that are considered the most risky. These loans typically have an identified weakness or weaknesses and are inadequately protected by the net worth of the borrower or collateral value.

Doubtful Loans are deemed to be loans that have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loss Loans are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. Such loans are to be charged off. This classification does not mean the loan has absolutely no recovery value, but that it is neither practical nor desirable to defer writing off this loan even though partial recovery may be obtained in the future.

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2019:

	Pass	Special Mention	Substandard	Total
Real estate construction	$ 5,632,833	$ -	$ -	$ 5,632,833
Real estate residential	48,309,920	481,507	471,893	49,263,320
Real estate commercial	41,647,633	141,000	161,565	41,950,198
Commercial and industrial	4,495,020	963	-	4,495,983
Consumer and other	2,051,861	11,126	23,581	2,086,568
	$ 102,137,267	$ 634,596	$ 657,039	$ 103,428,902

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2018:

	Pass	Special Mention	Substandard	Total
Real estate construction	$ 2,731,473	$ -	$ -	$ 2,731,473
Real estate residential	33,536,706	306,875	167,083	34,010,664
Real estate commercial	22,383,202	-	287,027	22,670,229
Commercial and industrial	3,679,621	194,805	-	3,874,426
Consumer and other	3,678,154	18,246	11,998	3,708,398
	$ 66,009,156	$ 519,926	$ 466,108	$ 66,995,190

Note 4. Loans Receivable, Continued

The following is an analysis of nonaccrual loans as of December 31, 2019 and 2018:

	2019	2018
Real estate construction	$ -	$ -
Real estate residential	471,893	166,454
Real estate commercial	97,456	240,000
Commercial and industrial	-	154,724
Consumer and other	23,581	38,870
Total	$ 592,930	$ 600,048

The following is an aging analysis of our loan portfolio at December 31, 2019:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate construction	$ -	$ -	$ -	$ -	$ 5,632,833	$ 5,632,833
Real estate residential	805,604	153,341	239,597	1,198,542	48,064,778	49,263,320
Real estate commercial	452,163	127,225	-	579,388	41,370,810	41,950,198
Commercial and industrial	-	963	-	963	4,495,020	4,495,983
Consumer and other	208,016	30,823	23,581	262,420	1,824,148	2,086,568
	$ 1,465,783	$ 312,352	$ 263,178	$ 2,041,313	$ 101,387,589	$ 103,428,902

The following is an aging analysis of our loan portfolio at December 31, 2018:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate construction	$ -	$ -	$ -	$ -	$ 2,731,473	$ 2,731,473
Real estate residential	352,263	116,296	127,604	596,163	33,414,501	34,010,664
Real estate commercial	64,471	-	-	64,471	22,605,758	22,670,229
Commercial and industrial	40,000	40,081	154,724	234,805	3,639,621	3,874,426
Consumer and other	311,204	89,223	38,870	439,297	3,269,101	3,708,398
	$ 767,938	$ 245,600	$ 321,198	$ 1,334,736	$ 65,660,454	$ 66,995,190

As of December 31, 2019 and 2018, the Bank had no loans over 90 days past due and still accruing.

Note 4. Loans Receivable, Continued

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2019:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate residential	$ 798,028	$ 950,917	$ -	$ 886,439	$ 84,182
Real estate commercial	506,538	553,370	-	532,442	41,126
Commercial & industrial	963	963	-	20,522	1,289
Consumer & other	47,444	72,042	-	54,534	9,437
Total	1,352,973	1,577,292	-	1,493,937	136,034
With an allowance recorded:					
Real estate residential	35,397	35,397	35,397	40,721	3,395
Real Estate commercial	21,420	66,002	21,420	22,413	5,370
Consumer and other	12,820	12,820	2,460	12,409	428
Total	69,637	114,219	59,277	75,543	9,193
Total					
Real estate residential	833,425	986,314	35,397	927,160	87,577
Real estate commercial	527,958	619,372	21,420	554,855	46,497
Commercial and industrial	963	963	-	20,522	1,289
Consumer and other	60,264	84,862	2,460	66,943	9,865
Total	$ 1,422,610	$ 1,691,511	$ 59,277	$ 1,569,480	$ 145,228

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate residential	$ 506,151	$ 551,649	$ -	$ 507,105	$ 38,089
Real estate commercial	221,637	313,051	-	222,819	28,367
Total	727,788	864,700	-	729,924	66,456
With an allowance recorded:					
Real estate residential	217,904	334,209	32,601	250,374	12,398
Commercial and industrial	154,724	154,724	44,224	154,724	6,979
Consumer and other	31,406	31,406	9,964	31,407	2,008
Total	404,034	520,339	86,789	436,505	21,385
Total					
Real estate residential	724,055	885,858	32,601	757,479	50,487
Real estate commercial	221,637	313,051	-	222,819	28,367
Consumer and industrial	154,724	154,724	44,224	154,724	6,979
Consumer and other	31,406	31,406	9,964	31,407	2,008
Total	$ 1,131,822	$ 1,385,039	$ 86,789	$ 1,166,429	$ 87,841

Note 4. Loans Receivable, Continued

The following is an analysis of our troubled debt restructured loans (TDRs) at December 31, 2019 and 2018:

	2019	2018
Performing	$ 727,708	$ 958,008
Nonperforming	12,820	7,307
	$ 740,528	$ 965,315

TDRs are those for which concessions have been granted due to the borrower's weakened financial condition. Interest on restructured loans is accrued at the restructured rates when it is anticipated that no loss of original principal will occur and a sustained payment performance period is obtained.

During the year ended December 31, 2019 and 2018 no loans were identified as TDRs.

As of December 31, 2019 and 2018, loans totaling $40.3 million and $27.4 million, respectively were pledged securing the Company's Federal Home Loan Bank line of credit.

Note 5. Premises, Furniture and Equipment

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

	2019	2018
Leasehold improvements	$ 722,190	$ 520,741
Furniture and equipment	1,128,776	896,112
Total	1,850,966	1,416,853
Less accumulated depreciation	(890,001)	(747,212)
Premises, furniture and equipment, net	$ 960,965	$ 669,641

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 was $142,789 and $66,870, respectively.

Note 6. Deposits

At December 31, 2019, the scheduled maturities of certificates of deposit are as follows:

2020	$ 19,111,637
2021	2,596,598
2022	12,744,960
2023	1,284,222
2024	7,389,239
2025	-
Total	$ 43,126,656

Note 6. Deposits, Continued

The Company had brokered deposits of $10,000,000 as of December 31, 2019 and $4,005,000 as of December 31, 2018. Certificates of deposits with balances in excess of federal deposit insurance limits of $250,000 were $17,134,805 and $10,421,479 at December 31, 2019 and 2018, respectively.

Note 7. Shareholder's Equity

During 2018, the Company initiated a capital raise whereby 357,325 shares of common stock were issued at $6.75 per share, for total proceeds of $2,513,193. Costs associated with the capital raise during 2018 totaled $21,021, and were netted against proceeds received within the Consolidated Statement of Changes in Shareholders' Equity.

Note 8. Income Taxes

The Tax Cuts and Jobs Act (TCJA) was signed into law by the President on December 22, 2017. The TCJA includes the reduction in the corporate tax rate from a top rate of 35% to a flat rate of 21%, changes in business deductions, and many international provisions.

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

	2019	2018
Current income tax expense:		
Federal	$ -	$ -
State	2,623	-
Total current	2,623	-
Deferred income taxes:		
Federal	(233,984)	11,453
State	(40,121)	(11,453)
Total deferred	(274,105)	-
Income tax benefit	$ (271,482)	$ -

The components of the net deferred tax asset are reported in other assets as follows as of December 31:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 283,554	$ 136,263
Nonaccrual loan interest income	1,821	3,230
Net operating loss carryforwards	270,789	61,363
Securities available-for-sale	5,413	-
Stock compensation	19,667	-
Deferred compensation	-	12,309
Gross deferred tax assets	581,244	213,165
Deferred tax liabilities:		
Accumulated depreciation	133,316	74,051
Prepaid expenses	23,567	16,327
Other	24,640	2,584
Total deferred tax liabilities	181,523	92,962
Net deferred tax asset	$ 399,721	$ 120,203

Note 8. Income Taxes, Continued

The Company has federal net operating losses of $1,204,913 and $255,072 for the years ended December 31, 2019 and 2018, respectively. The Company has state net operating losses of $1,430,714 and $195,765 for the years ended December 31, 2019 and 2018, respectively.

Tax returns for 2016 and subsequent years are subject to examination by taxing authorities.

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% for 2019 and 2018 to income before income taxes follows for the years ended December 31:

	2019	2018
Tax benefit at statutory rate	$ (318,385)	$ (21,104)
State income tax, net of federal income tax benefit	(8,034)	(9,048)
Stock compensation	25,903	-
Nondeductible expenses	15,480	15,123
Other, net	13,554	15,029
Reported tax benefit	$ (271,482)	$ -

Note 9. Leases

Effective January 1, 2019, the Company adopted ASC 842 "Leases." The Company adopted the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow the Company to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition of leases. Currently, the Company has operating leases on five of its facilities that are accounted for under this modified retrospective approach. As a result of this standard, the Company recognized a right-of-use asset and a lease liability of $1,976,094, respectively. During the year ended December 31, 2019, following adoption of ASC 842, the Company's right of use asset was reduced by $165,926 for operating leases and the lease liability was reduced by $155,758. The lease expense recognized during the year ended December 31, 2019 and 2018 amounted to $322,947 and $222,315, respectively. The weighted average remaining lease term as of December 31, 2019 is 8.15 years and the weighted average discount rate used is 2.93%.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follows

2020	$ 277,386
2021	274,975
2022	233,609
2023	238,228
2024	209,298
Thereafter	814,817
Total undiscounted lease payments	2,048,313
Less effect of discounting	(227,977)
Present value of estimated lease payments (lease liability)	$ 1,820,336

Note 10. Advances From Federal Home Loan Bank

Advances from the FHLB consisted of the following at December 31:

	Interest Rate	2019
Convertible		
August 27, 2029	0.695%	10,000,000

At December 31, 2019 and 2018, the Company has pledged certain loans and investments totaling $49.3 million and $27.4 million, respectively, as collateral to secure its borrowings from the FHLB. Additionally, the Company's FHLB stock is pledged to secure the borrowings.

Note 11. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability.

The Company had related party loans as of December 31, 2019 and 2018 totaling $5,718,830 and $3,109,413, respectively. The Company leases its banking facility in Bennettsville, South Carolina and Charleston, South Carolina from separate directors. Related party lease expense totaled $210,951 and $160,008 for the years ended December 31, 2019 and 2018.

The Company had related party deposit accounts as of December 31, 2019 and 2018 totaling $4,587,784 and $5,610,336, respectively.

Note 12. Commitments and Contingencies

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. At December 31, 2019, management is not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, that would be material to the financial statements.

Note 13. Financial Instruments With Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Note 13. Financial Instruments With Off-Balance Sheet Risk, Continued

Collateral held for commitments to extend credit and letters of credit varies but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties. The following table summarizes the Company's off-balance-sheet financial instruments whose contract amounts represent credit risk as of December 31:

	2019	2018
Commitments to extend credit	$ 18,829,014	$ 7,671,660

Note 14. Stock Compensation Plan

In 2018 the stockholders approved an Omnibus Stock Incentive Plan (the "Stock Option Plan"). The Plan provided for the granting of stock options to purchase up to 508,300 shares of the Company's common stock, to officers, employees, and directors, of the Company. The Company could grant awards for a term of up to ten years from the effective date of grant. The expiration date of any option could not be greater than ten years from the date of grant, or five years if the grantee owned more than 10% of the outstanding common stock of the Company or its affiliates. The per-share exercise price would be determined by the board of directors, except that the exercise price of an incentive stock option could not be less than fair market value of the common stock on the grant date, or less than 110% of the fair value if the grantee owned more than 10% of the outstanding common stock of the Company or its affiliates.

A summary of the status of the Stock Option Plan as of December 31, 2019 and changes during the period is presented below:

	2019	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	20,000	$ 6.75
Granted	390,000	$ 6.75
Forfeited	(23,500)	$ 6.75
Outstanding at end of year	386,500	$ 6.75
Options exercisable at year-end	4,000	$ 6.75
Shares available for grant	121,800	
Weighted average grant date fair value of options granted		$ 6.75

Note 14. Stock Compensation Plan, Continued

A summary of the status of the Stock Option Plan as of December 31, 2018 and changes during the period is presented below:

	2018	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	-	$ -
Granted	20,000	$ 6.75
Outstanding at end of year	20,000	$ 6.75
Options exercisable at year-end	-	$ -
Shares available for grant	488,300	
Weighted average grant date fair value of options granted		$ 6.75

At December 31, 2019, unrecognized compensation cost related to share-based compensation arrangements granted under the Stock Option Plan totaled $649,172, to be expensed over the five year vesting period.

The following table summarizes information about the stock options outstanding under the Stock Option Plan at December 31, 2019:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding At 12/31/19	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price
$ 6.75	386,500	9 years	$ 6.75

Note 15. Capital Requirements and Regulatory Matters

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

Note 15. Capital Requirements and Regulatory Matters, Continued

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 ("CET1"), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

The Bank is also required to maintain capital at a minimum level based on average assets (as defined), which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act"), require the Bank to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank is also be required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of CET1, but the buffer applies to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer was phased in incrementally over time, beginning January 1, 2016 at 0.625% and becoming fully effective on January 1, 2019, and ultimately consisting of an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets.

To be considered "well-capitalized," the Bank must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 8%, and a leverage ratio of at least 5%. To be considered "adequately capitalized" under these capital guidelines, the Bank must maintain a minimum total risk-based capital of 8%, with at least 4% being Tier 1 capital. In addition, the Bank must maintain a minimum Tier 1 leverage ratio of at least 4%.

Note 15. Capital Requirements and Regulatory Matters, Continued

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Total Capital (to risk weighted assets)	$ 25,010	24.25%	$ 8,250	8.00%	$ 10,313	10.00%
Tier 1 Capital (to risk weighted assets)	$ 23,718	23.00%	$ 6,188	6.00%	$ 8,250	8.00%
Tier 1 Capital (to average assets)	$ 23,718	19.11%	$ 4,965	4.00%	$ 6,207	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	$ 23,718	23.00%	$ 4,641	4.50%	$ 6,703	6.50%
December 31, 2018						
Total Capital (to risk weighted assets)	$ 20,710	34.08%	$ 4,861	8.00%	$ 6,076	10.00%
Tier 1 Capital (to risk weighted assets)	$ 19,949	32.83%	$ 3,646	6.00%	$ 4,861	8.00%
Tier 1 Capital (to average assets)	$ 19,949	22.52%	$ 3,543	4.00%	$ 4,429	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	$ 19,949	32.83%	$ 2,734	4.50%	$ 3,950	6.50%

Note 16. Unused Lines of Credit

At December 31, 2019, the Company had unused lines of credit to purchase federal funds from two unrelated banks totaling $6,000,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. The Bank has an additional line of credit to borrow funds from the Federal Home Loan Bank. As of December 31, 2019, the total line of credit with Federal Home Loan Bank was $27,621,750, of which $10,000,000 has been advanced to the Bank. The Company had loans pledged securing the Federal Home Loan Bank line of credit as of December 31, 2019 and 2018 totaling $49.3 million and $27.4 million, respectively, in addition to the Company's Federal Home Loan Bank stock.

Note 17. Fair Value of Financial Instruments

Generally Accepted Accounting Principles (GAAP) provide a framework for measuring and disclosing fair value which requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Note 17. Fair Value of Financial Instruments, Continued

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

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

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

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

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

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Investment Securities Available-for-Sale**:** Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Note 17. Fair Value of Financial Instruments, Continued

Loans: Loans that are considered impaired are recorded at fair value on a non-recurring basis. Once a loan is considered impaired, the fair value is measured using one of several methods, including collateral liquidation value, market value of similar debt and discounted cash flows. Those impaired loans not requiring a specific charge against the allowance represent loans for which the fair value of the expected repayments or collateral meet or exceed the recorded investment in the loan. At December 31, 2019 and 2018, substantially all of the total impaired loans were evaluated based on the fair value of the underlying collateral. When the Company records the fair value based upon an appraisal, the fair value measurement is considered a Level 2 measurement. When an appraisal is not available or there is estimated further impairment the measurement is considered a Level 3 measurement.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Government sponsored enterprises	$ 9,755,872	$ -	$ 9,755,872	$ -
Corporate debt securities	2,503,125	-	2,503,125	-
Total	$ 12,258,997	$ -	$ 12,258,997	$ -

There were no assets measured at fair value on recurring basis as of December 31, 2018. There were no liabilities measured at fair value on a recurring basis.

The table below presents the balances of assets and liabilities measured at fair value on a non-recurring basis by level within the hierarchy.

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Impaired loans, net	$ 1,363,333	$ -	$ -	$ 1,363,333
Total	$ 1,363,333	$ -	$ -	$ 1,363,333

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Impaired loans, net	$ 1,045,033	$ -	$ -	$ 1,045,033
Total	$ 1,045,033	$ -	$ -	$ 1,045,033

Note 17. Fair Value of Financial Instruments, Continued

Below is a table that presents the valuation and unobservable inputs for Level 3 assets and liabilities measured at fair value on a non-recurring basis at December 31, 2019 and 2018:

Description	Fair Value 12/31/2019	Valuation Methodology	Unobservable Inputs	Range of Inputs
Impaired loans	$ 1,363,333	Appraised value	Discount to reflect current market conditions and ultimate collectability	4% - 40%

Description	Fair Value 12/31/2018	Valuation Methodology	Unobservable Inputs	Range of Inputs
Impaired loans	$ 1,045,033	Appraised value	Discount to reflect current market conditions and ultimate collectability	4% - 40%

The Company has no liabilities measured at fair value on a non-recurring basis.

Fair Value of Financial Instruments

The following table includes the estimated fair value of the Company's financial assets and financial liabilities. The methodologies for estimating the fair value of financial assets and financial liabilities measured on a recurring and non-recurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgement is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts at December 31, 2019 and 2018.

	December 31,			
	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 18,028,195	$ 18,028,195	$ 21,266,846	$ 21,266,846
Securities available-for-sale	12,258,997	12,258,997	-	-
Loans held for investment, net	101,867,479	101,445,000	66,065,945	65,554,000
Nonmarketable equity securities	505,000	505,000	68,300	68,300
Deposits	92,677,615	102,689,000	55,823,059	69,493,000
Federal Home Loan Bank advances	10,000,000	9,705,000	-	-

Cash and cash equivalents
The carrying amount approximates fair value for these instruments.

Investment securities
The fair value of investment securities are generally determined using widely accepted valuation techniques including market prices, matrix pricing, and broker-quote-based applications.

Note 17. Fair Value of Financial Instruments, Continued

Loans held for sale
Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of on-to-four family residential real estate loans originated for sale to qualified third parties. Fair value is based upon the contractual price to be received from these third parties, which may be different than cost.

Loans held for investment
Fair values are estimated for portfolios of loans with similar financial characteristics if collateral-dependent. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect observable market information incorporating the credit, liquidity, yield and other risks inherent in the loan. The estimate of maturity is based upon the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions.

Fair value for significant non-performing loans is generally based upon recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discounted rates are judgmentally determined using available market information and specific borrower information.

Nonmarketable equity securities
Nonmarketable equity securities are carried at original cost basis, as cost approximates fair value and there is no ready market for such investments.

Deposits
The fair value of deposits with no stated maturity date, such as noninterest-bearing demand deposits, savings and money market and checking accounts, is based on the discounted value of estimated cash flows. The fair value of time deposits is based upon the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances
Fair value is estimated based on discounted cash flows using current market rates for borrowing with similar terms and are classified as of Level 2.

Note 18. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 16, 2020, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Note 19. First Capital Bancshares, Inc. (Parent Company Only)

Following is condensed financial information of First Capital Bancshares, Inc. (parent company only) as of and for the years ended December 31:

Condensed Balance Sheets

	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 7,646,772	$ 12,713,802
Investment in banking subsidiary	23,957,631	19,948,586
Other assets	2,104	6,944
Total assets	31,606,507	32,669,332
Liabilities		
Other liabilities	14,548	14,548
Total liabilities	14,548	14,548
Shareholders' equity	31,591,959	32,654,784
Total liabilities and shareholders' equity	$ 31,606,507	$ 32,669,332

Condensed Statements of Operations

	For the years ended December 31, 2019	For the years ended December 31, 2018
Income		
Interest	$ -	$ 1,425
Expenses		
Compensation expense	202,177	-
Professional fees	23,190	-
Other	48,680	38,855
Total expenses	274,047	38,855
Loss before income taxes and equity in undistributed loss of banking subsidiary	(274,047)	(37,430)
Income tax expense	-	-
Net equity in undistributed loss of Bank	(970,590)	(63,065)
Net loss	$ (1,244,637)	$ (100,495)

Note 19. First Capital Bancshares, Inc. (Parent Company Only), Continued

Condensed Statements of Cash Flows

	For the years ended December 31,	
	2019	**2018**
Operating activities		
Net loss	$ (1,244,637)	$ (100,495)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net equity in undistributed loss of the Bank	970,590	63,065
Stock compensation	202,177	-
Decrease in other assets	4,840	292
Increase in other liabilities	-	14,548
Net cash used in operating activities	(67,030)	(22,590)
Financing activities		
Capital contributions to (from) subsidiary	(5,000,000)	21,024
Proceeds from common stock issuance, net	-	2,492,172
Net cash (used in) provided by financing activities	(5,000,000)	2,513,196
Net (decrease) increase in cash and cash equivalents	(5,067,030)	2,490,606
Cash and cash equivalents, beginning of year	12,713,802	10,223,196
Cash and cash equivalents, ending of year	$ 7,646,772	$ 12,713,802

Board of Directors

Julius "Jules" Anderson.....Owner
.....Anderson Insurance Associates of Charleston/Charleston, SC

Frank J. Cole, Jr. ..... Chief Executive Officer and President
..... First Capital Bancshares, Inc. (CEO/President) and First Capital Bank (CEO)/Charleston, SC

Raymond N. DuBois, MD, PhD ..... Dean
.....MUSC College of Medicine/Charleston, SC

Barry A. Emerson.....Owner
.....Barry A. Emerson, CPA, LLC/Charleston, SC

Harvey L. Glick......Retired Founder and Director
..... Insigna Bank/Sarasota, FL

H. Lee Howell, Jr...... .Owner and President
..... Scotland Motors, Inc./Laurinburg, NC

James W. Mason III..... Owner and President
.....The Mason Company/Laurinburg, NC

John B. McCoy .....Retired/Chairman
.....BancOne Corporation/Chicago, IL

Michael C. Robinson.....Owner and President
.....Charleston Appraisal Service, Inc./Charleston, SC

John D. Russ.....Retired/CEO and President
.....Carolina Financial Corporation/Mt. Pleasant, SC

Holding Company Officers

Harvey L. Glick. .... Chairman of the Board of Directors

John D. Russ.......... Vice Chairman of the Board of Directors

Frank J. Cole, Jr. .... President and Chief Executive Officer

Barry A. Emerson.......... Secretary

Brandon J. Cole.......... Deputy Secretary

Bank Officers

John D. Russ.......... Chairman of the Board of Directors

Harvey L. Glick .... Vice Chairman of the Board of Directors

Frank J. Cole, Jr. .... Chief Executive Officer

Barry A. Emerson. .... Secretary

Joseph S. Kassim.......... President and Chief Operating Officer

Tradd Rodenberg.......... Executive Vice President, Chief Lending Officer

Frank Przestrzelski.......... Compliance Officer/BSA Officer

Sandra Lewis. .... Security Officer

Brandon J. Cole. .... Deputy Secretary

First Capital Bank

Annual Financial Disclosure Statement
furnished pursuant to Part 350 of the Federal Deposit
Insurance Corporation's rules and regulations

For the year ended December 31, 2019

**THIS STATEMENT HAS NOT BEEN REVIEWED,
OR CONFIRMED FOR ACCURACY OR RELEVANCE BY THE
FEDERAL DEPOSIT INSURANCE CORPORATION.**