First Capital Bancshares, Inc.

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

Contents

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 subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the related consolidated statements of operations, 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 subsidiary as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Columbia, South Carolina
March 19, 2019

First Capital Bancshares, Inc.

Consolidated Balance Sheets

As of December 31, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 2,475,040	$ 3,924,228
Federal funds sold	18,791,806	25,347,216
Total cash and cash equivalents	21,266,846	29,271,444
Loans receivable	66,995,190	46,505,073
Less allowance for loan losses	(929,245)	(599,704)
Loans receivable, net	66,065,945	45,905,369
Premises, furniture and equipment, net	669,641	119,807
Accrued interest receivable	423,860	286,166
Stock in Federal Home Loan Bank of Atlanta, at cost	68,300	49,000
Other assets	363,028	280,792
Total assets	$ 88,857,620	$ 75,912,578
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 6,058,751	$ 4,244,829
Interest-bearing transaction accounts	20,639,611	12,985,677
Savings	1,580,461	1,644,598
Time deposits	27,544,236	26,288,272
Total deposits	55,823,059	45,163,376
Accrued interest payable	53,281	32,366
Other liabilities	326,496	453,729
Total liabilities	56,202,836	45,649,471
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 and 4,711,611 shares issued and outstanding at December 31, 2018 and 2017, respectively	50,836	47,113
Capital surplus	29,357,617	26,869,168
Retained earnings	3,249,831	3,350,326
Treasury stock	(3,500)	(3,500)
Total shareholders' equity	32,654,784	30,263,107
Total liabilities and shareholders' equity	$ 88,857,620	$ 75,912,578

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Operations

For the years ended December 31, 2018 and 2017

	2018	2017
Interest income:		
Loans, including fees	$ 3,833,036	$ 3,137,208
Federal funds sold	416,905	76,099
Other	5,538	7,116
Total interest income	4,255,479	3,220,423
Interest expense:		
Deposits	472,153	347,879
Total interest expense	472,153	347,879
Net interest income	3,783,326	2,872,544
Provision for loan losses	174,514	-
Net interest income after provision for loan losses	3,608,812	2,872,544
Noninterest income:		
Service charges on deposit accounts	42,322	43,470
Loan service charges and fees	20,935	17,014
Gain (loss) on sale of other real estate owned and repossessions	1,611	(4,473)
Credit life insurance commissions	7,274	17,178
Other	73,982	82,129
Total noninterest income	146,124	155,318
Noninterest expense:		
Salaries and employee benefits	2,201,842	1,357,140
Occupancy	305,467	153,016
Furniture and equipment	135,763	86,472
FDIC deposit insurance	28,041	16,078
Data processing fees	288,319	247,535
Dues and memberships	31,142	80,862
Professional fees	203,652	130,596
Reorganization costs	-	244,434
Other	661,205	389,498
Total noninterest expense	3,855,431	2,705,631
(Loss) income before income taxes	(100,495)	322,231
Income tax expense:		
Income tax expense related to ordinary operations	-	157,424
Income tax expense related to change in tax rate	-	80,801
Total income tax expense	-	238,225
Net (loss) income	$ (100,495)	$ 84,006
Net (loss) income per common share	$ (0.02)	$ 0.12
Weighted average common shares outstanding	5,024,609	713,412

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2018 and 2017

	Common Stock		Capital	Retained	Treasury	
	Shares	Amount	Surplus	Earnings	Stock	Total
Balance, December 31, 2016	563,728	$ 5,634	$ 5,110,554	$ 3,266,320	$ (3,500)	$ 8,379,008
Net income	-	-	-	84,006	-	84,006
Stock options exercised	30,000	300	233,700	-	-	234,000
Stock issuance, net	4,117,883	41,179	27,458,694	-	-	27,499,873
Dividend paid ($10.00 per share)	-	-	(5,933,780)	-	-	(5,933,780)
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

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	2018	2017
Operating activities:		
Net (loss) income	$ (100,495)	$ 84,006
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	174,514	-
Depreciation and amortization expense	66,870	35,827
(Gains) losses on sales and valuation adjustments of other real estate owned	(1,611)	4,473
Deferred income tax expense	-	54,512
(Increase) decrease in accrued interest receivable	(137,694)	14,634
Increase in accrued interest payable	20,915	4,296
(Decrease) increase in other assets	82,949	(41,803)
(Increase) decrease in other liabilities	(127,233)	226,939
Net cash (used in) provided by operating activities	(21,785)	382,884
Cash flows from investing activities:		
Net increase in loans	(20,498,664)	(2,783,260)
Proceeds from sale of other real estate owned and repossessions	-	242,587
Purchase of premises and equipment	(616,704)	(3,272)
Purchase of Federal Home Loan Bank stock	(19,300)	(2,200)
Net cash used in investing activities	(21,134,668)	(2,546,145)
Cash flows from financing activities:		
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	9,403,719	1,381,585
Net increase (decrease) in time deposits	1,255,964	(2,079,001)
Dividends paid	-	(5,933,780)
Stock options exercised	-	234,000
Proceeds from common stock issuance, net	2,492,172	27,499,873
Net cash provided by financing activities	13,151,855	21,102,677
Net (decrease) increase in cash and cash equivalents	(8,004,598)	18,939,416
Cash and cash equivalents, beginning of year	29,271,444	10,332,028
Cash and cash equivalents, end of year	$ 21,266,846	$ 29,271,444
Cash paid during the year for:		
Interest	$ 451,238	$ 343,583
Income tax	32,315	206,300
Supplemental noncash investing financing activities:		
Transfer of loans receivable to other assets for other real estate owned and repossessions	$ 163,574	$ 14,307

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 County, North Carolina. The Bank also operates a loan production office in Moore County, North Carolina. 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.

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.

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of Credit Risk (continued):

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. 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.

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 income. 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.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses (continued):

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 shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by 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.

In situations where, for economic or legal reasons related to a borrower’s financial difficulties, a concession to the borrower is granted that the Company would not otherwise consider, the related loan is classified as a troubled debt restructuring. The restructuring of a loan may include the transfer from the borrower to the Company of real estate, receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan, modification of the loan terms, or a combination of the above.

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.

Note 1. Summary of Significant Accounting Policies, Continued

Other Real Estate Owned:

Real estate properties acquired through foreclosure or other proceedings are initially recorded at fair value upon foreclosure. After foreclosure, valuations are performed and the foreclosed property is adjusted to the lower of cost or fair market value of the properties, 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 market 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 $68,300 and $49,000 at December 31, 2018 and 2017, respectively.

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, 2018 and 2017, and did not accrue any interest or penalties as of December 31, 2018 and 2017. 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. Tax returns for all years 2015 and thereafter are subject to possible future examinations by tax authorities.

(Loss) Income Per Share:

Basic (loss) income 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.

Note 1. Summary of Significant Accounting Policies, Continued

Comprehensive (Loss) Income:

The Company's only source of comprehensive (loss) income for the years ended December 31, 2018 and 2017 was net (loss) income. A consolidated statement of comprehensive (loss) income has therefore not been included in these financial statements.

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. During 2018 the Company issued 20,000 options.

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.

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 May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company will apply the guidance using a modified retrospective approach. The Company's revenue is comprised of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of our revenues will not be affected. The Company is currently assessing our revenue contracts related to revenue streams that are within the scope of the standard. Our accounting policies will not change materially since the principles of revenue recognition from the Accounting Standards Update (ASU) are largely consistent with existing guidance and current practices applied by our businesses. The Company has not identified material changes to the timing or amount of revenue recognition. Based on the updated guidance, the Company does anticipate changes in our disclosures associated with our revenues. The Company will provide qualitative disclosures of our performance obligations related to our revenue recognition and will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Recently Issued Accounting Pronouncements (continued):

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company expects to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. The Company has started an initial evaluation of our leasing contracts and activities. The Company has also started developing our methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments. The Company does not expect a material change to the timing of expense recognition, but is early in the implementation process and will continue to evaluate the impact. The Company is evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Recently Issued Accounting Pronouncements (continued):

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 annual periods beginning after December 15, 2020, and interim periods within annual reporting periods beginning after December 15, 2021. 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. While early adoption is permitted beginning in first quarter 2019, the Company does not expect to elect that option. The Company is evaluating the impact of the ASU on our 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 our 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 October 2016, the FASB amended the Income Taxes topic of the Accounting Standards Codification to modify the accounting for intra-entity transfers of assets other than inventory. The amendments will be effective for the Company for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments will be effective for the Company for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2016, the FASB issued technical corrections and improvements to the Revenue from Contracts with Customers Topic. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The effective date and transition requirements for the technical corrections will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2017, the FASB amended the Other Income Topic of the Accounting Standards Codification to clarify the scope of the guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Recently Issued Accounting Pronouncements (continued):

In March 2017, the FASB amended the requirements in the Receivables-Nonrefundable Fees and Other Costs Topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Company for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2018, the FASB amended the Financial Instruments Topic of the Accounting Standards Codification. The amendments clarify certain aspects of the guidance issued in ASU 2016-01. The amendments are effective for the same dates as those described in ASU 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted ASU 2016-01. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2018, the FASB amended the Financial Services-Depository and Lending Topic of the Accounting Standards Codification to remove outdated guidance related to Circular 202. The amendments were effective upon issuance and did not have a material effect on the financial statements.

In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to make narrow amendments to clarify how to apply certain aspects of the new leases standard. The amendments are effective for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to give entities another option for transition and to provide lessors with a practical expedient. The amendments will be effective for the Company for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

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.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Recently Issued Accounting Pronouncements (continued):

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, 2021, including interim periods within those fiscal years. 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.

In December 2018, the FASB issued guidance that providing narrow-scope improvements for lessors, that provides relief in the accounting for sales, use and similar taxes, the accounting for other costs paid by a lessee that may benefit a lessor, and variable payments when contracts have lease and non-lease components. The amendments will be effective for the Company for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

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

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, 2018 and 2017 totaled $37,017 and $26,282, respectively, and are included within salaries and employee benefits.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Risks and Uncertainties:

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

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

Reclassifications:

Certain captions and amounts in the 2017 consolidated financial statements were reclassified to conform with the 2018 presentation. The reclassifications did not have an impact on net (loss) income 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, 2018, the requirement was met by the cash balance in the account and by the available federal funds line.

Note 3. Loans Receivable

Loans receivable consisted of the following at December 31, 2018 and 2017:

	2018	2017
Real estate construction	$ 2,731,473	$ 606,596
Real estate residential	34,010,664	25,285,180
Real estate commercial	22,670,229	14,648,632
Commercial and industrial	3,874,426	1,695,799
Consumer and other	3,708,398	4,268,866
	66,995,190	46,505,073
Less allowance for loan losses	(929,245)	(599,704)
Loans receivable, net	$ 66,065,945	$ 45,905,369

Note 3. Loans Receivable, Continued

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

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2017:

	Real Estate Construction	Real Estate Residential	Real Estate Commercial	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 4,219	$ 373,821	$ 222,404	$ 64,540	$ 77,455	$ 742,439
Charge-offs	-	(22,259)	-	(116,169)	(20,479)	(158,907)
Recoveries	-	16,172	-	-	-	16,172
Provisions	(3,075)	(45,070)	(82,023)	127,326	2,842	-
Ending balance	$ 1,144	$ 322,664	$ 140,381	$ 75,697	$ 59,818	$ 599,704
Ending balances:						
Individually evaluated for impairment	$ -	$ 19,144	$ 34,331	$ -	$ 2,885	$ 56,360
Collectively evaluated for impairment	$ 1,144	$ 303,520	$ 106,050	$ 75,697	$ 56,933	$ 543,344
Loans receivable:						
Ending balance - total	$ 606,596	$ 25,285,180	$ 14,648,632	$ 1,695,799	$ 4,268,866	$ 46,505,073
Ending balances:						
Individually evaluated for impairment	$ 11,822	$ 1,312,123	$ 691,458	$ -	$ 136,494	$ 2,151,897
Collectively evaluated for impairment	$ 594,774	$ 23,973,057	$ 13,957,174	$ 1,695,799	$ 4,132,372	$ 44,353,176

Note 3. 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, 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

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2017:

	Pass	Special Mention	Substandard	Total
Real estate construction	$ 594,774	$ 11,822	$ -	$ 606,596
Real estate residential	24,260,694	319,157	705,329	25,285,180
Real estate commercial	14,326,032	-	322,600	14,648,632
Commercial and industrial	1,695,799	-	-	1,695,799
Consumer and other	4,144,786	53,226	70,854	4,268,866
	$ 45,022,085	$ 384,205	$ 1,098,783	$ 46,505,073

Note 3. Loans Receivable, Continued

The following is an analysis of nonaccrual loans as of December 31, 2018 and 2017:

	2018	2017
Real estate construction	$ -	$ 11,822
Real estate residential	166,454	856,107
Real estate commercial	240,000	322,600
Commercial and industrial	154,724	-
Consumer and other	38,870	117,673
Total	$ 600,048	$ 1,308,202

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

The following is an aging analysis of our loan portfolio at December 31, 2017:

	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	$ -	$ -	$ -	$ -	$ 606,596	$ 606,596
Real estate residential	1,021,657	156,134	249,752	1,427,543	23,857,637	25,285,180
Real estate commercial	342,835	-	239,266	582,101	14,066,531	14,648,632
Commercial and industrial	204,590	-	-	204,590	1,491,209	1,695,799
Consumer and other	406,271	45,983	64,937	517,191	3,751,675	4,268,866
	$ 1,975,353	$ 202,117	$ 553,955	$ 2,731,425	$ 43,773,648	$ 46,505,073

As of December 31, 2018 and 2017, the Bank had no loans over 90 days past due and still accruing.

Note 3. Loans Receivable, Continued

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
	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
	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
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
	$ 1,131,822	$ 1,385,039	$ 86,789	$ 1,166,429	$ 87,841

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate construction	$ 11,822	$ 17,496	$ -	$ 15,263	$ -
Real estate residential	1,009,354	1,277,154	-	1,066,503	58,107
Real estate commercial	482,027	765,627	-	507,958	42,155
Consumer and other	101,216	154,654	-	108,464	5,099
	1,604,419	2,214,931	-	1,698,188	105,361
With an allowance recorded:					
Real estate residential	302,769	349,311	19,144	319,711	6,273
Real estate commercial	209,431	246,255	34,331	219,637	-
Consumer and other	35,278	35,278	2,885	36,010	-
	547,478	630,844	56,360	575,358	6,273
Total					
Real estate construction	11,822	17,496	-	15,263	-
Real estate residential	1,312,123	1,626,465	19,144	1,386,214	64,380
Real estate commercial	691,458	1,011,882	34,331	727,595	42,155
Consumer and other	136,494	189,932	2,885	144,474	5,099
	$ 2,151,897	$ 2,845,775	$ 56,360	$ 2,273,546	$ 111,634

Note 3. Loans Receivable, Continued

The following is an analysis of our troubled debt restructured loans (TDRs) at December 31, 2018 and 2017:

	2018	2017
Performing	$ 958,008	$ 1,259,657
Nonperforming	7,307	108,733
	$ 965,315	$ 1,368,390

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.

There were no loans identified as TDRs during the years ended December 31, 2018 or 2017. No loans during 2018 or 2017 were in default that were previously restructured within the last twelve months.

As of December 31, 2018 and 2017, loans totaling $27.4 million and $20.5 million, respectively were pledged securing the Company's Federal Home Loan Bank line of credit.

Note 4. Premises, Furniture and Equipment

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

	2018	2017
Leasehold improvements	$ 520,741	$ 193,030
Furniture and equipment	896,112	607,477
Total	1,416,853	800,507
Less accumulated depreciation	(747,212)	(680,700)
Premises, furniture and equipment, net	$ 669,641	$ 119,807

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was $66,870 and $35,827, respectively.

Note 5. Deposits

At December 31, 2018, the scheduled maturities of certificates of deposit are as follows:

	Amount
2019	$ 23,695,821
2020	2,010,245
2021	1,211,409
2022	350,538
2023 and thereafter	276,223
Total	$ 27,544,236

Certificates of deposits with balances in excess of federal deposit insurance limits of $250,000 were $10,421,479 and $7,373,381 at December 31, 2018 and 2017, respectively.

Note 6. Shareholder's Equity

During 2017 and 2018, the Company initiated a capital raise whereby 4,117,883 and 357,325 shares of common stock, respectively, were issued at $6.75 per share, for total proceeds of $27,795,710 and $2,513,193, respectively. Costs associated with the capital raise during 2017 and 2018 totaled $295,837 and $21,021, respectively, and are netted against proceeds received within the statement of shareholders' equity. In connection with the capital raise, the Company paid dividends during 2017 in the amount of $10.00 per share.

30,000 stock options were issued on August 31, 2000 at an exercise price of $7.80 per share. These options vested over a 5 year period and were fully vested during 2005. During 2017, the stock options were exercised for total proceeds of $234,000.

Note 7. 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:

	2018	2017
Current income tax expense:		
Federal	$ -	$ 171,705
State	-	12,008
Total current	-	183,713
Deferred income taxes:		
Federal	11,453	39,112
State	(11,453)	15,400
Total deferred	-	54,512
Income tax expense	$ -	$ 238,225

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

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 136,263	$ 98,363
Nonaccrual loan interest income	3,230	2,498
State loss carryforwards	61,363	6,254
Deferred compensation	12,309	42,221
Gross deferred tax assets	213,165	149,336
Deferred tax liabilities:		
Accumulated depreciation	74,051	15,622
Prepaid expenses	16,327	13,511
Other	2,584	-
Total deferred tax liabilities	92,962	29,133
Net deferred tax asset	$ 120,203	$ 120,203

The Company has federal net operating losses of $255,072 for the year ended December 31, 2018. The Company has state net operating losses of $195,765 and $158,340 for the years ended December 31, 2018 and 2017, respectively.

Note 7. Income Taxes, Continued

Tax returns for 2015 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 2018 and 34% for 2017 to income before income taxes follows for the years ended December 31:

	2018	2017
Tax (benefit) expense at statutory rate	$ (21,104)	$ 109,559
State income tax, net of federal income tax benefit	(9,048)	18,089
Tax impact of rate change on deferred taxes	-	80,801
Nondeductible expenses	15,123	30,027
Other, net	15,029	(251)
Total	$ -	$ 238,225

Note 8. Leases

The Company leases its banking facility in Bennettsville, South Carolina and Charleston, South Carolina from separate directors. The initial lease agreement was for a term of five years, beginning October 1, 2011 and ended September 30, 2016. During 2016, the Company exercised an option to renew the lease for a period of five years, expiring on September 30, 2021. The monthly rental rate is $3,175.

The Company has also entered into various lease agreements with unaffiliated third parties with terms extending through April 2023.

Future minimum rental commitments under all of the Company's non-cancellable operating lease agreements at December 31, 2018 were as follows:

2019	$ 254,903
2020	257,603
2021	252,845
2022	178,659
2023	75,157
	$ 1,019,167

Total rental expense for all operating leases amounted to $222,315 and $92,400 in 2018 and 2017.

Note 9. 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.

Note 9. Related Party Transactions, Continued

The Company had related party loans as of December 31, 2018 and 2017 totaling $3,109,413 and $38,374, respectively. Additionally, as described in Note 8, the Company leases its banking facility in Bennettsville, South Carolina and Charleston, South Carolina from separate directors. Related party lease expense totaled $160,008 for the years ended December 31, 2018 and 2017.

The Company had related party deposit accounts as of December 31, 2018 and 2017 totaling $5,610,336 and $1,650,067, respectively.

Note 10. 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, 2018, 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 11. 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.

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:

	2018	2017
Commitments to extend credit	$ 7,671,660	$ 1,659,108

Note 12. 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.

Note 12. 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

No options were issued or outstanding as of December 31, 2017.

At December 31, 2018, unrecognized compensation cost related to share-based compensation arrangements granted under the Stock Option Plan totaled $45,115, 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, 2018:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding at 12/31/18	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$6.75	20,000	5 years	$ 6.75

Note 13. 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 13. 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 will also be required to maintain a “capital conservation buffer” in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of CET1, but the buffer will apply to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016 at 0.625% and becoming fully effective on January 1, 2019, and will ultimately consist 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 13. 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, 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%
December 31, 2017						
Total capital (to risk weighted assets)	$ 20,551	49.53%	$ 3,320	8.00%	$ 4,149	10.00%
Tier 1 capital (to risk weighted assets)	20,032	48.28%	2,490	6.00%	3,320	8.00%
Tier 1 capital (to average assets)	20,032	36.27%	2,209	4.00%	2,761	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	20,032	48.28%	1,867	4.50%	2,697	6.50%

Note 14. Unused Lines of Credit

At December 31, 2018, the Company had unused lines of credit to purchase federal funds from two unrelated banks totaling $6,000,000. This line of credit is 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, 2018, the total line of credit with Federal Home Loan Bank was $21,474,750, of which none has been advanced to the Bank. The Company had loans pledged securing the Federal Home Loan Bank line of credit as of December 31, 2018 and 2017 totaling $27.4 million and $20.5 million, respectively, in addition to the Company's Federal Home Loan Bank stock.

Note 15. 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).

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.

Note 15. Fair Value of Financial Instruments, Continued

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:

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, 2018 and 2017, 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.

There were no assets or liabilities measured at a 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, 2018			
	Total	Level 1	Level 2	Level 3
Impaired loans, net	$ 1,045,033	$ -	$ -	$ 1,045,033
Total	$ 1,045,033	$ -	$ -	$ 1,045,033

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Impaired loans, net	$ 2,095,537	$ -	$ -	$ 2,095,537
Total	$ 2,095,537	$ -	$ -	$ 2,095,537

Note 15. 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 nonrecurring basis at December 31, 2018 and 2017:

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%

Description	Fair Value 12/31/2017	Valuation Methodology	Unobservable Inputs	Range of Inputs
Impaired loans	$ 2,095,537	Appraised value	Discount to reflect current market conditions and ultimate collectability	4% - 40%

The Company has no liabilities measured at fair value on a nonrecurring basis.

Note 16. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 19, 2019, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Note 17. 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, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 12,713,802	$ 10,223,196
Investment in banking subsidiary	19,948,586	20,032,675
Other assets	6,944	7,236
Total assets	32,669,332	30,263,107
Liabilities		
Other liabilities	14,548	-
Total liabilities	14,548	-
Shareholders' equity	32,654,784	30,263,107
Total liabilities and shareholders' equity	$ 32,669,332	$ 30,263,107

Note 17. First Capital Bancshares, Inc. (Parent Company Only)

Condensed Statements of Operations

	For the years ended December 31, 2018	2017
Income		
Interest	$ 1,425	$ 2,970
Expenses		
Other	38,855	-
Total expenses	38,855	-
(Loss) income before income taxes and equity in undistributed earnings of banking subsidiary	(37,430)	2,970
Income tax expense	-	9,053
Net equity in undistributed (loss) earnings of bank	(63,065)	90,089
Net (loss) income	$ (100,495)	$ 84,006

Condensed Statements of Cash Flows

	For the years ended December 31, 2018	2017
Operating activities		
Net (loss) income	$ (100,495)	$ 84,006
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Net equity in undistributed (loss) earnings of the Bank	63,065	(90,089)
Decrease in other assets	292	3,983
Increase in other liabilities	14,548	-
Net cash used in operating activities	(22,590)	(2,100)
Financing activities		
Dividends paid	-	(5,933,780)
Stock options exercised	-	234,000
Capital contributions to (from) subsidiary	21,024	(11,812,437)
Proceeds from common stock issuance, net	2,492,172	27,499,873
Net cash provided by financing activities	2,513,196	9,987,656
Net increase in cash and cash equivalents	2,490,606	9,985,556
Cash and cash equivalents, beginning of year	10,223,196	237,640
Cash and cash equivalents, ending of year	$ 12,713,802	$ 10,223,196

Board of Directors

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

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

Harry L. Howell, Jr.......... Owner and President
.... Scotland Motors, Inc./Laurinburg, NC

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

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

Mike 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

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

Winston Dwyer .... Chief Financial Officer and Principal Accounting Officer

James D. Nance .... Controller and Assistant Financial Officer

Deanna Sparkman .... Compliance Officer

Sandra Lewis .... Security Officer

Bank Officers
(Senior Vice President and above only)

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

Winston Dwyer .... Chief Financial Officer and Principal Accounting Officer

Aaron Brewer .... Chief Lending Officer, President

Beth D. Williams .... Retail Banking Officer, Senior Vice President

Sandra Lewis .... Operations Manager, Senior Vice President

First Capital Bancshares, Inc.

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, 2018

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