

First Capital Bancshares, Inc.

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2021 and 2020

First Capital Bancshares, Inc.

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Independent Auditor's Report

The Board of Directors
First Capital Bancshares, Inc.
Charleston, South Carolina

Opinion

We have audited the consolidated financial statements of First Capital Bancshares, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued, or within one year after the date that the financial statements are available to be issued when applicable.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Elliott Davis, LLC

Charleston, South Carolina
March 24, 2022

First Capital Bancshares, Inc.

Consolidated Balance Sheets

As of December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| Assets: | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | \$ 62,994,198 | \$ 47,350,810 |
| Federal funds sold | <u>429,721</u> | <u>374,921</u> |
| Total cash and cash equivalents | <u>63,423,919</u> | <u>47,725,731</u> |
| Securities available-for-sale | 40,307,595 | 24,488,556 |
| Marketable equity securities | 502,524 | - |
| Stock in Federal Home Loan Bank of Atlanta, at cost | 770,300 | 760,600 |
| Loans receivable | 270,678,907 | 185,242,612 |
| Less allowance for loan losses | <u>(3,409,013)</u> | <u>(2,587,881)</u> |
| Loans receivable, net | <u>267,269,894</u> | <u>182,654,731</u> |
| Premises, furniture and equipment, net | 3,944,069 | 2,488,329 |
| Lease right of use asset | 1,735,017 | 1,604,166 |
| Cash surrender value of life insurance | 7,332,307 | 5,137,234 |
| Deferred tax asset | 571,839 | 292,279 |
| Accrued interest receivable | 859,341 | 806,402 |
| Other assets | <u>513,831</u> | <u>705,261</u> |
| Total assets | <u>\$ 387,230,636</u> | <u>\$ 266,663,289</u> |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing transaction accounts | \$ 26,575,078 | \$ 19,243,310 |
| Interest-bearing transaction accounts | 173,772,312 | 107,520,473 |
| Savings | 2,950,315 | 2,090,069 |
| Time deposits | <u>124,285,985</u> | <u>86,114,443</u> |
| Total deposits | <u>327,583,690</u> | <u>214,968,295</u> |
| Lease liability | 1,770,160 | 1,627,485 |
| Borrowings from Federal Home Loan Bank of Atlanta | 15,000,000 | 15,000,000 |
| Subordinated debt | 7,000,000 | - |
| Note payable | 840,000 | 1,050,000 |
| Accrued interest payable | 272,278 | 156,122 |
| Other liabilities | <u>830,194</u> | <u>539,497</u> |
| Total liabilities | <u>353,296,322</u> | <u>233,341,399</u> |
| Stockholders' equity: | | |
| Common stock, \$.01 par value; 10,000,000 shares authorized; 5,085,936 and 5,083,936 shares issued and outstanding at December 31, 2021 and 2020, respectively | 50,856 | 50,836 |
| Capital surplus | 29,991,450 | 29,764,384 |
| Retained earnings | 3,710,888 | 2,959,202 |
| Treasury stock, 350 shares at December 31, 2021 and 2020 | (3,500) | (3,500) |
| Accumulated other comprehensive income | <u>184,620</u> | <u>550,968</u> |
| Total stockholders' equity | <u>33,934,314</u> | <u>33,321,890</u> |
| Total liabilities and stockholders' equity | <u>\$ 387,230,636</u> | <u>\$ 266,663,289</u> |

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.
Consolidated Statements of Income
For the years ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Interest income: | | |
| Loans, including fees | \$ 10,498,885 | \$ 7,895,046 |
| Investment securities, taxable | 589,480 | 397,769 |
| Federal funds sold | 542 | 16,266 |
| Other | <u>69,598</u> | <u>98,555</u> |
| Total interest income | <u>11,158,505</u> | <u>8,407,636</u> |
| Interest expense: | | |
| Deposits | 1,896,367 | 1,715,373 |
| Other interest expense | <u>218,449</u> | <u>117,184</u> |
| Total interest expense | 2,114,816 | 1,832,557 |
| Net interest income | 9,043,689 | 6,575,079 |
| Provision for loan losses | <u>780,000</u> | <u>980,000</u> |
| Net interest income after provision for loan losses | <u>8,263,689</u> | <u>5,595,079</u> |
| Noninterest income: | | |
| Service charges on deposit accounts | 32,207 | 25,174 |
| Gain on sale of securities available-for-sale | 246,309 | 816,163 |
| Gain on sale of other real estate owned and repossessions | 912 | - |
| Increase in cash surrender value of life insurance | 195,073 | 137,234 |
| Other | <u>149,841</u> | <u>97,794</u> |
| Total noninterest income | <u>624,342</u> | <u>1,076,365</u> |
| Noninterest expense: | | |
| Salaries and employee benefits | 4,688,784 | 3,401,594 |
| Occupancy | 571,970 | 439,254 |
| Loss on sale of other real estate owned and repossessions | - | 2,615 |
| Furniture and equipment | 293,275 | 264,567 |
| FDIC deposit insurance | 181,429 | 86,950 |
| Data processing fees | 464,360 | 335,355 |
| Dues and memberships | 44,465 | 33,620 |
| Professional fees | 251,419 | 233,349 |
| Other | <u>1,397,094</u> | <u>852,515</u> |
| Total noninterest expense | <u>7,892,796</u> | <u>5,649,819</u> |
| Income before income taxes | 995,235 | 1,021,625 |
| Income tax expense | <u>243,549</u> | <u>67,617</u> |
| Net income | <u>\$ 751,686</u> | <u>\$ 954,008</u> |
| Weighted average shares outstanding | | |
| Basic | 5,085,936 | 5,083,936 |
| Diluted | 5,393,507 | 5,083,936 |
| Basic income per common share | <u>\$ 0.15</u> | <u>\$ 0.19</u> |
| Diluted income per common share | <u>\$ 0.14</u> | <u>\$ 0.19</u> |

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.**Consolidated Statements of Comprehensive Income****For the years ended December 31, 2021 and 2020**

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|---------------------|
| Net income | \$ 751,686 | \$ 954,008 |
| Other comprehensive (loss) income | | |
| Unrealized holding (losses) gains arising during the period | (217,423) | 1,539,369 |
| Tax effect | 45,659 | (352,241) |
| Realized gains on investment securities available-for-sale | (246,309) | (816,163) |
| Tax effect | <u>51,725</u> | <u>200,368</u> |
| Other comprehensive (loss) income, net of tax | <u>(366,348)</u> | <u>571,333</u> |
| Comprehensive income | <u>\$ 385,338</u> | <u>\$ 1,525,341</u> |

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2021 and 2020

| | Common Stock | | Capital Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive (Loss) Income | Total |
|---|------------------|------------------|----------------------|----------------------|-------------------|--|----------------------|
| | Shares | Amount | | | | | |
| Balance, December 31, 2019 | <u>5,083,936</u> | <u>\$ 50,836</u> | <u>\$ 29,559,794</u> | <u>\$ 2,005,194</u> | <u>\$ (3,500)</u> | <u>\$ (20,365)</u> | <u>\$ 31,591,959</u> |
| Net income | - | - | - | 954,008 | - | - | 954,008 |
| Other comprehensive income, net of tax | - | - | - | - | - | 571,333 | 571,333 |
| Stock based compensation | - | - | 204,590 | - | - | - | 204,590 |
| Balance, December 31, 2020 | <u>5,083,936</u> | <u>50,836</u> | <u>29,764,384</u> | <u>2,959,202</u> | <u>(3,500)</u> | <u>550,968</u> | <u>33,321,890</u> |
| Net income | - | - | - | 751,686 | - | - | 751,686 |
| Other comprehensive loss, net of tax | - | - | - | - | - | (366,348) | (366,348) |
| Stock options exercised | 2,000 | 20 | 13,480 | - | - | - | 13,500 |
| Stock based compensation | - | - | 213,586 | - | - | - | 213,586 |
| Balance, December 31, 2021 | <u>5,085,936</u> | <u>\$ 50,856</u> | <u>\$ 29,991,450</u> | <u>\$ 3,710,888</u> | <u>\$ (3,500)</u> | <u>\$ 184,620</u> | <u>\$ 33,934,314</u> |

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.
Consolidated Statements of Cash Flows
December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Operating activities: | | |
| Net income | \$ 751,686 | \$ 954,008 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 780,000 | 980,000 |
| Increase in cash surrender value of life insurance | (195,073) | (137,234) |
| Depreciation and amortization expense | 216,665 | 187,977 |
| Discount accretion and premium amortization, net | 114,340 | 44,967 |
| Gain on sale of investment securities | (246,309) | (816,163) |
| Increase in deferred income tax | (182,176) | (44,431) |
| (Gain) loss on sales of other real estate owned and repossessions | (912) | 2,615 |
| Change in right of use asset and lease liability | 11,824 | 13,151 |
| Increase in accrued interest receivable | (52,939) | (313,926) |
| Stock based compensation expense | 213,586 | 204,590 |
| Increase in accrued interest payable | 116,156 | 44,842 |
| Decrease (increase) in other assets | 154,254 | (436,074) |
| Increase in other liabilities | 290,697 | 137,974 |
| Net cash provided by operating activities | <u>1,971,799</u> | <u>822,296</u> |
| Cash flows from investing activities: | | |
| Net increase in loans | (85,376,575) | (81,767,252) |
| Purchase of securities available-for-sale | (23,896,467) | (18,845,425) |
| Purchase of marketable equity securities | (502,524) | - |
| Proceeds from call, maturities, paydowns of securities available-for-sale | 3,954,924 | 1,498,821 |
| Proceeds from sale of other real estate owned and repossessions | 19,500 | 7,910 |
| Proceeds from sale of securities available-for-sale | 3,790,741 | 6,611,447 |
| Purchase of bank owned life insurance | (2,000,000) | (5,000,000) |
| Purchase of premises and equipment | (1,672,405) | (1,715,341) |
| Purchase of Federal Home Loan Bank stock | (9,700) | (255,600) |
| Net cash used in investing activities | <u>(105,692,506)</u> | <u>(99,465,440)</u> |
| Cash flows from financing activities: | | |
| Net increase in demand deposits, interest-bearing transaction accounts and savings accounts | 74,443,853 | 79,302,893 |
| Net increase in time deposits | 38,171,542 | 42,987,787 |
| Proceeds from subordinated debentures | 7,000,000 | - |
| Proceeds from Federal Home Loan Bank | - | 5,000,000 |
| (Payments) proceeds from note payable | (210,000) | 1,050,000 |
| Stock options exercised | 13,500 | - |
| Net cash provided by financing activities | <u>119,418,895</u> | <u>128,340,680</u> |
| Net increase in cash and cash equivalents | 15,698,188 | 29,697,536 |
| Cash and cash equivalents, beginning of year | <u>47,725,731</u> | <u>18,028,195</u> |
| Cash and cash equivalents, end of year | <u>\$ 63,423,919</u> | <u>\$ 47,725,731</u> |
| Cash paid during the year for: | | |
| Interest | \$ 1,998,660 | \$ 1,787,715 |
| Income tax | \$ 128,076 | \$ 385,675 |
| Supplemental disclosures of noncash transactions: | | |
| Transfer of loans receivable to other assets for other real estate owned | \$ (18,588) | \$ - |
| Unrealized (loss) gain on securities available for sale, net of tax | \$ (366,348) | \$ 571,333 |

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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. Effective February 15, 2018, the Company relocated its headquarters to Charleston, South Carolina. As of December 31, 2021, the Bank converted from a North Carolina state-chartered bank to a South Carolina state-chartered bank. 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. 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, investment securities, federal funds sold and amounts due from banks.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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 stockholders' 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.

Marketable equity securities are carried at fair value, with changes in fair value reported in noninterest income. Dividends received on marketable equity securities are included in other interest income.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Investment securities, continued:

Nonmarketable equity securities include the cost of the Company's investments in Federal Home Loan Bank stock in the amount of \$770,300 and \$760,600 at December 31, 2021 and 2020, respectively. The securities have no quoted market values, and no ready markets exist. Dividends received from these investments are included in other interest income. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank. Interest and dividend income is recognized when earned.

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. Loan fees and certain direct origination costs are deferred and amortized over the estimated terms of the loans using the level yield method. The accretion and amortization of loan fees and origination costs are presented as a component of loan interest income in the consolidated statements of income.

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 operations. 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 uncollectibility 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.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for loan losses, continued:

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 affect 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 through 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.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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 less cost to sell upon foreclosure. After foreclosure, valuations are performed and are carried at the lower of cost or 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 the current fair value. Other real estate owned is included within other assets in the consolidated balance sheets.

Cash surrender value of life insurance:

Cash surrender value of life insurance represents the cash value of policies on certain current and former officers of the Company.

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, 2021 and 2020 and did not accrue any interest or penalties as of December 31, 2021 and 2020. 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.

Income per share:

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares and potential common shares outstanding. Potential common shares consist of dilutive stock options determined using the treasury stock method and the average market price of common stock. Earnings per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Comprehensive income:

The Company reports other comprehensive income 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 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 Income.

Revenue recognition:

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Service charges on deposit accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Debit card income: The Company earns interchange fees from debit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, with the transaction processing services provided to the cardholder. Fees are recognized on a daily basis.

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 consolidated statements of income. 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.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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.

Retirement plan:

The Company 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, 2021 and 2020 totaled \$80,783 and \$69,238, respectively, and are included within salaries and employee benefits.

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 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The amendments will be effective for the Company for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

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

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. For entities that have not yet adopted the amendments in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

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

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

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

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

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

In October 2020, the FASB issued guidance to clarify the FASB's intent that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of FASB Accounting Standards Codification (FASB ASC) 310-20-35-33 for each reporting period. The amendments will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted for all other entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

In October 2020, the FASB issued amendments to clarify the Accounting Standards Codification and make minor improvements that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. Early application is permitted for any annual or interim period for which financial statements are available to be issued. 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.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 1. Summary of Significant Accounting Policies, 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 a different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

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

Reclassifications:

Certain captions and amounts in the 2020 consolidated financial statements were reclassified to conform with the 2021 presentation. The reclassifications did not have an impact on net income or stockholders' equity.

Note 2. Cash and Due from Banks

The Company has been required to maintain cash balances with their correspondent bank sufficient to cover all cash letter transactions. There were no such requirements as of December 31, 2021 and 2020.

Note 3. Investment Securities Available-for-Sale

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

| | <u>December 31, 2021</u> | | | |
|----------------------------------|---------------------------|---------------------------------------|--|-------------------------------------|
| | <u>Amortized Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> |
| Government sponsored enterprises | \$ 18,802,084 | \$ 83,909 | \$ (127,373) | \$ 18,758,620 |
| Corporate debt securities | 5,500,000 | 181,833 | - | 5,681,833 |
| Mortgage-backed securities | <u>15,771,815</u> | <u>177,601</u> | <u>(82,274)</u> | <u>15,867,142</u> |
| Total available-for-sale | <u>\$ 40,073,899</u> | <u>\$ 443,343</u> | <u>\$ (209,647)</u> | <u>\$ 40,307,595</u> |

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 3. Investment Securities Available-for-Sale, Continued

| | December 31, 2020 | | | |
|----------------------------------|----------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Available-for-Sale | | | | |
| Government sponsored enterprises | \$ 10,270,729 | \$ 95,434 | \$ - | \$ 10,366,163 |
| Corporate debt securities | 4,500,000 | 139,077 | - | 4,639,077 |
| Mortgage-backed securities | 9,020,399 | 462,917 | - | 9,483,316 |
| Total available-for-sale | <u>\$ 23,791,128</u> | <u>\$ 697,428</u> | <u>\$ -</u> | <u>\$ 24,488,556</u> |

The following is a summary of maturities of securities available-for-sale as of December 31, 2021. 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 |
| December 31, 2021 | | |
| Due after one year but within five years | \$ 17,597,948 | \$ 17,874,928 |
| Due after five years but within ten years | 19,975,951 | 19,969,145 |
| Due after ten years | 2,500,000 | 2,463,522 |
| Total | <u>\$ 40,073,899</u> | <u>\$ 40,307,595</u> |

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, 2021:

| Available-for-Sale | December 31, 2021 | | | | | |
|----------------------------|----------------------------|----------------------|--------------------------|----------------------|---------------------|-------------------|
| | Less than Twelve Months | | Twelve Months or More | | Total | |
| | Unrealized Fair Value | Unrealized Losses | Unrealized Fair Value | Unrealized Losses | Fair Value | Losses |
| Mortgage-backed securities | \$19,319,044 | \$ 211,588 | \$ - | \$ - | \$19,319,044 | \$ 211,588 |
| Corporate debt securities | 2,956,552 | 43,448 | - | - | 2,956,552 | 43,448 |
| Total | <u>\$22,275,596</u> | <u>\$ 255,036</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$22,275,596</u> | <u>\$ 255,036</u> |

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2021 and 2020**

Note 3. Investment Securities Available-for-Sale, Continued

At December 31, 2020, the Company had no investments in a continuous unrealized loss position.

At December 31, 2021, and December 31, 2020, no investment securities were pledged as collateral.

During the year ended December 31, 2021, the Company sold available-for-sale investments for total proceeds of \$3,790,741, resulting in gross gains of \$246,309 and no gross losses. During 2020, the Company sold available-for-sale investments for total proceeds of \$6,611,447, resulting in gross gains of \$816,163 and no gross losses.

Note 4. Loans Receivable

Loans receivable consisted of the following at December 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------|-----------------------|-----------------------|
| Real estate construction | \$ 19,346,337 | \$ 16,020,621 |
| Real estate residential | 144,835,963 | 85,500,211 |
| Real estate commercial | 93,098,841 | 65,890,360 |
| Commercial and industrial | 6,042,850 | 4,476,848 |
| Consumer and other | <u>4,264,815</u> | <u>4,578,333</u> |
| | 267,588,806 | 176,466,373 |
| Paycheck Protection Program (PPP) | <u>3,090,101</u> | <u>8,776,239</u> |
| Loans receivable | <u>\$ 270,678,907</u> | <u>\$ 185,242,612</u> |

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 4. Loans Receivable, Continued

On March 27, 2020, the CARES Act was signed into law, which established the Paycheck Protection Program (PPP). Under the program, the Small Business Administration (SBA) would forgive loans, in whole or in part, made by approved lenders to eligible borrowers for Paycheck and other permitted purposes in accordance with the requirements of the program. These loans carried a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. The loans were 100% guaranteed by the SBA and as long as the borrower submitted its loan forgiveness application within ten months of completion of the covered period, the borrower was not required to make any payments until the forgiveness amount was remitted to the lender by the SBA. The Bank received a processing fee ranging from 1% to 5% based on the size of the loan from the SBA. The fees were deferred and amortized over the life of the loans in accordance with ASC 310-20.

The Bank provided \$16.3 million in funding to 181 customers through the PPP during 2020. The Bank received \$686,000 of processing fees and recognized \$506,000 during the period ended December 31, 2020. The Bank recognized the remaining \$180,000 of processing fees relating to PPP loans originated in 2020 during the year ended December 31, 2021.

The SBA began accepting PPP Forgiveness Applications on August 10, 2020. Borrowers were required to submit the application within ten months of the completion of the covered period. Once the borrower submitted the application, the Bank had 60 days to review, issue a lender decision, and submit to the SBA. Once the application was submitted, the SBA had 90 days to review and remit the appropriate forgiveness amount to the Bank plus any interest accrued through the date of payment. As of December 31, 2020, the Bank received \$7.6 million from the SBA for the forgiveness of 86 PPP loans. The Bank received \$7.9 million from the SBA for the forgiveness of 93 PPP loans for the year-ended December 31, 2021. At December 31, 2021, the Bank had two loans outstanding in the amount of \$761,000.

On December 27, 2020, the Economic Aid to Hard-Hit Small Business, Nonprofits, and Venues Act (Economic Aid Act) was enacted, which reauthorized lending under the PPP program through March 31, 2021. On March 31, 2021, the PPP Extension Act of 2021 was signed into law, which formally changed the PPP application deadline from March 31, 2021 to May 31, 2021. Under the Economic Aid Act, the SBA will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for payroll and other permitted purposes in accordance with the requirements of the program. These loans carry a fixed rate of 1.00% and a term of five years, if not forgiven, in whole or in part. The loans are 100% guaranteed by the SBA and as long as the borrower submits its loan forgiveness application within ten months of completion of the covered period, the borrower is not required to make any payments until the forgiveness amount is remitted to the lender by the SBA. The Bank will receive a processing fee based on the size of the loan from the SBA, based on a tiered structure. For loans up to \$50,000 in principal, the lender processing fee will be the lesser of 50% of the principal amount or \$2,500. For loans between \$50,000 and \$350,000 in principal, the lender processing fee will be 5% of the principal amount. For loans \$350,000 and above, the lender processing fee will be 3% of the principal amount. For loans of at least \$2.0 million, the lender processing fee will be 1% of the principal amount. The fees are deferred and amortized over the life of the loans in accordance with ASC 310-20. The Bank provided \$7.2 million in funding to 153 customers through the second round of PPP during 2021. The Bank received \$511,000 of processing fees and recognized \$456,000 during the period ended December 31, 2021. At December 31, 2021, the Bank had 32 loans outstanding in the amount of \$2.3 million, with \$55,000 remaining in processing fees to be recognized. Because PPP loans are 100% guaranteed by the SBA and did not undergo the Bank's typical underwriting process, they are not graded and do not have an associated reserve.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 4. Loans Receivable, Continued

Regulatory agencies, as set forth in the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (initially issued on March 22, 2020 and revised on April 7, 2020), encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. This guidance allows banks to elect not to categorize loan modifications as troubled debt restructurings (TDRs) if the modifications are related to COVID-19 and executed on a loan that was not more than 30 days past due as of December 31, 2019.

All short-term loan modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not considered to be TDRs. Beginning in March 2020, the Bank provided payment accommodations to customers negatively impacted by COVID-19. During the year ended December 31, 2020, the Bank processed principal deferments to 102 customers, with an aggregate loan balance of \$23.8 million. As of December 31, 2021, there are no borrowers that remain in deferral.

The following is a summary of information pertaining to our allowance for loan losses as of and for the year ending December 31, 2021 (PPP loans guaranteed by the SBA were excluded from the allowance calculation):

| | <u>Real Estate Construction</u> | <u>Real Estate Residential</u> | <u>Real Estate Commercial</u> | <u>Commercial and Industrial</u> | <u>Consumer and Other</u> | <u>Total</u> |
|--|-------------------------------------|------------------------------------|-----------------------------------|--|-----------------------------------|-----------------------|
| Allowance for loan losses: | | | | | | |
| Beginning balance | \$ 161,125 | \$ 1,199,050 | \$ 886,286 | \$ 242,597 | \$ 98,823 | \$ 2,587,881 |
| Charge-offs | - | - | - | - | (32,191) | (32,191) |
| Recoveries | - | 73,002 | - | - | 321 | 73,323 |
| Provisions | 75,706 | 383,313 | 272,146 | 35,457 | 13,378 | 780,000 |
| Ending balance | <u>\$ 236,831</u> | <u>\$ 1,655,365</u> | <u>\$ 1,158,432</u> | <u>\$ 278,054</u> | <u>\$ 80,331</u> | <u>\$ 3,409,013</u> |
| Ending balances: | | | | | | |
| Individually evaluated for impairment | <u>\$ -</u> | <u>\$ 27,247</u> | <u>\$ 16,499</u> | <u>\$ -</u> | <u>\$ 2,460</u> | <u>\$ 46,206</u> |
| Collectively evaluated for impairment | <u>\$ 236,831</u> | <u>\$ 1,628,118</u> | <u>\$ 1,141,933</u> | <u>\$ 278,054</u> | <u>\$ 77,871</u> | <u>\$ 3,362,807</u> |
| Loans receivable: | | | | | | |
| Ending balance - total | <u>\$ 19,346,337</u> | <u>\$ 144,835,963</u> | <u>\$ 93,098,841</u> | <u>\$ 6,042,850</u> | <u>\$ 4,264,815</u> | <u>\$ 267,588,806</u> |
| Ending balances: | | | | | | |
| Individually evaluated for impairment | <u>\$ -</u> | <u>\$ 733,046</u> | <u>\$ 182,232</u> | <u>\$ -</u> | <u>\$ 62,473</u> | <u>\$ 977,751</u> |
| Collectively evaluated for impairment | <u>\$ 19,346,337</u> | <u>\$ 144,102,917</u> | <u>\$ 92,916,609</u> | <u>\$ 6,042,850</u> | <u>\$ 4,202,342</u> | <u>\$ 266,611,055</u> |

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 4. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2020 (PPP loans guaranteed by the SBA were excluded from the allowance calculation):

| | <u>Real Estate Construction</u> | <u>Real Estate Residential</u> | <u>Real Estate Commercial</u> | <u>Commercial and Industrial</u> | <u>Consumer and Other</u> | <u>Total</u> |
|--|-------------------------------------|------------------------------------|-----------------------------------|--|-----------------------------------|-----------------------|
| Allowance for loan losses: | | | | | | |
| Beginning balance | \$ 54,981 | \$ 776,670 | \$ 495,554 | \$ 160,460 | \$ 73,758 | \$ 1,561,423 |
| Charge-offs | - | - | - | - | (11,484) | (11,484) |
| Recoveries | 4,746 | 6,364 | 46,832 | - | - | 57,942 |
| Provisions | <u>101,398</u> | <u>416,016</u> | <u>343,900</u> | <u>82,137</u> | <u>36,549</u> | <u>980,000</u> |
| Ending balance | <u>\$ 161,125</u> | <u>\$ 1,199,050</u> | <u>\$ 886,286</u> | <u>\$ 242,597</u> | <u>\$ 98,823</u> | <u>\$ 2,587,881</u> |
| Ending balances: | | | | | | |
| Individually evaluated for impairment | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 20,026</u> | <u>\$ -</u> | <u>\$ 2,460</u> | <u>\$ 22,486</u> |
| Collectively evaluated for impairment | <u>\$ 161,125</u> | <u>\$ 1,199,050</u> | <u>\$ 866,260</u> | <u>\$ 242,597</u> | <u>\$ 96,363</u> | <u>\$ 2,565,395</u> |
| Loans receivable: | | | | | | |
| Ending balance - total | <u>\$ 16,020,621</u> | <u>\$ 85,500,211</u> | <u>\$ 65,890,360</u> | <u>\$ 4,476,848</u> | <u>\$ 4,578,333</u> | <u>\$ 176,466,373</u> |
| Ending balances: | | | | | | |
| Individually evaluated for impairment | <u>\$ -</u> | <u>\$ 821,104</u> | <u>\$ 231,188</u> | <u>\$ -</u> | <u>\$ 48,447</u> | <u>\$ 1,100,739</u> |
| Collectively evaluated for impairment | <u>\$ 16,020,621</u> | <u>\$ 84,679,107</u> | <u>\$ 65,659,172</u> | <u>\$ 4,476,848</u> | <u>\$ 4,529,886</u> | <u>\$ 175,365,634</u> |

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.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 4. Loans Receivable, Continued

Credit Quality Indicators, Continued

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, 2021 (PPP loans that are not graded are excluded from the table below):

| | <u>Pass</u> | <u>Special Mention</u> | <u>Substandard</u> | <u>Total</u> |
|---------------------------|-----------------------|----------------------------|--------------------|-----------------------|
| Real estate construction | \$ 19,346,337 | \$ - | \$ - | \$ 19,346,337 |
| Real estate residential | 144,613,336 | 222,627 | - | 144,835,963 |
| Real estate commercial | 92,916,609 | 139,919 | 42,313 | 93,098,841 |
| Commercial and industrial | 6,042,850 | - | - | 6,042,850 |
| Consumer and other | <u>4,250,131</u> | <u>2,047</u> | <u>12,637</u> | <u>4,264,815</u> |
| | <u>\$ 267,169,263</u> | <u>\$ 364,593</u> | <u>\$ 54,950</u> | <u>\$ 267,588,806</u> |

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2020 (PPP loans that are not graded are excluded from the table below):

| | <u>Pass</u> | <u>Special Mention</u> | <u>Substandard</u> | <u>Total</u> |
|---------------------------|-----------------------|----------------------------|--------------------|-----------------------|
| Real estate construction | \$ 16,020,621 | \$ - | \$ - | \$ 16,020,621 |
| Real estate residential | 84,845,365 | 591,072 | 63,774 | 85,500,211 |
| Real estate commercial | 65,694,183 | 141,000 | 55,177 | 65,890,360 |
| Commercial and industrial | 4,476,848 | - | - | 4,476,848 |
| Consumer and other | <u>4,557,762</u> | <u>7,934</u> | <u>12,637</u> | <u>4,578,333</u> |
| | <u>\$ 175,594,779</u> | <u>\$ 740,006</u> | <u>\$ 131,588</u> | <u>\$ 176,466,373</u> |

The following is an analysis of nonaccrual loans as of December 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|-------------------------|-------------------|-------------------|
| Real estate residential | \$ 332,402 | \$ 543,938 |
| Real estate commercial | - | 56,182 |
| Consumer and other | <u>36,639</u> | <u>34,324</u> |
| Total | <u>\$ 369,041</u> | <u>\$ 634,444</u> |

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 4. Loans Receivable, Continued

The following is an aging analysis of our loan portfolio at December 31, 2021:

| | 30 - 59 Days Past Due | 60 - 89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable | Recorded Investment > 90 Days and Accruing |
|---------------------------|--------------------------|--------------------------|----------------------------|---------------------|-----------------------|---------------------------|--|
| Real estate construction | \$ - | \$ - | \$ - | \$ - | \$ 19,346,337 | \$ 19,346,337 | \$ - |
| Real estate residential | 1,023,603 | 17,029 | 367,355 | 1,407,987 | 143,427,976 | 144,835,963 | - |
| Real estate commercial | 191,913 | - | - | 191,913 | 92,906,928 | 93,098,841 | - |
| Commercial and industrial | - | - | - | - | 6,042,850 | 6,042,850 | - |
| PPP | - | - | - | - | 3,090,101 | 3,090,101 | - |
| Consumer and other | 54,226 | 4,099 | 24,228 | 82,553 | 4,182,262 | 4,264,815 | - |
| | <u>\$ 1,269,742</u> | <u>\$ 21,128</u> | <u>\$ 391,583</u> | <u>\$ 1,682,453</u> | <u>\$ 268,996,454</u> | <u>\$ 270,678,907</u> | <u>\$ -</u> |

The following is an aging analysis of our loan portfolio at December 31, 2020:

| | 30 - 59 Days Past Due | 60 - 89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable | Recorded Investment > 90 Days and Accruing |
|---------------------------|--------------------------|--------------------------|----------------------------|---------------------|-----------------------|---------------------------|--|
| Real estate construction | \$ - | \$ - | \$ - | \$ - | \$ 16,020,621 | \$ 16,020,621 | \$ - |
| Real estate residential | 917,532 | 30,685 | 138,044 | 1,086,261 | 84,413,950 | 85,500,211 | - |
| Real estate commercial | - | - | - | - | 65,890,360 | 65,890,360 | - |
| Commercial and industrial | - | - | - | - | 4,476,848 | 4,476,848 | - |
| PPP | - | - | - | - | 8,776,239 | 8,776,239 | - |
| Consumer and other | 79,908 | 25,390 | 33,374 | 138,672 | 4,439,661 | 4,578,333 | - |
| | <u>\$ 997,440</u> | <u>\$ 56,075</u> | <u>\$ 171,418</u> | <u>\$ 1,224,933</u> | <u>\$ 184,017,679</u> | <u>\$ 185,242,612</u> | <u>\$ -</u> |

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2021:

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|-----------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no related allowance needed: | | | | | |
| Real estate residential | \$ 705,799 | \$ 764,411 | \$ - | \$ 754,446 | \$ 65,971 |
| Real estate commercial | 165,733 | 165,733 | - | 170,942 | 18,215 |
| Consumer and other | 49,836 | 66,644 | - | 60,980 | 7,538 |
| Total | <u>921,368</u> | <u>996,788</u> | <u>-</u> | <u>986,368</u> | <u>91,724</u> |
| With an allowance recorded: | | | | | |
| Real Estate commercial | 27,247 | 27,247 | 27,247 | 28,429 | 1,663 |
| Real Estate commercial | 16,499 | 61,081 | 16,499 | 18,262 | 5,639 |
| Consumer and other | 12,637 | 12,637 | 2,460 | 12,637 | - |
| Total | <u>56,383</u> | <u>100,965</u> | <u>46,206</u> | <u>59,328</u> | <u>7,302</u> |
| Total | | | | | |
| Real estate residential | 733,046 | 791,658 | 27,247 | 782,875 | 67,634 |
| Real estate commercial | 182,232 | 226,814 | 16,499 | 189,204 | 23,854 |
| Consumer and other | 62,473 | 79,281 | 2,460 | 73,617 | 7,538 |
| Total | <u>\$ 977,751</u> | <u>\$ 1,097,753</u> | <u>\$ 46,206</u> | <u>\$ 1,045,696</u> | <u>\$ 99,026</u> |

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 4. Loans Receivable, Continued

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2020:

| | <u>Recorded Investment</u> | <u>Unpaid Principal Balance</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
|-----------------------------------|--------------------------------|---|------------------------------|--|---|
| With no related allowance needed: | | | | | |
| Real estate residential | \$ 821,104 | \$ 956,055 | \$ - | \$ 861,637 | \$ 78,043 |
| Real estate commercial | 211,162 | 211,162 | - | 227,173 | 25,407 |
| Consumer and other | 35,810 | 57,564 | - | 46,904 | 5,772 |
| Total | <u>1,068,076</u> | <u>1,224,781</u> | <u>-</u> | <u>1,135,714</u> | <u>109,222</u> |
| With an allowance recorded: | | | | | |
| Real Estate commercial | 20,026 | 64,608 | 20,026 | 20,723 | 5,480 |
| Consumer and other | 12,637 | 12,637 | 2,460 | 12,729 | 145 |
| Total | <u>32,663</u> | <u>77,245</u> | <u>22,486</u> | <u>33,452</u> | <u>5,625</u> |
| Total | | | | | |
| Real estate residential | 821,104 | 956,055 | - | 861,637 | 78,043 |
| Real estate commercial | 231,188 | 275,770 | 20,026 | 247,896 | 30,887 |
| Consumer and other | 48,447 | 70,201 | 2,460 | 59,633 | 5,917 |
| Total | <u>\$ 1,100,739</u> | <u>\$ 1,302,026</u> | <u>\$ 22,486</u> | <u>\$ 1,169,166</u> | <u>\$ 114,847</u> |

The following is an analysis of our troubled debt restructured loans (TDRs) at December 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|---------------|-------------------|-------------------|
| Performing | \$ 216,064 | \$ 600,655 |
| Nonperforming | <u>203,553</u> | <u>12,637</u> |
| | <u>\$ 419,617</u> | <u>\$ 613,292</u> |

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, 2021 and 2020 no loans were identified as TDRs.

As of December 31, 2021 and 2020, loans totaling \$33.1 million and \$30 million, respectively were pledged securing the Company's Federal Home Loan Bank line of credit.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2021 and 2020**

Note 5. Premises, Furniture and Equipment

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

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Land | \$ 1,050,000 | \$ - |
| Building and improvements | 1,839,546 | - |
| Leasehold improvements | 726,959 | 725,676 |
| Furniture and equipment | 1,618,017 | 1,216,111 |
| Construction in process | - | <u>1,624,520</u> |
| Total | 5,234,522 | 3,566,307 |
| Less accumulated depreciation | <u>(1,290,453)</u> | <u>(1,077,978)</u> |
| Premises, furniture and equipment, net | <u>\$ 3,944,069</u> | <u>\$ 2,488,329</u> |

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 was \$216,665 and \$187,977, respectively.

Note 6. Deposits

At December 31, 2021, the scheduled maturities of certificates of deposit are as follows:

| | |
|---------------------|-----------------------|
| 2022 | \$ 51,824,917 |
| 2023 | 21,890,622 |
| 2024 | 7,517,361 |
| 2025 | 21,072,883 |
| 2026 and thereafter | <u>21,980,202</u> |
| Total | <u>\$ 124,285,985</u> |

The Company had brokered deposits of \$5,000,000 as of December 31, 2021 and 2020. Certificates of deposits with balances in excess of federal deposit insurance limits of \$250,000 were \$13,614,757 and \$13,697,031 at December 31, 2021 and 2020, respectively.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 7. Income Taxes

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

| | <u>2021</u> | <u>2020</u> |
|-----------------------------|-------------------|------------------|
| Current income tax expense: | | |
| Federal | \$ 395,877 | \$ 85,531 |
| State | 29,848 | 26,517 |
| Total current | <u>425,725</u> | <u>112,048</u> |
| Deferred income taxes: | | |
| Federal | (163,199) | (26,504) |
| State | (18,977) | (17,927) |
| Total deferred | <u>(182,176)</u> | <u>(44,431)</u> |
| Income tax expense | <u>\$ 243,549</u> | <u>\$ 67,617</u> |

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

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-------------------|-------------------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 654,413 | \$ 496,652 |
| Nonaccrual loan interest income | 6,265 | 2,256 |
| Net operating loss carryforwards | 8,196 | 1,573 |
| Stock compensation | 51,860 | 39,771 |
| Other | 62,963 | 36,326 |
| Gross deferred tax assets | <u>783,697</u> | <u>576,578</u> |
| Deferred tax liabilities: | | |
| Accumulated depreciation | 148,915 | 114,492 |
| Prepaid expenses | 13,867 | 23,347 |
| Securities available-for-sale | 49,076 | 146,460 |
| Total deferred tax liabilities | <u>211,858</u> | <u>284,299</u> |
| Net deferred tax asset | <u>\$ 571,839</u> | <u>\$ 292,279</u> |

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 7. Income Taxes, Continued

The Company has no federal net operating losses for the years ended December 31, 2021 and 2020. The Company has state net operating losses of \$207,500 and \$39,829 for the years ended December 31, 2021 and 2020, respectively.

Tax returns for 2018 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 2021 and 2020 to income before income taxes follows for the years ended December 31:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|------------------|
| Tax expense at statutory rate | \$ 208,999 | \$ 214,541 |
| State income tax expense, net of federal tax benefit | 8,588 | 6,786 |
| Stock compensation | 34,679 | 26,043 |
| Tax-exempt interest income | - | 463 |
| Nondeductible expenses | 14,989 | 15,828 |
| CARES Act Net Operating Loss Carryback | - | (157,042) |
| Other, net | <u>(23,706)</u> | <u>(39,002)</u> |
| Reported tax expense | <u>\$ 243,549</u> | <u>\$ 67,617</u> |

In 2020, the effective tax rate compared favorably to the statutory federal rate of 21% and South Carolina tax rate of 5% and 4.5% at the holding company and bank levels respectively primarily due to the enactment of new Net Operating Loss (NOL) provisions under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act permits NOLs arising in taxable years beginning after December 31, 2017 and before January 1, 2021 to be carried back five taxable years. This enabled the Company to carry back losses incurred during the taxable years 2019 and 2020 to prior years with a higher statutory tax rate, creating a permanent tax rate benefit. As a result, the Company recorded an income tax benefit of \$157,042 related to the permanent tax rate benefit during the year ended December 31, 2020.

Note 8. 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 lease expense recognized during the year ended December 31, 2021 and 2020 amounted to \$338,224 and \$308,079, respectively. The weighted average remaining lease term as of December 31, 2021 is 7.24 years and the weighted average discount rate used is 2.72%.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 8. Leases, Continued

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2021 are as follows:

| | | |
|---|----|------------------|
| 2022 | \$ | 280,633 |
| 2023 | | 275,565 |
| 2024 | | 245,299 |
| 2025 | | 250,435 |
| 2026 | | 243,025 |
| Thereafter | | <u>605,284</u> |
| Total undiscounted lease payments | | 1,900,241 |
| Less effect of discounting | | <u>(165,224)</u> |
| Present value of estimated lease payments (lease liability) | \$ | <u>1,735,017</u> |

Note 9. Advances From Federal Home Loan Bank

Advances from the Federal Home Loan Bank (FHLB) consisted of the following at December 31, 2021 and 2020:

| <u>Description</u> | <u>Current Interest Rate</u> | <u>2021 Balance</u> | <u>2020 Balance</u> |
|------------------------|------------------------------|----------------------|----------------------|
| FHLB advances maturing | | | |
| August 27, 2029 | 0.695% | \$ 10,000,000 | \$ 10,000,000 |
| February 4, 2030 | 1.009% | <u>5,000,000</u> | <u>5,000,000</u> |
| | | <u>\$ 15,000,000</u> | <u>\$ 15,000,000</u> |

At December 31, 2021 and 2020, the Company has pledged certain loans totaling \$45.3 million and \$36.3 million, respectively, as collateral to secure its borrowings from the FHLB. Additionally, the Company's FHLB stock is pledged to secure the borrowings.

Note 10. 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, 2021 and 2020 totaling \$3,200,306 and \$2,797,991, respectively. The Company leases its banking facility in Charleston, South Carolina from a director. The Company previously leased its banking facility in Bennettsville, South Carolina, however, the property was sold to an outside party prior to December 31, 2021. Related party lease expense totaled \$210,951 for the years ended December 31, 2021 and 2020.

The Company had related party deposit accounts as of December 31, 2021 and 2020 totaling \$5,936,546 and \$6,357,683, respectively.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 11. 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, 2021, 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 12. 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:

| | <u>2021</u> | <u>2020</u> |
|------------------------------|---------------|---------------|
| Commitments to extend credit | \$ 59,336,368 | \$ 28,709,342 |

Note 13. 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.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 13. Stock Compensation Plan, Continued

A summary of the status of the Stock Option Plan as of December 31, 2021 and changes during the period is presented below:

| | <u>2021</u> | |
|--|-----------------|--|
| | <u>Shares</u> | <u>Weighted Average Exercise Price</u> |
| Outstanding at beginning of year | 382,000 | \$ 6.75 |
| Granted | 53,500 | \$ 6.75 |
| Exercised | (2,000) | \$ 6.75 |
| Forfeited | <u>(18,000)</u> | \$ 6.75 |
| Outstanding at end of year | <u>415,500</u> | \$ 6.75 |
| Options exercisable at year-end | <u>179,166</u> | \$ 6.75 |
| Shares available for grant | <u>90,800</u> | |
| Weighted average grant date fair value of options granted | | \$ 6.75 |

A summary of the status of the Stock Option Plan as of December 31, 2020 and changes during the period is presented below:

| | <u>2020</u> | |
|--|-----------------|--|
| | <u>Shares</u> | <u>Weighted Average Exercise Price</u> |
| Outstanding at beginning of year | 387,500 | \$ 6.75 |
| Granted | 7,500 | \$ 6.75 |
| Forfeited | <u>(13,000)</u> | \$ 6.75 |
| Outstanding at end of year | <u>382,000</u> | \$ 6.75 |
| Options exercisable at year-end | <u>96,500</u> | \$ 6.75 |
| Shares available for grant | <u>126,300</u> | |
| Weighted average grant date fair value of options granted | | \$ 6.75 |

During 2021 and 2020 the Company recognized \$213,586 and \$204,590 in expense associated with stock option issuances which was recorded in salaries and employee benefits on the Consolidated Statements of Income.

At December 31, 2021, unrecognized compensation cost related to share-based compensation arrangements granted under the Stock Option Plan totaled \$363,212, to be expensed over the five-year vesting period.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 13. Stock Compensation Plan, Continued

The following table summarizes information about the stock options outstanding under the Stock Option Plan at December 31, 2021:

| <u>Exercise Price</u> | <u>Options Outstanding</u> | | |
|-----------------------|---------------------------------------|--|--|
| | <u>Number Outstanding At 12/31/21</u> | <u>Weighted-Average Remaining Contractual Life</u> | <u>Weighted Average Exercise Price</u> |
| \$ 6.75 | 415,500 | 7.39 | \$ 6.75 |

Note 14. 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.

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.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 14. Capital Requirements and Regulatory Matters, Continued

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank is also 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%.

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

| <i>(Dollars in thousands)</i> | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|---------------|--------------|--------------------------------------|--------------|---|--------------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2021 | | | | | | |
| Total Capital (to risk weighted assets) | \$ 40,189 | 15.65% | \$ 20,550 | 8.00% | \$ 25,687 | 10.00% |
| Tier 1 Capital (to risk weighted assets) | \$ 36,976 | 14.39% | \$ 15,412 | 6.00% | \$ 20,550 | 8.00% |
| Tier 1 Capital (to average assets) | \$ 36,976 | 9.92% | \$ 14,908 | 4.00% | \$ 18,636 | 5.00% |
| Common Equity Tier 1 Capital (to risk weighted assets) | \$ 36,976 | 14.39% | \$ 11,559 | 4.50% | \$ 16,697 | 6.50% |
| December 31, 2020 | | | | | | |
| Total Capital (to risk weighted assets) | \$ 31,215 | 16.82% | \$ 14,847 | 8.00% | \$ 18,559 | 10.00% |
| Tier 1 Capital (to risk weighted assets) | \$ 28,892 | 15.57% | \$ 11,135 | 6.00% | \$ 14,847 | 8.00% |
| Tier 1 Capital (to average assets) | \$ 28,892 | 11.81% | \$ 9,786 | 4.00% | \$ 12,232 | 5.00% |
| Common Equity Tier 1 Capital (to risk weighted assets) | \$ 28,892 | 15.57% | \$ 8,351 | 4.50% | \$ 12,063 | 6.50% |

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

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Note 15. Unused Lines of Credit

At December 31, 2021, the Company had unused lines of credit to purchase federal funds from three unrelated banks totaling \$11,000,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. The Company has an additional line of credit to borrow funds from the Federal Home Loan Bank. As of December 31, 2021, the total line of credit with Federal Home Loan Bank was \$89,361,500, of which \$15,000,000 has been advanced to the Company. The Company had loans pledged securing the Federal Home Loan Bank line of credit as of December 31, 2021 and 2020 totaling \$45.3 million and \$36.3 million, respectively, in addition to the Company's Federal Home Loan Bank stock.

Note 16. 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 non-recurring 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.

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.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 16. Fair Value of Financial Instruments, Continued

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.

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, 2021 and 2020, 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, 2021 | | | |
|----------------------------------|----------------------|-------------|----------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Government sponsored enterprises | \$ 18,758,620 | \$ - | \$ 18,758,620 | \$ - |
| Corporate debt securities | 5,681,833 | - | 5,681,833 | - |
| Mortgage-backed securities | <u>15,867,142</u> | <u>-</u> | <u>15,867,142</u> | <u>-</u> |
| Total | <u>\$ 40,307,595</u> | <u>\$ -</u> | <u>\$ 40,307,595</u> | <u>\$ -</u> |

| | December 31, 2020 | | | |
|----------------------------------|----------------------|-------------|----------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Government sponsored enterprises | \$ 10,366,163 | \$ - | \$ 10,366,163 | \$ - |
| Corporate debt securities | 4,639,077 | - | 4,639,077 | - |
| Mortgage-backed securities | <u>9,483,316</u> | <u>-</u> | <u>9,483,316</u> | <u>-</u> |
| Total | <u>\$ 24,488,556</u> | <u>\$ -</u> | <u>\$ 24,488,556</u> | <u>\$ -</u> |

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 16. Fair Value of Financial Instruments, Continued

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, 2021 | | | |
|---------------------|-------------------|-------------|-------------|-------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Impaired loans, net | \$ 931,545 | \$ - | \$ - | \$ 931,545 |
| Total | <u>\$ 931,545</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 931,545</u> |

| | December 31, 2020 | | | |
|---------------------|---------------------|-------------|-------------|---------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Impaired loans, net | \$ 1,078,253 | \$ - | \$ - | \$ 1,078,253 |
| Total | <u>\$ 1,078,253</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,078,253</u> |

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, 2021 and 2020:

| Description | Fair Value 12/31/2021 | Valuation Methodology | Unobservable Inputs | Range of Inputs |
|---------------------|--------------------------|--------------------------|---|--------------------|
| Impaired loans, net | \$ 931,545 | Appraised value | Discount to reflect current market conditions and ultimate collectability | 4% - 15% |

| Description | Fair Value 12/31/2020 | Valuation Methodology | Unobservable Inputs | Range of Inputs |
|---------------------|--------------------------|--------------------------|---|--------------------|
| Impaired loans, net | \$ 1,078,253 | Appraised value | Discount to reflect current market conditions and ultimate collectability | 4% - 15% |

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 judgment 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, 2021 and 2020.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 16. Fair Value of Financial Instruments, Continued

| | December 31, | | | |
|---------------------------------|----------------|---------------|----------------|---------------|
| | 2021 | | 2020 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Cash and cash equivalents | \$ 63,423,919 | \$ 63,423,919 | \$ 47,725,731 | \$ 47,725,731 |
| Securities available-for-sale | 40,307,595 | 40,307,595 | 24,488,556 | 24,488,556 |
| Marketable equity securities | 502,524 | 502,524 | - | - |
| Loans held for investment, net | 267,269,894 | 255,150,000 | 182,654,731 | 179,256,000 |
| Nonmarketable equity securities | 770,300 | 770,300 | 760,600 | 760,600 |
| Deposits | 327,583,690 | 332,592,000 | 214,968,295 | 220,524,000 |
| Federal Home Loan Bank advances | 15,000,000 | 15,011,000 | 15,000,000 | 15,033,000 |
| Note payable | 840,000 | 841,750 | 1,050,000 | 1,052,310 |

Cash and cash equivalents

The carrying amount approximates fair value for these instruments.

Investment securities

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

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 values are classified as Level 3.

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.

Marketable equity securities

Marketable equity securities are carried at fair value, as quoted prices in active markets are available

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 and classified as Level 2. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 16. Fair Value of Financial Instruments, Continued

Federal Home Loan Bank advances and other borrowings

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 17. 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 24, 2022, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Note 18. 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

| | <u>December 31,</u> | |
|--|----------------------|----------------------|
| | <u>2021</u> | <u>2020</u> |
| Assets | | |
| Cash and due from banks | \$ 3,345,234 | \$ 3,883,549 |
| Investment in banking subsidiary | 37,159,351 | 29,442,340 |
| Equity securities | 502,524 | - |
| Other assets | <u>48,366</u> | <u>33,629</u> |
| Total assets | <u>41,055,475</u> | <u>33,359,518</u> |
| Liabilities | | |
| Subordinated debt | 7,000,000 | - |
| Accrued interest payable | 96,835 | - |
| Other liabilities | <u>24,326</u> | <u>37,628</u> |
| Total liabilities | <u>7,121,161</u> | <u>37,628</u> |
| Stockholders' equity | <u>33,934,314</u> | <u>33,321,890</u> |
| Total liabilities and stockholders' equity | <u>\$ 41,055,475</u> | <u>\$ 33,359,518</u> |

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 18. First Capital Bancshares, Inc. (Parent Company Only), Continued

Condensed Statements of Income

| | For the years ended December 31, | |
|---|-------------------------------------|-------------------|
| | 2021 | 2020 |
| Income | | |
| Interest income on investment securities | \$ 1,486 | \$ 21,778 |
| Gain on sale of marketable equity securities | - | 242,705 |
| Total Income | 1,486 | 264,483 |
| Expenses | | |
| Compensation expense | 213,586 | 204,590 |
| Professional fees | 33,424 | 11,587 |
| Other | 135,736 | 27,226 |
| Total expenses | 382,746 | 243,403 |
| Income (loss) before income taxes and equity in undistributed income of banking subsidiary | (381,260) | 21,080 |
| Income tax benefit (expense) | 49,587 | (19,552) |
| Net equity in undistributed income of Bank | 1,083,359 | 913,376 |
| Net income | <u>\$ 751,686</u> | <u>\$ 954,008</u> |

Condensed Statements of Cash Flows

| | For the years ended December 31, | |
|---|-------------------------------------|----------------|
| | 2021 | 2020 |
| Operating activities | | |
| Net income | \$ 751,686 | \$ 954,008 |
| Adjustments to reconcile net income to net cash used in in operating activities: | | |
| Net equity in undistributed income of subsidiary | (1,083,359) | (913,376) |
| Stock compensation | 213,586 | 204,590 |
| Gain on sale of investment securities | - | (242,705) |
| Increase in other assets | (14,737) | (31,525) |
| Increase in accrued interest payable | 96,835 | - |
| (Decrease) increase in other liabilities | (13,302) | 23,080 |
| Net cash used in operating activities | <u>(49,291)</u> | <u>(5,928)</u> |

First Capital Bancshares, Inc.*Notes to Consolidated Financial Statements**December 31, 2021 and 2020*

Note 18. First Capital Bancshares, Inc. (Parent Company Only), Continued**Investing activities**

| | | |
|---|------------------|------------------|
| Purchase of marketable equity securities | (502,524) | (1,048,605) |
| Proceeds from sale of marketable equity securities | <u>-</u> | <u>1,291,310</u> |
| Net cash provided by (used in) investing activities | <u>(502,524)</u> | <u>242,705</u> |

Financing activities

| | | |
|---|---------------|--------------------|
| Capital contributions to subsidiary | (7,000,000) | (4,000,000) |
| Subordinated debentures | 7,000,000 | - |
| Stock options exercised | <u>13,500</u> | <u>-</u> |
| Net cash provided by (used) in financing activities | <u>13,500</u> | <u>(4,000,000)</u> |
| Net decrease in cash and cash equivalents | (538,315) | (3,763,223) |

Cash and cash equivalents, beginning of year3,883,549 7,646,772**Cash and cash equivalents, ending of year**\$ 3,345,234 \$ 3,883,549

First Capital Bancshares, Inc.

Corporate Data

Board of Directors

Jules Anderson President and CEO
..... Anderson Insurance Associates, Inc./Charleston, SC

William M. Brown III, MD..... Emergency Department Physician
..... Trident Medical Centers/Charleston, Berkeley, and Dorchester counties

Raymond N. DuBois, MD, PhD..... Director of Hollings Cancer Center
..... Medical University of South Carolina/Charleston, SC

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

Harvey L. Glick..... Chief Executive Officer
..... First Capital Bancshares, Inc. and First Capital Bank/Charleston, SC

Frank J. Cole, Jr..... Retired/CEO
..... First Capital Bancshares, Inc. and First Capital Bank/Charleston, SC

Harry "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

Joseph S. Kassim..... President and Chief Operating Officer
..... First Capital Bank/Charleston, SC

First Capital Bancshares, Inc.

Corporate Data

Holding Company Officers

- Harvey L. Glick CEO and Chairman of the Board of Directors
- John D. Russ Vice Chairman of the Board of Directors
- Joseph S. Kassim Chief Financial Officer
- Barry A. Emerson Secretary

Bank Officers

- John D. Russ Chairman of the Board of Directors
- Harvey L. Glick 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 Security, Compliance, and BSA 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, 2021

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