

First Capital Bancshares, Inc.

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2023 and 2022

First Capital Bancshares, Inc.

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Independent Auditor's Report

Audit Committee of 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, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Company has elected to change its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC 326)*. The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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 available to be issued.

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.



Greenville, South Carolina
March 8, 2024

First Capital Bancshares, Inc.**Consolidated Balance Sheets****As of December 31, 2023 and 2022**

	2023	2022
Assets:		
Cash and cash equivalents:		
Cash and due from banks	\$ 45,896,018	\$ 14,339,674
Federal funds sold	<u>46,751</u>	<u>448,692</u>
Total cash and cash equivalents	<u>45,942,769</u>	<u>14,788,366</u>
Securities available-for-sale	25,250,719	29,155,566
Securities held-to-maturity, fair value of \$16,927,483 and \$22,857,447 at December 31, 2023 and 2022, respectively	19,094,659	24,814,545
Marketable equity securities	456,166	702,461
Stock in Federal Home Loan Bank, at cost	3,066,700	1,468,500
Loans receivable	679,112,709	480,571,545
Less allowance for credit losses	<u>(6,035,905)</u>	<u>(4,392,571)</u>
Loans receivable, net	<u>673,076,804</u>	<u>476,178,974</u>
Premises, furniture and equipment, net	6,282,490	6,165,363
Lease right of use asset	2,356,475	1,725,812
Cash surrender value of life insurance	9,825,182	9,568,796
Deferred tax asset	1,523,983	836,859
Accrued interest receivable	3,013,158	1,676,181
Other assets	<u>1,810,093</u>	<u>1,774,868</u>
Total assets	<u>\$ 791,699,198</u>	<u>\$ 568,856,291</u>
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	\$ 52,284,482	\$ 48,347,196
Interest-bearing transaction accounts	332,856,095	210,158,487
Savings	2,443,037	2,923,637
Time deposits	<u>261,261,313</u>	<u>209,619,516</u>
Total deposits	<u>648,844,927</u>	<u>471,048,836</u>
Lease liability	2,408,566	1,770,236
Borrowings from Federal Home Loan Bank	56,000,000	30,000,000
Subordinated debt	12,000,000	12,000,000
Note payable	420,000	630,000
Accrued interest payable	1,589,247	822,038
Other liabilities	<u>1,826,502</u>	<u>1,687,903</u>
Total liabilities	<u>723,089,242</u>	<u>517,959,013</u>
Stockholders' equity:		
Common stock – voting, \$.01 par value; 10,000,000 shares authorized; 7,912,784 and 6,484,710 shares issued and outstanding at December 31, 2023 and 2022, respectively	79,124	64,844
Common stock – non-voting, \$.01 par value; 1,000,000 shares authorized; 464,272 and 335,000 shares issued and outstanding at December 31, 2023 and 2022, respectively	4,643	3,350
Capital surplus	59,794,647	45,408,834
Retained earnings	9,617,882	6,408,498
Treasury stock, 350 shares at December 31, 2023 and 2022	(3,500)	(3,500)
Accumulated other comprehensive loss	<u>(882,840)</u>	<u>(984,748)</u>
Total stockholders' equity	<u>68,609,956</u>	<u>50,897,278</u>
Total liabilities and stockholders' equity	<u>\$ 791,699,198</u>	<u>\$ 568,856,291</u>

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.**Consolidated Statements of Income****For the years ended December 31, 2023 and 2022**

	2023	2022
Interest income:		
Loans, including fees	\$ 35,345,163	\$ 16,918,879
Investment securities, taxable	2,827,325	1,553,839
Federal funds sold	29,426	11,029
Other	<u>1,350,750</u>	<u>516,876</u>
Total interest income	<u>39,552,664</u>	<u>19,000,623</u>
Interest expense:		
Deposits	16,469,895	3,877,836
Other interest expense	<u>2,961,426</u>	<u>815,624</u>
Total interest expense	<u>19,431,321</u>	<u>4,693,460</u>
Net interest income	20,121,343	14,307,163
Provision for credit losses on loans	1,425,000	965,000
Recovery of credit losses on unfunded commitments	<u>(25,000)</u>	<u>-</u>
Net interest income after provision for credit losses	<u>18,721,343</u>	<u>13,342,163</u>
Noninterest income:		
Service charges on deposit accounts	43,427	36,407
Gain (loss) on sale of securities	43,491	(15,009)
Increase in cash surrender value of life insurance	256,385	236,489
Other	<u>527,880</u>	<u>178,207</u>
Total noninterest income	<u>871,183</u>	<u>436,094</u>
Noninterest expense:		
Salaries and employee benefits	9,068,357	6,366,617
Occupancy	1,061,209	696,486
Furniture and equipment	461,329	380,402
FDIC deposit insurance	531,901	260,000
Data processing fees	716,468	621,070
Dues and memberships	85,029	68,517
Professional fees	444,304	278,648
Licenses and fees	404,672	275,859
Other	<u>1,983,732</u>	<u>1,281,494</u>
Total noninterest expense	<u>14,757,001</u>	<u>10,229,093</u>
Income before income taxes	4,835,525	3,549,164
Income tax expense	<u>1,032,327</u>	<u>851,554</u>
Net income	<u>\$ 3,803,198</u>	<u>\$ 2,697,610</u>
Weighted average shares outstanding		
Basic	7,956,067	5,673,402
Diluted	8,044,951	5,765,063
Basic income per common share	<u>\$ 0.48</u>	<u>\$ 0.48</u>
Diluted income per common share	<u>\$ 0.47</u>	<u>\$ 0.47</u>

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.**Consolidated Statements of Comprehensive Income (Loss)****For the years ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Net income	\$ 3,803,198	\$ 2,697,610
Other comprehensive income (loss)		
Unrealized holding gains (losses) arising during the period on securities available-for-sale	183,576	(1,277,010)
Realized (gains) losses on investment securities available-for-sale	(43,491)	15,009
Unrealized losses on securities available-for-sale transferred to held-to-maturity	(8,757)	(183,182)
Reclassification adjustment for amortization of unrealized losses on securities available-for-sale transferred to held-to-maturity	<u>-</u>	<u>10,795</u>
Net gains (losses) on securities	131,328	(1,434,388)
Net effect of taxes	<u>(29,420)</u>	<u>265,020</u>
Other comprehensive income (loss), net of tax	<u>101,908</u>	<u>(1,169,368)</u>
Comprehensive income	<u>\$ 3,905,106</u>	<u>\$ 1,528,242</u>

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2023 and 2022

	Common Stock-Voting		Common Stock-Non-Voting		Capital	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Surplus	Earnings	Stock	Income (Loss)	Total
Balance, December 31, 2021	5,085,936	\$ 50,856	-	\$ -	\$ 29,991,450	\$ 3,710,888	\$ (3,500)	\$ 184,620	\$ 33,934,314
Net income	-	-	-	-	-	2,697,610	-	-	2,697,610
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	(1,169,368)	(1,169,368)
Stock options exercised	55,500	555	-	-	374,070	-	-	-	374,625
Common stock issuance, voting	1,343,274	13,433	-	-	11,813,424	-	-	-	11,826,857
Common stock issuance, non-voting	-	-	335,000	3,350	3,011,650	-	-	-	3,015,000
Stock based compensation	-	-	-	-	218,240	-	-	-	218,240
Balance, December 31, 2022	6,484,710	\$ 64,844	335,000	\$ 3,350	\$ 45,408,834	\$ 6,408,498	\$ (3,500)	\$ (984,748)	\$ 50,897,278
Net income	-	-	-	-	-	3,803,198	-	-	3,803,198
Adoption of ASC 326	-	-	-	-	-	(593,814)	-	-	(593,814)
Other comprehensive income, net of tax	-	-	-	-	-	-	-	101,908	101,908
Common stock issuance, voting	1,428,074	14,280	-	-	12,947,403	-	-	-	12,961,683
Common stock issuance, non-voting	-	-	129,272	1,293	1,194,473	-	-	-	1,195,766
Stock based compensation	-	-	-	-	243,937	-	-	-	243,937
Balance, December 31, 2023	7,912,784	\$ 79,124	464,272	\$ 4,643	\$ 59,794,647	\$ 9,617,882	\$ (3,500)	\$ (882,840)	\$ 68,609,956

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

	2023	2022
Operating activities:		
Net income	\$ 3,803,198	\$ 2,697,610
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on loans	1,425,000	965,000
Recovery of credit losses on unfunded commitments	(25,000)	-
Increase in cash surrender value of life insurance	(256,385)	(236,489)
Depreciation and amortization expense	404,050	316,436
Discount accretion and premium amortization, net	(182,537)	314,069
(Gain) loss on sale of investment securities	(43,491)	15,009
(Gain) loss on the call of held-to-maturity investment securities	-	(106,264)
Gain on sale of premises and equipment	-	1,632
Increase in deferred tax asset	(558,695)	(170,399)
Change in right of use asset and lease liability	7,667	9,281
Increase in accrued interest receivable	(1,336,977)	(816,840)
Stock based compensation expense	243,937	218,240
Increase in accrued interest payable	767,209	549,760
Increase in other assets	(35,235)	(1,261,037)
Decrease (increase) in other liabilities	(369,527)	857,709
Net cash provided by operating activities	<u>3,843,214</u>	<u>3,353,717</u>
Cash flows from investing activities:		
Net increase in loans	(198,541,367)	(209,874,080)
Reclassification adjustment for amortization of unrealized losses on securities available-for-sale transferred to held-to-maturity	(8,757)	-
Purchase of securities held-to-maturity	-	(13,812,975)
Purchase of securities available-for-sale	(15,464,132)	(22,455,329)
Purchase of marketable equity securities	-	(199,937)
Proceeds from call, maturities, paydowns of securities available-for-sale	9,501,887	2,673,107
Proceeds from call, maturities, paydowns of securities held-to-maturity	-	8,820,470
Proceeds from sale of securities available-for-sale	15,745,470	9,625,408
Proceeds from sale of marketable equity securities	453,925	-
Purchase of bank owned life insurance	-	(2,000,000)
Purchase of premises and equipment	(521,177)	(2,539,362)
Purchase of Federal Home Loan Bank stock	(3,093,200)	(698,200)
Redemption of Federal Home Loan Bank stock	1,495,000	-
Net cash used in investing activities	<u>(190,432,351)</u>	<u>(230,460,898)</u>
Cash flows from financing activities:		
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	126,154,294	58,131,615
Net increase in time deposits	51,641,797	85,333,531
Proceeds from subordinated debentures	-	5,000,000
Proceeds from Federal Home Loan Bank	116,000,000	15,000,000
Repayments from Federal Home Loan Bank	(90,000,000)	-
Proceeds from issuance of stock	14,157,449	14,841,857
Payments on note payable	(210,000)	(210,000)
Stock options exercised	-	374,625
Net cash provided by financing activities	<u>217,743,540</u>	<u>178,471,628</u>
Net increase (decrease) in cash and cash equivalents	<u>31,154,403</u>	<u>(48,635,553)</u>
Cash and cash equivalents, beginning of year	<u>14,788,366</u>	<u>63,423,919</u>
Cash and cash equivalents, end of year	<u>\$ 45,942,769</u>	<u>\$ 14,788,366</u>
Cash paid during the year for:		
Interest	\$ 19,678,459	\$ 4,688,337
Income tax	\$ 1,568,365	\$ 90,000
Supplemental disclosures of noncash transactions:		
Unrealized gain (loss) on securities available for sale, net of tax	\$ 110,665	\$ (1,091,602)
Transfer of investment securities available-for-sale to held-to-maturity	\$ -	\$ 20,166,654

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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 County, 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 credit losses (ACL) including valuation allowances for loans, the valuation of investment securities, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for credit losses and 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 credit losses and valuation of foreclosed real estate. Such agencies may require the Company to recognize additions to the allowance for credit 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 credit losses and valuation of foreclosed real estate may change materially in the near term.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1. Summary of Significant Accounting Policies, Continued

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.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily within the tri-county area of Charleston South Carolina which includes Charleston County, Berkeley County and Dorchester County as well as customers located within Scotland and Moore County, 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.

Securities available-for-sale:

Securities available-for-sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded in stockholders' equity net of deferred income taxes. If management's assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income (loss).

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit losses when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1. Summary of Significant Accounting Policies, Continued

Securities available-for-sale, continued:

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:

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

Securities held-to-maturity:

Securities held-to-maturity are carried at amortized cost adjusted for the amortization of premiums and the accretion of discounts. In order to qualify as held-to-maturity, the Company must have the ability and intent to hold the securities to maturity. Security transfers to the held-to-maturity classification are recorded at fair value as of the date of transfer, which becomes the new cost basis for the securities held-to-maturity. Unrealized gains or losses from the transfer of available-for-sale securities continue to be reported in consolidated statements of income (loss) and are amortized into earnings over the remaining life of the security.

Management measures expected credit losses on held-to-maturity debt securities and changes in the allowance for credit losses are recorded as credit loss expense (or reversal) as discussed below in *Accounting Standards Adopted in 2023*.

Nonmarketable equity securities:

Nonmarketable equity securities include the cost of the Company's investments in Federal Home Loan Bank stock in the amount of \$3.1 million and \$1.5 million at December 31, 2023 and 2022, 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.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 1. Summary of Significant Accounting Policies, Continued*Accounting Standards Adopted in 2023:*

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of \$218 thousand, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of \$533 thousand, which is recorded within other liabilities.

The adoption of CECL had an insignificant impact on the Company’s held to maturity and available for sale securities portfolios. The Company recorded a net decrease to retained earnings of \$594 thousand as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards (“Incurred Loss”).

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1. Summary of Significant Accounting Policies, Continued

Accounting Standards Adopted in 2023, continued:

The following table illustrates the impact on the allowance for credit losses from the adoption of ASC 326:

	January 1, 2023 As Reported Under ASU 326	December 31, 2022 Pre- ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans, at amortized costs	480,571,545	480,571,545	-
Allowance for credit losses on loans:			
Construction, land developments & other land loans	680,785	348,899	331,886
Residential real estate	2,514,859	2,193,224	321,635
Commercial real estate	1,117,513	1,475,875	(358,362)
Commercial and industrial	233,119	325,003	(91,884)
Consumer loans	64,831	49,570	15,261
Allowance for credit losses on loans	4,611,107	4,392,571	218,536
Liabilities:			
Allowance for credit losses for unfunded commitments	533,126	-	533,126

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

Allowance for Credit Losses – Available-for-Sale Securities:

For available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income (loss).

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 1. Summary of Significant Accounting Policies, Continued*Allowance for Credit Losses – Available-for-Sale Securities, continued:*

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no allowance for credit loss related to the available-for-sale portfolio. Accrued interest receivable on available for sale debt securities totaled \$160 thousand at December 31, 2023 and was excluded from the estimate of credit losses.

Allowance for Credit Losses – Held-to-Maturity Securities:

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security types that share similar risk characteristics, which may include, but is not limited to, credit ratings, financial asset type, collateral type, size, effective interest rate, term, geographical location industry and vintage. Accrued interest receivable on held-to-maturity debt securities totaled \$49 thousand at December 31, 2023 and was excluded from the estimate of credit losses.

Management classifies the held-to-maturity portfolio into the following major security types: corporate debt securities and mortgage-backed securities.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Given the rarity of corporate bond defaults and losses, the Company utilizes external third-party loss forecast models as the sole source of corporate bond default and loss rates. Cash flows are modeled over a reasonable and supportable forecast period and then revert to the long-term average economic conditions on a straight-line basis.

Management may exercise discretion to make adjustments based on various qualitative factors. Changes in the ACL are recorded as credit loss expense (or reversal). A held-to-maturity debt security is written off in the period in which a determination is made that all or a portion of the financial asset is uncollectible. The previously recorded allowance, if any, is reversed and then the amortized cost basis is written down to the amount deemed to be collectible, if any. Management concluded that no allowance for credit loss was necessary as of the adoption date or as of December 31, 2023.

Loans:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled \$2.8 million at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 1. Summary of Significant Accounting Policies, ContinuedLoans, continued:

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Allowance for Credit Losses – Loans:

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the collectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

Generally, collectively assessed loans are grouped by call report code and then risk grade grouping. Risk grade is grouped within each call report code by pass, watch, special mention, substandard, and doubtful. Other loan types are separated into their own cohorts due to specific risk characteristics for that pool of loans.

The Company has elected a non-discounted cash flow methodology with probability of default ("PD") and loss given default ("LGD") for all call report code cohorts ("cohorts"). The PD calculation looks at the historical loan portfolio at particular points in time (each month during the lookback period) to determine the probability that loans in a certain cohort will default over the next 12-month period. A default is defined as a loan that has moved to past due 90 days and greater, non-accrual status, or experienced a charge-off during the period. Currently, the Company's historical data is insufficient due to a minimal amount of default activity or zero defaults, therefore, management uses index PD's comprised of rates derived from the PD experience of other community banks in place of the Company's historical PD's.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 1. Summary of Significant Accounting Policies, Continued*Allowance for Credit Losses – Loans, continued:*

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending policies and procedures including underwriting standards and practices for collections, write-offs, and recoveries; state and local economic conditions; the nature and volume of the institution's financial assets; experience, ability, and depth of staff related to lending, investments, and collections; asset quality and portfolio trends; quality of the credit review function; collateral trends; trend in concentration risks; and regulatory, legal and technological environments, competition or other external factors not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. Generally, this population includes loan relationships exceeding \$50,000 and on non-accrual status, however they can also include any loan that does not share risk characteristics with its respective pool. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of collateral at the reporting date adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans. For term loans, the contractual life is calculated based on the maturity date. For commercial revolving loans with no stated maturity date, the contractual life is calculated based on the internal review date. For all other revolving loans, the contractual life is based on either the estimated maturity date or a default date. The contractual term excludes expected extensions, renewals, and modifications.

In calculating the allowance for credit losses on loans, the contractual life of a loan must be adjusted for prepayments to arrive at expected cash flows. The Company models term loans using an annualized prepayment. When the Company has a specific expectation of differing payment behavior for a given loan, the loan may be evaluated individually. For revolving loans that do not have a principal payment schedule, a curtailment rate is factored into the cash flow.

Allowance for Credit Losses – Unfunded Commitments:

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on unfunded commitments, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for credit losses on unfunded commitments is included in other liabilities on the Company's consolidated balance sheets.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 1. Summary of Significant Accounting Policies, Continued*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 consolidated statements of income. Maintenance and repairs are charged to current expense as incurred, and the costs of major renewals and improvements are capitalized.

Leases:

The Company determines if an arrangement is a lease at inception. Operating leases are included in right of use (ROU) assets on operating leases and operating lease liabilities on the consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments is used. The implicit rate is used when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

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 credit 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.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1. Summary of Significant Accounting Policies, Continued

Income taxes:

Income taxes are the sum of amounts currently payable to taxing authorities and the net changes in income taxes payable or refundable in future years. Income taxes deferred to future years are determined utilizing an asset and liability approach. This method considers the future tax consequences associated with differences between financial accounting and tax bases of certain assets and liabilities which are principally the allowance for credit 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, 2023 and 2022 and did not accrue any interest or penalties as of December 31, 2023 and 2022. 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.

Comprehensive income (loss):

The Company reports other comprehensive income (loss) in accordance with generally accepting accounting principles, which require that all items that are required to be reported under accounting standards as other comprehensive income 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 (loss).

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.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 1. Summary of Significant Accounting Policies, ContinuedRevenue recognition, continued:

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 at the point in time the Company fulfills the customer's request. Overdraft fees are recognized when 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. Debit card income is recorded as other income.

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.

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, 2023 and 2022 totaled \$180 thousand and \$124 thousand, respectively, and are included within salaries and employee benefits.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements:

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

In March 2022, the FASB issued amendments which are intended to improve the decision of usefulness of information provided to investors about certain loan re-financings, restructurings, and write-offs. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. These amendments did not have a material effect on the Company's financial statements or disclosures. The Company did not have any note modifications requiring disclosure in the year ended December 31, 2023.

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.

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 2022 consolidated financial statements were reclassified to conform with the 2023 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, 2023 and 2022.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022****Note 3. Investment Securities Available-for-Sale**

The amortized cost and estimated fair values of investment securities are summarized below. For the twelve months ended December 31, 2023, there was no allowance for credit losses on available-for-sale securities.

	December 31, 2023			
<u>Available-for-Sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Government sponsored enterprises	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	<u>26,138,929</u>	<u>46,323</u>	<u>(934,533)</u>	<u>25,250,719</u>
Total available-for-sale	<u>\$ 26,138,929</u>	<u>\$ 46,323</u>	<u>\$ (934,533)</u>	<u>\$ 25,250,719</u>
	December 31, 2022			
<u>Available-for-Sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Government sponsored enterprises	\$ 1,446,233	\$ 7,445	\$ -	\$ 1,453,678
Mortgage-backed securities	<u>28,737,638</u>	<u>-</u>	<u>(1,035,750)</u>	<u>27,701,888</u>
Total available-for-sale	<u>\$ 30,183,871</u>	<u>\$ 7,445</u>	<u>\$ (1,035,750)</u>	<u>\$ 29,155,566</u>

The following is a summary of maturities of securities available-for-sale as of December 31, 2023. 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, 2023			
Due within one year		\$ 315,844	\$ 314,424
Due after one year but within five years		6,041,051	5,931,177
Due after five years but within ten years		16,292,748	15,733,316
Due after ten years		3,489,286	3,271,802
Total		<u>\$ 26,138,929</u>	<u>\$ 25,250,719</u>

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022****Note 3. Investment Securities Available-for-Sale, Continued**

The following table shows gross unrealized losses and estimated fair value for which no allowance for credit losses was recorded aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2023:

<u>Available-for-Sale</u>	<u>December 31, 2023</u>					
	<u>Less than</u>		<u>Twelve Months</u>		<u>Total</u>	
	<u>Twelve Months</u>		<u>or More</u>			
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Mortgage-backed securities	\$ 2,314,747	\$ 59,561	\$19,981,083	\$ 874,972	\$22,295,830	\$ 934,533
Total	\$ 2,314,747	\$ 59,561	\$19,981,083	\$ 874,972	\$22,295,830	\$ 934,533

<u>Available-for-Sale</u>	<u>December 31, 2022</u>					
	<u>Less than</u>		<u>Twelve Months</u>		<u>Total</u>	
	<u>Twelve Months</u>		<u>or More</u>			
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Mortgage-backed securities	\$16,145,034	\$ 432,540	\$11,556,854	\$ 603,210	\$27,701,888	\$ 1,035,750
Total	\$16,145,034	\$ 432,540	\$11,556,854	\$ 603,210	\$27,701,888	\$ 1,035,750

The unrealized losses in the Company's available-for-sale securities have not been recognized into income because management does not intend to sell and it is not more-likely-than-not it will be required to sell any of the available-for-sale debt securities before recovery of its amortized cost basis. Furthermore, the unrealized losses were due to changes in interest rates and other market conditions, were not reflective of credit events and the issuers continue to make timely principal and interest payments on the bonds.

At December 31, 2023 , and December 31, 2022 , there were no available-for-sale investment securities pledged as collateral, respectively.

During the year ended December 31, 2023, the Company sold available-for-sale investments for total proceeds of \$13.1 million, resulting in gross gains of \$53 thousand and gross losses of \$217 thousand. During the year ended December 31, 2022, the Company sold available-for-sale investments for total proceeds of \$9.6 million, resulting in gross gains of \$16,357 and gross losses of \$31,366.

During the year ended December 31, 2023, the Company sold equity investments for total proceeds of \$454 thousand, resulting in gross gains of \$208 thousand. During the year ended December 31, 2022, the Company did not sell any equity investments.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 4. Investment Securities Held-to-Maturity

During the year ended December 31, 2022, the Company reclassified \$20.2 million in investments to held-to-maturity from available-for-sale. These securities were transferred at fair value at the time of the transfer, which became the new cost basis for the securities held-to-maturity. The pretax unrealized net holding loss on the available for sale securities on the date of transfer totaled \$183 thousand and continued to be reported as a component of accumulated other comprehensive income (loss). This net unrealized loss is being amortized to interest income over the remaining life of the securities as a yield adjustment. There were no gains or losses recognized as a result of this transfer. The remaining pretax unrealized net holding loss on these investments was \$181 thousand at December 31, 2023. The Company's held-to-maturity investments totaled \$19.1 million and represented approximately 43.1% of total investments at December 31, 2023.

The Company's held-to-maturity portfolio is recorded at amortized cost. The Company has the ability and intent to hold these securities to maturity. At December 31, 2023, the Company's entire held-to-maturity portfolio was comprised of corporate debt securities and municipal securities. There was no allowance for credit losses recorded for held-to-maturity securities.

The amortized cost and estimated fair values of securities held to maturity were:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity				
Corporate debt securities	\$ 3,033,849	\$ -	\$ (258,256)	\$ 2,775,593
Mortgage-backed securities	16,060,810	-	(1,908,920)	14,151,890
Total held to maturity	<u>\$ 19,094,659</u>	<u>\$ -</u>	<u>\$ (2,167,176)</u>	<u>\$ 16,927,483</u>
	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity				
Corporate debt securities	\$ 3,057,313	\$ -	\$ (192,690)	\$ 2,864,623
Mortgage-backed securities	21,757,232	-	(1,764,408)	19,992,824
Total held to maturity	<u>\$ 24,814,545</u>	<u>\$ -</u>	<u>\$ (1,957,098)</u>	<u>\$ 22,857,447</u>

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 4. Investment Securities Held-to-Maturity, Continued

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

<u>Held-to-Maturity</u>	December 31, 2023					
	Less than		Twelve Months		Total	
	Twelve Months		or More			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$ -	\$ -	\$ 14,151,890	\$ 1,908,920	\$ 14,151,890	\$ 1,908,920
Corporate debt securities	-	-	2,275,593	258,256	2,775,593	258,256
Total	\$ -	\$ -	\$ 16,927,483	\$ 2,167,176	\$ 16,927,483	\$ 2,167,176

<u>Held-to-Maturity</u>	December 31, 2022					
	Less than		Twelve Months		Total	
	Twelve Months		or More			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$11,404,500	\$ 515,489	\$ 8,588,324	\$ 1,248,919	\$19,992,824	\$ 1,764,408
Corporate debt securities	1,915,638	163,564	448,985	29,126	2,364,623	192,690
Total	\$13,320,138	\$ 679,053	\$ 9,037,309	\$ 1,278,045	\$22,357,447	\$ 1,957,098

At December 31, 2023, there were no held-to-maturity securities pledged as collateral. At December 31, 2022, held-to-maturity investment securities with an amortized cost of \$9.8 million and \$8.6 million were pledged as collateral.

Management evaluates securities on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation, to determine if an allowance for credit losses is necessary on held-to-maturity securities. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts' reports and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Mortgage-backed securities and corporate debt securities are primarily comprised of investment grade notes. Management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. Accordingly, the Company determined that the expected credit loss on its held-to-maturity portfolio was immaterial, and therefore, an allowance was not carried on its held-to-maturity debt securities on December 31, 2023.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 4. Investment Securities Held-to-Maturity, Continued

At December 31, 2023, the Company had no held-to-maturity securities that were past due 30 days or more as to principal or interest payments. The Company had no held-to-maturity securities classified as nonaccrual for the year ended December 31, 2023.

Note 5. Loans Receivable and Allowance for Credit Losses

Loans receivable consisted of the following at December 31, 2023 and 2022:

	2023	2022
Real estate construction	\$ 71,277,716	\$ 36,525,180
Real estate residential	367,307,834	281,590,825
Real estate commercial	201,646,345	138,498,744
Commercial and industrial	32,285,848	18,454,664
Consumer and other	6,594,966	5,502,132
Loans receivable	<u>\$ 679,112,709</u>	<u>\$ 480,571,545</u>

The Company has prepared the above schedule for the year ended December 31, 2023, by grouping loans based upon call report code. Loans by major classification for the year ended December 31, 2022, were grouped by an internal loan type code. The change in classification is not due to a material change in loan portfolio mix but rather to best group loans representing similar risk characteristics.

The following is a past-due analysis of our loan portfolio at December 31, 2023:

	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	\$ -	\$ -	\$ -	\$ -	\$ 71,277,716	\$ 71,277,716	\$ -
Real estate residential	372,766	-	44,615	417,381	366,890,453	367,307,834	-
Real estate commercial	-	-	63,870	63,870	201,582,475	201,646,345	-
Commercial and industrial	-	-	-	-	32,285,848	32,285,848	-
Consumer and other	149,071	-	-	149,071	6,445,895	6,594,966	-
	<u>\$ 521,837</u>	<u>\$ -</u>	<u>\$ 108,485</u>	<u>\$ 630,322</u>	<u>\$ 678,482,387</u>	<u>\$ 679,112,709</u>	<u>\$ -</u>

The following is a past-due analysis of our loan portfolio at December 31, 2022:

	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	\$ -	\$ -	\$ -	\$ -	\$ 36,525,180	\$ 36,525,180	\$ -
Real estate residential	156,210	52,449	32,626	241,285	281,349,540	281,590,825	-
Real estate commercial	213,666	-	-	213,666	138,285,078	138,498,744	-
Commercial and industrial	-	-	-	-	18,454,664	18,454,664	-
Consumer and other	99,890	1,964	2,182	104,036	5,398,096	5,502,132	-
	<u>\$ 469,766</u>	<u>\$ 54,413</u>	<u>\$ 34,808</u>	<u>\$ 558,987</u>	<u>\$ 480,012,558</u>	<u>\$ 480,571,545</u>	<u>\$ -</u>

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 5. Loans Receivable and Allowance for Credit Losses, Continued**Credit Quality Indicators**

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

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

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

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

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

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023:

	Term Loans by Year of Origination							Total
	2023	2022	2021	2020	2019	Prior	Revolving	
Real estate construction								
Pass	\$ 37,531,046	\$ 29,410,730	\$ 1,401,570	\$ 394,917	\$ 45,398	\$ 155,369	\$ 2,338,686	\$ 71,277,716
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total real estate construction loans	<u>37,531,046</u>	<u>29,410,730</u>	<u>1,401,570</u>	<u>394,917</u>	<u>45,398</u>	<u>155,369</u>	<u>2,338,686</u>	<u>71,277,716</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Real estate residential								
Pass	108,638,252	98,289,164	39,552,185	18,733,404	10,136,764	5,082,004	85,953,647	366,385,420
Special mention	-	339,044	-	-	-	53,019	411,243	803,306
Substandard	-	-	-	-	-	119,108	-	119,108
Total real estate residential	<u>108,638,252</u>	<u>98,628,208</u>	<u>39,552,185</u>	<u>18,733,404</u>	<u>10,136,764</u>	<u>5,254,131</u>	<u>86,364,890</u>	<u>367,307,834</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Real estate commercial								
Pass	39,107,802	61,686,407	40,394,219	32,303,037	13,175,622	9,528,534	5,386,854	201,582,475
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	63,870	-	63,870
Total real estate commercial	<u>39,107,802</u>	<u>61,686,407</u>	<u>40,394,219</u>	<u>32,303,037</u>	<u>13,175,622</u>	<u>9,592,404</u>	<u>5,386,854</u>	<u>201,646,345</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial and industrial								
Pass	6,646,991	10,248,529	1,877,892	241,518	98,023	-	13,172,895	32,285,848
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total commercial and industrial	<u>6,646,991</u>	<u>10,248,529</u>	<u>1,877,892</u>	<u>241,518</u>	<u>98,023</u>	<u>-</u>	<u>13,172,895</u>	<u>32,285,848</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Consumer and other								
Pass	2,189,165	1,902,712	976,672	232,735	52,297	91,161	1,141,925	6,586,667
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	3,639	-	-	-	4,660	8,299
Total consumer and other	<u>2,189,165</u>	<u>1,902,712</u>	<u>980,311</u>	<u>232,735</u>	<u>52,297</u>	<u>91,161</u>	<u>1,146,585</u>	<u>6,594,966</u>
Current period gross write-offs	<u>918</u>	-	-	-	-	-	-	-

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022****Note 5. Loans Receivable and Allowance for Credit Losses, Continued**

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2022 (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	\$ 36,525,180	\$ -	\$ -	\$ 36,525,180
Real estate residential	281,272,606	44,433	273,786	281,590,825
Real estate commercial	138,498,744	-	-	138,498,744
Commercial and industrial	18,454,664	-	-	18,454,664
Consumer and other	5,502,132	-	-	5,502,132
	<u>\$ 480,253,326</u>	<u>\$ 44,433</u>	<u>\$ 273,786</u>	<u>\$ 480,571,545</u>

The following table is a summary of the Company's nonaccrual loans by major categories for the periods indicated:

	<u>CECL</u>			<u>Incurred Loss</u>
	<u>December 31, 2023</u>			<u>December 31</u>
	<u>Nonaccrual Loans with No Allowance</u>	<u>Nonaccrual Loans with an Allowance</u>	<u>Total Nonaccrual Loans</u>	<u>Nonaccrual Loans</u>
Real estate residential	\$ 58,252	\$ -	\$ 58,252	\$ 246,677
Commercial real estate	63,870	-	63,870	-
Consumer and other	8,299	-	8,299	3,511
Total loans	<u>\$ 130,421</u>	<u>\$ -</u>	<u>\$ 130,421</u>	<u>\$ 250,188</u>

The following represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2023:

Real estate residential	\$ 8,068
Real estate commercial	6,801
Consumer and other	917
Total loans	<u>\$ 15,786</u>

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 5. Loans Receivable and Allowance for Credit Losses, Continued

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

- Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Home equity lines of credit are generally secured by second mortgages on residential real estate property.
- Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.

The following table details the amortized cost of collateral dependent loans:

	For the Year Ended December 31, 2023
Real estate commercial	\$ 63,870
Real estate residential	113,875
Total loans	<u>\$ 177,745</u>

The following summarizes the activity related to the allowance for credit losses for the year ending December 31, 2023:

	Real Estate Construction	Real Estate Residential	Real Estate Commercial	Commercial and Industrial	Consumer and Other	Total
Allowance for credit losses:						
Beginning balance	\$ 348,899	\$ 2,193,224	\$ 1,475,875	\$ 325,003	\$ 49,570	\$ 4,392,571
Adjustment to allowance for adoption of ASU 2016-13	331,886	321,635	(358,362)	(91,884)	15,261	218,536
Charge-offs	-	-	-	-	(918)	(918)
Recoveries	-	-	-	-	716	716
Provision for credit losses	(73,412)	971,676	416,347	98,583	11,806	1,425,000
Ending balance	<u>\$ 607,373</u>	<u>\$ 3,486,535</u>	<u>\$ 1,533,860</u>	<u>\$ 331,702</u>	<u>\$ 76,435</u>	<u>\$ 6,035,905</u>

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 5. Loans Receivable and Allowance for Credit Losses, Continued

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses for the year ending December 31, 2022 (PPP loans guaranteed by the SBA were excluded from the allowance calculation):

	Real Estate Construction	Real Estate Residential	Real Estate Commercial	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	\$ 236,831	\$ 1,655,365	\$ 1,158,432	\$ 278,054	\$ 80,331	\$ 3,409,013
Charge-offs	-	-	-	-	(44,171)	(44,171)
Recoveries	-	18,147	44,582	-	-	62,729
Provisions	<u>112,068</u>	<u>519,712</u>	<u>272,861</u>	<u>46,949</u>	<u>13,410</u>	<u>965,000</u>
Ending balance	<u>\$ 348,899</u>	<u>\$ 2,193,224</u>	<u>\$ 1,475,875</u>	<u>\$ 325,003</u>	<u>\$ 49,570</u>	<u>\$ 4,392,571</u>
Ending balances:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,223</u>	<u>\$ -</u>	<u>\$ 2,460</u>	<u>\$ 24,683</u>
Collectively evaluated for impairment	<u>\$ 348,899</u>	<u>\$ 2,193,224</u>	<u>\$ 1,453,652</u>	<u>\$ 325,003</u>	<u>\$ 47,110</u>	<u>\$ 4,367,888</u>
Loans receivable:						
Ending balance - total	<u>\$ 36,525,180</u>	<u>\$ 281,590,825</u>	<u>\$ 138,498,744</u>	<u>\$ 18,454,664</u>	<u>\$ 5,502,132</u>	<u>\$ 480,571,545</u>
Ending balances:						
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ 636,116</u>	<u>\$ 166,487</u>	<u>\$ -</u>	<u>\$ 36,903</u>	<u>\$ 839,506</u>
Collectively evaluated for impairment	<u>\$ 36,525,180</u>	<u>\$ 280,954,709</u>	<u>\$ 138,332,257</u>	<u>\$ 18,454,664</u>	<u>\$ 5,465,229</u>	<u>\$ 479,732,039</u>

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The Company individually assessed for impairment all nonaccrual loans and all troubled debt restructurings (whether or not currently classified as such). The tables below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 5. Loans Receivable and Allowance for Credit Losses, Continued

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate residential	\$ 636,116	\$ 1,301,369	\$ -	\$ 633,533	\$ 50,496
Real estate commercial	34,254	60,069	-	30,034	3,058
Consumer and other	34,538	82,565	-	29,505	6,094
Total	704,908	1,444,003	-	693,072	59,648
With an allowance recorded:					
Real estate commercial	132,233	272,152	22,223	136,076	7,524
Consumer and other	2,365	7,154	2,460	3,577	363
Total	134,598	279,306	24,683	139,653	7,887
Total					
Real estate residential	636,116	1,301,369	-	633,533	50,496
Real estate commercial	166,487	332,221	22,223	166,110	10,582
Consumer and other	36,903	89,719	2,460	33,082	6,457
Total	\$ 839,506	\$ 1,723,309	\$ 24,683	\$ 832,725	\$ 67,535

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 5. Loans Receivable, Continued

During the year ended December 31, 2023, there were no loans modified to borrowers experiencing financial difficulty for interest rate reductions or extended terms and no other concessions granted except insignificant deferral of payments. There were no defaults of any previously modified loans during the year ended December 31, 2023.

The following is an analysis of our troubled debt restructured loans (TDRs) at 2022 :

	<u>2022</u>
Performing	\$ 225,109
Nonperforming	<u>175,084</u>
	<u>\$ 400,193</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, 2022, one loan totaling \$10 thousand was identified as a TDR.

As of December 31, 2023 and 2022, loans totaling \$127.5 million and \$65.2 million, respectively were pledged securing the Company's Federal Home Loan Bank line of credit.

Unfunded Commitments

The Company maintains a separate reserve for credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision reversal for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

On January 1, 2023, the Company recorded an adjustment for unfunded commitments of \$533 thousand for the adoption of ASC Topic 326. For the year ended December 31, 2023, the Company recorded a reversal of provision for credit losses for unfunded commitments of \$25 thousand. At December 31, 2023, the liability for credit losses on off-balance-sheet credit exposures included in other liabilities was \$508 thousand.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 6. Premises, Furniture and Equipment

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

	<u>2023</u>	<u>2022</u>
Land	\$ 1,975,000	\$ 1,050,000
Building and improvements	2,946,223	1,865,429
Leasehold improvements	873,038	700,414
Furniture and equipment	2,093,981	1,777,591
Construction in process	<u>92,431</u>	<u>2,066,390</u>
Total	7,980,673	7,459,824
Less accumulated depreciation	<u>(1,698,183)</u>	<u>(1,294,461)</u>
Premises, furniture and equipment, net	<u>\$ 6,282,490</u>	<u>\$ 6,165,363</u>

Depreciation and amortization expense for the years ended December 31, 2023 and 2022 was \$404 thousand and \$316 thousand, respectively.

Note 7. Deposits

At December 31, 2023, the scheduled maturities of certificates of deposit are as follows:

2024	\$ 135,340,772
2025	61,655,492
2026	58,446,046
2027	2,748,728
2028	<u>3,070,275</u>
Total	<u>\$ 261,261,313</u>

The Company had brokered deposits of \$76.2 million and \$40.2 million as of December 31, 2023 and 2022, respectively. Certificates of deposits with balances in excess of federal deposit insurance limits of \$250,000 were \$136.1 million and \$69.8 million at December 31, 2023 and 2022, respectively.

There are no concentrations to any single depositor or a relatively small number of depositors with balances greater than 5% of total deposits. Additionally, management is not aware of any concentrations of deposits to classes of depositors or industries that would be similarly affected by economic conditions.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 8. Income Taxes

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

	<u>2023</u>	<u>2022</u>
Current income tax expense:		
Federal	\$ 1,630,819	\$ 934,037
State	<u>(39,797)</u>	<u>87,916</u>
Total current	<u>1,591,022</u>	<u>1,021,953</u>
Deferred income taxes:		
Federal	(529,991)	(112,710)
State	<u>(28,704)</u>	<u>(57,689)</u>
Total deferred	<u>(558,695)</u>	<u>(170,399)</u>
Income tax expense	<u>\$ 1,032,327</u>	<u>\$ 851,554</u>

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

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Allowance for credit losses	\$ 1,410,180	\$ 864,110
Nonaccrual loan interest income	5,678	6,643
Net operating loss carryforwards	50,590	29,939
State tax credit carryforwards	44,185	55,454
Stock compensation	54,882	63,948
Securities available-for-sale	186,524	215,944
Other	<u>13,153</u>	<u>15,415</u>
Gross deferred tax assets	<u>1,765,192</u>	<u>1,251,453</u>
Deferred tax liabilities:		
Accumulated depreciation	215,094	230,209
Prepaid expenses	26,115	13,986
Other	<u>-</u>	<u>170,399</u>
Total deferred tax liabilities	<u>241,209</u>	<u>414,594</u>
Net deferred tax asset	<u>\$ 1,523,983</u>	<u>\$ 836,859</u>

The Company has no federal net operating losses for the years ended 2023 and 2022. The Company has state net operating losses of \$1.3 million and \$758 thousand for the years ended December 31, 2023 and 2022, respectively.

Tax returns for 2020 and subsequent years are subject to examination by taxing authorities.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 8. Income Taxes, Continued

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% for 2023 and 2022 to income before income taxes follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Tax expense at statutory rate	\$ 1,015,460	\$ 745,324
State income tax expense, net of federal tax benefit	(54,116)	23,879
Stock compensation	5,034	34,679
Nondeductible expenses	38,819	16,888
Other, net	<u>27,130</u>	<u>30,784</u>
Reported tax expense	<u>\$ 1,032,327</u>	<u>\$ 851,554</u>

Note 9. Leases

Effective January 1, 2019, the Company adopted ASC 842 "Leases." The Company adopted the guidance using the modified retrospective method and practical expedients for transition. The lease expense recognized during the year ended December 31, 2023 and 2022 amounted to \$457,243 and \$351,502, respectively. The weighted average remaining lease term as of December 31, 2023 is 6.49 years and the weighted average discount rate used is 3.61%.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows:

2024	\$ 487,934
2025	481,537
2026	406,952
2027	348,258
2028	328,685
Thereafter	<u>620,193</u>
Total undiscounted lease payments	2,673,559
Less effect of discounting	<u>(264,993)</u>
Present value of estimated lease payments (lease liability)	<u>\$ 2,408,566</u>

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 10. Advances From Federal Home Loan Bank

Advances from the Federal Home Loan Bank (FHLB) consisted of the following at December 31, 2023 and 2022:

<u>Description</u>	<u>Current Interest Rate</u>	<u>2023 Balance</u>	<u>2022 Balance</u>
FHLB advances maturing			
February 3, 2023	4.39%	\$ -	\$ 20,000,000
December 19, 2025	4.17%	-	10,000,000
March 13, 2026	4.46%	5,000,000	-
March 23, 2026	4.05%	5,000,000	-
May 4, 2026	3.76%	5,000,000	-
March 17, 2027	4.03%	5,000,000	-
July 20, 2027	4.52%	4,000,000	-
July 26, 2027	4.54%	5,000,000	-
March 10, 2028	4.26%	5,000,000	-
July 20, 2028	4.31%	4,000,000	-
July 20, 2028	4.13%	4,000,000	-
July 20, 2028	3.57%	4,000,000	-
October 10, 2028	4.55%	10,000,000	-
		<u>\$ 56,000,000</u>	<u>\$ 30,000,000</u>

At December 31, 2023 and 2022, the Company has pledged certain loans totaling \$145.4 million and \$84.0 million, respectively, as collateral to secure its borrowings from the FHLB. Additionally, the Company's FHLB stock is pledged to secure the borrowings.

Note 11. Related Party Transactions

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

The Company had related party loans as of December 31, 2023 and 2022 totaling \$6.5 million and \$3.6 million, respectively. The Company leases its banking facility in Charleston, South Carolina from a director. Related party lease expense totaled \$173 thousand for the years ended December 31, 2023 and 2022.

The Company had related party deposit accounts as of December 31, 2023 and 2022 totaling \$3.8 million and \$4.0 million, respectively.

Note 12. Commitments and Contingencies

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. At December 31, 2023, 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.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 13. Financial Instruments With Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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>2023</u>	<u>2022</u>
Commitments to extend credit	\$ 147,263,743	\$ 119,373,142

Note 14. Stock Compensation Plan

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

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Note 14. Stock Compensation Plan, Continued

A summary of the status of the Stock Option Plan as of December 31, 2023 and changes during the period is presented below:

	<u>2023</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	467,250	\$ 6.89
Granted	116,750	\$ 8.99
Exercised	-	\$ -
Forfeited	-	\$ -
Outstanding at end of year	<u>584,000</u>	\$ 7.31
Options exercisable at year-end	<u>312,450</u>	\$ 6.80
Shares available for grant ^[a]	<u>174,627</u>	
Weighted average grant date fair value of options granted		\$ 7.16

^[a] The Company authorized 140,000 options to be added to the Omnibus Stock Option plan during 2023.

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022****Note 14. Stock Compensation Plan, Continued**

A summary of the status of the Stock Option Plan as of December 31, 2022 and changes during the period is presented below:

	2022	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	415,500	\$ 6.75
Granted	110,750	\$ 7.34
Exercised	(55,500)	\$ 6.75
Forfeited	(3,500)	\$ 6.75
Outstanding at end of year	<u>467,250</u>	\$ 6.89
Options exercisable at year-end	<u>238,333</u>	\$ 6.75
Shares available for grant ^[a]	<u>151,377</u>	
Weighted average grant date fair value of options granted		\$ 6.80

^[a] The Company authorized 167,827 options to be added to the Omnibus Stock Option plan during 2022.

During 2023 and 2022 the Company recognized \$243,937 and \$218,240 in expense associated with stock option issuances which was recorded in salaries and employee benefits on the consolidated statements of income.

At December 31, 2023, unrecognized compensation cost related to share-based compensation arrangements granted under the Stock Option Plan totaled \$660,963 to be expensed over the five-year vesting period.

The following table summarizes information about the stock options outstanding under the Stock Option Plan at December 31, 2023:

	Options Outstanding		
Exercise Price	Number Outstanding At 12/31/23	Weighted- Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 6.89	584,000	8.26	\$ 7.31

First Capital Bancshares, Inc.***Notes to Consolidated Financial Statements******December 31, 2023 and 2022***

Note 15. Capital Requirements and Regulatory Matters

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

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 credit losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

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

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

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

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 15. Capital Requirements and Regulatory Matters, Continued

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

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Total Capital (to risk weighted assets)	\$ 82,983	12.47%	\$ 53,218	8.00%	\$ 66,522	10.00%
Tier 1 Capital (to risk weighted assets)	76,440	11.49%	39,913	6.00%	53,218	8.00%
Tier 1 Capital (to average assets)	76,440	10.02%	30,508	4.00%	38,135	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	76,440	11.49%	29,935	4.50%	43,240	6.50%
December 31, 2022						
Total Capital (to risk weighted assets)	\$ 59,632	12.56%	\$ 37,994	8.00%	\$ 47,492	10.00%
Tier 1 Capital (to risk weighted assets)	55,238	11.63%	28,495	6.00%	37,994	8.00%
Tier 1 Capital (to average assets)	55,238	10.21%	21,649	4.00%	27,061	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	55,238	11.63%	21,371	4.50%	30,870	6.50%

Note 16. Unused Lines of Credit

At December 31, 2023, the Company had unused lines of credit to purchase federal funds from four unrelated banks totaling \$18.0 million. At December 31, 2022, the Company had unused lines of credit to purchase federal funds from three unrelated banks totaling \$11.0 million. 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, 2023, the total line of credit with Federal Home Loan Bank was \$186.7 million, of which \$56.0 million has been advanced to the Company. The Company had loans pledged securing the Federal Home Loan Bank line of credit as of December 31, 2023 and 2022 totaling \$145.4 million and \$84.0 million, respectively, in addition to the Company's Federal Home Loan Bank stock.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 17. Fair Value of Financial Instruments

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

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 and similar techniques.

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

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

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 17. Fair Value of Financial Instruments, Continued

Collateral Dependent Loans: The Bank has identified collateral dependent loans with fair value considerations as those loans with a recorded investment less the applicable reserve allocation. The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral dependent loans are classified within level 2 of the fair value hierarchy.

The Bank considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral securing collateral dependent loans are obtained when the loan is determined to be collateral dependent and subsequently, as deemed necessary, according to Bank policy. Appraisers are selected from the list of approved appraisers maintained by Management. Appraisals are only obtained from independent licensed appraisers following Uniform Standards of Professional Appraisal Practice.

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

December 31, 2023			
Total	Level 1	Level 2	Level 3
Mortgage-backed securities	\$ 25,250,719	\$ -	\$ 25,250,719
Total	\$ 25,250,719	\$ -	\$ 25,250,719
December 31, 2022			
Total	Level 1	Level 2	Level 3
Government sponsored enterprises	\$ 1,453,678	\$ -	\$ 1,453,678
Mortgage-backed securities	27,701,888	-	27,701,888
Total	\$ 29,155,566	\$ -	\$ 29,155,566

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

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022****Note 17. Fair Value of Financial Instruments, Continued**

December 31, 2023				
	Total	Level 1	Level 2	Level 3
Individually evaluated loans, net	\$ 676,800	\$ -	\$ 676,800	\$ -
Total	<u>\$ 676,800</u>	<u>\$ -</u>	<u>\$ 676,800</u>	<u>\$ -</u>

December 31, 2022				
	Total	Level 1	Level 2	Level 3
Impaired loans, net	\$ 814,823	\$ -	\$ -	\$ 814,823
Total	<u>\$ 814,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 814,823</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, 2023 and 2022:

Description	Fair Value 12/31/2023	Valuation Methodology	Unobservable Inputs	Range of Inputs
Individually evaluated loans, net	\$ 676,800	Appraised value	Discount to reflect current market conditions and ultimate collectability	4% - 15%

Description	Fair Value 12/31/2022	Valuation Methodology	Unobservable Inputs	Range of Inputs
Impaired loans, net	\$ 814,823	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, 2023 and 2022.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 17. Fair Value of Financial Instruments, Continued

	December 31,			
	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 45,942,769	\$ 45,942,769	\$ 14,788,366	\$ 14,788,366
Securities available-for-sale	25,250,719	25,250,719	29,155,566	29,155,566
Securities held-to-maturity	19,094,659	16,927,483	24,814,545	22,857,447
Marketable equity securities	456,166	456,166	702,461	702,461
Loans held for investment, net	673,076,804	631,109,000	476,178,974	433,913,000
Nonmarketable equity securities	3,066,700	3,066,700	1,468,500	1,468,500
Deposits	648,844,927	696,558,000	471,048,836	475,325,000
Federal Home Loan Bank advances	56,000,000	55,852,000	30,000,000	29,879,000
Note payable	420,000	420,000	630,000	630,000

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, and are classified as Level 1.

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, 2023 and 2022***

Note 17. 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 Level 2.

Note 18. Subsequent Events

Subsequent events are events or transactions that occur after the statements of condition 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 statements of condition, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statements of condition but arose after that date.

The Company has disclosed deposit concentrations in Note 7. In relation to current economic conditions, management has monitored deposit concentrations through the date the financial statements were issued noting no significant changes to concentrations. In addition, there has been no significant deposit deterioration through the date the financial statements were issued.

The Company has disclosed its investment portfolio position in Note 3 and Note 4. There has been no significant deterioration in the investment portfolio through the date the consolidated financial statements were issued.

Management has reviewed events occurring March 8, 2024, the date the financial statements were issued, and considers there to be one relevant subsequent event. The Company is in the process of a private placement offering. The offering is for \$1,000,000 shares at a price of \$9.75 per share, with the ability to increase the size of the private placement by 20% or 200,000 shares.

First Capital Bancshares, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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

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

Condensed Balance Sheets

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Assets		
Cash and due from banks	\$ 2,210,493	\$ 7,226,160
Investment in banking subsidiary	75,556,523	54,252,975
Equity securities	456,166	702,461
Other assets	<u>2,553,260</u>	<u>1,062,374</u>
Total assets	<u>80,776,442</u>	<u>63,243,970</u>
Liabilities		
Subordinated debt	12,000,000	12,000,000
Accrued interest payable	166,486	166,486
Other liabilities	-	180,206
Total liabilities	<u>12,166,486</u>	<u>12,346,692</u>
Stockholders' equity	<u>68,609,956</u>	<u>50,897,278</u>
Total liabilities and stockholders' equity	<u>\$ 80,776,442</u>	<u>\$ 63,243,970</u>

Condensed Statements of Income

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Income		
Interest income on investment securities	\$ 47,427	\$ 20,503
Gain on sale of securities	207,630	-
Total Income	<u>255,057</u>	<u>20,503</u>
Expenses		
Compensation expense	243,937	218,240
Professional fees	22,405	57,382
Other	<u>556,397</u>	<u>508,911</u>
Total expenses	<u>822,739</u>	<u>784,533</u>
Loss before income taxes and equity in		
undistributed income of banking subsidiary	(567,682)	(764,030)
Income tax benefit	75,425	198,648
Net equity in undistributed income of Bank	<u>4,295,455</u>	<u>3,262,992</u>
Net income	<u>\$ 3,803,198</u>	<u>\$ 2,697,610</u>

First Capital Bancshares, Inc.**Notes to Consolidated Financial Statements****December 31, 2023 and 2022**

Condensed Statements of Cash Flows

	For the years ended December 31,	
	2023	2022
Operating activities		
Net income	\$ 3,803,198	\$ 2,697,610
Adjustments to reconcile net income to net cash used in operating activities:		
Net equity in undistributed income of subsidiary	(4,295,455)	(3,262,992)
Gain on sale of marketable equity securities	(207,630)	-
Stock compensation	243,937	218,240
Increase in other assets	(1,490,886)	(1,014,008)
Increase in accrued interest payable	-	69,651
(Decrease) increase in other liabilities	<u>(180,206)</u>	<u>155,880</u>
Net cash used in operating activities	<u>(2,127,042)</u>	<u>(1,135,619)</u>
Investing activities		
Purchase of marketable equity securities	-	(199,937)
Proceeds from sale of marketable equity securities	<u>453,926</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>453,926</u>	<u>(199,937)</u>
Financing activities		
Capital contributions to subsidiary	(17,500,000)	(15,000,000)
Subordinated debentures	-	5,000,000
Issuance of common stock	14,157,449	14,841,857
Stock options exercised	<u>-</u>	<u>374,625</u>
Net cash (used in) provided by financing activities	<u>(3,342,551)</u>	<u>5,216,482</u>
Net (decrease) increase in cash and cash equivalents	(5,015,667)	3,880,926
Cash and cash equivalents, beginning of year	<u>7,226,160</u>	<u>3,345,234</u>
Cash and cash equivalents, ending of year	<u>\$ 2,210,493</u>	<u>\$ 7,226,160</u>

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

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. McCoyRetired/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

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
John Douglass.....Chief Credit 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, 2023

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