First Capital Bancshares, Inc.

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2022 and 2021

Contents

elliott davis

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of First Capital Bancshares, Inc. and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Elliott Davis, LLC

Charleston, South Carolina
March 17, 2023

First Capital Bancshares, Inc.

Consolidated Balance Sheets

As of December 31, 2022 and 2021

	2022	2021
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 14,339,674	$ 62,994,198
Federal funds sold	448,692	429,721
Total cash and cash equivalents	14,788,366	63,423,919
Securities available-for-sale	29,155,566	40,307,595
Securities held-to-maturity, fair value of $22,857,448 and $0 at December 31, 2022 and 2021, respectively	24,814,545	-
Marketable equity securities	702,461	502,524
Stock in Federal Home Loan Bank of Atlanta, at cost	1,468,500	770,300
Loans receivable	480,571,545	270,678,907
Less allowance for loan losses	(4,392,571)	(3,409,013)
Loans receivable, net	476,178,974	267,269,894
Premises, furniture and equipment, net	6,165,363	3,944,069
Lease right of use asset	1,725,812	1,735,017
Cash surrender value of life insurance	9,568,796	7,332,307
Deferred tax asset	836,859	571,839
Accrued interest receivable	1,676,181	859,341
Other assets	1,774,868	513,831
Total assets	$ 568,856,291	$ 387,230,636
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 48,347,196	$ 26,575,078
Interest-bearing transaction accounts	210,158,487	173,772,312
Savings	2,923,637	2,950,315
Time deposits	209,619,516	124,285,985
Total deposits	471,048,836	327,583,690
Lease liability	1,770,236	1,770,160
Borrowings from Federal Home Loan Bank of Atlanta	30,000,000	15,000,000
Subordinated debt	12,000,000	7,000,000
Note payable	630,000	840,000
Accrued interest payable	822,038	272,278
Other liabilities	1,687,903	830,194
Total liabilities	517,959,013	353,296,322
Stockholders' equity:		
Common stock – voting, $.01 par value; 10,000,000 shares authorized; 6,484,710 and 5,085,936 shares issued and outstanding at December 31, 2022 and 2021, respectively	64,844	50,856
Common stock – non-voting, $.01 par value; 1,000,000 shares authorized; 335,000 and 0 shares issued and outstanding at December 31, 2022 and 2021, respectively	3,350	-
Capital surplus	45,408,834	29,991,450
Retained earnings	6,408,498	3,710,888
Treasury stock, 350 shares at December 31, 2022 and 2021	(3,500)	(3,500)
Accumulated other comprehensive income (loss)	(984,748)	184,620
Total stockholders' equity	50,897,278	33,934,314
Total liabilities and stockholders' equity	$ 568,856,291	$ 387,230,636

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Income

For the years ended December 31, 2022 and 2021

	2022	2021
Interest income:		
Loans, including fees	$ 16,918,879	$ 10,498,885
Investment securities, taxable	1,553,839	589,480
Federal funds sold	11,029	542
Other	516,876	69,598
Total interest income	19,000,623	11,158,505
Interest expense:		
Deposits	3,877,836	1,896,367
Other interest expense	815,624	218,449
Total interest expense	4,693,460	2,114,816
Net interest income	14,307,163	9,043,689
Provision for loan losses	965,000	780,000
Net interest income after provision for loan losses	13,342,163	8,263,689
Noninterest income:		
Service charges on deposit accounts	36,407	32,207
Gain (loss) on sale of securities available-for-sale	(15,009)	246,309
Gain on sale of other real estate owned and repossessions	-	912
Increase in cash surrender value of life insurance	236,489	195,073
Other	178,207	149,841
Total noninterest income	436,094	624,342
Noninterest expense:		
Salaries and employee benefits	6,366,617	4,688,784
Occupancy	696,486	571,970
Furniture and equipment	380,402	293,275
FDIC deposit insurance	260,000	181,429
Data processing fees	621,070	464,360
Dues and memberships	68,517	44,465
Professional fees	278,648	251,419
Licenses and fees	275,859	273,740
Other	1,281,494	1,123,354
Total noninterest expense	10,229,093	7,892,796
Income before income taxes	3,549,164	995,235
Income tax expense	851,554	243,549
Net income	$ 2,697,610	$ 751,686
Weighted average shares outstanding		
Basic	5,673,402	5,085,936
Diluted	5,765,063	5,393,507
Basic income per common share	$ 0.48	$ 0.15
Diluted income per common share	$ 0.47	$ 0.14

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2022 and 2021

	2022	2021
Net income	$ 2,697,610	$ 751,686
Other comprehensive (loss) income		
Unrealized holding losses arising during the period on securities available-for-sale	(1,277,010)	(217,423)
Realized (gains) losses on investment securities available-for-sale	15,009	(246,309)
Unrealized losses on securities available-for-sale transferred to held-to-maturity	(183,182)	-
Reclassification adjustment for amortization of unrealized losses on securities available-for-sale transferred to held-to-maturity	10,795	-
Net losses on securities	(1,434,388)	(463,732)
Net effect of taxes	265,020	97,384
Other comprehensive loss, net of tax	(1,169,368)	(366,348)
Comprehensive income	$ 1,528,242	$ 385,338

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2022 and 2021

	Common Stock-Voting		Common Stock-Non-Voting		Capital	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Surplus	Earnings	Stock	Income	Total
Balance, December 31, 2020	5,083,936	$ 50,836	-	$ -	$ 29,764,384	$ 2,959,202	$ (3,500)	$ 550,968	$ 33,321,890
Net income	-	-	-	-	-	751,686	-	-	751,686
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	(366,348)	(366,348)
Stock options exercised	2,000	20	-	-	13,480	-	-	-	13,500
Stock based compensation	-	-	-	-	213,586	-	-	-	213,586
Balance, December 31, 2021	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

See Notes to Consolidated Financial Statements

First Capital Bancshares, Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021

	2022	2021
Operating activities:		
Net income	$ 2,697,610	$ 751,686
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Provision for loan losses	965,000	780,000
Increase in cash surrender value of life insurance	(236,489)	(195,073)
Depreciation and amortization expense	316,436	216,665
Discount accretion and premium amortization, net	314,069	114,340
(Gain) loss on sale of investment securities	15,009	(246,309)
(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	(170,399)	(182,176)
Gain on sales of other real estate owned and repossessions	-	(912)
Change in right of use asset and lease liability	9,281	11,824
Increase in accrued interest receivable	(816,840)	(52,939)
Stock based compensation expense	218,240	213,586
Increase in accrued interest payable	549,760	116,156
Decrease (increase) in other assets	(1,261,037)	154,254
Increase in other liabilities	857,709	290,697
Net cash provided by operating activities	3,353,717	1,971,799
Cash flows from investing activities:		
Net increase in loans	(209,874,080)	(85,376,575)
Purchase of securities held-to-maturity	(13,812,975)	-
Purchase of securities available-for-sale	(22,455,329)	(23,896,467)
Purchase of marketable equity securities	(199,937)	(502,524)
Proceeds from call, maturities, paydowns of securities available-for-sale	2,673,107	3,954,924
Proceeds from call, maturities, paydowns of securities held-to-maturity	8,820,470	-
Proceeds from sale of other real estate owned and repossessions	-	19,500
Proceeds from sale of securities available-for-sale	9,625,408	3,790,741
Purchase of bank owned life insurance	(2,000,000)	(2,000,000)
Purchase of premises and equipment	(2,539,362)	(1,672,405)
Purchase of Federal Home Loan Bank stock	(698,200)	(9,700)
Net cash used in investing activities	(230,460,898)	(105,692,506)
Cash flows from financing activities:		
Net increase in demand deposits, interest-bearing		
transaction accounts and savings accounts	58,131,615	74,443,853
Net increase in time deposits	85,333,531	38,171,542
Proceeds from subordinated debentures	5,000,000	7,000,000
Proceeds from Federal Home Loan Bank	15,000,000	-
Proceeds from issuance of stock	14,841,857	-
Payments on note payable	(210,000)	(210,000)
Stock options exercised	374,625	13,500
Net cash provided by financing activities	178,471,628	119,418,895
Net increase (decrease) in cash and cash equivalents	(48,635,553)	15,698,188
Cash and cash equivalents, beginning of year	63,423,919	47,725,731
Cash and cash equivalents, end of year	$ 14,788,366	$ 63,423,919
Cash paid during the year for:		
Interest	$ 4,143,700	$ 1,998,660
Income tax	$ 90,000	$ 128,076
Supplemental disclosures of noncash transactions:		
Transfer of loans receivable to other assets for other real estate owned	$ -	$ (18,588)
Unrealized (loss) gain on securities available for sale, net of tax	$ (1,091,602)	$ (366,348)
Unrealized loss during the period on available-for-sale securities transferred to held-to-maturity	$ (172,387)	$ -
Transfer of investment securities available-for-sale to held-to-maturity	$ 20,166,654	$ -

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of presentation and consolidation:

First Capital Bancshares, Inc., (the "Company") was incorporated on December 19, 1997 to organize and own all of the common stock of First Capital Bank (the "Bank"). First Capital Bank, a commercial bank, opened for business on September 27, 1999 with headquarters in Laurinburg, North Carolina. Effective February 15, 2018, the Company relocated its headquarters to Charleston, South Carolina. As of December 31, 2021, the Bank converted from a North Carolina state-chartered bank to a South Carolina state-chartered bank. The principal business activity of the Bank is to provide banking services to domestic markets, principally in Charleston and Marlboro Counties, South Carolina and Scotland and Moore Counties, North Carolina. The Bank also operates a loan production office in Moore County, North Carolina. Additionally, Charleston Service Corporation (CHSSC Co.) was incorporated effective January 1, 2019 as a subsidiary of the Company. The purpose of the subsidiary was for conducting intercompany transactions. The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany balances and transactions have been eliminated in the consolidation.

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

Management's estimates:

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, including valuation allowances for impaired loans, business combination accounting, including valuation of goodwill and core deposit intangibles, 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 allowances for losses on loans 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 losses on loans and valuation of foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances for losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for losses on loans and valuation of foreclosed real estate may change materially in the near term.

Concentrations of credit risk:

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

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of credit risk, continued:

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

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

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

Statement of cash flows:

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

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 shareholders' equity net of deferred income taxes. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security. The adjusted cost basis of investments available-for-sale is determined by specific identification and is used in computing the gain or loss upon sale.

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 reported in noninterest income. Dividends received on marketable equity securities are included in other interest income.

Note 1. Summary of Significant Accounting Policies, Continued

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 cumulative OCI and are amortized into earnings over the remaining life of the security. Reductions in market value considered by management to be other than temporary are reported as a realized loss and amortized cost is written down to fair value.

Nonmarketable equity securities:

Nonmarketable equity securities include the cost of the Company's investments in Federal Home Loan Bank stock in the amount of $1,468,500 and $770,300 at December 31, 2022 and 2021, respectively. The securities have no quoted market values, and no ready markets exist. Dividends received from these investments are included in other interest income. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank. Interest and dividend income is recognized when earned.

Loans receivable:

Interest income on loans receivable is computed based upon the unpaid principal balance, net of charge-offs. Interest income is recorded in the period earned. Loan fees and certain direct origination costs are deferred and amortized over the estimated terms of the loans using the level yield method. The accretion and amortization of loan fees and origination costs are presented as a component of loan interest income in the consolidated statements of income.

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

Allowance for loan losses:

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

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for loan losses, continued:

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis through either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral, less any adjustments and selling costs, if the loan is collateral dependent.

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

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 income statement. 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 Balance Sheet.

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 loan losses. Subsequent write-downs are charged to other expenses. Property is evaluated regularly to ensure that the recorded amount is supported by the current fair value. Other real estate owned is included within other assets in the consolidated balance sheets.

Cash surrender value of life insurance:

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

Note 1. Summary of Significant Accounting Policies, Continued

Income taxes:

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

It is the Company's policy to recognize interest and penalties associated with uncertain tax positions as components of income taxes. The Company did not recognize any interest or penalties related to income tax during the years ended December 31, 2022 and 2021 and did not accrue any interest or penalties as of December 31, 2022 and 2021. 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:

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

Revenue recognition:

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

Note 1. Summary of Significant Accounting Policies, Continued

Revenue 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 at the 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.

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, 2022 and 2021 totaled $123,838 and $80,783, respectively, and are included within salaries and employee benefits.

Recently issued accounting pronouncements:

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

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

The Company is finalizing its evaluation of the adoption of ASU No. 2016-13 "Financial Instruments – Credit Losses (Topic 326)." The Company plans to adopt as of January 1, 2023. The Company to date has engaged a third party model provider for implementation, sourced and reconciled required data from the Company's loan systems, determined appropriate segmentations of its portfolio, developed processes for calculating and supporting qualitative factors, and has performed parallel runs of the model. The Company is currently finalizing conversion date calculations. The Company currently estimates the allowance for loan losses will increase by less than $219,000. In addition, the Company expects to recognize a liability for unfunded commitments of approximately $533,000 upon adoption. The Company is currently evaluating the allowance for credit losses related to held-to-maturity securities. The Company will finalize the adoption during the first quarter of 2023.

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. The Company does not expect these amendments to have a material effect on its financial statements.

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

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.

Note 1. Summary of Significant Accounting Policies, Continued

Reclassifications:

Certain captions and amounts in the 2021 consolidated financial statements were reclassified to conform with the 2022 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, 2022 and 2021.

Note 3. Investment Securities Available-for-Sale

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

	December 31, 2022			
Available-for-Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Government sponsored enterprises	$ 1,446,233	$ 7,445	$ -	$ 1,453,678
Mortgage-backed securities	28,737,638	-	(1,035,750)	27,701,888
Total available-for-sale	$ 30,183,871	$ 7,445	$ (1,035,750)	$ 29,155,566

	December 31, 2021			
Available-for-Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Government sponsored enterprises	$ 18,802,084	$ 84,695	$ (128,158)	$ 18,758,620
Corporate debt securities	5,500,000	225,281	(43,448)	5,681,833
Mortgage-backed securities	15,771,815	178,755	(83,429)	15,867,142
Total available-for-sale	$ 40,073,899	$ 488,731	$ (255,035)	$ 40,307,595

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

The following is a summary of maturities of securities available-for-sale as of December 31, 2022. 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.

December 31, 2022	Securities Available-For-Sale Amortized Cost	Estimated Fair Value
Due within one year	$ 1,002,068	$ 992,938
Due after one year but within five years	5,621,428	5,438,651
Due after five years but within ten years	-	-
Due after ten years	23,560,375	22,723,977
Total	$ 30,183,871	$ 29,155,566

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, 2022:

Available-for-Sale	December 31, 2022 Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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

Available-for-Sale	December 31, 2021 Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government sponsored	$11,534,233	$ 128,158	$ -	$ -	$11,534,233	$ 128,158
Corporate debt securities	2,956,552	43,448	-	-	2,956,552	43,448
Mortgage-backed securities	7,784,811	83,429	-	-	7,784,811	83,429
Total	$22,275,596	$ 255,035	$ -	$ -	$22,275,596	$ 255,035

At December 31, 2022, and December 31, 2021, there were no available-for-sale investment securities pledged as collateral, respectively.

During the year ended December 31, 2022, the Company sold available-for-sale investments for total proceeds of $9,625,408, resulting in gross gains of $16,357 and gross losses of $31,366. During the year ended December 31, 2021, the Company sold available-for-sale investments for total proceeds of $3,790,741, resulting in gross gains of $246,309 and no gross losses.

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 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 $172 thousand at December 31, 2022. The Company's held-to-maturity investments totaled $24.8 million and represented approximately 46.0% of total investments at December 31, 2022.

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, 2022, the Company's entire held-to-maturity portfolio was comprised of municipal securities. The amortized cost and estimated fair values of securities held to maturity were:

	December 31, 2022			
Held-to-Maturity	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
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	$ 24,814,545	$ -	$ (1,957,098)	$ 22,857,447

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.

	December 31, 2022					
Held-to-Maturity	**Less than Twelve Months**		**Twelve Months or More**		**Total**	
	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, 2022, and December 31, 2021, held-to-maturity investment securities with an amortized cost of $9.84 million and $0 and fair value of $8.59 million and $0 were pledged as collateral, respectively.

Management evaluates securities for other-than-temporary impairment on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. 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, 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.

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

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity no declines are deemed to be other than temporary.

Note 5. Loans Receivable

Loans receivable consisted of the following at December 31, 2022 and 2021:

	2022	2021
Real estate construction	$ 36,525,180	$ 19,346,337
Real estate residential	281,590,825	144,835,963
Real estate commercial	138,498,744	93,098,841
Commercial and industrial	18,454,664	6,042,850
Consumer and other	5,502,132	4,264,815
	480,571,545	267,588,806
Paycheck Protection Program (PPP)	-	3,090,101
Loans receivable	$ 480,571,545	$ 270,678,907

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

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

The SBA began accepting PPP Forgiveness Applications on August 10, 2020. Borrowers were required to submit the application within ten months of the completion of the covered period. Once the borrower submitted the application, the Bank had 60 days to review, issue a lender decision, and submit to the SBA. Once the application was submitted, the SBA had 90 days to review and remit the appropriate forgiveness amount to the Bank plus any interest accrued through the date of payment. As of December 31, 2020, the Bank received $7.6 million from the SBA for the forgiveness of 86 PPP loans. The Bank received $7.9 million from the SBA for the forgiveness of 93 PPP loans for the year-ended December 31, 2021. At December 31, 2021, the Bank had two loans outstanding in the amount of $761,000. At December 31, 2022, the Bank had no PPP loans outstanding.

Note 5. Loans Receivable, Continued

On December 27, 2020, the Economic Aid to Hard-Hit Small Business, Nonprofits, and Venues Act (Economic Aid Act) was enacted, which reauthorized lending under the PPP program through March 31, 2021. On March 31, 2021, the PPP Extension Act of 2021 was signed into law, which formally changed the PPP application deadline from March 31, 2021 to May 31, 2021. Under the Economic Aid Act, the SBA will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for payroll and other permitted purposes in accordance with the requirements of the program. These loans carry a fixed rate of 1.00% and a term of five years, if not forgiven, in whole or in part. The loans are 100% guaranteed by the SBA and as long as the borrower submits its loan forgiveness application within ten months of completion of the covered period, the borrower is not required to

make any payments until the forgiveness amount is remitted to the lender by the SBA. The Bank will receive a processing fee based on the size of the loan from the SBA, based on a tiered structure. For loans up to $50,000 in principal, the lender processing fee will be the lesser of 50% of the principal amount or $2,500. For loans between $50,000 and $350,000 in principal, the lender processing fee will be 5% of the principal amount. For loans $350,000 and above, the lender processing fee will be 3% of the principal amount. For loans of at least $2.0 million, the lender processing fee will be 1% of the principal amount. The fees are deferred and amortized over the life of the loans in accordance with ASC 310-20. The Bank provided $7.2 million in funding to 153 customers through the second round of PPP during 2021. The Bank received $511,000 of processing fees and recognized $456,000 during the period ended December 31, 2021. At December 31, 2021, the Bank had 32 loans outstanding in the amount of $2.3 million, with $55,000 remaining in processing fees to be recognized. At December 31, 2022, the Bank had no loans outstanding and recognized the remaining $55,000 in processing fees. Because PPP loans are 100% guaranteed by the SBA and did not undergo the Bank's typical underwriting process, they are not graded and do not have an associated reserve.

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

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

Note 5. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses as of and for the year ending December 31, 2022:

	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	112,068	519,712	272,861	46,949	13,410	965,000
Ending balance	$ 348,899	$ 2,193,224	$ 1,475,875	$ 325,003	$ 49,570	$ 4,392,571
Ending balances:						
Individually evaluated for impairment	$ -	$ -	$ 22,223	$ -	$ 2,460	$ 24,683
Collectively evaluated for impairment	$ 348,899	$ 2,193,224	$ 1,453,652	$ 325,003	$ 47,110	$ 4,367,888
Loans receivable:						
Ending balance - total	$ 36,525,180	$ 281,590,825	$ 138,498,744	$ 18,454,664	$ 5,502,132	$ 480,571,545
Ending balances:						
Individually evaluated for impairment	$ -	$ 636,116	$ 166,487	$ -	$ 36,903	$ 839,506
Collectively evaluated for impairment	$ 36,525,180	$ 280,954,709	$ 138,332,257	$ 18,454,664	$ 5,465,229	$ 479,732,039

Note 5. Loans Receivable, Continued

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

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

Credit Quality Indicators

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

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

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

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

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

Note 5. Loans Receivable, Continued

Credit Quality Indicators, Continued

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

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2022 (PPP loans that are not graded are excluded from the table below):

	Pass	Special Mention	Substandard	Total
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
	$ 480,253,326	$ 44,433	$ 273,786	$ 480,571,545

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2021 (PPP loans that are not graded are excluded from the table below):

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

The following is an analysis of nonaccrual loans as of December 31, 2022 and 2021:

	2022	2021
Real estate residential	$ 246,677	$ 526,736
Consumer and other	3,511	36,639
Total	$ 250,188	$ 563,375

Note 5. Loans Receivable, Continued

The following is an aging 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	-
PPP	-	-	-	-	-	-	-
Consumer and other	99,890	1,964	2,182	104,036	5,398,096	5,502,132	-
	$ 469,766	$ 54,413	$ 34,808	$ 558,987	$ 480,012,558	$ 480,571,545	$ -

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

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

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

Note 5. Loans Receivable, Continued

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

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

The following is an analysis of our troubled debt restructured loans (TDRs) at December 31, 2022 and 2021:

	2022	2021
Performing	$ 225,109	$ 216,064
Nonperforming	175,084	203,553
	$ 400,193	$ 419,617

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 $10,359 was identified as a TDR. No loans were identified as TDRs during the year ended December 31, 2021.

As of December 31, 2022 and 2021, loans totaling $65.2 million and $33.1 million, respectively were pledged securing the Company's Federal Home Loan Bank line of credit.

Note 6. Premises, Furniture and Equipment

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

	2022	2021
Land	$ 1,050,000	$ 1,050,000
Building and improvements	1,865,429	1,839,546
Leasehold improvements	700,414	726,959
Furniture and equipment	1,777,591	1,618,017
Construction in process	2,066,390	-
Total	7,459,824	5,234,522
Less accumulated depreciation	(1,294,461)	(1,290,453)
Premises, furniture and equipment, net	$ 6,165,363	$ 3,944,069

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 was $316,436 and $216,665, respectively.

Note 7. Deposits

At December 31, 2022, the scheduled maturities of certificates of deposit are as follows:

2023	$ 141,398,047
2024	9,847,145
2025	30,736,048
2026	25,395,210
2027	2,243,066
Total	$ 209,619,516

The Company had brokered deposits of $40,208,901 and $5,000,000 as of December 31, 2022 and 2021, respectively. Certificates of deposits with balances in excess of federal deposit insurance limits of $250,000 were $44,610,972 and $13,614,757 at December 31, 2022 and 2021, respectively.

Note 8. Income Taxes

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

	2022	2021
Current income tax expense:		
Federal	$ 934,037	$ 395,877
State	87,916	29,848
Total current	1,021,953	425,725
Deferred income taxes:		
Federal	(112,710)	(163,199)
State	(57,689)	(18,977)
Total deferred	(170,399)	(182,176)
Income tax expense	$ 851,554	$ 243,549

Note 8. Income Taxes, Continued

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

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 864,110	$ 654,413
Nonaccrual loan interest income	6,643	6,265
Net operating loss carryforwards	29,939	8,196
State tax credit carryforwards	55,454	-
Stock compensation	63,948	51,860
Securities available-for-sale	215,944	-
Other	15,415	62,963
Gross deferred tax assets	1,251,453	783,697
Deferred tax liabilities:		
Accumulated depreciation	230,209	148,915
Prepaid expenses	13,986	13,867
Securities available-for-sale	-	49,076
Other	170,399	-
Total deferred tax liabilities	414,594	211,858
Net deferred tax asset	$ 836,859	$ 571,839

The Company has no federal net operating losses for the years ended December 31, 2022 and 2021. The Company has state net operating losses of $757,943 and $207,500 for the years ended December 31, 2022 and 2021, respectively.

Tax returns for 2019 and subsequent years are subject to examination by taxing authorities.

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% for 2022 and 2021 to income before income taxes follows for the years ended December 31:

	2022	2021
Tax expense at statutory rate	$ 745,324	$ 208,999
State income tax expense, net of federal tax benefit	23,879	8,588
Stock compensation	34,679	34,679
Nondeductible expenses	16,888	14,989
Other, net	30,784	(23,706)
Reported tax expense	$ 851,554	$ 243,549

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, 2022 and 2021 amounted to $351,502 and $338,224, respectively. The weighted average remaining lease term as of December 31, 2022 is 5.79 years and the weighted average discount rate used is 2.83%.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2022 are as follows:

2023	$ 335,229
2024	327,967
2025	321,570
2026	247,784
2027	223,073
Thereafter	188,111
Total undiscounted lease payments	1,643,734
Less effect of discounting	(82,078)
Present value of estimated lease payments (lease liability)	$ 1,725,812

Note 10. Advances From Federal Home Loan Bank

Advances from the Federal Home Loan Bank (FHLB) consisted of the following at December 31, 2022 and 2021:

Description	Current Interest Rate	2022 Balance	2021 Balance
FHLB advances maturing			
February 3, 2023	4.390%	$ 20,000,000	$ -
December 19, 2025	4.172%	10,000,000	-
August 27, 2029	0.695%	-	10,000,000
February 4, 2030	1.009%	-	5,000,000
		$ 30,000,000	$ 15,000,000

At December 31, 2022 and 2021, the Company has pledged certain loans totaling $84.0 million and $45.3 million, respectively, as collateral to secure its borrowings from the FHLB. Additionally, the Company’s FHLB stock is pledged to secure the borrowings.

Note 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.

Note 11. Related Party Transactions, Continued

The Company had related party loans as of December 31, 2022 and 2021 totaling $3,558,677 and $3,200,306, respectively. The Company leases its banking facility in Charleston, South Carolina from a director. The Company previously leased its banking facility in Bennettsville, South Carolina, however, the property was sold to an outside party prior to December 31, 2021. Related party lease expense totaled $210,951 for the years ended December 31, 2022 and 2021.

The Company had related party deposit accounts as of December 31, 2022 and 2021 totaling $3,996,192 and $5,936,546, 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, 2022, management is not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, that would be material to the financial statements.

Note 13. Financial Instruments With Off-Balance Sheet Risk

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

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

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:

	2022	2021
Commitments to extend credit	$ 119,373,142	$ 59,336,368

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.

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	467,250	$ 6.89
Options exercisable at year-end	175,416	$ 6.89
Shares available for grant [a]	206,627	
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.

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

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

Note 14. Stock Compensation Plan, Continued

During 2022 and 2021 the Company recognized $218,240 and $213,586 in expense associated with stock option issuances which was recorded in salaries and employee benefits on the Consolidated Statements of Income.

At December 31, 2022, unrecognized compensation cost related to share-based compensation arrangements granted under the Stock Option Plan totaled $704,221 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, 2022:

	Options Outstanding		
Exercise Price	Number Outstanding At 12/31/22	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price
$ 6.89	467,250	7.37	$ 6.89

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

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

Note 15. Capital Requirements and Regulatory Matters, Continued

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%.

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, 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%
December 31, 2021						
Total Capital (to risk weighted assets)	$ 40,189	15.65%	$ 20,550	8.00%	$ 25,687	10.00%
Tier 1 Capital (to risk weighted assets)	$ 36,976	14.39%	$ 15,412	6.00%	$ 20,550	8.00%
Tier 1 Capital (to average assets)	$ 36,976	9.92%	$ 14,908	4.00%	$ 18,636	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	$ 36,976	14.39%	$ 11,559	4.50%	$ 16,697	6.50%

Note 16. Unused Lines of Credit

At December 31, 2021 and 2022, the Company had unused lines of credit to purchase federal funds from three unrelated banks totaling $11,000,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. The Company has an additional line of credit to borrow funds from the Federal Home Loan Bank. As of December 31, 2022, the total line of credit with Federal Home Loan Bank was $119,959,500, of which $30,000,000 has been advanced to the Company. The Company had loans pledged securing the Federal Home Loan Bank line of credit as of December 31, 2022 and 2021 totaling $84.0 million and $45.3 million, respectively, in addition to the Company's Federal Home Loan Bank stock.

Note 17. Fair Value of Financial Instruments

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

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

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

Fair Value Hierarchy

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

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

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

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

Note 17. Fair Value of Financial Instruments, Continued

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

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

Loans: Loans that are considered impaired are recorded at fair value on a non-recurring basis. Once a loan is considered impaired, the fair value is measured using one of several methods, including collateral liquidation value, market value of similar debt and discounted cash flows. Those impaired loans not requiring a specific charge against the allowance represent loans for which the fair value of the expected repayments or collateral meet or exceed the recorded investment in the loan. At December 31, 2022 and 2021, substantially all of the total impaired loans were evaluated based on the fair value of the underlying collateral. When the Company records the fair value based upon an appraisal, the fair value measurement is considered a Level 2 measurement. When an appraisal is not available or there is estimated further impairment, the measurement is considered a Level 3 measurement.

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

	December 31, 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	$ -

	December 31, 2021			
	Total	**Level 1**	**Level 2**	**Level 3**
Government sponsored enterprises	$ 18,758,620	$ -	$ 18,758,620	$ -
Corporate debt securities	5,681,833	-	5,681,833	-
Mortgage-backed securities	15,867,142	-	15,867,142	-
Total	$ 40,307,595	$ -	$ 40,307,595	$ -

Note 17. Fair Value of Financial Instruments, Continued

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

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Impaired loans, net	$ 814,823	$ -	$ -	$ 814,823
Total	$ 814,823	$ -	$ -	$ 814,823

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Impaired loans, net	$ 931,545	$ -	$ -	$ 931,545
Total	$ 931,545	$ -	$ -	$ 931,545

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, 2022 and 2021:

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%

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

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, 2022 and 2021.

Note 17. Fair Value of Financial Instruments, Continued

	December 31,			
	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 14,788,366	$ 14,788,366	$ 63,423,919	$ 63,423,919
Securities available-for-sale	29,155,566	29,155,566	40,307,595	40,307,595
Securities held-to-maturity	24,814,545	22,857,448	-	-
Marketable equity securities	702,461	702,461	502,524	502,524
Loans held for investment, net	476,178,974	433,913,000	267,269,894	255,150,000
Nonmarketable equity securities	1,468,500	1,468,500	770,300	770,300
Deposits	471,048,836	475,325,000	327,583,690	332,592,000
Federal Home Loan Bank advances	30,000,000	29,879,000	15,000,000	15,011,000
Note payable	630,000	630,000	840,000	841,750

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.

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 through March 17, 2023, 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 $1,100,000 shares at a price of $9.25 per share, with the ability to increase the size of the private placement by 20% or 220,000 shares.

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

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

Condensed Balance Sheets

	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 7,226,160	$ 3,345,234
Investment in banking subsidiary	54,252,975	37,159,351
Equity securities	702,461	502,524
Other assets	1,062,374	48,366
Total assets	63,243,970	41,055,475
Liabilities		
Subordinated debt	12,000,000	7,000,000
Accrued interest payable	166,486	96,835
Other liabilities	180,206	24,326
Total liabilities	12,346,692	7,121,161
Stockholders' equity	50,897,278	33,934,314
Total liabilities and stockholders' equity	$ 63,243,970	$ 41,055,475

Condensed Statements of Income

	For the years ended December 31, 2022	For the years ended December 31, 2021
Income		
Interest income on investment securities	$ 20,503	$ 1,486
Total Income	20,503	1,486
Expenses		
Compensation expense	218,240	213,586
Professional fees	57,382	33,424
Other	508,911	135,736
Total expenses	784,533	382,746
Income (loss) before income taxes and equity in undistributed income of banking subsidiary	(764,030)	(381,260)
Income tax benefit	198,648	49,587
Net equity in undistributed income of Bank	3,262,992	1,083,359
Net income	$ 2,697,610	$ 751,686

Condensed Statements of Cash Flows

	For the years ended December 31,	
	2022	**2021**
Operating activities		
Net income	$ 2,697,610	$ 751,686
Adjustments to reconcile net income to net cash used in in operating activities:		
Net equity in undistributed income of subsidiary	(3,262,992)	(1,083,359)
Stock compensation	218,240	213,586
Increase in other assets	(1,014,008)	(14,737)
Increase in accrued interest payable	69,651	96,835
(Decrease) increase in other liabilities	155,880	(13,302)
Net cash used in operating activities	(1,135,619)	(49,291)
Investing activities		
Purchase of marketable equity securities	(199,937)	(502,524)
Proceeds from sale of marketable equity securities	-	-
Net cash used in investing activities	(199,937)	(502,524)
Financing activities		
Capital contributions to subsidiary	(15,000,000)	(7,000,000)
Subordinated debentures	5,000,000	7,000,000
Issuance of common stock	14,841,857	-
Stock options exercised	374,625	13,500
Net cash provided by in financing activities	5,216,482	13,500
Net increase (decrease) in cash and cash equivalents	3,880,926	(538,315)
Cash and cash equivalents, beginning of year	3,345,234	3,883,549
Cash and cash equivalents, ending of year	$ 7,226,160	$ 3,345,234

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. McCoy	Retired/Chairman BancOne Corporation/Chicago, IL
Michael C. Robinson	Owner and President Charleston Appraisal Service, Inc./Charleston, SC
John D. Russ	Retired/CEO and President Carolina Financial Corporation/Mt. Pleasant, SC
Joseph S. Kassim	President and Chief Operating Officer First Capital Bank/Charleston, SC

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, 2022

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