

Triad Business Bank

Audited Financial Statements

For the years ended December 31, 2021 and 2020

Triad Business Bank

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Independent Auditors' Report

Board of Directors and Shareholders
Triad Business Bank
Greensboro, North Carolina

Opinion

We have audited the financial statements of Triad Business Bank, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Triad Business Bank 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 Triad Business Bank's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 Triad Business Bank'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 Triad Business Bank'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.

Dixon Hughes Goodman LLP

Greenville, North Carolina
March 29, 2022

Triad Business Bank

Balance Sheets

December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 38,743,278 | \$ 41,162,012 |
| Investment in marketable equity securities, at fair value | 1,794,800 | - |
| Investment securities available-for-sale ("AFS"), at fair value | 133,159,091 | 26,065,622 |
| Investment securities held-to-maturity ("HTM"), at cost | 14,606,320 | - |
| Small business administration paycheck protection program ("SBA-PPP") loans receivable, net of deferred fees and costs | 11,605,363 | 78,173,460 |
| Core loans, net of deferred fees and costs | 167,657,470 | 73,083,871 |
| Allowance for loan losses on core loans | <u>(2,101,115)</u> | <u>(910,079)</u> |
| Loans, net | 177,161,718 | 150,347,252 |
| Premises and equipment, net | 1,746,564 | 2,102,679 |
| Accrued interest receivable | 1,081,371 | 845,529 |
| Other assets | <u>4,688,587</u> | <u>580,084</u> |
| Total assets | <u>\$ 372,981,729</u> | <u>\$ 221,103,178</u> |
| Liabilities and Shareholders' Equity | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 100,963,064 | \$ 27,409,213 |
| Interest-bearing | <u>204,356,838</u> | <u>121,320,556</u> |
| Total deposits | 305,319,902 | 148,729,769 |
| Borrowings | 8,033,689 | 24,946,988 |
| Accrued interest payable | 20,889 | 31,845 |
| Other liabilities | <u>2,630,699</u> | <u>2,537,770</u> |
| Total liabilities | <u>316,005,179</u> | <u>176,246,372</u> |
| Commitments and contingencies - Note 14 | | |
| Shareholders' equity | | |
| Preferred stock no par value; 5,000,000 shares authorized; none outstanding | - | - |
| Common stock no par value; 20,000,000 shares authorized; 6,602,984 shares issued and outstanding at December 31, 2021 and 5,102,984 shares issued and outstanding at December 31, 2020 | 65,112,537 | 49,730,750 |
| Accumulated deficit | (6,970,816) | (5,404,682) |
| Accumulated other comprehensive income (loss) | <u>(1,165,171)</u> | <u>530,738</u> |
| Total shareholders' equity | <u>56,976,550</u> | <u>44,856,806</u> |
| Total liabilities and shareholders' equity | <u>\$ 372,981,729</u> | <u>\$ 221,103,178</u> |

See Notes to Financial Statements

Triad Business Bank

Statements of Operations

Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| Interest income | | |
| Interest and fees on loans | \$ 6,541,683 | \$ 2,727,942 |
| Interest on investment securities | 1,973,655 | 390,101 |
| Other interest income | <u>91,132</u> | <u>210,917</u> |
| Total interest income | <u>8,606,470</u> | <u>3,328,960</u> |
| Interest expense | | |
| Deposits | 1,127,363 | 525,195 |
| Borrowings | 72,266 | 107,540 |
| Other interest expense | <u>34,174</u> | <u>-</u> |
| Total interest expense | <u>1,233,803</u> | <u>632,735</u> |
| Net interest income | 7,372,667 | 2,696,225 |
| Provision for loan losses | <u>1,191,036</u> | <u>910,079</u> |
| Net interest income after provision for loan losses | <u>6,181,631</u> | <u>1,786,146</u> |
| Noninterest income | | |
| Service charges on deposit accounts | 79,939 | 10,609 |
| Other service charges and fees | 190,834 | 20,754 |
| Gains on investment securities | <u>570,446</u> | <u>29,370</u> |
| Total noninterest income | <u>841,219</u> | <u>60,733</u> |
| Noninterest expense | | |
| Salaries and employee benefits | 5,719,657 | 3,714,517 |
| Occupancy and equipment expense | 619,363 | 500,247 |
| Data processing expense | 530,350 | 258,192 |
| Professional services | 530,626 | 598,523 |
| Marketing and business development expense | 226,653 | 199,931 |
| Regulatory assessments | 212,891 | 61,456 |
| Other expense | <u>749,444</u> | <u>501,974</u> |
| Total noninterest expense | <u>8,588,984</u> | <u>5,834,840</u> |
| Net loss before tax | (1,566,134) | (3,987,961) |
| Income tax expense | <u>-</u> | <u>172</u> |
| Net loss | <u>\$ (1,566,134)</u> | <u>\$ (3,988,133)</u> |
| Basic loss per common share | <u>\$ (0.27)</u> | <u>\$ (0.78)</u> |
| Diluted loss per common share | <u>\$ (0.27)</u> | <u>\$ (0.78)</u> |
| Weighted average common shares outstanding | <u>5,723,532</u> | <u>5,083,692</u> |
| Weighted average dilutive common shares outstanding | <u>5,723,532</u> | <u>5,083,692</u> |

See Notes to Financial Statements

Triad Business Bank

Statements of Comprehensive Loss

Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Net loss | \$ (1,566,134) | \$ (3,988,133) |
| Other comprehensive income (loss): | | |
| Unrealized gains (losses) on investment securities AFS | (1,358,572) | 718,417 |
| Tax effect, net of valuation allowance adjustment | <u>44,434</u> | <u>(165,057)</u> |
| Unrealized gains (losses) on securities AFS, net of taxes | <u>(1,314,138)</u> | <u>553,360</u> |
| Reclassification adjustment for gains included in net loss | (495,646) | (29,370) |
| Tax effect | <u>113,875</u> | <u>6,748</u> |
| Reclassification adjustment, net of taxes | <u>(381,771)</u> | <u>(22,622)</u> |
| Total other comprehensive income (loss) | <u>(1,695,909)</u> | <u>530,738</u> |
| Comprehensive loss | <u>\$ (3,262,043)</u> | <u>\$ (3,457,395)</u> |

See Notes to Financial Statements

Triad Business Bank

Statements of Changes in Shareholders' Equity

Years Ended December 31, 2021 and 2020

| | Common Stock | | Accumulated Deficit | Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|--|------------------|----------------------|------------------------|---|----------------------------------|
| | Shares | Amount | | | |
| Balance, January 1, 2020 | - | \$ - | \$ - | \$ - | \$ - |
| Issuance of common stock | 5,102,984 | 49,534,875 | - | - | 49,534,875 |
| Acquired accumulated deficit (See Note 19) | - | - | (1,416,549) | - | (1,416,549) |
| Net loss | - | - | (3,988,133) | - | (3,988,133) |
| Other comprehensive income | - | - | - | 530,738 | 530,738 |
| Amortization of stock-based compensation | - | 195,875 | - | - | 195,875 |
| Balance, December 31, 2020 | <u>5,102,984</u> | <u>49,730,750</u> | <u>(5,404,682)</u> | <u>530,738</u> | <u>44,856,806</u> |
| Issuance of common stock | 1,500,000 | 14,968,072 | - | - | 14,968,072 |
| Net loss | - | - | (1,566,134) | - | (1,566,134) |
| Other comprehensive loss | - | - | - | (1,695,909) | (1,695,909) |
| Amortization of stock-based compensation | - | 413,715 | - | - | 413,715 |
| Balance, December 31, 2021 | <u>6,602,984</u> | <u>\$ 65,112,537</u> | <u>\$ (6,970,816)</u> | <u>\$ (1,165,171)</u> | <u>\$ 56,976,550</u> |

See Notes to Financial Statements

Triad Business Bank

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities | | |
| Net loss | \$ (1,566,134) | \$ (3,988,133) |
| Adjustments to reconcile net loss to net cash provided by (used in) operations: | | |
| Depreciation and amortization | 82,560 | 48,900 |
| Gain on sale or call of investment securities AFS | (495,646) | (29,370) |
| Gain on sale of marketable equity securities | (30,000) | - |
| Unrealized holding gains on marketable equity securities | (44,800) | - |
| Provision for loan losses | 1,191,036 | 910,079 |
| Amortization of stock-based compensation | 413,715 | 195,875 |
| Net amortization of premium on securities | 543,770 | 33,446 |
| Changes in other assets and liabilities: | | |
| Decrease in deferred rent | 58,527 | - |
| Increase in accrued interest receivable | (235,842) | (845,529) |
| Increase in other assets | (53,240) | (336,284) |
| Increase (decrease) in accrued interest payable | (10,956) | 31,845 |
| Increase in other liabilities | 481,493 | 749,553 |
| Net cash provided by (used in) operating activities | <u>334,483</u> | <u>(3,229,618)</u> |
| Cash flows from investing activities | | |
| Activities in investment securities AFS: | | |
| Purchases | (135,458,097) | (26,389,021) |
| Proceeds from sales/calls/maturities | 24,085,945 | 1,008,370 |
| Proceeds from paydowns | 2,392,372 | - |
| Activities in investment securities HTM: | | |
| Purchases | (15,205,938) | - |
| Proceeds from paydowns | 583,587 | - |
| Activities in marketable equity securities: | | |
| Purchases | (4,250,000) | - |
| Proceeds from sales | 2,530,000 | - |
| Net increase in core loans | (94,573,600) | (73,083,871) |
| Net (increase) decrease in SBA-PPP loans | 66,568,097 | (78,173,460) |
| Purchases of premises and equipment | (15,227) | (521,671) |
| Net increase in Federal Home Loan Bank Stock | (66,800) | (43,800) |
| Increase in investments in Small Business Investment Companies | (3,988,462) | (200,000) |
| Net cash used in investing activities | <u>(157,398,123)</u> | <u>(177,403,453)</u> |
| Cash flows from financing activities | | |
| Net increase in deposits | 156,590,133 | 148,729,769 |
| Proceeds of borrowings | 76,026,945 | 99,713,260 |
| Repayments on borrowings | (92,940,244) | (74,766,272) |
| Net proceeds from sale of common stock | 14,968,072 | 49,534,875 |
| Accumulated deficit of organizational entity acquired | - | (1,416,549) |
| Net cash provided by financing activities | <u>154,644,906</u> | <u>221,795,083</u> |
| Net increase (decrease) in cash and cash equivalents | (2,418,734) | 41,162,012 |
| Cash and cash equivalents, beginning | <u>41,162,012</u> | - |
| Cash and cash equivalents, ending | <u>\$ 38,743,278</u> | <u>\$ 41,162,012</u> |

See Notes to Financial Statements

Triad Business Bank

Notes to Financial Statements

December 31, 2021 and 2020

Note 1. Organization and Summary of Significant Accounting Policies

Organization:

Triad Business Bank (the “Bank”) was incorporated on February 6, 2020, in Greensboro, North Carolina under the laws of the State of North Carolina. The Bank currently operates three banking offices in the Triad region of North Carolina. As a state-chartered bank, which is not a member of the Federal Reserve, the Bank is subject to regulation by the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation (“FDIC”).

On February 19, 2019, TBB Organization, LLC (“The LLC”) began the start-up activity of forming the Bank. The LLC launched an offering of common stock with the stated goal of raising at least \$45 million in net regulatory capital for the Bank. Subscriptions of the Bank’s stock were sold for \$10 per share. Members of The LLC (the “Organizers”), invested \$3.01 million in The LLC to fund the organizational and start-up expenses of the Bank. Upon the receipt of approval to commence operations, on March 13, 2020 The LLC was legally merged into the Bank. As a result, the financial statements include the operations of both entities for the year ended December 31, 2020, which includes the 2020 pre-opening net loss of The LLC in the amount of \$815,168 through March 12, 2020 (See Note 19).

Also on March 13, 2020, 4,976,942 shares of common stock were issued for subscriptions received prior to that date. The Organizers’ investments in The LLC were converted to common stock with the Organizers also receiving an aggregate of 301,000 warrants to purchase common stock with a ten-year life. On March 16, 2020, the Bank began operations. A second stock issuance of 126,042 shares occurred on April 27, 2020 for subscriptions received from March 13, 2020 through April 27, 2020.

Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of estimates:

The preparation of financial statements in conformity with GAAP 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. Actual results could differ from those estimates.

Organizational and pre-opening costs:

In accordance with applicable banking regulations and generally accepted accounting principles, net expenses of The LLC incurred from January 1, 2020 through March 12, 2020 amounting to \$815,168 are included in the statements of operations for the year ending December 31, 2020. In 2019, The LLC generated an accumulated deficit which amounted to \$1,416,549 and is reflected as acquired accumulated deficit in the statement of changes in shareholders’ equity.

Cash and cash equivalents:

For purposes of reporting cash flow in the financial statements, cash equivalents include cash and amounts due from banks and interest-bearing deposits with banks that have an original maturity of three months or less.

Triad Business Bank

Notes to Financial Statements

December 31, 2021 and 2020

Investment securities:

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held- to-maturity” and recorded at amortized costs. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity securities are carried at fair value, with changes in fair value reported in net loss.

Securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Loans receivable:

Loans receivable consists of core loans and SBA-PPP loans. Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or repayment are reported at their outstanding principal amount adjusted for any charge-offs and deferred loan origination fees and costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Discounts and premiums on any purchased loans are amortized to income using the interest method over the remaining period to contractual maturity.

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on impaired loans is discontinued when, in management’s opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest for the current year is reversed. Interest income is subsequently recognized on the cash basis or cost recovery method, as appropriate. When facts and circumstances indicate the borrower has regained the ability to meet the required payments, the loan is returned to accrual status. Past due status of loans is determined based on contractual terms.

Troubled Debt Restructurings (“TDRs”):

Loans are considered to have been modified in a TDR when, due to a borrower's financial difficulties, the Bank makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a nonaccrual loan that has been modified in a troubled debt restructuring remains on nonaccrual status for a period of 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the

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loan remains on nonaccrual status. TDR loans may be removed from the TDR designation upon subsequently modifying the loan in accordance with market terms.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was passed on March 27, 2020 in response to the outbreak of coronavirus ("COVID-19"), allows banks to elect to suspend requirements under GAAP for loan modifications related to the COVID-19 pandemic (for loans that were not more than 30 days past due as of December 31, 2019) that would otherwise be categorized as a TDR, including impairment for accounting purposes, until the earlier of 60 days after the termination date of the national emergency or December 31, 2020. The December 31, 2020 deadline was subsequently extended to January 1, 2022, by the Consolidated Appropriations Act, 2021 ("CAA") which was signed into law on December 27, 2020. Federal banking agencies are required to defer to the determination of the banks making such suspension. Refer to Note 4 for additional detail.

Allowance for loan losses:

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, 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. Management has agreed with the North Carolina Commissioner of Banks that during the first three years of operations the bank would maintain a minimum allowance for loan losses of 1.25 percent of total core loans.

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 that loan. The general component covers non-impaired loans 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 losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 and other circumstances impacting the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Derivatives:

In accordance with ASC Topic 815, Derivatives and Hedging, all derivative instruments are recorded on the balance sheet at their respective fair values. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. If the derivative instrument is not designated as a hedge, changes in the fair value of the derivative instrument are recognized in earnings in the period of change.

Premises and equipment:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of premises and equipment is computed using the straight-line method over the assets' estimated useful lives. Useful lives are estimated to be seven years for furniture, five years for computer equipment and five years for vehicles. The shorter of the estimated useful life or the term of the lease is used for leasehold improvements, while the expected lease term is used for right-of-use ("ROU") assets.

Reclassifications:

Certain reclassifications of 2020 balances have been made to conform to classifications used in 2021. These reclassifications had no effect on shareholders' equity or previously reported net loss.

Revenue recognition:

The Bank follows the requirements of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASC Topic 606"). In the ordinary course of business, the Bank recognizes two primary sources of revenue from customers in its Statements of Operations: Interest income and Noninterest income. Interest income on loans to customers is recognized on an accrual basis. Interest on Investment securities, although not generated from customers, is also recognized on an accrual basis.

Noninterest income consists of revenue from various types of transactions and services provided to customers including service charges on deposit accounts and card and payment related fees. The Bank recognizes revenue from contracts with customers as performance obligations are satisfied. The performance obligations are generally short term in nature and are typically satisfied in one month or less. Service charges on deposit accounts include monthly maintenance fees and other deposit-related fees that are recognized as the services are provided to the customer. Card and payment related fees include interchange fees from debit cards that are recognized daily as the payment networks process transactions and merchant processing fees that are generally recognized monthly.

Income taxes:

Amounts provided for income taxes are based on income reported for financial statement purposes. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Bank's assets and liabilities. During the start-up phase of the Bank, there is a valuation allowance which

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fully impairs the deferred tax asset. When sufficient, verifiable evidence exists demonstrating that the deferred tax asset will more likely than not be realized, the valuation allowance will be eliminated.

The Bank believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon an audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Bank's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain tax positions have been recorded.

Basic loss per share:

Basic loss per share is computed by dividing loss available to shareholders by the weighted average number of shares outstanding during the year.

Diluted loss per share:

The computation of diluted loss per share is similar to the computation of basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. The numerator is adjusted for any changes in loss that would result from the assumed conversion of those potential common shares.

Stock-Based compensation:

The Bank accounts for grants of restricted stock units under the fair value recognition provisions of Financial Accounting Standards Board ("FASB") ASC 718 Compensation – Stock Compensation. Compensation expense is recognized as salaries and employee benefits in the statements of operations for grants to employees and as other expense for grants to directors.

Comprehensive income (loss):

Annual comprehensive income (loss) reflects the change in the Bank's equity during the year arising from transactions and events other than investment by and distributions to shareholders. It consists of net loss plus certain other changes in assets and liabilities that are reported as separate components of shareholders' equity rather than as income or expense.

Recent accounting pronouncements:

In June 2016, the FASB issued ASC 326, Current Expected Credit Loss Standard ("CECL"), to change the accounting for credit losses and modify the impairment model for certain debt securities. As discussed below, subsequent additional guidance related to ASC 326 has resulted in an anticipated adoption no later than periods beginning after December 15, 2022. ASC 326 introduces a new credit loss methodology which requires earlier recognition of credit losses, replacing multiple existing impairment methods in current GAAP, which generally require a loss to be incurred before it is recognized. The ASC 326 amendments require loss estimates be determined over the lifetime of the asset and broaden the information an entity must consider in developing its expected credit losses. ASC 326 does not specify a method for measuring expected credit losses and allows an entity to apply methods that reasonably reflect its expectations of the credit loss estimate based on the entity's size, complexity and risk profile. The standard will apply to the Bank's loans, unfunded loan commitments and debt securities.

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The Bank intends to apply the amendments to ASC 326 through a cumulative-effect adjustment to accumulated deficit as of the beginning of the year of adoption. The Bank is evaluating the implementation and possible impact of ASC 326 on the financial statements. The adoption of ASC 326 may result in a one-time adjustment in the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. In addition to the allowance for loan losses, the Bank will also record an allowance for credit losses on held-to-maturity debt securities, if there are any at the time of adoption, instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying ASC 326 standards on current expected credit losses. The new effective dates will be for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. In November 2019, the FASB also issued guidance that addresses issues raised by stakeholders during the implementation of ASC 326. The amendments affect a variety of topics in the Accounting Standards Codification.

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 Bank's financial position, results of operations or cash flows.

Note 2. Restrictions on Cash and Cash Equivalents

To comply with banking regulations and the Bank's de novo charter, the Bank may be required to maintain certain cash reserve balances. The cash reserve requirement was \$0 at December 31, 2021 and 2020.

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| | AFS | | HTM | |
|----------------------------|-----------------------|-----------------------|----------------------|----------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | \$ 4,950,595 | \$ 4,982,141 | \$ - | \$ - |
| Due in one to five years | 11,353,865 | 11,544,310 | - | - |
| Due in five to ten years | 42,826,059 | 42,353,472 | - | - |
| Due after ten years | 10,089,617 | 9,984,505 | 2,506,019 | 2,528,678 |
| SBA Pools | 4,028,351 | 3,981,556 | 3,552,045 | 3,551,951 |
| Mortgage-backed securities | <u>61,075,775</u> | <u>60,313,107</u> | <u>8,548,256</u> | <u>8,471,953</u> |
| Total | <u>\$ 134,324,262</u> | <u>\$ 133,159,091</u> | <u>\$ 14,606,320</u> | <u>\$ 14,552,582</u> |

The following table details unrealized losses and related fair values in the Bank's investment securities AFS and HTM portfolios. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2021 and 2020.

| | 2021 | | | | | |
|----------------------------|-----------------------|-----------------------|---------------------|-------------------|-----------------------|-----------------------|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Investment securities AFS: | | | | | | |
| SBA Pools | \$ 3,981,556 | \$ (46,795) | \$ - | \$ - | \$ 3,981,556 | \$ (46,795) |
| Mortgage-backed securities | 50,314,897 | (772,328) | - | - | 50,314,897 | (772,328) |
| Corporate bonds | 35,030,980 | (739,960) | - | - | 35,030,980 | (739,960) |
| Municipal bonds | <u>3,867,702</u> | <u>(73,559)</u> | - | - | <u>3,867,702</u> | <u>(73,559)</u> |
| Total AFS | 93,195,135 | (1,632,642) | - | - | 93,195,135 | (1,632,642) |
| Investment securities HTM: | | | | | | |
| SBA Pools | 3,551,951 | (94) | - | - | 3,551,951 | (94) |
| Mortgage-backed securities | 8,471,953 | (76,303) | - | - | 8,471,953 | (76,303) |
| Municipal bonds | <u>619,700</u> | <u>(49)</u> | - | - | <u>619,700</u> | <u>(49)</u> |
| Total HTM | <u>12,643,604</u> | <u>(76,446)</u> | - | - | <u>12,643,604</u> | <u>(76,446)</u> |
| Total | <u>\$ 105,838,739</u> | <u>\$ (1,709,088)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 105,838,739</u> | <u>\$ (1,709,088)</u> |

| | 2020 | | | | | |
|----------------------------|---------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Investment securities AFS: | | | | | | |
| Municipal bonds | \$ 688,398 | \$ (2,860) | \$ - | \$ - | \$ 688,398 | \$ (2,860) |
| Total | <u>\$ 688,398</u> | <u>\$ (2,860)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 688,398</u> | <u>\$ (2,860)</u> |

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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The carrying value of securities pledged as collateral at December 31, 2021 was \$68,861,363. There were no securities pledged as collateral at December 31, 2020.

Note 4. Loans Receivable

Small business administration-paycheck protection program ("SBA-PPP"):

Pursuant to the CARES Act, the SBA-PPP provides forgivable loans to small businesses to enable them to maintain payroll, hire back employees who have been laid off, and cover applicable overhead. SBA-PPP loans have an interest rate of 1%, have either two-year or five-year terms, and carry a 100% guarantee of the SBA.

SBA-PPP gross loans receivable totaled \$11,861,286 at December 31, 2021 and \$79,300,505 at December 31, 2020 and were all rated as pass credits and were not past due, nonaccrual, deemed a troubled debt restructuring, or otherwise impaired. Unearned net fees associated with the SBA-PPP loans amounted to \$255,923 at December 31, 2021 compared to \$1,127,045 at December 31, 2020. There were no outstanding commitments to extend additional SBA-PPP loans at December 31, 2021.

The allowance for loan losses for SBA-PPP was separately evaluated given the explicit government guarantee. This analysis, which incorporated historical experience with similar SBA guarantees and underwriting, concluded the likelihood of loss was remote and therefore no allowance for loan losses was assigned to these loans.

At December 31, 2021, SBA-PPP loans totaling \$8,033,689 were pledged as collateral to the Federal Reserve Bank of Richmond under the Paycheck Protection Program Liquidity Facility ("PPPLF"). There were SBA-PPP loans totaling \$24,946,988 pledged as collateral at December 31, 2020.

Core loans receivable:

The major components of core loans on the balance sheet as of December 31, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------|-----------------------|----------------------|
| Commercial Real Estate | \$ 73,311,543 | \$ 27,927,844 |
| Residential Real Estate | 9,852,327 | 8,957,200 |
| Construction | 28,504,154 | 7,484,182 |
| Commercial and Industrial | 55,635,157 | 28,012,084 |
| Other | 354,289 | 702,561 |
| Total | <u>\$ 167,657,470</u> | <u>\$ 73,083,871</u> |

The Commercial Real Estate component consists of commercial real estate loans that are either owner occupied or non-owner occupied. Residential Real Estate loans are 1-4 family lines of credit, 1-4 family closed end loans and multifamily loans. Construction loans are made up of 1-4 family residential construction and other construction loans. Commercial & Industrial loans consist of unsecured lines of credit, secured lines of credit and term loans. Other loans are other revolving loans and deposit overdrafts.

A substantial portion of the Bank's loan portfolio is commercial in nature and the risk characteristics and credit quality indicators that are monitored for each of the major components of core loans are similar. The Bank closely monitors economic conditions and loan performance trends to manage and evaluate the exposure to credit risk

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within the loan portfolio based on our defined loan categories. In doing so, several credit quality indicators are used, including trends in delinquency rates, nonperforming status, analysis of probability of default and loss given default factors, updated credit scores, debt service coverage and originated and updated loan to value ratios.

There were no loans classified as impaired, nonaccrual or past due 90 days or more and still accruing interest for the years ended December 31, 2021 and 2020, respectively or during the years then ended.

Unearned net fees associated with core loans amounted to \$72,964 at December 31, 2021 compared to unearned net costs of \$5,096 at December 31, 2020.

At December 31, 2021, core loans totaling \$10,906,691 were pledged as collateral to the Federal Home Loan Bank of Atlanta ("FHLB"). There were no core loans pledged as collateral at December 31, 2020.

Short-term modifications for borrowers:

In keeping with regulatory guidance to work with borrowers during the COVID-19 pandemic and as outlined in Section 4013 of the CARES Act, the Bank is providing loan modifications where appropriate, including potential interest only payments or payment deferrals for clients that are adversely affected by the COVID-19 pandemic. Section 4013 of the CARES Act, as amended by the CAA, also addressed COVID-19 related modifications and specified that such modifications made between March 1, 2020 and the earlier of (i) 60 days after the date of termination of the National Emergency or (ii) January 1, 2022 on loans that were current as of December 31, 2019 are not TDRs. In accordance with interagency guidance issued in April 2020, these short-term modifications made to a borrower affected by the COVID-19 pandemic and governmental shutdown orders, such as payment deferrals, fee waivers and extensions of repayment terms, do not need to be identified as TDRs if the loans were current at the time a modification plan was implemented. There were no loans on COVID-19 related deferrals at December 31, 2021 or 2020.

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Note 5. Allowance for Loan Losses and Credit Quality

The following is an analysis of activity in the allowance for loan losses by portfolio segment in addition to the disaggregation of the allowance and outstanding loan balances by impairment method as of and for the years ended December 31, 2021 and 2020:

| | December 31, 2021 | | | | | |
|---|---------------------------|----------------------------|----------------------|------------------------------|-------------------|-----------------------|
| | Commercial Real Estate | Residential Real Estate | Construction | Commercial and industrial | Other | Total |
| Allowance for loan losses: | | | | | | |
| Beginning balance | \$ 284,518 | \$ 94,992 | \$ 107,445 | \$ 417,294 | \$ 5,830 | \$ 910,079 |
| Charge-offs | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - |
| Provision | <u>449,468</u> | <u>6,603</u> | <u>276,768</u> | <u>460,734</u> | <u>(2,537)</u> | <u>1,191,036</u> |
| Ending balance | <u>\$ 733,986</u> | <u>\$ 101,595</u> | <u>\$ 384,213</u> | <u>\$ 878,028</u> | <u>\$ 3,293</u> | <u>\$ 2,101,115</u> |
| Allowance for loan losses: | | | | | | |
| Ending balance individually evaluated for impairment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Ending balance collectively evaluated for impairment | <u>733,986</u> | <u>101,595</u> | <u>384,213</u> | <u>878,028</u> | <u>3,293</u> | <u>2,101,115</u> |
| Total | <u>\$ 733,986</u> | <u>\$ 101,595</u> | <u>\$ 384,213</u> | <u>\$ 878,028</u> | <u>\$ 3,293</u> | <u>\$ 2,101,115</u> |
| Core loan balance: | | | | | | |
| Ending balance individually evaluated for impairment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Ending balance collectively evaluated for impairment | <u>73,311,543</u> | <u>9,852,327</u> | <u>28,504,154</u> | <u>55,635,157</u> | <u>354,289</u> | <u>167,657,470</u> |
| Total | <u>\$ 73,311,543</u> | <u>\$ 9,852,327</u> | <u>\$ 28,504,154</u> | <u>\$ 55,635,157</u> | <u>\$ 354,289</u> | <u>\$ 167,657,470</u> |

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| | December 31, 2020 | | | | | |
|---|---------------------------|----------------------------|---------------------|------------------------------|-------------------|----------------------|
| | Commercial Real Estate | Residential Real Estate | Construction | Commercial and industrial | Other | Total |
| Allowance for loan losses: | | | | | | |
| Beginning balance | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Charge-offs | - | - | - | - | - | - |
| Recoveries | - | - | - | - | - | - |
| Provision | 284,518 | 94,992 | 107,445 | 417,294 | 5,830 | 910,079 |
| Ending balance | <u>\$ 284,518</u> | <u>\$ 94,992</u> | <u>\$ 107,445</u> | <u>\$ 417,294</u> | <u>\$ 5,830</u> | <u>\$ 910,079</u> |
| Allowance for loan losses: | | | | | | |
| Ending balance individually evaluated for impairment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Ending balance collectively evaluated for impairment | 284,518 | 94,992 | 107,445 | 417,294 | 5,830 | 910,079 |
| Total | <u>\$ 284,518</u> | <u>\$ 94,992</u> | <u>\$ 107,445</u> | <u>\$ 417,294</u> | <u>\$ 5,830</u> | <u>\$ 910,079</u> |
| Core loan balance: | | | | | | |
| Ending balance individually evaluated for impairment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Ending balance collectively evaluated for impairment | 27,927,844 | 8,957,200 | 7,484,182 | 28,012,084 | 702,561 | 73,083,871 |
| Total | <u>\$ 27,927,844</u> | <u>\$ 8,957,200</u> | <u>\$ 7,484,182</u> | <u>\$ 28,012,084</u> | <u>\$ 702,561</u> | <u>\$ 73,083,871</u> |

Internally assigned risk ratings assist the Bank in determining the risk profile of each loan in the loan portfolio, and changes in the internally assigned risk ratings are useful in monitoring trends in the loan portfolio quality. The four major categories used by the Bank are Pass, Special mention, Substandard and Doubtful and can be generally described as follows:

- Pass – these loans have a risk profile which ranges from superior quality with minimal credit risk to loans requiring management attention but still have an acceptable risk profile and continue to perform primarily as contracted.
- Special mention – these loans generally have underwriting guideline tolerances and/or exceptions with no identifiable mitigating factors. These loans may also be currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Bank's position at some future date. Potential weaknesses are the result of deviations from prudent lending practices. The loans may also have adverse economic conditions that developed subsequent to the loan origination that do not jeopardize liquidation of the debt but do substantially increase the level of risk.
- Substandard – these loans are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. These loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak, and the loan may have exhibited excessive overdue status or extensions and/or renewals.

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- Doubtful – these loans have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on nonaccrual status, and no definite repayment schedule exists. Certain events may occur which would salvage the debt including an injection of capital into the borrower, alternative financing obtained by the borrower or liquidation of assets or the pledging of additional collateral by the borrower.

An analysis of the loan portfolio based upon the internally assigned risk ratings as of December 31, 2021 and 2020 are as follows:

| December 31, 2021 | | | | | | |
|-------------------|---------------------------|----------------------------|----------------------|------------------------------|-------------------|-----------------------|
| | Commercial Real Estate | Residential Real Estate | Construction | Commercial and industrial | Other | Total |
| Pass | \$ 73,311,543 | \$ 9,852,327 | \$ 28,504,154 | \$ 55,635,157 | \$ 354,289 | \$ 167,657,470 |
| Total | <u>\$ 73,311,543</u> | <u>\$ 9,852,327</u> | <u>\$ 28,504,154</u> | <u>\$ 55,635,157</u> | <u>\$ 354,289</u> | <u>\$ 167,657,470</u> |
| December 31, 2020 | | | | | | |
| | Commercial Real Estate | Residential Real Estate | Construction | Commercial and industrial | Other | Total |
| Pass | \$ 27,927,844 | \$ 8,957,200 | \$ 7,484,182 | \$ 28,012,084 | \$ 702,561 | \$ 73,083,871 |
| Total | <u>\$ 27,927,844</u> | <u>\$ 8,957,200</u> | <u>\$ 7,484,182</u> | <u>\$ 28,012,084</u> | <u>\$ 702,561</u> | <u>\$ 73,083,871</u> |

The following is a past due aging analysis of the Bank's loan portfolio by loan class as of December 31, 2021 and 2020:

| December 31, 2021 | | | | | | | |
|---------------------------|--|--|---|---------------------------------------|---------------------|-----------------------|-----------------------|
| | 30-59 Days Past Due & Still Accruing | 60-89 Days Past Due & Still Accruing | Greater than 90 Days & Still Accruing | Total Past Due & Still Accruing | Nonaccrual Loans | Current Loans | Total Loans |
| Commercial real estate | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 73,311,543 | \$ 73,311,543 |
| Residential real estate | - | - | - | - | - | 9,852,327 | 9,852,327 |
| Construction | - | - | - | - | - | 28,504,154 | 28,504,154 |
| Commercial and industrial | - | - | - | - | - | 55,635,157 | 55,635,157 |
| Other | - | - | - | - | - | 354,289 | 354,289 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 167,657,470</u> | <u>\$ 167,657,470</u> |
| December 31, 2020 | | | | | | | |
| | 30-59 Days Past Due & Still Accruing | 60-89 Days Past Due & Still Accruing | Greater than 90 Days & Still Accruing | Total Past Due & Still Accruing | Nonaccrual Loans | Current Loans | Total Loans |
| Commercial real estate | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 27,927,844 | \$ 27,927,844 |
| Residential real estate | - | - | - | - | - | 8,957,200 | 8,957,200 |
| Construction | - | - | - | - | - | 7,484,182 | 7,484,182 |
| Commercial and industrial | - | - | - | - | - | 28,012,084 | 28,012,084 |
| Other | - | - | - | - | - | 702,561 | 702,561 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 73,083,871</u> | <u>\$ 73,083,871</u> |

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During the years ended December 31, 2021 and 2020, respectively, there were no loans modified by the Bank that were considered to be a TDR or classified as impaired.

Note 6. Derivatives

The Bank entered into one interest rate swap to facilitate a customer transaction and meet their financing needs. The Bank entered into an offsetting position with a derivative counterparty to minimize its risk on the fixed components of the customer interest rate swap agreement. These swaps qualify as derivatives but are not designated as hedging instruments. These interest rate swap agreements are reported at fair value in other assets and other liabilities on the balance sheet with any resulting gain or loss recorded in current period earnings as other income. The Bank did not have any interest rate swaps at December 31, 2020. A summary of the Bank's interest rate swaps as of December 31, 2021 is presented below:

| | <u>Notional Amount</u> | <u>Estimated Fair Value</u> |
|-------------|----------------------------|---------------------------------|
| Assets | \$ 5,325,375 | \$ 47,536 |
| Liabilities | 5,325,375 | (47,536) |

Note 7. Premises and Equipment

Premises and equipment at December 31, 2021 and 2020 is summarized by major classifications as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|---------------------|---------------------|
| ROU assets and leasehold improvements | \$ 1,346,757 | \$ 1,635,539 |
| Furniture | 365,285 | 354,236 |
| Computer equipment | 118,748 | 114,570 |
| Vehicles | <u>45,584</u> | <u>45,584</u> |
| Total premises and equipment | 1,876,374 | 2,149,929 |
| Less, accumulated depreciation | <u>(129,810)</u> | <u>(47,250)</u> |
| Total premises and equipment, net | <u>\$ 1,746,564</u> | <u>\$ 2,102,679</u> |

Depreciation expense for the years ended December 31, 2021 and 2020 was \$82,560 and \$48,900, respectively.

As of December 31, 2021 and 2020, ROU assets and leasehold improvements included \$1,341,126 and \$1,586,696, respectively, of ROU assets for the Bank's operating leases for three offices in Greensboro, High Point, and Winston-Salem, North Carolina.

Note 8. Leases

The Bank follows ASC 842 - Leases ("Topic 842") and subsequent amendments thereto, which requires the Bank to recognize most leases on the balance sheet.

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The following table summarizes the Bank's lease assets and liabilities as of December 31, 2021 and 2020:

| <u>Description</u> | <u>Balance sheet classification</u> | <u>2021</u> | <u>2020</u> |
|-------------------------|-------------------------------------|---------------------|---------------------|
| Assets: | | | |
| Operating | Premises and equipment | \$ 1,341,126 | \$ 1,586,696 |
| Total leased assets | | <u>1,341,126</u> | <u>1,586,696</u> |
| Liabilities: | | | |
| Operating | Other liabilities | <u>1,399,653</u> | <u>1,629,908</u> |
| Total lease liabilities | | <u>\$ 1,399,653</u> | <u>\$ 1,629,908</u> |

Rent expense relating to the leases mentioned above totaled \$317,470 and \$237,381, respectively during the years ended December 31, 2021 and 2020. The Bank's lease liability as of December 31, 2021 and 2020 was determined using its incremental borrowing rate of 4.65% during the time period when the leases were negotiated and entered. At December 31, 2021 and 2020, the weighted average remaining lease term for the operating leases was 5.5 years and 6.4 years, respectively. No renewals were assumed in the determination of lease terms as they are not reasonably assured.

Future minimum lease payments are as follows:

| | |
|-----------------------------------|---------------------|
| 2022 | \$ 309,649 |
| 2023 | 318,341 |
| 2024 | 316,800 |
| 2025 | 210,358 |
| 2026 | 191,727 |
| Thereafter | <u>245,422</u> |
| Total | 1,592,297 |
| Less amount representing interest | <u>(192,644)</u> |
| Total lease liability | <u>\$ 1,399,653</u> |

Note 9. Deposits

The major classifications of deposits on the balance sheet as of December 31, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-----------------------|-----------------------|
| Demand deposits | \$ 100,963,064 | \$ 27,409,213 |
| Interest-bearing NOW | 42,820,018 | 19,067,897 |
| Interest-bearing MMA and savings | 155,805,422 | 98,446,048 |
| Time deposits | <u>5,731,398</u> | <u>3,806,611</u> |
| Total | <u>\$ 305,319,902</u> | <u>\$ 148,729,769</u> |

The aggregate amount of time deposits that met or exceeded the FDIC insurance limit of \$250,000 or more at December 31, 2021 and 2020 was \$2,220,901 and \$3,303,121, respectively. At December 31, 2021, the scheduled maturities of all time deposits were as follows:

| | |
|------|---------------------|
| 2022 | \$ 5,731,398 |
| | <u>\$ 5,731,398</u> |

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The Company classifies deposit overdrafts as core loans within the "Commercial and Industrial" category. As of December 31, 2021 and 2020, these deposits totaled \$17,040 and \$61, respectively.

Note 10. Borrowings

Federal Reserve Bank ("FRB") advances:

At December 31, 2021, the Bank had \$8,033,689 in borrowings under the PPPLF whereby the Federal Reserve Bank of Richmond accepts SBA-PPP loans pledged as collateral and provides funding to the Bank at 0.35% for the term of the SBA-PPP loans which is generally 60 months. The contractual final maturity of these borrowings is April 5, 2026. At December 31, 2020, the Bank had \$24,946,988 in borrowings under the PPPLF with terms of generally 24 months. Those borrowings were repaid in 2021.

Other borrowings:

The Bank has a line of credit with the FHLB that can equal up to 25% of total assets of the Bank, subject to sufficient, qualified collateral having been pledged to the FHLB. The FHLB line of credit totaled \$91,412,250 and \$24,127,300 with no outstanding balances as of December 31, 2021 and 2020, respectively. Based upon collateral pledged, borrowing capacities at December 31, 2021 and 2020 were \$73,653,259 and \$0, respectively. In order to be a member of the FHLB, the Bank must invest in its stock and is required to maintain stock equal to a percentage of the Bank's assets and the Bank's advances. The Bank's investment in FHLB stock at December 31, 2021 and 2020 was \$110,600 and \$43,800, respectively. The Bank also has additional unsecured lines of credit with correspondent banks totaling \$25,000,000, of which there was no outstanding balance as of December 31, 2021 and 2020.

Note 11. Fair Value of Financial Instruments

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale, equity securities with readily determinable fair values, trading securities and derivatives, if present, are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value other assets on a nonrecurring basis, such as equity securities without readily determinable fair values, loans held for sale, impaired loans held for investment and certain other assets. The nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair value hierarchy:

Under ASC Topic 820 - Fair Value Measurements and Disclosures ("ASC 820"), the Bank groups assets and liabilities at fair values in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine 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.

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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 use of option pricing models, discounted cash flow models and similar techniques.

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

Investment securities available-for-sale and marketable equity securities:

Investment securities available-for-sale and marketable equity securities 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. Level 2 securities include mortgage-backed securities and other securities issued by government sponsored entities, municipal bonds, corporate debt securities, and marketable equity securities. Securities classified as Level 3 include corporate debt securities in less liquid markets.

Derivative asset (liability):

Derivatives are recorded at fair value on a recurring basis. Derivatives are valued by a third party using significant assumptions that are observable in the market and can be corroborated by market data. The Bank's derivatives are classified as Level 2.

General:

The Bank had no assets and no liabilities measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020. The Bank had no liabilities carried at fair value or measured at fair value on a recurring basis as of December 31, 2020. Below is a summary of the assets and liabilities carried at fair value or measured at fair value on a recurring basis as of December 31, 2021 and 2020:

| <u>Recurring Basis</u> | <u>2021</u> | | | |
|--|-----------------------|----------------|-----------------------|---------------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Assets: | | | | |
| Investment securities AFS: | | | | |
| SBA pools | \$ 3,981,556 | \$ - | \$ 3,981,556 | \$ - |
| Mortgage-backed securities | 60,313,107 | - | 60,313,107 | - |
| Corporate bonds | 63,811,529 | - | 59,061,529 | 4,750,000 |
| Municipal bonds | 5,052,899 | - | 5,052,899 | - |
| Total investment securities AFS | 133,159,091 | - | 128,409,091 | 4,750,000 |
| Investment in marketable equity securities | 1,794,800 | - | 1,794,800 | - |
| Derivative – interest rate swap | 47,536 | - | 47,536 | - |
| Total assets at fair value | <u>\$ 135,001,427</u> | <u>\$ -</u> | <u>\$ 130,251,427</u> | <u>\$ 4,750,000</u> |
| Liabilities: | | | | |
| Derivative – interest rate swap | \$ 47,536 | \$ - | \$ 47,536 | \$ - |
| Total liabilities at fair value | <u>\$ 47,536</u> | <u>\$ -</u> | <u>\$ 47,536</u> | <u>\$ -</u> |

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| <u>Recurring Basis</u> | 2020 | | | |
|----------------------------|----------------------|----------------|----------------------|---------------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Assets: | | | | |
| Investment securities AFS: | | | | |
| Corporate bonds | \$ 18,511,901 | \$ - | \$ 16,011,901 | \$ 2,500,000 |
| Municipal bonds | <u>7,553,721</u> | - | <u>7,553,721</u> | - |
| Total assets at fair value | <u>\$ 26,065,622</u> | <u>\$ -</u> | <u>\$ 23,565,622</u> | <u>\$ 2,500,000</u> |

The following tables present the changes in Level 3 assets that are measured at fair value on a recurring basis for the years ended December 31, 2021 and 2020 using a bond price calculator for bonds acquired in private placements which are not publicly traded:

| | <u>January 1 2021</u> | <u>Purchases, Sales Issuances and Settlements, Net</u> | <u>Transfers In and/or Out of Level 3</u> | <u>December 31 2021</u> |
|--|---------------------------|--|---|-----------------------------|
| | Corporate bonds | <u>\$ 2,500,000</u> | <u>\$ 2,250,000</u> | <u>\$ -</u> |

| | <u>January 1 2020</u> | <u>Purchases, Sales Issuances and Settlements, Net</u> | <u>Transfers In and/or Out of Level 3</u> | <u>December 31 2020</u> |
|--|---------------------------|--|---|-----------------------------|
| | Corporate bonds | <u>\$ -</u> | <u>\$ 2,500,000</u> | <u>\$ -</u> |

Financial instruments not recorded at fair value:

For financial instruments that are not recorded at fair value, estimates of fair value are based on relevant market data and other ascertainable information. For certain financial instruments, an active market does not exist, and fair value estimates are based on current economic conditions and interest rate characteristics, loss experience and other factors which involve uncertainties and matters of significant judgment. For some of these instruments, the fair value estimates cannot be substantiated by comparison to independent markets. Additionally, changes in assumptions could significantly impact these fair value estimates.

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The following table presents financial assets and liabilities not recorded at fair value as of December 31, 2021 and 2020:

| | Fair Value Hierarchy | 2021 | | 2020 | |
|---|----------------------|-----------------|---------------|-----------------|---------------|
| | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | | |
| Cash and cash equivalents | Level 1 | \$ 38,743,278 | \$ 38,743,278 | \$ 41,162,012 | \$ 41,162,012 |
| Investment securities HTM | Level 2 | 14,606,320 | 14,552,582 | - | - |
| Loans, net of allowance for loan losses | Level 3 | 177,161,718 | 176,467,000 | 150,347,252 | 150,919,000 |
| FHLB stock | Level 2 | 110,600 | 110,600 | 43,800 | 43,800 |
| Accrued interest receivable | Level 2 | 1,081,371 | 1,081,371 | 845,529 | 845,529 |
| Liabilities: | | | | | |
| Non-maturity deposits | Level 2 | 299,588,504 | 301,830,000 | 144,923,158 | 153,055,000 |
| Time deposits | Level 2 | 5,731,398 | 5,736,000 | 3,806,611 | 3,830,000 |
| Borrowings | Level 2 | 8,033,689 | 8,034,000 | 24,946,988 | 24,948,000 |
| Accrued interest payable | Level 2 | 20,889 | 20,889 | 31,845 | 31,845 |

Note 12. Shareholders' Equity and Loss Per Share

Upon the completion of its initial common stock offering, the Bank issued 5,102,984 shares of common stock in 2020. The Bank is authorized to issue 20,000,000 shares of common stock with no par value. The organizers of The LLC received stock warrants giving them the right to purchase one share of common stock for every \$10 invested in The LLC prior to forming the Bank. The organizers collectively contributed a total of \$3.01 million, and a total of 301,000 warrants with an exercise price of \$10 per share were issued on March 13, 2020. The warrants were immediately vested upon issuance and expire ten years from the date of issuance. The relative fair value of the warrants was determined at the time of the stock issuance and the values of stock and the warrants are both classified in common stock. On August 3, 2021, the Bank completed the sale of an additional 1,500,000 shares of common stock at a price of \$10 per share. Total shares outstanding following the offering were 6,602,984.

Loss per share:

The following table details the computation of basic and dilutive loss per share for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|--|----------------|----------------|
| Net loss | \$ (1,566,134) | \$ (3,988,133) |
| Weighted average shares outstanding | 5,723,532 | 5,083,692 |
| Effect of dilutive securities | - | - |
| Weighted average shares outstanding, diluted | 5,723,532 | 5,083,692 |
| Basic loss per common share | \$ (0.27) | \$ (0.78) |
| Dilutive loss per common share | \$ (0.27) | \$ (0.78) |

No dilutive effect was considered for the 301,000 warrants and 158,500 restricted stock units outstanding as of December 31, 2021 and for the 301,000 warrants and 109,500 restricted stock units outstanding as of December 31, 2020 due to the anti-dilutive effect they would produce. The weighted averages of these were

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301,000 warrants and 135,342 restricted stock units for the year ended December 31, 2021 and 301,000 warrants and 74,155 restricted stock units for the year ended December 31, 2020.

Note 13. Income Taxes

Operating loss carryforwards:

The Bank has a loss carryforward as of December 31, 2021 and 2020 of approximately \$2,635,000 and \$2,500,000, respectively for both federal and state income tax purposes that may be used to offset future taxable income. If not previously utilized, the state loss carryforward will begin to expire in 2035. The federal loss carryforward can be carried forward indefinitely.

Current and deferred income tax expense components:

The components of income tax expense (substantially all federal) for the year ended December 31, 2021 and 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|----------------|----------------|
| Current | \$ - | \$ 172 |
| Deferred | (345,772) | (873,574) |
| Change in valuation allowance | <u>345,772</u> | <u>873,574</u> |
| Income tax expense | <u>\$ -</u> | <u>\$ 172</u> |

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Deferred income tax analysis:

The significant components of net deferred taxes at December 31, 2021 and 2020 are summarized as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|--------------------|---------------------|
| <u>Deferred tax assets</u> | | |
| Allowance for loan losses | \$ 482,731 | \$ 209,091 |
| Organizational and start-up costs | 345,904 | 372,071 |
| Federal NOL carryforwards | 539,416 | 512,467 |
| State NOL carryforwards | 65,863 | 62,572 |
| Lease liability | 321,570 | 374,471 |
| Accrued expenses | 55,842 | 71,726 |
| Stock based compensation | 140,054 | 45,002 |
| Unrealized losses on securities AFS | 267,698 | - |
| Other | 14,847 | 8,058 |
| Valuation allowance | <u>(1,729,519)</u> | <u>(1,116,049)</u> |
| Deferred tax asset | <u>504,406</u> | <u>539,409</u> |
| <u>Deferred tax liabilities</u> | | |
| Right of use asset | 308,124 | 364,543 |
| Deferred loan costs | 166,183 | 167,419 |
| Property and equipment | 19,806 | 7,447 |
| Unrealized gains on equity securities | 10,293 | - |
| Unrealized gains on securities AFS | <u>-</u> | <u>158,309</u> |
| Deferred tax liability | <u>504,406</u> | <u>697,718</u> |
| Net deferred tax liability | <u>\$ -</u> | <u>\$ (158,309)</u> |

Valuation allowance analysis:

The changes in the valuation allowance for the year ended December 31, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Balance beginning of year | \$ 1,116,049 | \$ - |
| Increase related to acquired accumulated deficit | - | 242,475 |
| Increase related to current year loss activity | 345,772 | 873,574 |
| Increase related to unrealized losses on securities AFS | <u>267,698</u> | <u>-</u> |
| Balance end of year | <u>\$ 1,729,519</u> | <u>\$ 1,116,049</u> |

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Income tax expense analysis:

The income tax expense for the years ended December 31, 2021 and 2020 is reconciled to the amount of income tax computed at the federal statutory rate of 21 percent on income before income taxes as follows:

| | <u>2021</u> | <u>2020</u> |
|---|----------------|----------------|
| Tax benefit at statutory rate | \$ (328,888) | \$ (837,457) |
| State income tax benefit, net of federal benefit | (30,931) | (78,777) |
| Stock offering expense | 11,252 | 32,154 |
| Tax exempt interest | (22,299) | (15,641) |
| Other | 25,094 | 26,319 |
| Increase in valuation allowance related to current year loss activity | <u>345,772</u> | <u>873,574</u> |
| Income tax expense | <u>\$ -</u> | <u>\$ 172</u> |

The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions.

The Bank files income tax returns with the federal government and the state of North Carolina.

Note 14. Commitments and Contingencies

Litigation:

Management is unaware of any legal proceedings against the Bank.

Financial instruments with off-balance-sheet risk:

The Bank is 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 may include commitments to extend credit and standby letters of credit. These instruments may involve, to varying degrees, credit risk in excess of the amount recognized in the balance sheet.

The Bank'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 amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial and residential real estate and other commercial properties.

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Standby letters of credit are conditional financial commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary.

At December 31, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Unfunded commitments under lines of credit | <u>\$ 86,746,649</u> | <u>\$ 45,933,914</u> |

Other unfunded commitments:

In 2020, the Bank subscribed for a \$2,000,000 investment in a Small Business Investment Company ("SBIC"), of which \$200,000 was funded before December 31, 2020. During 2021, the remaining commitment of \$1,800,000 was funded. In 2021, the Bank subscribed for additional investments in SBICs totaling \$7,100,000. At December 31, 2021, \$4,188,462 of all commitments were funded, with \$4,911,538 unfunded.

Concentrations of credit risk:

Most of the Bank's loans and commitments to extend credit have been granted to customers in the Bank's market area, and such customers are generally depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 4.

The Bank from time to time may have cash and cash equivalents on deposit with other financial institutions that exceed federally insured limits.

Note 15. Regulatory Restrictions

Dividends:

The Bank, as a North Carolina banking corporation, may pay dividends only out of undivided profits (retained earnings) as determined pursuant to North Carolina General Statutes Section 53C. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such a limitation is in the public interest and is necessary to ensure financial soundness of the bank.

Capital requirements:

The Bank is subject to various regulatory capital requirements administered by 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 direct material effect on the Bank'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 classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier I capital, and common equity Tier I capital to risk-weighted assets, and of Tier I capital to average assets, as all those terms are defined in the applicable regulations.

As of December 31, 2021 and 2020, the Bank met all capital adequacy requirements to which it was subject and met the criteria to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I risk-based, and Tier I leverage ratios. These minimum requirements as well as the Bank's actual capital amounts and ratios are presented in the following tables:

| | Actual | | Minimum Capital Requirement | | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|-----------|--------|-----------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2021 | | | | | | |
| Total capital (to risk-weighted assets) | \$ 60,243 | 21.40% | \$ 22,523 | 8.00% | \$ 28,154 | 10.00% |
| Tier I capital (to risk-weighted assets) | \$ 58,142 | 20.65% | \$ 16,892 | 6.00% | \$ 22,523 | 8.00% |
| Common equity Tier I capital (to risk-weighted assets) | \$ 58,142 | 20.65% | \$ 12,669 | 4.50% | \$ 18,300 | 6.50% |
| Tier I capital (to average assets) | \$ 58,142 | 16.25% | \$ 14,312 | 4.00% | \$ 17,889 | 5.00% |

| | Actual | | Minimum Capital Requirement | | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|-----------|--------|-----------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2020 | | | | | | |
| Total capital (to risk-weighted assets) | \$ 45,236 | 40.17% | \$ 9,010 | 8.00% | \$ 11,262 | 10.00% |
| Tier I capital (to risk-weighted assets) | \$ 44,326 | 39.36% | \$ 6,757 | 6.00% | \$ 9,010 | 8.00% |
| Common equity Tier I capital (to risk-weighted assets) | \$ 44,326 | 39.36% | \$ 5,068 | 4.50% | \$ 7,320 | 6.50% |
| Tier I capital (to average assets) | \$ 44,326 | 26.45% | \$ 6,703 | 4.00% | \$ 8,379 | 5.00% |

The Basel III rules limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier I capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. At December 31, 2021 and 2020 the Bank exceeded such requirements, respectively.

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Note 16. Transactions with Related Parties

The Bank has made loans to certain directors and their affiliates (related parties). Such loans were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. Aggregate activity for these loans consisted of the following:

| | |
|----------------------------|---------------------|
| Balance, December 31, 2020 | \$ 3,480,419 |
| New loans and advances | 8,452,820 |
| Repayments | <u>3,481,845</u> |
| Balance, December 31, 2021 | <u>\$ 8,451,394</u> |

Available lines of credit to directors and their affiliates at December 31, 2021 and 2020 totaled \$14,704,312 and \$13,500,000, respectively.

Deposits from related parties held by the Bank at December 31, 2021 and 2020 were approximately \$71,850,152 and \$12,750,000, respectively.

In addition, at December 31, 2021, the Bank had invested \$3,000,000 in a SBIC that is managed by an entity in which one of the Bank's directors is a partner. At December 31, 2020, the Bank had committed to invest \$2,000,000 in this SBIC, with \$200,000 funded at that date. During both years, the Bank had several immaterial operating transactions involving directors or their business interests. All of these transactions were in the normal course of business on terms comparable to those offered by other providers, and no transaction had significant influence on the Bank or the director's business interests.

Note 17. Employee Benefit Plans

The Bank maintains a profit-sharing plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). The plan covers substantially all full-time employees who are 21 years of age and have completed 90 days of service. Participants may contribute a percentage of compensation, subject to a maximum allowed under the Code. In addition, the Bank matches certain contributions and may make additional contributions at the discretion of the Board of Directors. The Bank's matching contributions during the years ended December 31, 2021 and 2020 were \$311,269 and \$195,779, respectively. There were no additional Bank contributions for the years ended December 31, 2021 and 2020, respectively.

The Bank has a Long-Term Stock Incentive Plan (the "Plan"). Under the Plan up to 485,000 shares may be issued. The plan provides for a variety of grants including qualified stock options, restricted stock, restricted stock units ("RSU"), and other instruments.

There were 60,000 and 109,500 RSUs granted during the years ended December 31, 2021 and 2020, respectively. The weighted average fair value of each RSU is estimated on the date of grant based on the fair value of the Bank's stock at time of grant. There were no RSUs that vested during the years ended December 31, 2021 and 2020.

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Activity under the Plan during the year ended December 31, 2021 is summarized below:

| | <u>Available for Grant</u> | <u>Granted</u> |
|----------------------------------|--------------------------------|----------------|
| Beginning balance | 375,500 | 109,500 |
| Forfeited | 11,000 | (11,000) |
| Granted | (60,000) | 60,000 |
| Exercised/vested | - | - |
| Outstanding at December 31, 2021 | <u>326,500</u> | <u>158,500</u> |

A summary of activity under the Plan during the years ended December 31, 2021 and 2020 is presented below:

| | <u>Units Outstanding</u> | <u>Weighted Average Grant Price</u> | <u>Average Remaining Contractual Term</u> |
|----------------------------------|------------------------------|---|---|
| Restricted Stock Units: | | | |
| Outstanding at January 1, 2020 | - | \$ - | |
| Granted | 109,500 | 10.01 | |
| Forfeited | - | - | |
| Vested | - | - | |
| Outstanding at December 31, 2020 | <u>109,500</u> | 10.01 | 2.50 years |
| Granted | 60,000 | 10.01 | |
| Forfeited | (11,000) | 10.00 | |
| Vested | - | - | |
| Outstanding at December 31, 2021 | <u>158,500</u> | 10.01 | 1.85 years |

Stock-based compensation cost recognized during 2021 and 2020 was \$413,715 and \$195,875, respectively. Employee stock-based compensation cost of \$241,146 and \$126,361 during 2021 and 2020, respectively, is recognized as salaries and employee benefits in the statements of operations. Director stock-based compensation cost of \$172,569 and \$69,514 during 2021 and 2020, respectively, is recognized as other expense.

Total unrecognized compensation cost related to outstanding non-vested stock-based compensation will be recognized over the following years:

| | |
|-------|-------------------|
| 2022 | \$ 528,833 |
| 2023 | 352,820 |
| 2024 | 95,257 |
| Total | <u>\$ 976,910</u> |

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Note 18. Supplemental Cash Flow Information

Supplemental cash flow information for the years ended December 31, 2021 and 2020 is presented below:

| | <u>2021</u> | <u>2020</u> |
|--|----------------|--------------|
| Interest paid | \$ 1,244,759 | \$ 600,890 |
| Income taxes paid | \$ - | \$ 172 |
| Change in unrealized gain on investment securities | \$ (1,358,572) | \$ 718,417 |
| Adoption of ASC 842 | | |
| ROU asset | \$ - | \$ 1,714,006 |
| Lease liability | \$ - | \$ 1,715,671 |

Note 19. Preopening Operating Organizational and Start Up Activities

During the preopening startup period, The LLC incurred the following net expenses in the organization, formation and startup of the Bank.

| | <u>January 1 through March 12 2020</u> | <u>February 19 through December 31 2019</u> |
|------------------------------------|--|---|
| Other interest income | \$ 748 | \$ 23,132 |
| Salaries and employee benefits | 611,343 | 818,835 |
| Occupancy and equipment | 31,688 | 38,445 |
| Professional services | 113,879 | 457,778 |
| Marketing and business development | 53,586 | 76,800 |
| Other | 5,248 | 40,057 |
| Total expenses | <u>815,744</u> | <u>1,431,915</u> |
| Net loss before tax | 814,996 | 1,408,783 |
| Income tax expense | 172 | 7,766 |
| Net loss | <u>\$ 815,168</u> | <u>\$ 1,416,549</u> |

The above components of income and start-up expenses for 2020 are included in their respective line items in the statements of operations for the period ending December 31, 2020.

The net loss for the 2019 period is included in the statement of changes in shareholders' equity as "acquired accumulated deficit" and in the statement of cash flows as "accumulated deficit of organizational entity acquired".

Note 20. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 29, 2022, the date the financial statements were available to be issued, and, other than the events discussed within the notes, no subsequent events occurred requiring accrual or disclosure.