

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 12, 2023

HOMETRUST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation)

001-35593
(Commission File Number)

45-5055422
(IRS Employer Identification No.)

10 Woodfin Street
Asheville, North Carolina
(Address of principal executive offices)

28801
(Zip Code)

Registrant's telephone number, including area code: (828) 259-3939

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	HTBI	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Explanatory Note

As previously disclosed, effective February 12, 2023, HomeTrust Bancshares, Inc. (the "Company") merged with Quantum Capital Corp. ("Quantum") pursuant to the Agreement and Plan of Merger, dated as of July 24, 2022, by and between the Company and Quantum. At closing, Quantum merged with and into the Company, with the Company as the surviving corporation (the "Merger"). This Amendment on Form 8-K/A ("Form 8-K/A") is being filed to amend Item 9.01 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 13, 2023 (the "Original Form 8-K") in order to include the historical financial statements of Quantum required by Item 9.01(a) of Form 8-K and the pro forma financial information required by Item 9.01(b) of Form 8-K. Except as described in the Form 8-K/A, all other information in the Original Form 8-K remains unchanged.

Item 9.01 Financial Statements and Exhibits

- (a) The audited consolidated balance sheets of Quantum as of December 31, 2021 and 2020 and consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to such financial statements are included as Exhibit 99.1 to this Form 8-K/A and incorporated herein by reference.
- The unaudited consolidated balance sheets of Quantum as of September 30, 2022 and December 31, 2021, consolidated statements of income for the three and nine months ended September 30, 2022 and 2021, consolidated statements of comprehensive income for the three and nine months ended September 30, 2022 and 2021, consolidated statements of changes in stockholders' equity for the three and nine months ended September 30, 2022 and 2021, and consolidated statements of cash flows for the nine months ended September 30, 2022 and 2021, and the related notes to such financial statements are included as Exhibit 99.2 to this Form 8-K/A and incorporated herein by reference.
- (b) The unaudited pro forma combined condensed consolidated balance sheet of the Company as of September 30, 2022, the unaudited pro forma combined condensed consolidated statement of income for the three month period ended September 30, 2022, giving effect to the Merger as if it had occurred on July 1, 2022, and the unaudited pro forma combined condensed consolidated statement of income for the year ended June 30, 2022, giving effect to the Merger as if it had occurred on July 1, 2021, as well as the accompanying notes thereto, are included as Exhibit 99.3 to this Form 8-K/A and incorporated herein by reference.
- (c) Not applicable.
- (d) The following exhibits are included with this report:

Exhibit No.	Description
23.1	Consent of Crowe LLP
99.1	Audited consolidated financial statements of Quantum as of December 31, 2021 and 2020 and for the years then ended, and the related notes related thereto and the related Independent Auditor's Report
99.2	Unaudited consolidated financial statements of Quantum as of September 30, 2022 and December 31, 2021 and for the three and nine months ended September 30, 2022 and 2021, and the related notes thereto
99.3	Unaudited pro forma combined condensed consolidated balance sheet of the Company as of September 30, 2022 and unaudited pro forma combined condensed consolidated statements of income for the three months ended September 30, 2022 and the year ended June 30, 2022, and the notes related thereto
104.0	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HOMETRUST BANCSHARES, INC.

Date: March 30, 2023

By: /s/ Tony J. VanCannon
Tony J. VanCannon
Executive Vice President, Chief Financial Officer, Corporate Secretary and Treasurer

CONSENT OF INDEPENDENT AUDITOR

We consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 333-182635, 333-186666, 333-210167, and 333-269590) and Form S-3 (No. 333-270288) of HomeTrust Bancshares, Inc. of our report dated April 20, 2022 on the consolidated financial statements of Quantum Capital Corp. and Subsidiary, which is included in this current report on Form 8-K/A.

Crowe LLP
Crowe LLP

Atlanta, Georgia
March 30, 2023

QUANTUM CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

CONTENTS

INDEPENDENT AUDITOR'S REPORT	3-4
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets	5
Consolidated Statements of Income	6
Consolidated Statements of Comprehensive Income	7
Consolidated Statements of Changes in Stockholders' Equity	8
Consolidated Statements of Cash Flows	9-10
Notes to Consolidated Financial Statements	11-33

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Quantum Capital Corp. and Subsidiary
Suwanee, Georgia

Opinion

We have audited the consolidated financial statements of Quantum Capital Corp. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and 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 financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Quantum Capital Corp. and Subsidiary 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Quantum Capital Corp. and Subsidiary's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 Quantum Capital Corp. and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Quantum Capital Corp. and Subsidiary'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.

Crowe LLP

Atlanta, GA
April 20, 2022

CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
<u>Assets</u>		
Cash and due from banks	\$ 50,945	\$ 45,078
Bank invested deposits	15,651	7,399
Investment securities available-for-sale	12,153	7,501
Other investments	1,153	1,310
Loans, net of allowance for loan losses	544,760	529,901
Premises and equipment, net	5,177	5,355
Accrued interest receivable	1,651	1,745
Cash surrender value on life insurance	8,823	8,609
Other assets	<u>2,107</u>	<u>1,730</u>
Total assets	<u>\$ 642,420</u>	<u>\$ 608,628</u>
<u>Liabilities and Stockholders' Equity</u>		
Deposits:		
Noninterest-bearing demand	\$ 181,850	\$ 161,942
Interest-bearing demand	65,647	47,000
Savings and money market	269,823	231,990
Time deposits	<u>54,800</u>	<u>68,014</u>
Total deposits	572,120	508,946
Repurchase agreements	1	251
Junior subordinated debentures	11,341	11,341
Other borrowings	12,800	32,689
Accrued interest payable	106	118
Other liabilities	<u>3,285</u>	<u>2,910</u>
Total liabilities	<u>599,653</u>	<u>556,255</u>
Stockholders' equity:		
Common stock, par value \$1; 10,000 shares authorized, 574 issued as of December 31, 2021 and 2020, respectively	574	574
Capital surplus	6,813	6,813
Retained earnings	35,262	44,637
Accumulated other comprehensive income	<u>118</u>	<u>349</u>
Total stockholders' equity	<u>42,767</u>	<u>52,373</u>
Total liabilities and stockholders' equity	<u>\$ 642,420</u>	<u>\$ 608,628</u>

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Interest income:		
Loans, including fees	\$ 29,908	\$ 28,973
Investment securities	188	255
Other	<u>122</u>	<u>161</u>
Total interest income	<u>30,218</u>	<u>29,389</u>
Interest expense:		
Interest-bearing demand deposits	106	91
Savings and money market deposits	416	1,044
Time deposits	332	1,060
Borrowings	<u>426</u>	<u>568</u>
Total interest expense	<u>1,280</u>	<u>2,763</u>
Net interest income	28,938	26,626
(Reversal of) provision for loan losses	<u>(1,135)</u>	<u>2,305</u>
Net interest income after provision for loan losses	<u>30,073</u>	<u>24,321</u>
Other income:		
Service charges on deposit accounts	171	179
Gain on sale and servicing of government guaranteed loans	4,701	2,827
Gain on the sale of investment securities available-for-sale	40	198
Other operating income	<u>678</u>	<u>490</u>
Total other income	<u>5,590</u>	<u>3,694</u>
Other expense:		
Salaries and benefits	9,117	8,300
Occupancy and equipment	839	820
Professional and regulatory fees	3,609	3,166
Other operating expenses	<u>1,541</u>	<u>1,350</u>
Total other expense	<u>15,106</u>	<u>13,636</u>
Income before income tax expense	20,557	14,379
Income tax expense (benefit)	<u>120</u>	<u>(70)</u>
Net income	<u>\$ 20,437</u>	<u>\$ 14,449</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Net income	\$ 20,437	\$ 14,449
Other comprehensive income:		
Change in unrealized holding (losses) gains on securities available-for-sale	(231)	286
Reclassification adjustment for (gains) included in net income	_____ -	_____ (198)
Total other comprehensive (loss) income	_____ (231)	_____ 88
Comprehensive income	<u>\$ 20,206</u>	<u>\$ 14,537</u>

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2021 and 2020
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
Balance January 1, 2020	\$ 574	\$ 6,813	\$ 34,574	\$ 261	\$ 42,222
Net income	-	-	14,449	-	14,449
Distributions to stockholders	-	-	(4,386)	-	(4,386)
Other comprehensive income	-	-	-	88	88
Balance December 31, 2020	<u>574</u>	<u>6,813</u>	<u>44,637</u>	<u>349</u>	<u>\$ 52,373</u>
Net income	-	-	20,437	-	20,437
Distributions to stockholders	-	-	(29,812)	-	(29,812)
Other comprehensive loss	-	-	-	(231)	(231)
Balance December 31, 2021	<u>\$ 574</u>	<u>\$ 6,813</u>	<u>\$ 35,262</u>	<u>\$ 118</u>	<u>\$ 42,767</u>

QUANTUM CAPITAL CORP. AND SUBSIDIARY CONSOLIDATED
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Net income	\$ 20,437	\$ 14,449
Adjustments to reconcile net income to net cash provided by operating activities:		
(Reversal of) provision for loan losses	(1,135)	2,305
Net amortization	35	57
Depreciation	427	422
Gain on the sale of securities available-for-sale	(40)	(198)
Gain on sales of government guaranteed loans	(3,665)	(1,975)
Increase in cash surrender value of life insurance contracts	(214)	(207)
Decrease (increase) in accrued interest receivable	94	(379)
(Decrease) in accrued interest payable	(12)	(153)
(Decrease) increase in other assets	(377)	(443)
Increase in other liabilities	<u>375</u>	<u>239</u>
Net cash provided by operating activities	<u>15,925</u>	<u>14,117</u>
Cash flows from investing activities:		
Proceeds from pay downs, calls and maturities of investment securities available-for-sale	2,339	2,085
Sales of investment securities available-for-sale	1,015	5,176
Purchases of investment securities available-for-sale	(8,232)	-
(Purchase) redemption of bank invested deposits	(8,252)	25,394
FHLB stock redemption (purchase)	157	(20)
Proceeds from the sale of SBA loans	35,106	23,815
Loans originated, net	(45,165)	(124,407)
Purchase of premises and equipment	<u>(249)</u>	<u>(290)</u>
Net cash used in investing activities	<u>(23,281)</u>	<u>(68,247)</u>
Cash flows from financing activities:		
Net change in deposits	63,174	57,551
Cash dividends paid	(29,812)	(4,386)
Proceeds from Federal Home Loan Bank advances	25	12,325
Repayments of Federal Home Loan Bank advances	(25)	(12,325)
(Repayment) Proceeds of other borrowings	(19,889)	27,689
Net change in proceeds from repurchase agreements	<u>(250)</u>	<u>(9)</u>
Net cash provided by financing activities	<u>13,223</u>	<u>80,845</u>
Net change in cash and cash equivalents	5,867	26,715
Cash and cash equivalents at beginning of year	<u>45,078</u>	<u>18,363</u>
Cash and cash equivalents at end of year	<u>\$ 50,945</u>	<u>\$ 45,078</u>

QUANTUM CAPITAL CORP. AND SUBSIDIARY CONSOLIDATED
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Supplemental disclosures:		
Cash paid for:		
Interest	\$ 1,292	\$ 2,867
Taxes	190	433

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Quantum Capital Corp. (“the Company”) is a bank holding company whose business is conducted by its wholly owned bank subsidiary, Quantum National Bank (“the Bank”). The Bank is a federally chartered commercial community bank with branch offices located in the Atlanta, Georgia suburbs of Suwanee, Milton, and Buckhead area of Atlanta. The Bank provides a full range of banking services in its primary market area of metro Atlanta. The Company is subject to competition from other financial institutions and financial services companies. The Company is also subject to the regulations of certain government agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Presentation

The accounting and reporting policies of the Company, and the methods of applying these principles, conform with accounting principles generally accepted in the United States of America, (“GAAP”) and with general practices within the banking industry. The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The consolidated financial statements have been prepared in conformity with GAAP. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Management believes that the allowance for loan losses is adequate and the valuation is appropriate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, short term borrowings and repurchase agreements.

Bank Invested Deposits

Bank invested deposits in other financial institutions include money market accounts and accounts that mature within one year and are carried at cost.

Investment Securities

Investment securities are classified based on management’s intention on the date of purchase. Investment securities which management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Investment securities that might be sold before maturity, and are classified as available-for-sale are carried at fair value with net unrealized gains and losses reported as a separate component of stockholders’ equity. Gains or losses from the sales of securities are determined using the specific identification method.

Premiums and discounts on investment securities are amortized into interest income on the level-yield method without anticipating prepayments, with the exception of mortgage backed securities where prepayments are anticipated. Premiums and discounts on mortgage-backed securities are amortized and accreted, respectively, to interest income using a method which approximates a level yield over the period to maturity of the related securities, taking into consideration assumed prepayment patterns.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Investment Securities - continued

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least an annual basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Other Investments

Non-marketable equity securities include Federal Home Loan Bank (“FHLB”) stock and Federal Reserve Bank (“FRB”) stock. The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Bank is also a member of its regional FRB. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance.

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on nonaccrual status, previously accrued uncollected interest is charged against interest revenue on loans. Interest payments are applied to reduce the principal balance on nonaccrual loans. Loans are returned to accrual status when all past due payments are received in full and future payments are probable.

Loans, or portions of loans, are charged off in the period that such loans, or portions thereof, are deemed uncollectible. The collectability of individual loans is determined through an estimate of the fair value of underlying collateral and/or assessment of the financial conditions and repayment capacity of the borrower.

The Company originates and sells participations in certain government guaranteed loans. Gains are recognized at the time the sale is consummated. The amount of gain recognized on the sale of a specific loan is equal to the difference between the amount paid by the purchaser and the book value amount recorded by the Bank for the percentage of the loan sold. Losses are recognized at the time the loan is identified as held for sale if the loan’s carrying value exceeds its fair value.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In response to the COVID-19 pandemic, Congress, through the enactment of the CARES Act, and the federal banking agencies, through rulemaking, interpretive guidance and modifications to agency policies and procedures, have taken a series of actions to provide national emergency economic relief measures including, among others, the following:

The CARES Act 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, until the earlier of 60 days after the termination date of the national emergency or December 31, 2020. The suspension of GAAP is applicable for the entire term of the modification. The federal banking agencies also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 by providing that short-term modifications made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to the loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification is implemented is not a TDR. The Bank is applying this guidance to qualifying COVID-19 Modifications. As of December 31, 2020, the Bank had an aggregate of \$16.3 million in outstanding loans that had been modified which, pursuant to this provision of the CARES Act, were not deemed to be TDRs at such date. As of December 31, 2021, the Bank did not have any outstanding loans that were modified pursuant to the provision of the CARES Act.

The CARES Act amended the SBA's loan program, in which the Bank participates, to create a guaranteed, unsecured loan program, the Paycheck Protection Program ("PPP"), to fund payroll and operational costs of eligible businesses, organizations and self-employed persons during COVID-19. The loans are provided through participating financial institutions, such as the Bank, that process loan applications and service the loans and are eligible for SBA repayment and loan forgiveness if the borrower meets the PPP conditions. The application period for a SBA PPP loan closed on August 8, 2020. The SBA began approving PPP forgiveness applications and remitting forgiveness payments to PPP lenders on October 2, 2020. The Consolidated Appropriations Act, 2021, which was signed into law on December 27, 2020, renews and extends the PPP until March 31, 2021. As a result, as a participating lender, the Bank began originating PPP loans again in January 2021 through May 31, 2021. During 2021 and 2020 the Bank originated \$59.2 and \$83.8 million in PPP loans, respectively.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. The allowance is maintained at a level that management believes to be adequate to absorb probable incurred losses in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loan loss experience, current economic conditions, volume, growth, composition of the loan portfolio, and other risks inherent in the portfolio.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for when the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

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 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.

Loans classified as impaired are individually evaluated for impairment. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Changes to the valuation allowance are recorded as a component of the provision for loan losses.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net of costs to sell, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent accounting periods. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

There are inherent risks relevant to each segment of the loan portfolio. Risk characteristics applicable to each segment of the loss portfolio are described as follows:

Commercial Real Estate / Convenience Stores / Hotels - Commercial real estate, Convenience Stores and Hotel loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as based on cash flow and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies within the Company's market areas

Commercial and Industrial - Commercial and industrial loans receive similar underwriting treatment as commercial real estate loans in that the repayment source is analyzed to determine its ability to meet cash flow requirements as set forth by Bank policies. Repayment generally comes from the generation of cash flow as a result of the borrower's business operations. The business cycle itself brings a certain level of risk to the portfolio. In some instances, these loans may carry a higher degree of risk due to a variety of reason - illiquid collateral, specialized equipment, highly depreciable assets, revolving balances, or simply being unsecured.

Construction and Acquisition and Development Real Estate - Construction and Acquisition and Development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained.

Small Business Lending and Paycheck Protection Program - The SBA and PPP loan portfolios are dependent upon the federal government. As an SBA preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to access, among other things, whether the lender exhibits prudent risk management. If weakness are identified, the SBA may request corrective actions or impost enforcement actions, including revocation of a lenders Preferred Lender status. Losing our Preferred Lender status could create credit risk for some of our customers. Additionally, we could experience financial risk with a material adverse effect to our financial results. Any changes to an SBA program, including changes to the level of guarantee provided by the federal government on SBA loans, may also have an adverse effect on our business. As a result of these characteristics the government guarantee on these loans is an important factor in mitigating risk.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Residential 1-4 family – Residential 1-4 family real estate loans are generally secured by the property. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company’s market areas that might impact either property values or a borrower’s personal income.

Non-Owner Occupied - Non-owner-occupied real estate loans are generally secured by the property. Repayment of these loans is primarily dependent on rental income. Credit risk in these loans can be impacted by economic conditions within the Company’s market areas that might impact either property values or a renters’ personal income.

Consumer and Other – The consumer loan portfolio consist of various term and line of credit loans such as vehicle and other loans potentially secured by other types of property for various purposes and unsecured loans to consumers. Repayment for these types of loans will come from a borrower’s income sources that are typically independent of the loan purpose. Credit risk is driven by consumer and other economic factors (such as unemployment and general economic conditions within the Company’s market area) and the creditworthiness of borrower.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment

Premises and equipment are reported at cost less accumulated depreciation. For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the assets. When an asset is retired, the cost of the asset and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in earnings for the period. Expenditures for maintenance and repairs are charged to operations as incurred, while major renewals and betterments are capitalized. The ranges of estimated useful lives are:

Building and improvements	15-39 years
Furniture, fixtures and equipment	3-7 years

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Revenue Recognition

Revenue is recognized when the transactions occur or as services are performed over primarily monthly or quarterly periods. Payment is typically received in the period the transactions occur. Fees may be fixed or, where applicable, based on a percentage of transaction size.

Income Taxes

The Company is an “S” Corporation. Taxable income is passed through to its individual shareholders and the shareholders are subject to tax on the income.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, net, which is recognized as a separate component of equity.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the consolidated financial statements through April 20, 2022, the date on which the financial statements were available to be issued.

2) RESTRICTED CASH

The Federal Reserve Board requires that banks maintain cash reserves with the Federal Reserve Bank, on deposit with other banks, or in cash on hand. The Bank did not have a reserve requirement at December 31, 2021 and 2020.

3) INVESTMENT SECURITIES AVAILABLE-FOR-SALE

The following table summarizes the amortized cost and fair value of securities available-for-sale at December 31, 2021 and 2020 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income/(loss):

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	<i>(in thousands)</i>			
Mortgage-backed securities State, county & municipal	\$ 12,164	\$ 57	\$ (68)	\$ 12,153
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,164</u>	<u>\$ 57</u>	<u>\$ (68)</u>	<u>\$ 12,153</u>
December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	<i>(in thousands)</i>			
Mortgage-backed securities State, county & municipal	\$ 5,911	\$ 170	\$ -	\$ 6,081
	<u>1,370</u>	<u>50</u>	<u>-</u>	<u>1,420</u>
Total	<u>\$ 7,281</u>	<u>\$ 220</u>	<u>\$ -</u>	<u>\$ 7,501</u>

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

3) INVESTMENT SECURITIES AVAILABLE-FOR-SALE, continued

The following table summarizes securities with unrealized losses at December 31, 2021 and 2020, aggregated by major security type and length of time in a continuous unrealized loss position.

	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2021						
<i>(in thousands)</i>						
Mortgage-backed securities	\$ 8,509	\$ 68	\$ -	\$ -	\$ 8,509	\$ 68
State, county & municipal	-	-	-	-	-	-
Total	<u>\$ 8,509</u>	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,509</u>	<u>\$ 68</u>
	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2020						
<i>(in thousands)</i>						
Mortgage-backed securities	\$ -	\$ -	\$ 92	\$ -	\$ 92	\$ -
State, county & municipal	-	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ 92</u>	<u>\$ -</u>

As of December 31, 2021 and 2020, the Company's security portfolio displayed securities which were in an unrealized loss position. As of December 31, 2021, the Company's security portfolio consisted of 12 securities, of which 6 were in an unrealized loss position. As of December 31, 2020 the Company's security portfolio consisted of 15 securities, of which 1 mortgage-backed security was in an unrealized loss position.

At December 31, 2021 and 2020, 100% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2021.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

3) INVESTMENT SECURITIES AVAILABLE-FOR-SALE, continued

The amortized cost and fair value of investment securities available-for-sale at December 31, 2021, by contractual maturity, are shown as follows. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(in thousands)	
Due one year or less	\$ -	\$ -
Due from one year through five years	-	-
Due from five years through ten years	-	-
Due after ten years	-	-
Mortgage-backed securities	<u>12,164</u>	<u>12,153</u>
 Total	 <u>\$ 12,164</u>	 <u>\$ 12,153</u>

During 2021 the Company sold 4 investments available-for-sale. Proceeds from sales of investments available-for-sale in 2021 were \$1,015,000 which resulted in gross gains of \$40,000. During 2020 the Company sold 9 investments available-for-sale. Proceeds from sales of investments available-for-sale in 2020 were \$5,176,000 which resulted in gross gains of \$198,000.

Investment securities available-for-sale with a carrying value of approximately \$473,000 and \$660,000 at December 31, 2021 and 2020, respectively, were pledged to secure customer repurchase agreements and for other purposes as required by law.

At year-end 2021 and 2020, there were no holdings of securities of any one issuer, other than the U.S. Government-Sponsored entities (FNMA and GNMA) and agencies, in an amount greater than 10% of shareholders' equity.

4) LOANS

Major classifications of loans at December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
	(in thousands)	
Commercial Real Estate	\$ 197,911	\$ 205,113
Convenience Stores	50,261	36,132
Hotels	48,923	44,856
Commercial & Industrial	21,945	20,992
Residential Construction	36,507	26,571
Acquisition and Development	13,171	8,875
Small Business	95,843	85,728
Paycheck Protection Program	30,743	50,591
Residential 1-4 Family	2,779	4,741
Non-Owner Occupied	51,905	52,686
Consumer & Other	<u>572</u>	<u>473</u>
 Total loans	 550,560	 536,758
Less: Allowance for loan losses	<u>(5,800)</u>	<u>(6,857)</u>
 Loans, net	 <u>\$ 544,760</u>	 <u>\$ 529,901</u>

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

4) LOANS, continued

The Bank grants loans and extensions of credit to individuals and a variety of firms and corporations located primarily in the Atlanta metro-area in Georgia. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate.

The following table presents the activity in the allowance for loan losses by portfolio class for the year ending December 31, 2021 and 2020:

December 31, 2021												
<i>(in thousands)</i>												
	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Beginning Balance	\$ 3,105	\$ 517	\$ 726	\$ 344	\$ 71	\$ 24	\$ 1,748	\$ 28	\$ 51	\$ 241	\$ 2	\$ 6,857
(Reversal of) Provision for Loan Loss	(824)	39	(35)	6	154	57	(580)	(11)	(26)	83	2	(1,135)
Loans Charged Off	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	78	-	-	-	-	78
Ending Allowance Balance	\$ 2,281	\$ 556	\$ 691	\$ 350	\$ 225	\$ 81	\$ 1,246	\$ 17	\$ 25	\$ 324	\$ 4	\$ 5,800

December 31, 2020												
<i>(in thousands)</i>												
	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Beginning Balance	\$ 1,983	\$ 303	\$ 531	\$ 120	\$ 280	\$ 90	\$ 847	\$ 126	\$ -	\$ 360	\$ 5	\$ 4,645
(Reversal of) Provision for Loan Loss	1,110	214	195	333	(209)	(66)	897	(98)	51	(119)	(3)	2,305
Loans Charged Off	-	-	-	(109)	-	-	-	-	-	-	-	(109)
Recoveries	12	-	-	-	-	-	4	-	-	-	-	16
Ending Allowance Balance	\$ 3,105	\$ 517	\$ 726	\$ 344	\$ 71	\$ 24	\$ 1,748	\$ 28	\$ 51	\$ 241	\$ 2	\$ 6,857

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

4) **LOANS, continued**

The following table presents the balance in the allowance for loan losses by class and based upon impairment method. The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality.

Ending Allowance Balance attributable to Loans:

		December 31, 2021										
<i>(in thousands)</i>	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non-Owner Occupied	Consumer & Other	Total
Individually Evaluated for Impairment Collectively	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively Evaluated for Impairment	2,281	556	691	350	225	81	1,246	17	25	324	4	5,800
Total Ending Allowance Balance	\$ 2,281	\$ 556	\$ 691	\$ 350	\$ 225	\$ 81	\$ 1,246	\$ 17	\$ 25	\$ 324	\$ 4	\$ 5,800
Loans:												
<i>(in thousands)</i>	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non-Owner Occupied	Consumer & Other	Total
Individually Evaluated for Impairment Collectively	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively Evaluated for Impairment	197,911	50,261	48,923	21,945	36,507	13,171	95,843	30,743	2,779	51,905	572	550,560
Total Ending Loan Balance	\$ 197,911	\$ 50,261	\$ 48,923	\$ 21,945	\$ 36,507	\$ 13,171	\$ 95,843	\$ 30,743	\$ 2,779	\$ 51,905	\$ 572	\$ 550,560

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

4) LOANS, continued

December 31, 2020												
(in thousands)	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non-Owner Occupied	Consumer & Other	Total
Individually Evaluated for Impairment Collectively	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively Evaluated for Impairment	3,105	517	726	344	71	24	1,748	28	51	241	2	6,857
Total Ending Allowance Balance	\$ 3,105	\$ 517	\$ 726	\$ 344	\$ 71	\$ 24	\$ 1,748	\$ 28	\$ 51	\$ 241	\$ 2	\$ 6,857
Loans:												
(in thousands)	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non-Owner Occupied	Consumer & Other	Total
Individually Evaluated for Impairment Collectively	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively Evaluated for Impairment	205,113	36,132	44,856	20,992	26,571	8,875	85,728	4,741	50,591	52,686	473	536,758
Total Ending Loan Balance	\$ 205,113	\$ 36,132	\$ 44,856	\$ 20,992	\$ 26,571	\$ 8,875	\$ 85,728	\$ 4,741	\$ 50,591	\$ 52,686	\$ 473	\$ 536,758

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

4) LOANS, continued

The Company did not have any impaired loans as of and for the year ended December 31, 2021 and 2020.

The Company did not have any recorded investments in nonaccrual loans as of December 31, 2021 and 2020.

As of December 31, 2021 and 2020, the Bank did not have any loans that were past due greater than 90 days and still accruing interest income.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2021 and 2020 by class of loans:

December 31, 2021

<i>(dollars in thousands)</i>	30-59 Days	60-89 Days	Greater than	Total	Loans Not	Total
	Past Due	Past Due	89 Days Past Due			
Commercial Real Estate	\$ -	\$ -	\$ -	\$ -	\$ 197,911	\$ 197,911
Convenience Stores	-	-	-	-	50,261	50,261
Hotels	-	-	-	-	48,923	48,923
Commercial & Industrial	-	-	-	-	21,945	21,945
Residential Construction	-	-	-	-	36,507	36,507
Acquisition and Development	-	-	-	-	13,171	13,171
Small Business	110	-	-	110	95,733	95,843
PPP	-	-	-	-	30,743	30,743
Residential 1-4 Family	-	-	-	-	2,779	2,779
Non-Owner Occupied	-	-	-	-	51,905	51,905
Consumer & Other	-	-	-	-	572	572
Total	\$ 110	\$ -	\$ -	\$ 110	\$ 550,450	\$ 550,560

December 31, 2020

<i>(dollars in thousands)</i>	30-59 Days	60-89 Days	Greater than	Total	Loans Not	Total
	Past Due	Past Due	89 Days Past Due			
Commercial Real Estate	\$ -	\$ -	\$ -	\$ -	\$ 205,113	\$ 205,113
Convenience Stores	-	-	-	-	36,132	36,132
Hotels	-	-	-	-	44,856	44,856
Commercial & Industrial	-	-	-	-	20,992	20,992
Residential Construction	-	-	-	-	26,571	26,571
Acquisition and Development	-	-	-	-	8,875	8,875
Small Business	-	947	-	947	84,781	85,728
PPP	-	-	-	-	50,591	50,591
Residential 1-4 Family	-	-	-	-	4,741	4,741
Non-Owner Occupied	-	-	-	-	52,686	52,686
Consumer & Other	-	-	-	-	473	473
Total	\$ -	\$ 947	\$ -	\$ 947	\$ 535,811	\$ 536,758

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

4) LOANS, continued

Paycheck Protection Program

In 2020, in response to the COVID-19 pandemic, the federal government instituted various economic relief programs. To aid in employment preservation, it implemented the Paycheck Protection Plan loan program (PPP) through the U.S. Small Business Administration (SBA). The Bank participated in the PPP loan program. As of December 31, 2021, and 2020, the Bank funded \$59,237,000 and \$87,837,000 of which approximately \$30,743,000 and \$50,591,000 remained outstanding as of December 31, 2021 and 2020. Consistent with the terms of the PPP, these loans carry an interest rate of 1% and are 100% guaranteed by the SBA. If the borrower meets certain criteria, their PPP loan is subject to forgiveness by the SBA which, if qualifying, the SBA repays the loan amount and any accrued but unpaid interest.

Troubled Debt Restructurings

As of December 31, 2021 and 2020, the bank did not have any troubled debt restructurings.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$500,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on an annual basis. The Company uses the following definitions for risk ratings. Loans not meeting the criteria above that are not analyzed individually as part of the above described process are classified as pass or non-pass based on their performance. A loan performing as agreed is considered to be a pass grade loan; loans that are on nonaccrual are considered to be substandard.

Special Mention: Loans classified as special mention 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 credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with 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.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

4) **LOANS, continued**

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2021

<i>(dollars in thousands)</i>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Commercial Real Estate	\$ 197,405	\$ -	\$ 506	\$ -	\$ -	\$ 197,911
Convenience Stores	50,261	-	-	-	-	50,261
Hotels	45,961	2,962	-	-	-	48,923
Commercial & Industrial	20,013	-	1,932	-	-	21,945
Residential Construction	36,507	-	-	-	-	36,507
Acquisition and Development	13,171	-	-	-	-	13,171
Small Business	94,161	-	1,682	-	-	95,843
PPP	30,743	-	-	-	-	30,743
Residential 1-4 Family	2,779	-	-	-	-	2,779
Non-Owner Occupied	51,905	-	-	-	-	51,905
Consumer & Other	572	-	-	-	-	572
Total	<u>\$ 543,478</u>	<u>\$ 2,962</u>	<u>\$ 4,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 550,560</u>

December 31, 2020

<i>(dollars in thousands)</i>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Commercial Real Estate	\$ 204,515	\$ -	\$ 598	\$ -	\$ -	\$ 205,113
Convenience Stores	36,132	-	-	-	-	36,132
Hotels	44,856	-	-	-	-	44,856
Commercial & Industrial	20,992	-	-	-	-	20,992
Residential Construction	26,571	-	-	-	-	26,571
Acquisition and Development	8,875	-	-	-	-	8,875
Small Business	73,364	11,727	637	-	-	85,728
PPP	50,591	-	-	-	-	50,591
Residential 1-4 Family	4,598	-	143	-	-	4,741
Non-Owner Occupied	52,346	-	340	-	-	52,686
Consumer & Other	473	-	-	-	-	473
Total	<u>\$ 523,313</u>	<u>\$ 11,727</u>	<u>\$ 1,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 536,758</u>

Qualifying loans in the amount of approximately \$170,000,000 were assigned as collateral for FHLB borrowings as of December 31, 2021, and 2020. The Bank had the capacity to borrow up to \$121,000,000 from the Federal Home Loan Bank at December 31, 2021 based on the available collateral.

Qualifying loans in the amount of approximately \$52,900,000 were assigned as collateral for FRB borrowings as of December 31, 2021, as compared to approximately \$53,100,000 as of December 31, 2020. The Bank had the capacity to borrow up to \$42,180,000 as of December 31, 2021, and \$39,700,000 as of December 31, 2020 from the Federal Reserve Bank based on the available collateral.

At December 31, 2021 and 2020, the Bank was servicing loans for others with aggregate principal balances of approximately \$91,364,000 and \$73,238,000 respectively.

The Bank did not have any government guaranteed portions of Small Business loans that were not previously classified as held for sale were sold to third-party investors subsequent to December 31, 2021 and 2020.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

5) PREMISES AND EQUIPMENT

Premises and equipment are comprised of the following:

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Land and improvements	\$ 2,273	\$ 2,273
Building and improvements	5,093	5,093
Furniture, fixtures and equipment	<u>4,333</u>	<u>4,084</u>
	11,699	11,450
Less: Accumulated depreciation	<u>(6,522)</u>	<u>(6,095)</u>
Premises and equipment, net	<u>\$ 5,177</u>	<u>\$ 5,355</u>

The Company recorded depreciation expense of approximately \$427,000 and \$422,000 for the years ended December 31, 2021 and 2020, respectively.

6) DEPOSITS

At December 31, 2021, the scheduled maturities of time deposits are as follows (in thousands):

2022	40,820
2023	10,048
2024	2,429
2025	453
2026	<u>1,050</u>
Total time deposits	<u>\$ 54,800</u>

At December 31, 2021 and 2020, the Company had approximately \$13,177,000 and \$15,177,000 in time deposits acquired through third party brokers, with an average rate paid of 0.26% and 0.33%, respectively. The average rate paid on time deposits does not include the fees paid to third parties with an average rate of 0.12% and 0.04% at December 31, 2021 and 2020.

At December 31, 2021 and 2020 the Company had approximately \$20,959,000 and \$29,119,000, respectively, in time deposits greater than the FDIC insured limit of \$250,000.

7) DEBT

Federal Funds Lines of Credit

The Bank utilizes other borrowed funds as needed for liquidity purposes in the form of federal funds purchased. The Bank has unsecured lines of credit for federal funds purchased from other banks totaling approximately \$16,500,000 at December 31, 2021 and 2020. At December 31, 2021 and 2020, the Bank did not have any outstanding balances under these lines of credit.

At December 31, 2021 the total credit availability with the FHLB was approximately \$187,000,000 assuming the availability of qualifying collateral. The Bank is required to purchase and hold certain amounts of FHLB stock in order to obtain FHLB borrowings. No ready market exists for the FHLB stock, and it has no quoted market value. The stock is redeemable at \$100 per share subject to certain limitations set by the FHLB. At December 31, 2021 and 2020 the Bank owned FHLB stock amounting to \$401,900 and \$559,200, respectively, which is included in other investments.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

7) **DEBT, continued**

Other Borrowings

The Company has an existing loan agreement with NexBank SSB. On April 2, 2020, the existing loan with NexBank SSB, loan was modified to bear interest at a fixed rate of 4.375%. On July 17, 2020, the existing loan with NexBank SSB, was restructured to a revolving line of credit with advances not to exceed a total of \$7,500,000, with a fixed rate of 4.375%, with monthly payments thereafter of accrued, but unpaid, interest on the outstanding principal balance of the loan are due. The outstanding principal balance of the loan and any and all accrued but unpaid interest are due in full at maturity, July 17, 2025. On September 7, 2021, the existing loan with NexBank SSB, loan was modified, The outstanding principal balance of the loan and any and all accrued but unpaid interest is due in full at the maturity of September 1, 2027.

On September 7, 2021, The Company entered into a term loan agreement with NexBank, SSB. The loan was structured with an outstanding balance of \$12,500,000, with a fixed rate of 4.375% for 1 year with payments of interest only. Commencing in October 2022, each monthly payment thereafter expand to principal payments of accrued, but unpaid, interest and the outstanding principal balance of the loan are due with a maturity date of September 1, 2027.

The NexBank loan agreements contain various financial and non-financial covenants. As of December 31, 2021 and December 31, 2020 the Company was in compliance with all covenants. As of December 31, 2021 and 2020, the outstanding balance totaled \$12,800,000 and \$0, respectively.

The Bank had a credit line available through the Federal Reserve Discount Window of \$42,180,000 and \$39,600,000 at December 31, 2021 and 2020, respectively. The cost to borrow was .25% at December 31, 2021 and 2020. The Company did not have any borrowings against this facility at December 31, 2021. The Company's outstanding balance against this facility was \$20,000,000 at December 31, 2020.

In response to the PPP program the Federal Reserve Bank, ("FRB") made it possible for financial institutions to receive a termed extension of credit under the Paycheck Protection Program Liquidity Facility, ("PPPLF") with an interest rate of .35%. Financial Institutions can pledge PPP loans as collateral, pooled by maturity date, with no limit on the amount of credit that can be extended under the PPPLF. Only PPP loans could be pledged as collateral under the PPPLF. At December 31, 2020 the company had \$50,591,000 available through the Federal Reserve PPPLF. As of December 31, 2020 the Company had borrowings of \$12,689,000 drawn on the PPPLF with a maturity date of April 15, 2022. As of December 31, 2021, the Company did not have any availability or borrowings drawn on the PPPLF.

Payments on other borrowings over the next five years are as follows:

(dollars in thousands)

2022	\$	164
2023		679
2024		712
2025		746
2026		783
2027 and thereafter		9,716
Total short term and other borrowings payments	\$	12,800

Securities Sold under Agreements to Repurchase

Repurchase agreements are secured borrowings. The Company pledges investment securities to secure these borrowings. The outstanding balance at December 31, 2021 and 2020 was \$1,000 and \$251,000 with total investments pledged of \$473,000 and \$660,000, respectively. The interest rate at December 31, 2020 was .50%.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

7) DEBT, continued

Junior Subordinated Debentures

On February 21, 2007, the Company formed a Connecticut statutory trust, Quantum Capital Statutory Trust II (the "Trust II") which issued \$11 million of guaranteed preferred beneficial interests in the Company's junior subordinated deferrable interest debentures that qualify as Tier I capital under Federal Reserve Board guidelines. All of the common securities of the Trust are owned by the Company. The proceeds from the issuance of the common securities and the trust preferred securities were used by the Trust to purchase \$11.3 million of junior subordinated debentures of the Company, which pay interest at a floating rate equal to 3-month LIBOR plus 194 basis points. The proceeds received by the Company from the sale of the junior subordinated debentures were used for general purposes, primarily to redeem the \$6 million of debentures issued March 26, 2002, redeem \$3.9 million of subordinated debentures issued from May 18, 2005 through February 20, 2007 and provide capital to the Bank.

The Trust Preferred Securities accrue and pay quarterly distributions at a floating rate of 3-month LIBOR plus 194 basis points, which was 2.14% and 2.16% at December 31, 2021 and 2020, respectively. The Company has guaranteed distributions and other payments due on the Trust Preferred Securities to the extent the Trust has funds with which to make the distributions and other payments. The net combined effect of all documents entered into in connection with the Trust Preferred Securities is that the Company is liable to make the distributions and other payments required on the Trust Preferred Securities.

The Trust Preferred Securities are mandatorily redeemable upon maturity of the debentures on March 15, 2037, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by the Trust, in whole or in part, on or after March 15, 2012. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest.

8) EMPLOYEE BENEFIT PLANS

The Bank sponsors a defined contribution 401(k) plan covering substantially all of its employees. Under provisions of the plan, eligible participating employees may elect to contribute up to the maximum amount of tax deferred compensation allowed by the Internal Revenue Code. The Bank's contribution to the plan is determined by the Board of Directors. The match contribution made by the Company during 2021 and 2020 was \$218,000 and \$222,000, respectively.

The Company has established various nonqualified salary continuation and retirement benefit plans for executive officers and directors. In 2021 and 2020, the Company recorded \$429,000 and \$423,000 in expense associated with the various plans. The net balances of all retirement benefit plans were approximately \$330,000 and \$285,000 as of December 31, 2021 and 2020, respectively. The Company has elected to supplement the funding of certain nonqualified plans with single premium life insurance policies. In 2021 and 2020, cash value income (net of related insurance mortality costs) totaled \$269,000 and \$263,000 respectively. The Bank is accruing for the cost of the split-dollar life insurance benefits associated with the Company's BOLI. Total cost accrued associated with the split-dollar life insurance benefits was approximately \$340,000 and \$384,000 as of December 31, 2021 and 2020, respectively.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

9) COMMITMENTS

In the normal course of business, the Company has entered into off-balance sheet financial instruments which are not reflected in the financial statements. These financial instruments may include commitments to extend credit and standby letters of credit. Such financial instruments are included in the financial statements when funds are disbursed or the instruments become payable. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

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 amount of those instruments. A summary of the Company's commitments is as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Commitments to extend credit	\$ 126,867	\$ 87,374
Standby letters of credit	394	308
FHLB letters of credit	45,000	31,000

Commitments to extend credit 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 cash requirements. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to customers. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include real estate and improvements, marketable securities, accounts receivable, inventory, equipment, and personal property.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

Federal Home Loan Bank letters of credit, secured by certain of the bank's loans, are used to collateralize Public Unit Deposits that exceed balances covered by FDIC Insurance. FHLB letters of credit have a 10 year maturity.

10) RELATED PARTY TRANSACTIONS

The Company has granted loans to certain directors, executive officers, and their related entities. These individuals and their related interests also maintain customary demand and time deposit accounts at the Bank. Changes in related party loans for 2021 are as follows (in thousands):

Balance, beginning of year	\$ 2,832	
Advances	-	
Repayments	<u>(908)</u>	
Balance, end of year	<u>\$ 1,924</u>	

Balances of deposits maintained at the Bank by certain directors and executive officers as of December 31, 2021 and 2020 were approximately \$11,718,000 and \$5,373,000 respectively.

11) REGULATORY CAPITAL

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is included in computing regulatory capital. Management believes as of December 31, 2021, the Company and Bank meet all capital adequacy requirements to which they are subject. Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2021 and 2020, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7.5 % as of December 31, 2021, 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2020, the Bank had qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework. As of June 30, 2021, the Bank did not meet the qualifications to remain under the CLBR framework as the Bank's off-balance sheet exposures were greater than 25% of consolidated assets. The Bank was granted a 2-quarter grace period to regain CBLR eligibility which was not met as of September 30, 2021. Therefore, on for December 31, 2021, the Bank opted out of the CBLR framework and returned to reporting risk-based capital ratios.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

11) REGULATORY CAPITAL, continued

The actual capital amounts and ratios for the Bank are presented in the following tables:

	Actual		Adequately Capitalized Requirement*		Well Capitalized Requirement	
	Amount	Ratios	Amount	Ratios	Amount	Ratios
December 31, 2021						
Common Equity Tier 1 (to Risk Weighted Assets)	\$64,002	13.13%	28,134	4.500%	40,639	6.50%
Tier 1 Leverage (to Average Assets)	\$64,002	10.24%	25,008	4.000%	31,261	5.00%
Tier 1 Capital (to Risk Weighted Assets)	\$64,002	13.13%	29,243	6.000%	38,990	8.00%
Total Capital (to Risk Weighted Assets)	\$69,802	14.32%	38,990	8.000%	48,738	10.00%
To Be Well Capitalized Under Prompt Corrective Action Regulations CBLR Framework						
	Actual					
	Amount	Ratios	Amount	Ratios	Amount	Ratios
December 31, 2020						
Tier 1 (Core) Capital to average total assets	\$61,294	10.84%			\$45,244	8.00%

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to its stockholders and for other working capital needs. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. Current regulations allow dividend payments based on the current and prior two years' net earnings against the dividends paid in the corresponding period along with having sufficient undivided profits. As of December 31, 2021, and December 31, 2020, the Bank is permitted to make regular dividends to its shareholder without the prior approval of the Bank's primary regulator.

12) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements and Disclosures

The Company groups its financial assets and liabilities measured at fair value in three levels as required by ASC 820, *Fair Value Measurements and Disclosures*. Under this guidance, fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

An asset's or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on an annual basis.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

12) FAIR VALUE OF FINANCIAL INSTRUMENTS, continued

Investment Securities Available for Sale:

Fair values of investment securities available for sale are primarily measured using information from a third-party pricing service. This pricing service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data from market research publications. If quoted prices are available in an active market, investment securities are classified as Level 1 measurements. If quoted prices are not available in an active market, fair values were estimated primarily by the use of pricing models. Level 2 investment securities were primarily comprised of mortgage-backed securities issued by government agencies and U.S. government-sponsored enterprises.

Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume and frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. For example, management may use quoted prices for similar investment securities in the absence of a liquid and active market for the investment securities being valued. As of December 31, 2021 and 2020, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets.

The following tables present the balances of assets and liabilities measured on a recurring basis as of December 31, 2021 and 2020 aggregated by the level in the fair value hierarchy in which these measurements fall (in thousands).

<u>December 31, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mortgage-backed securities	\$ -	\$ 12,153	\$ -	\$ 12,153
State, county, and municipals	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 12,153</u>	<u>\$ -</u>	<u>\$ 12,153</u>
<u>December 31, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mortgage-backed securities	\$ -	\$ 6,081	\$ -	\$ 6,081
State, county, and municipals	-	1,420	-	1,420
Total	<u>\$ -</u>	<u>\$ 7,501</u>	<u>\$ -</u>	<u>\$ 7,501</u>

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

13) CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENT

Condensed financial statements of Quantum Capital Corp. (parent company only) are shown below. The parent company has no significant operating activities.

Quantum Capital Corp. Condensed Balance Sheets December 31, 2021 and 2020		<u>2021</u>	<u>2020</u>
		<i>(in thousands)</i>	
<u>Assets</u>			
Cash and due from banks		\$ 2,457	\$ 1,627
Investments in subsidiary		64,460	61,983
Other assets		<u>58</u>	<u>115</u>
Total assets		<u>\$ 66,975</u>	<u>\$ 63,725</u>
<u>Liabilities and Stockholders' Equity</u>			
Other borrowings		\$ 12,800	\$ -
Junior subordinated debentures		11,341	11,341
Other liabilities		-	-
Accrued interest payable		<u>67</u>	<u>11</u>
Other liabilities		<u>24,208</u>	<u>11,352</u>
<u>Stockholders' equity:</u>			
Common stock, par value \$1; 10,000 shares authorized, 574		574	574
And 574 issued as of December 31, 2021 and 2020, respectively			
Capital surplus		6,813	6,813
Retained earnings		35,262	44,637
Accumulated other comprehensive income		<u>118</u>	<u>349</u>
Total stockholders' equity		<u>42,767</u>	<u>52,373</u>
Total liabilities and stockholders' equity		<u>\$ 66,975</u>	<u>\$ 63,725</u>

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

13) CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENT, continued

Quantum Capital Corp.
Condensed Statements of Operations
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Operating income:		
Dividend from subsidiary	\$ 18,464	\$ 10,535
Income from undistributed earnings	2,708	4,554
Other Income	<u>-</u>	<u>-</u>
Total operating income	<u>21,172</u>	<u>15,096</u>
Operating expense:		
Other expenses	313	171
Interest expense on borrowings	<u>422</u>	<u>476</u>
Total operating expense	<u>735</u>	<u>647</u>
Income before income tax expense	20,437	14,449
Income tax expense	<u>-</u>	<u>-</u>
Net income	<u>\$ 20,437</u>	<u>\$ 14,449</u>

Quantum Capital Corp.
Condensed Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Net income	\$ 20,437	\$ 14,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in other assets	57	50
Increase in other liabilities and accrued interest payable	<u>56</u>	<u>46</u>
Net cash provided by operating activities	<u>20,550</u>	<u>14,453</u>
Cash flows used in investing activities:		
Change in Investment in subsidiary	<u>(2,708)</u>	<u>(4,554)</u>
Net cash used in investing activities	<u>(2,708)</u>	<u>(4,554)</u>
Cash flows from financing activities:		
Proceeds (repayment) issuance of other borrowings	12,800	(5,000)
Cash dividends paid	<u>(29,812)</u>	<u>(4,386)</u>
Net cash used in financing activities	<u>(17,012)</u>	<u>(9,386)</u>
Net change in cash and cash equivalents	830	513
Cash and cash equivalents at beginning of year	<u>1,627</u>	<u>1,114</u>
Cash and cash equivalents at end of year	<u>\$ 2,457</u>	<u>\$ 1,627</u>

QUANTUM CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021

QUANTUM CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Changes in Stockholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9

QUANTUM CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
September 30, 2022 and December 31, 2021
(Dollars and share data in thousands)

	(Unaudited) September 30, <u>2022</u>	December 31, <u>2021</u>
<u>Assets</u>		
Cash and due from banks	\$ 36,108	\$ 50,945
Bank invested deposits	22,445	15,651
Investment securities available-for-sale	11,153	12,153
Other investments	1,116	1,153
Loans, net of allowance for loan losses	570,947	544,760
Premises and equipment, net	5,030	5,177
Accrued interest receivable	1,724	1,651
Cash surrender value on life insurance	8,984	8,823
Other assets	<u>2,275</u>	<u>2,107</u>
Total assets	<u>\$ 659,782</u>	<u>\$ 642,420</u>
<u>Liabilities and Stockholders' Equity</u>		
Deposits:		
Noninterest-bearing demand	\$ 198,159	\$ 181,850
Interest-bearing demand	59,348	65,647
Savings and money market	268,400	269,823
Time deposits	<u>60,969</u>	<u>54,800</u>
Total deposits	586,876	572,120
Repurchase agreements	--	1
Junior subordinated debentures	11,341	11,341
Other borrowings	9,950	12,800
Accrued interest payable	111	106
Other liabilities	<u>3,030</u>	<u>3,285</u>
Total liabilities	<u>611,308</u>	<u>599,653</u>
Stockholders' equity:		
Common stock, par value \$1; 10,000 shares authorized, 574 issued as of September 30, 2022 and December 31, 2021, respectively	574	574
Capital surplus	6,811	6,813
Retained earnings	42,095	35,262
Accumulated other comprehensive income (loss)	<u>(1,006)</u>	<u>118</u>
Total stockholders' equity	<u>48,474</u>	<u>42,767</u>
Total liabilities and stockholders' equity	<u>\$ 659,782</u>	<u>\$ 642,420</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended September 30, 2022 and 2021
(Dollars in thousands)

	(Unaudited)	
	September 30, 2022	September 30, 2021
Interest income:		
Loans, including fees	\$ 8,403	\$ 7,236
Investment securities	63	43
Other	<u>372</u>	<u>36</u>
Total interest income	<u>8,838</u>	<u>7,315</u>
Interest expense:		
Interest-bearing demand deposits	34	28
Savings and money market deposits	430	93
Time deposits	67	64
Borrowings	<u>234</u>	<u>102</u>
Total interest expense	<u>765</u>	<u>287</u>
Net interest income	8,073	7,028
Provision for loan losses	<u>--</u>	<u>--</u>
Net interest income after provision for loan losses	<u>8,073</u>	<u>7,028</u>
Noninterest income:		
Service charges on deposit accounts	39	47
Gain on sale and servicing of government guaranteed loans	359	1,766
Gain on sale of investment securities available-for-sale	--	40
Other operating income	<u>155</u>	<u>140</u>
Total noninterest income	<u>553</u>	<u>1,993</u>
Noninterest expense:		
Salaries and benefits	2,287	2,643
Occupancy and equipment	196	212
Professional and regulatory fees	743	917
Merger-related expenses	309	--
Other operating expenses	<u>314</u>	<u>395</u>
Total noninterest expense	<u>3,849</u>	<u>4,167</u>
Income before income tax expense	4,777	4,854
Income tax expense	<u>--</u>	<u>--</u>
Net income	<u>\$ 4,777</u>	<u>\$ 4,854</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Nine Months Ended September 30, 2022 and 2021
(Dollars in thousands)

	(Unaudited)	
	September 30, 2022	September 30, 2021
Interest income:		
Loans, including fees	\$ 23,109	\$ 22,011
Investment securities	184	147
Other	<u>569</u>	<u>89</u>
Total interest income	<u>23,862</u>	<u>22,247</u>
Interest expense:		
Interest-bearing demand deposits	90	79
Savings and money market deposits	704	323
Time deposits	172	271
Borrowings	<u>641</u>	<u>227</u>
Total interest expense	<u>1,607</u>	<u>900</u>
Net interest income	22,255	21,347
Provision for (reversal of) loan losses	<u>170</u>	<u>(650)</u>
Net interest income after provision for loan losses	<u>22,085</u>	<u>21,997</u>
Noninterest income:		
Service charges on deposit accounts	114	125
Gain on sale and servicing of government guaranteed loans	1,191	2,669
Gain on sale of investment securities available-for-sale	--	40
Other operating income	<u>433</u>	<u>541</u>
Total noninterest income	<u>1,738</u>	<u>3,375</u>
Noninterest expense:		
Salaries and benefits	6,916	7,045
Occupancy and equipment	593	649
Professional and regulatory fees	2,424	2,625
Merger-related expenses	309	--
Other operating expenses	<u>979</u>	<u>1,150</u>
Total noninterest expense	<u>11,221</u>	<u>11,469</u>
Income before income tax expense	12,602	13,903
Income tax expense	<u>10</u>	<u>--</u>
Net income	<u>\$ 12,592</u>	<u>\$ 13,903</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Months Ended September 30, 2022 and 2021
(Dollars in thousands)

	(Unaudited)	
	<u>Three Months Ended</u>	
	September 30, <u>2022</u>	September 30, <u>2021</u>
Net income	\$ 4,777	\$ 4,854
Other comprehensive loss:		
Change in unrealized holding losses on securities available-for-sale	(280)	(22)
Reclassification adjustment for gains included in net income	<u>--</u>	<u>(40)</u>
Total other comprehensive loss	<u>(280)</u>	<u>(62)</u>
Comprehensive income	<u>\$ 4,497</u>	<u>\$ 4,792</u>
	(Unaudited)	
	<u>Nine Months Ended</u>	
	September 30, <u>2022</u>	September 30, <u>2021</u>
Net income	\$ 12,592	\$ 13,903
Other comprehensive loss:		
Change in unrealized holding losses on securities available-for-sale	(1,124)	(95)
Reclassification adjustment for gains included in net income	<u>--</u>	<u>(40)</u>
Total other comprehensive loss	<u>(1,124)</u>	<u>(135)</u>
Comprehensive income	<u>\$ 11,468</u>	<u>\$ 13,768</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three and Nine Months Ended September 30, 2022 and 2021
(Dollars in thousands)

(Unaudited)
Three Months Ended September 30, 2022

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance June 30, 2022	\$ 574	\$ 6,813	\$ 39,461	\$ (726)	\$ 46,122
Net income	--	--	4,777	--	4,777
Repurchase of common stock	--	(2)	--	--	(2)
Distributions to stockholders	--	--	(2,143)	--	(2,143)
Other comprehensive loss	--	--	--	(280)	(280)
Balance September 30, 2022	<u>\$ 574</u>	<u>\$ 6,811</u>	<u>\$ 42,095</u>	<u>\$ (1,006)</u>	<u>\$ 48,474</u>

(Unaudited)
Three Months Ended September 30, 2021

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance June 30, 2021	\$ 574	\$ 6,813	\$ 44,014	\$ 276	\$ 51,677
Net income	--	--	4,854	--	4,854
Distributions to stockholders	--	--	(15,314)	--	(15,314)
Other comprehensive loss	--	--	--	(62)	(62)
Balance September 30, 2021	<u>\$ 574</u>	<u>\$ 6,813</u>	<u>\$ 33,554</u>	<u>\$ 214</u>	<u>\$ 41,155</u>

(Unaudited)
Nine Months Ended September 30, 2022

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance December 31, 2021	\$ 574	\$ 6,813	\$ 35,262	\$ 118	\$ 42,767
Net income	--	--	12,592	--	12,592
Repurchase of common stock	--	(2)	--	--	(2)
Distributions to stockholders	--	--	(5,759)	--	(5,759)
Other comprehensive loss	--	--	--	(1,124)	(1,124)
Balance September 30, 2022	<u>\$ 574</u>	<u>\$ 6,811</u>	<u>\$ 42,095</u>	<u>\$ (1,006)</u>	<u>\$ 48,474</u>

(Unaudited)
Nine Months Ended September 30, 2021

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance December 31, 2020	\$ 574	\$ 6,813	\$ 44,637	\$ 349	\$ 52,373
Net income	--	--	13,903	--	13,903
Distributions to stockholders	--	--	(24,986)	--	(24,986)
Other comprehensive loss	--	--	--	(135)	(135)
Balance September 30, 2021	<u>\$ 574</u>	<u>\$ 6,813</u>	<u>\$ 33,554</u>	<u>\$ 214</u>	<u>\$ 41,155</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2022 and 2021
(Dollars in thousands)

	(Unaudited)	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net income	\$ 12,592	\$ 13,903
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (reversal of) loan losses	170	(650)
Net amortization	48	23
Depreciation	286	332
Gain on sale of government guaranteed loans	(738)	(2,022)
Gain on sale of investment securities available-for-sale	--	(40)
Increase in cash surrender value of life insurance contracts	(161)	(160)
Decrease (increase) in accrued interest receivable	(73)	173
(Decrease) increase in accrued interest payable	5	(25)
Increase in other assets	(168)	(276)
(Decrease) increase in other liabilities	(255)	289
Net cash provided by operating activities	<u>11,706</u>	<u>11,547</u>
Cash flows from investing activities:		
Proceeds from paydowns, calls and maturities of investment securities available-for-sale	1,731	1,360
Proceeds from sale of investment securities available-for-sale	--	1,015
Purchases of investment securities available-for-sale	(1,903)	--
Purchase of bank invested deposits	(6,794)	(8,003)
FHLB stock redemption	37	157
Proceeds from sale of government guaranteed loans	11,268	18,425
Loans originated, net	(36,887)	(25,257)
Purchase of premises and equipment	(139)	(201)
Net cash used in investing activities	<u>(32,687)</u>	<u>(12,504)</u>
Cash flows from financing activities:		
Net change in deposits	14,756	45,889
Net change in repurchase agreements	(1)	(181)
Repayment of other borrowings	(2,850)	(19,889)
Repurchase of common stock	(2)	--
Cash dividends paid	(5,759)	(24,986)
Net cash provided by financing activities	<u>6,144</u>	<u>833</u>
Net change in cash and cash equivalents	(14,837)	124
Cash and cash equivalents at beginning of period	<u>50,945</u>	<u>45,078</u>
Cash and cash equivalents at end of period	<u>\$ 36,108</u>	<u>\$ 44,954</u>
Supplemental disclosures:		
Cash paid for:		
Interest	\$ 1,602	\$ 925
Taxes	134	145

The accompanying notes are an integral part of these consolidated financial statements.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Quantum Capital Corp. (“the Company”) is a bank holding company whose business is conducted by its wholly owned bank subsidiary, Quantum National Bank (“the Bank”). The Bank is a federally chartered commercial community bank with branch offices located in the Atlanta, Georgia suburbs of Suwanee, Milton, and Buckhead area of Atlanta. The Bank provides a full range of banking services in its primary market area of metro Atlanta. The Company is subject to competition from other financial institutions and financial services companies. The Company is also subject to the regulations of certain government agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Presentation

The accounting and reporting policies of the Company, and the methods of applying these principles, conform with accounting principles generally accepted in the United States of America (“GAAP”) and with general practices within the banking industry. The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The consolidated financial statements have been prepared in conformity with GAAP. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Management believes that the allowance for loan losses is adequate and the valuation is appropriate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Cash and Cash Equivalents

Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, short term borrowings and repurchase agreements.

Bank Invested Deposits

Bank invested deposits in other financial institutions include money market accounts and accounts that mature within one year and are carried at cost.

Investment Securities

Investment securities are classified based on management’s intention on the date of purchase. Investment securities which management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Investment securities that might be sold before maturity and are classified as available-for-sale are carried at fair value, with net unrealized gains and losses reported as a separate component of stockholders’ equity. Gains or losses from the sales of securities are determined using the specific identification method.

Premiums and discounts on investment securities are amortized into interest income on the level-yield method without anticipating prepayments, with the exception of mortgage-backed securities where prepayments are anticipated. Premiums and discounts on mortgage-backed securities are amortized and accreted, respectively, to interest income using a method which approximates a level yield over the period to maturity of the related securities, taking into consideration assumed prepayment patterns.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least an annual basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Other Investments

Non-marketable equity securities include Federal Home Loan Bank (“FHLB”) stock and Federal Reserve Bank (“FRB”) stock. The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Bank is also a member of its regional FRB. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance.

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on nonaccrual status, previously accrued uncollected interest is charged against interest revenue on loans. Interest payments are applied to reduce the principal balance on nonaccrual loans. Loans are returned to accrual status when all past due payments are received in full and future payments are probable.

Loans, or portions of loans, are charged off in the period that such loans, or portions thereof, are deemed uncollectible. The collectability of individual loans is determined through an estimate of the fair value of underlying collateral and/or assessment of the financial condition and repayment capacity of the borrower.

The Company originates and sells participations in certain government guaranteed loans. Gains are recognized at the time the sale is consummated. The amount of gain recognized on the sale of a specific loan is equal to the difference between the amount paid by the purchaser and the book value amount recorded by the Bank for the percentage of the loan sold. Losses are recognized at the time the loan is identified as held for sale if the loan’s carrying value exceeds its fair value.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. The allowance is maintained at a level that management believes to be adequate to absorb probable incurred losses in the loan portfolio. Management’s determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loan loss experience, current economic conditions, volume, growth, composition of the loan portfolio, and other risks inherent in the portfolio.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for when the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

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 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.

Loans classified as impaired are individually evaluated for impairment. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net of costs to sell, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent accounting periods. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

There are inherent risks relevant to each segment of the loan portfolio. Risk characteristics applicable to each segment of the loan portfolio are described as follows:

Commercial Real Estate / Convenience Stores / Hotels – Commercial real estate, convenience stores and hotel loans typically involve larger principal amounts and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as based on cash flow and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies within the Company's market areas.

Commercial and Industrial – Commercial and industrial loans receive similar underwriting treatment as commercial real estate loans in that the repayment source is analyzed to determine its ability to meet cash flow requirements as set forth by Bank policies. Repayment generally comes from the generation of cash flow as a result of the borrower's business operations. The business cycle itself brings a certain level of risk to the portfolio. In some instances, these loans may carry a higher degree of risk due to a variety of reason – illiquid collateral, specialized equipment, highly depreciable assets, revolving balances, or simply being unsecured.

Construction and Acquisition and Development Real Estate – Construction and acquisition and development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained.

Small Business Lending and Paycheck Protection Program – The SBA and PPP loan portfolios are dependent upon the federal government. As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. If weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of a lender's Preferred Lender status. Losing our Preferred Lender status could create credit risk for some of our customers. Additionally, we could experience financial risk with a material adverse effect to our financial results. Any changes to an SBA program, including changes to the level of guarantee provided by the federal government on SBA loans, may also have an adverse effect on our business. As a result of these characteristics the government guarantee on these loans is an important factor in mitigating risk.

Residential 1-4 Family – Residential 1-4 family real estate loans are generally secured by the property. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Non-Owner Occupied – Non-owner-occupied real estate loans are generally secured by the property. Repayment of these loans is primarily dependent on rental income. Credit risk in these loans can be impacted by economic conditions within the Company’s market areas that might impact either property values or a renter’s personal income.

Consumer and Other – The consumer loan portfolio consists of various term and line of credit loans potentially secured by vehicles or other types of property and unsecured loans to consumers. Repayment for these types of loans will come from a borrower’s income sources that are typically independent of the loan purpose. Credit risk is driven by consumer and other economic factors (such as unemployment and general economic conditions within the Company’s market area) and the creditworthiness of borrower.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment

Premises and equipment are reported at cost less accumulated depreciation. For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the assets. When an asset is retired, the cost of the asset and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in earnings for the period. Expenditures for maintenance and repairs are charged to operations as incurred, while major renewals and betterments are capitalized. The ranges of estimated useful lives are 15-39 years for buildings and improvements, and 3-7 years for furniture, fixtures and equipment.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Revenue Recognition

Revenue is recognized when the transactions occur or as services are performed over primarily monthly or quarterly periods. Payment is typically received in the period the transactions occur. Fees may be fixed or, where applicable, based on a percentage of transaction size.

Income Taxes

The Company is an “S” Corporation. Taxable income is passed through to its individual stockholders and the stockholders are subject to tax on the income.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, net, which is recognized as a separate component of equity.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or stockholders’ equity.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

2) INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Investment securities available for sale consist of the following at the dates indicated:

(Unaudited)	Amortized	Gross	Gross	Estimated
September 30, 2022	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Fair</u>
		<u>Gains</u>	<u>Losses</u>	<u>Value</u>
Mortgage-backed securities	\$ 12,288	\$ --	\$ (1,135)	\$ 11,153
	Amortized	Gross	Gross	Estimated
December 31, 2021	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Fair</u>
		<u>Gains</u>	<u>Losses</u>	<u>Value</u>
Mortgage-backed securities	\$ 12,164	\$ 57	\$ (68)	\$ 12,153

The contractual maturity of the mortgage-backed securities has not been disclosed as the borrowers in the underlying pools may prepay without penalty; therefore, it is unlikely that the securities will pay at their stated maturity schedule.

The following table summarizes securities with unrealized losses at September 30, 2022 and December 31, 2021, aggregated by major security type and length of time in a continuous unrealized loss position.

(Unaudited)	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
September 30, 2022	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Mortgage-backed securities	\$ 11,153	\$ (1,135)	\$ --	\$ --	\$ 11,153	\$ (1,135)
	<u>Less Than 12 Months</u>	<u>12 Months or Longer</u>	<u>Total</u>			
December 31, 2021	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Mortgage-backed securities	\$ 8,509	\$ (68)	\$ --	\$ --	\$ 8,509	\$ (68)

As of September 30, 2022 and December 31, 2021, the Company's investment portfolio displayed securities which were in an unrealized loss position. As of September 30, 2022, the Company's investment portfolio consisted of 13 securities, all of which were in an unrealized loss position. As of December 31, 2021, the Company's security portfolio consisted of 12 securities, of which six were in an unrealized loss position.

At September 30, 2022, 100% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2022.

During the nine months ended September 30, 2022, no sales of available-for-sale investment securities and no gross realized gains or losses were recognized. During the nine months ended September 30, 2021, the Company sold four available-for-sale investment securities for total proceeds of \$1,015, resulting in gross gains of \$40.

Available-for-sale investment securities with a carrying value of approximately \$473 at December 31, 2021 were pledged to secure customer repurchase agreements and for other purposes as required by law. No available-for-sale investment securities were pledged as of September 30, 2022.

At September 30, 2022 and December 31, 2021, there were no holdings of securities of any one issuer, other than U.S. government-sponsored entities (Fannie Mae and Ginnie Mae) and agencies, in an amount greater than 10% of stockholders' equity.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

3) LOANS

Major classifications of loans at September 30, 2022 and December 31, 2021 are as follows:

	(Unaudited) September 30, <u>2022</u>	December 31, <u>2021</u>
Commercial Real Estate	\$ 214,994	\$ 197,911
Convenience Stores	54,976	50,261
Hotels	43,096	48,923
Commercial & Industrial	25,719	21,945
Residential Construction	53,164	36,507
Acquisition and Development	16,392	13,171
Small Business	96,069	95,843
Paycheck Protection Program	526	30,743
Residential 1-4 Family	2,568	2,779
Non-Owner Occupied	68,061	51,905
Consumer & Other	<u>1,353</u>	<u>572</u>
Total loans	576,918	550,560
Less: Allowance for loan losses	<u>(5,971)</u>	<u>(5,800)</u>
Loans, net	<u>\$ 570,947</u>	<u>\$ 544,760</u>

The Bank grants loans and extensions of credit to individuals and a variety of firms and corporations located primarily in the Atlanta metro-area in Georgia. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

3) LOANS, continued

The following table presents the activity in the allowance for loan losses by portfolio class for the three months ended September 30, 2022 and 2021:

September 30, 2022
(Unaudited)

	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Beginning Balance	\$ 2,384	\$ 533	\$ 599	\$ 459	\$ 163	\$ 55	\$ 1,252	\$ 3	\$ 21	\$ 497	\$ 4	\$ 5,970
(Reversal of) Provision for Loan Loss	(78)	54	(64)	(54)	240	69	(98)	(3)	(5)	(64)	3	--
Loans Charged Off	--	--	--	--	--	--	--	--	--	--	--	--
Recoveries	--	--	--	--	--	--	--	--	--	--	1	1
Ending Allowance Balance	\$ 2,306	\$ 587	\$ 535	\$ 405	\$ 403	\$ 124	\$ 1,154	\$ --	\$ 16	\$ 433	\$ 8	\$ 5,971

September 30, 2021
(Unaudited)

	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Beginning Balance	\$ 2,608	\$ 474	\$ 661	\$ 382	\$ 94	\$ 35	\$ 1,570	\$ 57	\$ 35	\$ 299	\$ 2	\$ 6,217
(Reversal of) Provision for Loan Loss	(511)	(87)	70	(81)	313	107	60	(12)	(3)	142	2	--
Loans Charged Off	--	--	--	--	--	--	--	--	--	--	--	--
Recoveries	--	--	--	68	--	--	--	--	--	--	--	68
Ending Allowance Balance	\$ 2,097	\$ 387	\$ 731	\$ 369	\$ 407	\$ 142	\$ 1,630	\$ 45	\$ 32	\$ 441	\$ 4	\$ 6,285

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

3) LOANS, continued

The following table presents the activity in the allowance for loan losses by portfolio class for the nine months ended September 30, 2022 and 2021:

September 30, 2022												
(Unaudited)												
	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Beginning Balance	\$ 2,281	\$ 556	\$ 691	\$ 350	\$ 225	\$ 81	\$ 1,246	\$ 17	\$ 25	\$ 324	\$ 4	\$ 5,800
(Reversal of) Provision for Loan Loss	25	31	(156)	55	178	43	(92)	(17)	(9)	109	3	170
Loans Charged Off	--	--	--	--	--	--	--	--	--	--	--	--
Recoveries	--	--	--	--	--	--	--	--	--	--	1	1
Ending Allowance Balance	\$ 2,306	\$ 587	\$ 535	\$ 405	\$ 403	\$ 124	\$ 1,154	\$ --	\$ 16	\$ 433	\$ 8	\$ 5,971
September 30, 2021												
(Unaudited)												
	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Beginning Balance	\$ 3,105	\$ 517	\$ 726	\$ 344	\$ 71	\$ 24	\$ 1,748	\$ 28	\$ 51	\$ 241	\$ 2	\$ 6,857
(Reversal of) Provision for Loan Loss	(1,008)	(130)	5	(53)	336	118	(118)	17	(19)	200	2	(650)
Loans Charged Off	--	--	--	--	--	--	--	--	--	--	--	--
Recoveries	--	--	--	78	--	--	--	--	--	--	--	78
Ending Allowance Balance	\$ 2,097	\$ 387	\$ 731	\$ 369	\$ 407	\$ 142	\$ 1,630	\$ 45	\$ 32	\$ 441	\$ 4	\$ 6,285

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

3) LOANS, continued

The following table presents the balance in the allowance for loan losses by class and based upon the impairment method. The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality.

September 30, 2022 (Unaudited)

Ending allowance balance attributable to loans:

	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Individually Evaluated for Impairment	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Collectively Evaluated for Impairment	2,306	587	535	405	403	124	1,154	--	16	433	8	5,971
Total Ending Allowance Balance	\$ 2,306	\$ 587	\$ 535	\$ 405	\$ 403	\$ 124	\$ 1,154	\$ --	\$ 16	\$ 433	\$ 8	\$ 5,971

Loans:

	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Individually Evaluated for Impairment	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Collectively Evaluated for Impairment	214,994	54,976	43,096	25,719	53,164	16,392	96,069	526	2,568	68,061	1,353	576,918
Total Ending Loan Balance	\$ 214,994	\$ 54,976	\$ 43,096	\$ 25,719	\$ 53,164	\$ 16,392	\$ 96,069	\$ 526	\$ 2,568	\$ 68,061	\$ 1,353	\$ 576,918

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

3) LOANS, continued

December 31, 2021

Ending allowance balance attributable to loans:

	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Individually Evaluated for Impairment Collectively	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Collectively Evaluated for Impairment	2,281	556	691	350	225	81	1,246	17	25	324	4	5,800
Total Ending Allowance Balance	\$ 2,281	\$ 556	\$ 691	\$ 350	\$ 225	\$ 81	\$ 1,246	\$ 17	\$ 25	\$ 324	\$ 4	\$ 5,800
Loans:												
	Commercial Real Estate	Convenience Stores	Hotels	Commercial & Industrial	Residential Construction	Acquisition & Development	Small Business	Residential 1-4 Family	PPP	Non- Owner Occupied	Consumer & Other	Total
Individually Evaluated for Impairment	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Collectively Evaluated for Impairment	197,911	50,261	48,923	21,945	36,507	13,171	95,843	30,743	2,779	51,905	572	550,560
Total Ending Loan Balance	\$ 197,911	\$ 50,261	\$ 48,923	\$ 21,945	\$ 36,507	\$ 13,171	\$ 95,843	\$ 30,743	\$ 2,779	\$ 51,905	\$ 572	\$ 550,560

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

3) LOANS, continued

The Company did not have any impaired loans as of September 30, 2022 or December 31, 2021.

The Company did not have any nonaccrual loans as of September 30, 2022 or December 31, 2021.

As of September 30, 2022 or December 31, 2021, the Company did not have any loans that were past due greater than 90 days and still accruing interest income.

The following table presents the aging of the recorded investment in past due loans as of September 30, 2022 and December 31, 2021 by class of loans:

September 30, 2022 (Unaudited)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial Real Estate	\$ 852	\$ --	\$ --	\$ 852	\$ 214,142	\$ 214,994
Convenience Stores	--	--	--	--	54,976	54,976
Hotels	--	--	--	--	43,096	43,096
Commercial & Industrial	195	--	--	195	25,524	25,719
Residential Construction	--	--	--	--	53,164	53,164
Acquisition and Development	--	--	--	--	16,392	16,392
Small Business	--	--	--	--	96,069	96,069
PPP	--	--	--	--	526	526
Residential 1-4 Family	--	--	--	--	2,568	2,568
Non-Owner Occupied	--	--	--	--	68,061	68,061
Consumer & Other	--	--	--	--	1,353	1,353
Total	<u>\$ 1,047</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,047</u>	<u>\$ 575,871</u>	<u>\$ 576,918</u>

December 31, 2021

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial Real Estate	\$ --	\$ --	\$ --	\$ --	\$ 197,911	\$ 197,911
Convenience Stores	--	--	--	--	50,261	50,261
Hotels	--	--	--	--	48,923	48,923
Commercial & Industrial	--	--	--	--	21,945	21,945
Residential Construction	--	--	--	--	36,507	36,507
Acquisition and Development	--	--	--	--	13,171	13,171
Small Business	110	--	--	110	95,733	95,843
PPP	--	--	--	--	30,743	30,743
Residential 1-4 Family	--	--	--	--	2,779	2,779
Non-Owner Occupied	--	--	--	--	51,905	51,905
Consumer & Other	--	--	--	--	572	572
Total	<u>\$ 110</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 110</u>	<u>\$ 550,450</u>	<u>\$ 550,560</u>

Troubled Debt Restructurings

As of September 30, 2022 and December 31, 2021, the Company did not have any troubled debt restructurings.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

3) LOANS, continued

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$500,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on an annual basis. The Company uses the following definitions for risk ratings. Loans not meeting the criteria above that are not analyzed individually as part of the above described process are classified as pass or non-pass based on their performance. A loan performing as agreed is considered to be a pass grade loan; loans that are on nonaccrual are considered to be substandard.

Special Mention: Loans classified as special mention 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 credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with 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.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

September 30, 2022 (Unaudited)

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial Real Estate	\$ 214,508	\$ --	\$ 486	\$ --	\$ --	\$ 214,994
Convenience Stores	54,976	--	--	--	--	54,976
Hotels	40,268	2,828	--	--	--	43,096
Commercial & Industrial	23,826	--	1,893	--	--	25,719
Residential Construction	53,164	--	--	--	--	53,164
Acquisition and Development	16,392	--	--	--	--	16,392
Small Business	94,513	--	1,556	--	--	96,069
PPP	526	--	--	--	--	526
Residential 1-4 Family	2,568	--	--	--	--	2,568
Non-Owner Occupied	68,061	--	--	--	--	68,061
Consumer & Other	1,353	--	--	--	--	1,353
Total	\$ 570,155	\$ 2,828	\$ 3,935	\$ --	\$ --	\$ 576,918

December 31, 2021

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial Real Estate	\$ 197,405	\$ --	\$ 506	\$ --	\$ --	\$ 197,911
Convenience Stores	50,261	--	--	--	--	50,261
Hotels	45,961	2,962	--	--	--	48,923
Commercial & Industrial	20,013	--	1,932	--	--	21,945
Residential Construction	36,507	--	--	--	--	36,507
Acquisition and Development	13,171	--	--	--	--	13,171
Small Business	94,161	--	1,682	--	--	95,843
PPP	30,743	--	--	--	--	30,743
Residential 1-4 Family	2,779	--	--	--	--	2,779
Non-Owner Occupied	51,905	--	--	--	--	51,905
Consumer & Other	572	--	--	--	--	572
Total	\$ 543,478	\$ 2,962	\$ 4,120	\$ --	\$ --	\$ 550,560

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

3) LOANS, continued

Qualifying loans in the amount of approximately \$197,900 and \$170,000 were assigned as collateral for FHLB borrowings as of September 30, 2022 and December 31, 2021, respectively. The Bank had the capacity to borrow up to \$97,300 from the FHLB at September 30, 2022 based on the available collateral.

Qualifying loans in the amount of approximately \$70,800 were assigned as collateral for FRB borrowings as of September 30, 2022, as compared to approximately \$52,900 as of December 31, 2021. The Bank had the capacity to borrow up to \$59,800 from the FRB at September 30, 2022 based on the available collateral.

4) DEBT

Federal Funds Lines of Credit

The Bank utilizes other borrowed funds as needed for liquidity purposes in the form of federal funds purchased. The Bank has unsecured lines of credit for federal funds purchased from other banks totaling approximately \$36,400 and \$16,500 at September 30, 2022 and December 31, 2021, respectively. At September 30, 2022 and December 31, 2021, the Bank did not have any outstanding balances under these lines of credit.

At September 30, 2022 the Bank's total credit availability with the FHLB was approximately \$197,900 assuming the availability of qualifying collateral. The Bank is required to purchase and hold certain amounts of FHLB stock in order to obtain FHLB borrowings. No ready market exists for the FHLB stock, and it has no quoted market value. The stock is redeemable at \$100 per share subject to certain limitations set by the FHLB. At September 30, 2022 and December 31, 2021, the Bank owned FHLB stock amounting to \$365 and \$402, respectively, which is included in other investments.

Other Borrowings

The Company has a revolving line of credit agreement with NexBank SSB with advances not to exceed a total of \$7,500, with a fixed rate of 4.375%, and with monthly payments of accrued, but unpaid, interest on the outstanding principal balance of the loan are due. The outstanding principal balance of the loan and any and all accrued but unpaid interest are due in full at the maturity date of September 1, 2027. The outstanding balance of the line of credit was \$0 as of both September 30, 2022 and December 31, 2021.

On September 7, 2021, the Company entered into a term loan agreement with NexBank, SSB. The loan was structured with an outstanding balance of \$12,500 with a fixed rate of 4.375%, with 1 year of monthly interest only payments, followed by monthly principal and interest payments through the maturity date of September 1, 2027. As of September 30, 2022 and December 31, 2021, the outstanding balance on the term loan totaled \$9,950 and \$12,800, respectively.

The NexBank loan agreements contain various financial and non-financial covenants. As of September 30, 2022 and December 31, 2021, the Company was in compliance with all covenants.

The Bank had a credit line available through the FRB Discount Window of \$59,800 and \$42,180 at September 30, 2022 and December 31, 2021, respectively. The cost to borrow was 3.25% and 0.25% at September 30, 2022 and December 31, 2021, respectively. The Company did not have any borrowings against this facility at either date.

Principal payments on other borrowings over the next five years are as follows (unaudited):

Remaining 2022	\$ 204
2023	840
2024	878
2025	917
2026	958
2027	<u>6,153</u>
Total short term and other borrowings principal payments	<u>\$ 9,950</u>

Securities Sold under Agreements to Repurchase

Repurchase agreements are secured borrowings. The Company pledges investment securities to secure these borrowings. The outstanding balance at December 31, 2021 was \$1 with total investments pledged of \$473. The interest rate at December 31, 2021 was 0.50%. No repurchase agreements were outstanding at September 30, 2022.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

4) DEBT, continued

Junior Subordinated Debentures

On February 21, 2007, the Company formed a Connecticut statutory trust, Quantum Capital Statutory Trust II (the "Trust") which issued \$11.0 million of trust preferred securities that qualify as Tier I capital under Federal Reserve Board guidelines. All of the common securities of the Trust are owned by the Company. The proceeds from the issuance of the common securities and the trust preferred securities were used by the Trust to purchase \$11.3 million of junior subordinated debentures of the Company, which pay interest at a floating rate equal to 3-month LIBOR plus 194 basis points. The proceeds received by the Company from the sale of the junior subordinated debentures were used for general purposes, primarily to redeem \$6 million of debentures issued March 26, 2002, redeem \$3.9 million of subordinated debentures issued from May 18, 2005 through February 20, 2007 and provide capital to the Bank.

The trust preferred securities accrue and pay quarterly distributions at a floating rate of 3-month LIBOR plus 194 basis points, which was 5.69% and 2.14% at September 30, 2022 and December 31, 2021, respectively. The Company has guaranteed distributions and other payments due on the trust preferred securities to the extent the Trust has funds with which to make the distributions and other payments. The net combined effect of all documents entered into in connection with the trust preferred securities is that the Company is liable to make the distributions and other payments required on the trust preferred securities.

The trust preferred securities are mandatorily redeemable upon maturity of the debentures on March 15, 2037, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by the Trust, in whole or in part, on or after March 15, 2012. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest.

5) COMMITMENTS

In the normal course of business, the Company has entered into off-balance sheet financial instruments which are not reflected in the financial statements. These financial instruments may include commitments to extend credit and standby letters of credit. Such financial instruments are included in the financial statements when funds are disbursed or the instruments become payable. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

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 amount of those instruments. A summary of the Company's commitments at September 30, 2022 and December 31, 2021 is as follows:

	(Unaudited)	
	<u>2022</u>	<u>2021</u>
Commitments to extend credit	\$ 120,785	\$ 126,867
FHLB letters of credit	43,500	45,000
Standby letters of credit	327	394

Commitments to extend credit 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 cash requirements. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to customers. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include real estate and improvements, marketable securities, accounts receivable, inventory, equipment, and personal property.

FHLB letters of credit, secured by certain of the Bank's loans, are used to collateralize public unit deposits that exceed balances covered by FDIC insurance. FHLB letters of credit have a 10 year maturity.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

5) COMMITMENTS, continued

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party.

The FRB requires that banks maintain cash reserves with the FRB, on deposit with other banks, or in cash on hand. The Bank did not have a reserve requirement at September 30, 2022 or December 31, 2021.

6) REGULATORY CAPITAL

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of September 30, 2022, the Company and Bank meet all capital adequacy requirements to which they are subject. Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At September 30, 2022 and December 31, 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The actual capital amounts and ratios for the Bank are presented in the following tables:

	<u>Actual</u>		<u>Adequately Capitalized Requirement</u>		<u>Well Capitalized Requirement</u>	
	<u>Amount</u>	<u>Ratios</u>	<u>Amount</u>	<u>Ratios</u>	<u>Amount</u>	<u>Ratios</u>
<u>September 30, 2022</u>						
Common Equity Tier 1 (to Risk Weighted Assets)	\$68,931	12.95%	\$29,980	4.50%	\$43,304	6.50%
Tier 1 Leverage (to Average Assets)	68,931	10.35%	26,649	4.00%	33,311	5.00%
Tier 1 Capital (to Risk Weighted Assets)	68,931	12.95%	31,944	6.00%	42,592	8.00%
Total Capital (to Risk Weighted Assets)	74,902	14.07%	42,592	8.00%	53,240	10.00%
	<u>Actual</u>		<u>Adequately Capitalized Requirement</u>		<u>Well Capitalized Requirement</u>	
	<u>Amount</u>	<u>Ratios</u>	<u>Amount</u>	<u>Ratios</u>	<u>Amount</u>	<u>Ratios</u>
<u>December 31, 2021</u>						
Common Equity Tier 1 (to Risk Weighted Assets)	\$64,002	13.13%	\$28,134	4.50%	\$40,639	6.50%
Tier 1 Leverage (to Average Assets)	64,002	10.24%	25,008	4.00%	31,261	5.00%
Tier 1 Capital (to Risk Weighted Assets)	64,002	13.13%	29,243	6.00%	38,990	8.00%
Total Capital (to Risk Weighted Assets)	69,802	14.32%	38,990	8.00%	48,738	10.00%

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to its stockholders and for other working capital needs. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. Current regulations allow dividend payments based on the current and prior two years' net earnings against the dividends paid in the corresponding period along with having sufficient undivided profits. As of September 30, 2022 and December 31, 2021, the Bank is permitted to make regular dividends to its stockholder without the prior approval of the Bank's primary regulator.

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

7) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements and Disclosures

The Company groups its financial assets and liabilities measured at fair value in three levels as required by ASC 820, *Fair Value Measurements and Disclosures*. Under this guidance, fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the inputs used to develop those assumptions and measure fair value. The hierarchy requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

An asset's or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on an annual basis.

Investment Securities Available for Sale:

Fair values of investment securities available for sale are primarily measured using information from a third-party pricing service. This pricing service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data from market research publications. If quoted prices are available in an active market, investment securities are classified as Level 1 measurements. If quoted prices are not available in an active market, fair values were estimated primarily by the use of pricing models. Level 2 investment securities were primarily comprised of mortgage-backed securities issued by government agencies and U.S. government-sponsored enterprises.

Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume and frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Investment securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. For example, management may use quoted prices for similar investment securities in the absence of a liquid and active market for the investment securities being valued. As of September 30, 2022 and December 31, 2021, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets.

The following tables present the balances of assets and liabilities measured on a recurring basis as of September 30, 2022 and December 31, 2021, aggregated by the level in the fair value hierarchy in which these measurements fall.

September 30, 2022 (Unaudited)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mortgage-backed securities	\$ --	\$ 11,153	\$ --	\$ 11,153
December 31, 2021	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mortgage-backed securities	\$ --	\$ 12,153	\$ --	\$ 12,153

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

8) CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENT

Condensed financial statements of Quantum Capital Corp. (parent company only) are shown below. The parent company has no significant operating activities.

Condensed Balance Sheets
September 30, 2022 and December 31, 2021

	(Unaudited)	
	<u>2022</u>	<u>2021</u>
<u>Assets</u>		
Cash and due from banks	\$ 1,553	\$ 2,457
Investments in subsidiary	68,265	64,460
Other assets	10	58
Total assets	<u>\$ 69,828</u>	<u>\$ 66,975</u>
<u>Liabilities and Stockholders' Equity</u>		
Junior subordinated debentures	\$ 11,341	\$ 11,341
Other borrowings	9,950	12,800
Accrued interest payable	63	67
Other liabilities	<u>21,354</u>	<u>24,208</u>
Stockholders' equity:		
Common stock, par value \$1; 10,000 shares authorized, 574 issued as of September 30, 2022 and December 31, 2021, respectively	574	574
Capital surplus	6,811	6,813
Retained earnings	42,095	35,262
Accumulated other comprehensive income (loss)	<u>(1,006)</u>	<u>118</u>
Total stockholders' equity	<u>48,474</u>	<u>42,767</u>
Total liabilities and stockholders' equity	<u>\$ 69,828</u>	<u>\$ 66,975</u>

Condensed Statements of Operations (Unaudited)
For the Three and Nine Months Ended September 30, 2022 and 2021

	<u>Three Months Ended</u>	
	<u>2022</u>	<u>2021</u>
Operating income:		
Dividend from subsidiary	\$ 4,528	\$ 4,114
Income from undistributed earnings	681	948
Total operating income	<u>5,209</u>	<u>5,062</u>
Operating expense:		
Interest expense on borrowings	98	102
Other expenses	334	106
Total operating expense	<u>432</u>	<u>208</u>
Income before income tax expense	4,777	4,854
Income tax expense	--	--
Net income	<u>\$ 4,777</u>	<u>\$ 4,854</u>
	<u>Nine Months Ended</u>	
	<u>2022</u>	<u>2021</u>
Operating income:		
Dividend from subsidiary	\$ 8,795	\$ 12,344
Income from undistributed earnings	4,929	2,007
Total operating income	<u>13,724</u>	<u>14,351</u>
Operating expense:		
Interest expense on borrowings	641	222
Other expenses	486	226
Total operating expense	<u>1,127</u>	<u>448</u>
Income before income tax expense	12,597	13,903
Income tax expense	5	--
Net income	<u>\$ 12,592</u>	<u>\$ 13,903</u>

QUANTUM CAPITAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2022 and 2021
(Dollars and share data in thousands)

8) CONDENSED PARENT COMPANY ONLY FINANCIAL STATEMENT, continued

Condensed Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net income	\$ 12,592	\$ 13,903
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in other assets	48	103
Increase (decrease) in other liabilities and accrued interest payable	<u>(4)</u>	<u>45</u>
Net cash provided by operating activities	<u>12,636</u>	<u>14,051</u>
Cash flows from investing activities:		
Change in investment in subsidiary	<u>(4,929)</u>	<u>(2,008)</u>
Net cash used in investing activities	<u>(4,929)</u>	<u>(2,008)</u>
Cash flows from financing activities:		
Proceeds (repayment) of other borrowings	(2,850)	12,800
Repurchase of common stock	(2)	--
Cash dividends paid	<u>(5,759)</u>	<u>(24,986)</u>
Net cash used in financing activities	<u>(8,611)</u>	<u>(12,186)</u>
Net change in cash and cash equivalents	(904)	(143)
Cash and cash equivalents at beginning of year	<u>2,457</u>	<u>1,627</u>
Cash and cash equivalents at end of year	<u>\$ 1,553</u>	<u>\$ 1,484</u>

9) SUBSEQUENT EVENT

Effective February 12, 2023, the Company merged with and into HomeTrust Bancshares, Inc. ("HomeTrust"), with HomeTrust as the surviving corporation (the "Company Merger"), and the Bank merged with and into HomeTrust Bank, a wholly owned subsidiary of HomeTrust, with HomeTrust Bank as the surviving bank (the "Bank Merger" and together with the Company Merger, the "Merger"). The Merger occurred pursuant to the Agreement and Plan of Merger dated as of July 24, 2022 (the "Merger Agreement"), between the Company and HomeTrust. Upon completion of the Company Merger, each share of Company common stock outstanding immediately prior to the Company Merger converted into the right to receive \$57.54 in cash and HomeTrust common stock based on a fixed exchange ratio of 2.3942, with cash paid in lieu of fractional shares.

Unaudited Pro Forma Combined Condensed Consolidated Financial Information

The following unaudited pro forma combined condensed consolidated financial information of HomeTrust Bancshares, Inc. (“HomeTrust”) and Quantum Capital Corp. (“Quantum”) presents the pro forma combined financial position of HomeTrust giving effect to its merger with Quantum (the “Merger”) using the acquisition method of accounting with HomeTrust treated as the accounting acquirer. Specifically, the unaudited pro forma combined condensed consolidated balance sheet as of September 30, 2022 combines the historical consolidated balance sheets of HomeTrust and Quantum as of such date and includes adjustments that depict the accounting for the Merger required by Generally Accepted Accounting Principles in the United States (“pro forma balance sheet merger accounting adjustments”). The unaudited pro forma combined condensed consolidated statement of income for the three month period ended September 30, 2022 combines the historical consolidated statements of income of HomeTrust and Quantum for the same period and includes adjustments that depict the effects of the pro forma adjustments assuming those adjustments were made as of, and that the Merger was completed on, July 1, 2022, while the unaudited pro forma combined condensed consolidated statement of income for the year ended June 30, 2022 combines the historical consolidated statements of income of HomeTrust and Quantum for the same period and includes adjustments that depict the effects of the pro forma adjustments assuming those adjustments were made as of, and that the Merger was completed on, July 1, 2021 (“pro forma income statement merger accounting adjustments”). We refer to the unaudited pro forma combined condensed consolidated balance sheet and the unaudited pro forma combined condensed consolidated statements of income collectively as “Unaudited Pro Forma Financial Information.” Also, we refer to pro forma balance sheet merger accounting adjustments and pro forma income statement merger accounting adjustments collectively as “Merger Accounting Adjustments.”

The Unaudited Pro Forma Financial Information is presented for illustrative purposes only and is not necessarily indicative of the financial results that might have occurred had the Merger taken place on the dates identified above. Historical results for any prior period are not necessarily indicative of results to be expected in any future period and should not be assumed to be an indication of the actual results that would have been achieved had the Merger been completed as of the dates indicated or that may be achieved in the future.

The following Unaudited Pro Forma Financial Information and related notes are based on and should be read in conjunction with (i) the historical audited consolidated financial statements of HomeTrust and the related notes included in HomeTrust’s Annual Report on Form 10-K for the fiscal year ended June 30, 2022, (ii) the historical unaudited consolidated financial statements of HomeTrust and the related notes included in HomeTrust’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022, (iii) the historical audited consolidated financial statements of Quantum as of December 31, 2021 and 2020 and for the years then ended, and the related notes thereto, included in Exhibit 99.1 of this Current Report on Form 8-K/A, and (iv) the historical unaudited consolidated financial statements of Quantum as of September 30, 2022 and December 31, 2021 and for the three and nine months ended September 30, 2022 and 2021, and the related notes thereto, included in Exhibit 99.2 of this Current Report on Form 8-K/A.

The Unaudited Pro Forma Financial Information has been prepared by HomeTrust in accordance with Regulation S-X Article 11, Pro Forma Financial Information.

Unaudited Pro Forma Combined Condensed Consolidated Balance Sheet
As of September 30, 2022
(Dollars in thousands)

	HomeTrust	Quantum	Pro Forma Adjustments (See Note 3)		Pro Forma Combined
Assets					
Cash	\$ 18,026	\$ 625	\$ —		\$ 18,651
Interest-bearing deposits	76,133	57,930	(33,037)	(1)	101,026
Cash and cash equivalents	94,159	58,555	(33,037)		119,677
Commercial paper, net	85,296	—	—		85,296
Certificates of deposit in other banks	27,535	—	—		27,535
Debt securities available for sale, at fair value	161,741	11,153	—		172,894
FHLB and FRB stock	9,404	1,116	—		10,520
SBIC investments, at cost	12,235	—	—		12,235
Loans held for sale	76,252	—	—		76,252
Total loans, net of deferred loan fees and costs	2,867,783	576,243	(10,852)	(2)	3,433,174
Allowance for credit losses – loans	(38,301)	(5,971)	725	(3)	(43,547)
Loans, net	2,829,482	570,272	(10,127)		3,389,627
Premises and equipment, net	68,705	4,529	4,668	(4)	77,902
Accrued interest receivable	9,667	1,724	—		11,391
Deferred income taxes, net	11,838	—	1,274	(5)	13,112
Bank owned life insurance ("BOLI")	95,837	8,984	—		104,821
Goodwill	25,638	—	8,043	(6)	33,681
Core deposit intangibles, net	58	—	12,210	(7)	12,268
Other assets	47,339	2,780	569	(8)	50,688
Total assets	\$ 3,555,186	\$ 659,113	\$ (16,400)		\$ 4,197,899
Liabilities and stockholders' equity					
Liabilities					
Deposits	\$ 3,102,668	\$ 588,131	\$ 183	(9)	\$ 3,690,982
Junior subordinated debentures	—	11,341	(1,408)	(10)	9,933
Borrowings	—	9,950	—		9,950
Other liabilities	56,296	1,217	5,667	(11)	63,180
Total liabilities	3,158,964	610,639	4,442		3,774,045
Stockholders' equity					
Preferred stock	—	—	—		—
Common stock	156	574	(560)	(12)	170
Additional paid in capital	127,153	6,811	28,959	(13)	162,923
Retained earnings	278,120	42,095	(50,247)	(14)	269,968
Unearned Employee Stock Ownership Plan shares	(5,158)	—	—		(5,158)
Accumulated other comprehensive loss	(4,049)	(1,006)	1,006	(15)	(4,049)
Total stockholders' equity	396,222	48,474	(20,842)		423,854
Total liabilities and stockholders' equity	\$ 3,555,186	\$ 659,113	\$ (16,400)		\$ 4,197,899

See accompanying notes to unaudited pro forma combined condensed consolidated financial information.

Unaudited Pro Forma Combined Condensed Consolidated Income Statement
For the Three Month Period Ended September 30, 2022
(Dollars in thousands, except per share data)

	HomeTrust	Quantum	Pro Forma Adjustments (See Note 3)		Pro Forma Combined
Interest and dividend income					
Loans	\$ 33,245	\$ 8,403	\$ 1,463	(16)	\$ 43,111
Commercial paper	1,116	—	—	—	1,116
Debt securities available for sale	678	50	64	(17)	792
Other investments and interest-bearing deposits	888	386	—	—	1,274
Total interest and dividend income	35,927	8,839	1,527	—	46,293
Interest expense					
Deposits	1,395	515	(65)	(18)	1,845
Junior subordinated debentures	—	112	25	(19)	137
Borrowings	12	122	—	—	134
Total interest expense	1,407	749	(40)	—	2,116
Net interest income	34,520	8,090	1,567	—	44,177
Provision for credit losses	3,987	—	5,270	(20)	9,257
Net interest income after provision for credit losses	30,533	8,090	(3,703)	—	34,920
Noninterest income					
Service charges and fees on deposit accounts	2,338	98	—	—	2,436
Loan income and fees	570	(6)	(6)	(21)	558
Gain on sale of loans held for sale	1,586	358	—	—	1,944
BOLI income	527	68	—	—	595
Operating lease income	1,585	—	—	—	1,585
Other	804	13	—	—	817
Total noninterest income	7,410	531	(6)	—	7,935
Noninterest expense					
Salaries and employee benefits	14,815	2,325	—	—	17,140
Occupancy expense, net	2,408	208	24	(22)	2,640
Computer services	2,763	544	—	—	3,307
Telephone, postage, and supplies	603	69	—	—	672
Marketing and advertising	590	73	—	—	663
Deposit insurance premiums	542	48	—	—	590
Core deposit intangible amortization	34	—	859	(23)	893
Merger-related expenses	474	309	5,317	(24)	6,100
Other	3,872	268	—	—	4,140
Total noninterest expense	26,101	3,844	6,200	—	36,145
Net income before income taxes	11,842	4,777	(9,909)	—	6,710
Income tax expense	2,643	—	(2,279)	(25)	364
Net income	\$ 9,199	\$ 4,777	\$ (7,630)	—	\$ 6,346
Per share data⁽¹⁾					
Net income per common share					
Basic	\$ 0.61	\$ 8.32	—	—	\$ 0.39
Diluted	\$ 0.60	\$ 8.32	—	—	\$ 0.38
Average shares outstanding					
Basic	14,988,006	574,157	800,489	(26)	16,362,652
Diluted	15,130,762	574,157	800,489	(26)	16,505,408

See accompanying notes to unaudited pro forma combined condensed consolidated financial information.

1) The pro forma combined earnings per share amounts were calculated by totaling the historical earnings of HomeTrust and Quantum, adjusted for the Merger Accounting Adjustments, and dividing the resulting amount by the average pro forma shares of HomeTrust and Quantum, giving effect to the number of HomeTrust common shares issued in the Merger as if such shares were issued as of the beginning of the period presented. The HomeTrust common stock issued in the Merger is based on the fixed exchange ratio of 2.3942 shares of HomeTrust common stock for each share of Quantum common stock.

Unaudited Pro Forma Combined Condensed Consolidated Income Statement
For the Year Ended June 30, 2022
(Dollars in thousands, except per share data)

	HomeTrust	Quantum	Pro Forma Adjustments (See Note 3)		Pro Forma Combined
Interest and dividend income					
Loans	\$ 109,603	\$ 29,839	\$ 4,748	(16)	\$ 144,190
Commercial paper	1,721	—	—	—	1,721
Debt securities available for sale	1,802	145	257	(17)	2,204
Other investments and interest-bearing deposits	2,988	324	—	—	3,312
Total interest and dividend income	116,114	30,308	5,005	—	151,427
Interest expense					
Deposits	5,260	796	(183)	(18)	5,873
Junior subordinated debentures	—	259	100	(19)	359
Borrowings	80	450	—	—	530
Total interest expense	5,340	1,505	(83)	—	6,762
Net interest income	110,774	28,803	5,088	—	144,665
Provision (benefit) for credit losses	(592)	(315)	5,270	(20)	4,363
Net interest income after provision (benefit) for credit losses	111,366	29,118	(182)	—	140,302
Noninterest income					
Service charges and fees on deposit accounts	9,462	394	—	—	9,856
Loan income and fees	3,185	38	(24)	(21)	3,199
Gain on sale of loans held for sale	12,876	4,630	—	—	17,506
BOLI income	2,000	270	—	—	2,270
Operating lease income	6,392	—	—	—	6,392
Gain from sale of debt securities available for sale	1,895	40	—	—	1,935
Other	3,386	64	—	—	3,450
Total noninterest income	39,196	5,436	(24)	—	44,608
Noninterest expense					
Salaries and employee benefits	59,591	9,512	—	—	69,103
Occupancy expense, net	9,692	867	97	(22)	10,656
Computer services	9,761	1,965	—	—	11,726
Telephone, postage, and supplies	2,754	254	—	—	3,008
Marketing and advertising	2,583	341	—	—	2,924
Deposit insurance premiums	1,712	180	—	—	1,892
REO related expense, net	588	4	—	—	592
Core deposit intangible amortization	250	—	3,438	(23)	3,688
Officer transition agreement expense	1,795	—	—	—	1,795
Merger-related expenses	—	—	6,100	(24)	6,100
Other	16,458	2,098	—	—	18,556
Total noninterest expense	105,184	15,221	9,635	—	130,040
Net income before income taxes	45,378	19,333	(9,841)	—	54,870
Income tax expense	9,725	130	(2,263)	(25)	7,592
Net income	\$ 35,653	\$ 19,203	\$ (7,578)	\$ —	\$ 47,278
Per share data⁽¹⁾					
Net income per common share					
Basic	\$ 2.27	\$ 33.45	\$ —	\$ —	\$ 2.78
Diluted	\$ 2.23	\$ 33.45	\$ —	\$ —	\$ 2.73
Average shares outstanding					
Basic	15,516,173	574,157	800,489	(26)	16,890,819
Diluted	15,810,409	574,157	800,489	(26)	17,185,055

See accompanying notes to unaudited pro forma combined condensed consolidated financial information.

1) The pro forma combined earnings per share amounts were calculated by totaling the historical earnings of HomeTrust and Quantum, adjusted for the Merger Accounting Adjustments, and dividing the resulting amount by the average pro forma shares of HomeTrust and Quantum, giving effect to the number of HomeTrust common shares issued in the Merger as if such shares were issued as of the beginning of the period presented. The HomeTrust common stock issued in the Merger is based on the fixed exchange ratio of 2.3942 shares of HomeTrust common stock for each share of Quantum common stock.

Note 1. Basis of Presentation

The Unaudited Pro Forma Financial Information and related notes have been prepared to illustrate the effect of the Merger under the acquisition method of accounting with HomeTrust treated as the accounting acquirer. The Unaudited Pro Forma Financial Information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined company had the Merger occurred at the beginning of the periods presented, nor does it necessarily indicate the results of operations in future periods or the future financial position of the combined entity. Under the acquisition method of accounting, the assets and liabilities of Quantum will be recorded at their respective fair values, and the excess of the purchase price consideration over the fair value of Quantum's net assets will be allocated to goodwill. See "Note 2. Preliminary Purchase Price Allocation" for detailed calculations of the estimated purchase price.

The Merger, which closed on February 12, 2023, provided for Quantum stockholders to receive \$57.54 in cash and HomeTrust common stock based on a fixed exchange ratio of 2.3942, with cash in lieu of fractional shares being paid based on the closing price of \$27.45 per HomeTrust share on the NASDAQ Global Select Market ("NASDAQ") on February 10, 2023. The aggregate amount of consideration paid of approximately \$70.8 million, inclusive of consideration for common stock, other cash consideration, and cash in lieu of fractional shares, was reduced at closing by \$15.9 million for cash consideration already paid to Quantum stockholders in advance of the closing date as stated in "Note 2. Preliminary Purchase Price Allocation". These distributions reduced Quantum's stockholders' equity by an equal amount prior to the transaction closing date.

The preparation of the Unaudited Pro Forma Financial Information and related adjustments required management to make certain assumptions and estimates, which it believes are reasonable under the circumstances. Accordingly, the Unaudited Pro Forma Financial Information, including the allocations of the purchase price, are preliminary and have been made solely for the purpose of providing unaudited pro forma combined condensed consolidated financial information. A final determination of the fair values of Quantum's assets and liabilities will be based on the actual net tangible and intangible assets that existed as of the date of completion of the Merger and is subject to adjustments for up to a year after the completion of the Merger. Consequently, amounts preliminarily allocated to goodwill and identifiable intangibles could change significantly from those allocations used in the unaudited pro forma combined condensed consolidated financial statements presented herein and could result in a material change in amortization of acquired intangible assets.

As a result of the foregoing, the pro forma adjustments are preliminary and are subject to change as additional information becomes available and as additional analysis is performed. Additionally, market conditions, particularly interest rates, were dynamic between September 30, 2022 and February 12, 2023 (the date of the completion of the Merger), and therefore certain purchase accounting adjustments may be impacted. The preliminary pro forma adjustments have been made solely for the purpose of providing the Unaudited Pro Forma Financial Information.

Note 2. Preliminary Purchase Price Allocation

The Merger Accounting Adjustments reflect the estimated accounting impact of the Merger, including the allocation of the purchase price. The estimates in the Merger Accounting Adjustments are based on available information and certain assumptions considered reasonable and may be subject to change as additional information becomes available.

Core deposit intangible assets of \$12.2 million are included in the Merger Accounting Adjustments separate from goodwill and will be amortized using an accelerated method over ten years. Based on the closing trading price of HomeTrust common stock on the NASDAQ on February 10, 2023, the preliminary purchase price allocation resulted in goodwill of approximately \$8.0 million.

The preliminary purchase price allocation is as follows:

Pro forma purchase price allocation	
Common share consideration	
Shares of Quantum	574,157
Exchange ratio	2.3942
HomeTrust shares to be issued	1,374,647
Price per share of HomeTrust common stock on February 10, 2023	\$ 27.45
Consideration for common stock	\$ 37,734
Cash consideration ⁽¹⁾	17,168
Total pro forma purchase price consideration	\$ 54,902

(1) The amount of cash consideration paid at closing differs from the \$57.54 per share, or \$33.0 million, reported in the Current Report on Form 8-K filed by HomeTrust on February 13, 2023, which reported the closing of the Merger. Consistent with the Merger agreement, between the execution of the Merger agreement and the transaction closing date, Quantum's principal stockholders had the option to withdraw some or all of the amount of cash consideration to eventually be paid at closing in advance of the closing date. The amount of cash consideration paid at closing was reduced by the amount withdrawn during this time period.

Pro forma goodwill		
Fair value assets acquired		
Cash and cash equivalents	\$	47,769
Debt securities available for sale		10,608
FHLB and FRB stock		1,125
Loans		561,933
Premises and equipment		9,083
Accrued interest receivable		1,706
BOLI		9,066
Core deposit intangible		12,210
Other assets		3,296
Total assets acquired	\$	656,796
Fair value of liabilities assumed		
Deposits	\$	570,602
Junior subordinated debentures		9,933
Other borrowings		24,728
Deferred income taxes, net		1,341
Other liabilities		3,333
Total liabilities assumed	\$	609,937
Net assets acquired	\$	46,859
Pro forma goodwill	\$	8,043

Note 3. Pro Forma Adjustments

The following Merger Accounting Adjustments have been reflected in the Unaudited Pro Forma Financial Information. All taxable adjustments were calculated using a 23.0% tax rate, which represents the blended statutory rate, to arrive at deferred tax asset or liability adjustments. All adjustments are based on current assumptions and valuations, which are subject to change.

- (1) Adjustment to cash and cash equivalents to reflect the \$33.0 million cash portion of consideration required to be paid to Quantum stockholders. This amount differs from the \$17.2 million shown in "Note 2. Preliminary Purchase Price Allocation" because, between October 1, 2022 and the transaction closing date, Quantum's stockholders elected to withdraw \$15.9 million of the cash consideration in advance of the closing.
- (2) Adjustments to Quantum's total loans to reflect the estimated credit fair value adjustment on the non-purchase credit deteriorated ("non-PCD") loan portfolio of \$3.0 million and the estimated interest rate fair value adjustment on the loan portfolio as a whole (non-PCD and purchase credit deteriorated ("PCD")) of \$7.9 million. The fair value adjustment on loans has been updated from the estimate as of July 25, 2022, the Merger announcement date, as market conditions, particularly interest rates, changed significantly between the announcement date and completion of the Merger.
- (3) Elimination of Quantum's existing allowance for loan losses of \$6.0 million and the recognition of an allowance for credit losses ("ACL") at close on PCD loans of \$0.4 million. In addition, an ACL for non-PCD loans of \$4.9 million is reflected in the pro forma adjustments and represents the amount that will be recognized in the statement of income immediately following the completion of the Merger.
- (4) Adjustment to premises and equipment to reflect the estimated fair value of acquired premises and equipment.
- (5) As Quantum was an S-Corporation, adjustments include both the establishment of a deferred tax inventory and the impact of purchase accounting adjustments.
- (6) Adjustment to record estimated goodwill associated with the Merger. See "Note 2. Preliminary Purchase Price Allocation" for additional detail.
- (7) Adjustment to record a core deposit intangible related to the Merger. The value of the core deposit intangible has been updated from the estimate as of July 25, 2022, the Merger announcement date, as interest rates changed significantly between the announcement date and completion of the Merger.
- (8) Adjustments to reflect the estimated fair value of SBA loan servicing rights (\$0.5 million) and land expected to be held for sale (\$0.1 million).
- (9) Adjustment to Quantum's time deposits to reflect their estimated fair value based on an analysis of current market interest rates and maturity dates.
- (10) Adjustment to Quantum's junior subordinated debentures to reflect their estimated fair value based on an analysis of recent originations of similar instruments.
- (11) Adjustments to reflect the combined additional estimated Merger-related expenses of \$5.3 million and the establishment of an ACL on unfunded commitments of \$0.4 million.

- (12) Adjustments to reflect the issuance of 1,374,646 shares of HomeTrust common stock with \$0.01 par value per share in connection with the Merger and elimination of 574,157 shares of Quantum common stock with \$1.00 par value per share.
- (13) Adjustments to reclassify Quantum's historical retained earnings into additional paid in capital, offset by the impact of purchase accounting adjustments.
- (14) Adjustments to eliminate Quantum's historical retained earnings, establish the ACLs on loans and unfunded commitments, and accrue for estimated Merger expenses (all tax effected).
- (15) Adjustment to eliminate Quantum's accumulated other comprehensive loss.
- (16) Adjustment to interest income to recognize estimated accretion attributable to recording Quantum's loan portfolio at fair value as discussed in adjustment (2) above, which will be accreted on a level-yield basis over the lives of the individual loans.
- (17) Adjustment to interest income to recognize estimated accretion of the discount on acquired available-for-sale securities, which will be accreted on a level-yield basis over the lives of the individual securities.
- (18) Adjustment to interest expense to recognize estimated amortization attributable to recording Quantum's time deposits at fair value as discussed in adjustment (9) above, which will be amortized on a straight-line basis over nine months.
- (19) Adjustment to interest expense to recognize estimated accretion attributable to recording Quantum's junior subordinated debentures at fair value as discussed in adjustment (10) above, which will be accreted on a straight-line basis over the remaining term of the debt.
- (20) Provision expense to establish an ACL for non-PCD loans as discussed in adjustment (3) above.
- (21) Adjustment to loan servicing income to recognize estimated amortization attributable to recording Quantum's SBA loan servicing rights at fair value as discussed in adjustment (8) above, which will be accreted on a straight-line basis over the lives of the individual loans.
- (22) Adjustment to occupancy expense to recognize estimated amortization attributable to recording Quantum's buildings at fair value as discussed in adjustment (4) above, which will be amortized on a straight-line basis over the useful lives of the assets.
- (23) Adjustment to recognize estimated amortization attributable to the value of the intangible recorded associated with Quantum's core deposits as discussed in adjustment (7) above, which is expected to be amortized on an accelerated basis over 10 years.
- (24) Adjustment to recognize additional estimated Merger-related expenses of \$5.3 million for the three month period ended September 30, 2022 and \$6.1 million for the year ended June 30, 2022 as discussed in adjustment (11) above. The difference between these values reflects the expense already accrued by both entities during the three month period ended September 30, 2022.
- (25) Adjustments to income tax expense for both the establishment of a deferred tax inventory and the impact of purchase accounting adjustments as discussed in adjustment (5) above.
- (26) Adjustments to reflect the issuance of HomeTrust common stock and elimination of Quantum's common stock outstanding as discussed in adjustment (12) above.