

July 23, 2024

Dear First Carolina Financial Services, Inc. (“Company”) Shareholders:

Today, on behalf of your Board of Directors, I am writing to provide you with an update on your Company and to report results through June 30, 2024, for the Company’s subsidiary bank, First Carolina Bank (“Bank”). The markets we serve remain dynamic and strongly in favor of our business model, as evidenced by the continued growth of the Bank’s balance sheet. Since the Bank’s fiscal year end on December 31, 2023, gross loans increased from **\$2.23 billion** to **\$2.54 billion** and total assets from **\$2.73 billion** to **\$2.98 billion** at June 30, 2024. For the six months ended June 30, 2024, the Bank had unaudited net income of **\$11.77 million** compared to net income of **\$12.04 million** for the six months ended June 30, 2023. Despite the growth in our earning-asset base, which we believe will bolster our results once interest rates start to decline, higher deposit costs and commitments we have made to invest in management and new digital opportunities expectedly tempered our net income for the first six months of fiscal year 2024. We expect that these planned investments in personnel and infrastructure will positively impact the Bank’s performance in coming quarters.

**Key Bank Highlights and Year-Over-Year Growth as of and for the Quarter Ended June 30, 2024:**

- Gross Loans of **\$2.54 billion** compared to **\$2.02 billion** on June 30, 2023 (25.5 percent).
- Total Deposits of **\$2.54 billion** compared to **\$2.04 billion** on June 30, 2023 (24.4 percent).
- Total Assets of **\$2.98 billion** compared to **\$2.52 billion** on June 30, 2023 (18.3 percent).
- Continued strong asset quality as evidenced by “0” in Other Real Estate Owned property and “0” 30-day past due loans on June 30, 2024.
- Total year-to-date 2024 net revenue of **\$48.6 million** versus **\$33.3 million** for the six-month period ended June 30, 2023 (46.1 percent).

While we continued to make investments in our people and the infrastructure of the Bank during the first half of the year, we began to experience an improvement in the net interest margin and further efficiencies in our loan book that contributed to steady earnings. We believe these critical investments will allow us to remain opportunistic and keep us in a position to take advantage of current conditions. Over the last twelve months, many of our competitors have been cutting costs and curtailing lending, enabling us to acquire valuable banking talent – a practice we plan to continue.

As of this writing, we sit on the cusp of the \$3 billion asset mark and see our organic growth story continuing, even as we work to complete the framework to support the larger Bank that we have become. This is indeed our story and one that compels our activities every day, including the efforts of our executive management team. We have the “research and development” and “ongoing functional” parts of our business led by Pat Pritchard, Kristen Brabble, and Steven Deaton. In addition to focusing on our day-to-day operations that are so critical to creating an exceptional customer experience, these executives are leading our strategy to grow our digital offerings for our customers and prospects, which we believe is critical given our low branch footprint. Additionally, we have Gregg Ferrell and Doug Ford leading the customer-facing/business development efforts in investment real estate and wealth & commercial/retail banking, respectively, for the Bank. Through the combined efforts of this outstanding leadership team, we have continued to produce strong financial results, while at the same time making strategic investments in our business that we believe will position us well for the continued growth of our business.

The loan business you see in our standard financial reporting, however, only gives you a partial view of the total loan book. I believe there is embedded value in our balance sheet that is not visible on the surface of our financial reports, which resides in a category known as “unfunded” commitments. These are loan commitments that we have booked for businesses and commercial real estate relationships that will fund up over time based on a specific business or project

plan. Today, we have over \$700 million in unfunded loan commitments on our balance sheet that are already booked and expected to fund over the next 18-24 months. These are well-priced commitments and ones that we expect to expand our net interest margin as they fund and improve operating earnings as we head into fiscal 2025. Additionally, we have already provided for the majority of the allowance for potential credit loss in these loans through our Allowance for Credit Losses. In other words, as these loans fund up over time and begin earning interest for the Bank, we would not expect significant additional provision expense to be incurred. In our view, at current spreads, this is another \$25 million in net margin contribution embedded in our financials; and the borrowers associated with these loans fit our strictest qualification requirements. As an example, the weighted average loan-to-cost of the construction loans that comprise a significant portion of the total unfunded commitments is 62.5%.

Listed below is additional summary financial statement information for your consideration, and it is followed by a more detailed period-over-period analysis in the attachment to this letter.

### Summary Period End Financial Results (Unaudited)

(in thousands, except for per share information)

<b>First Carolina Bank</b>	<b>June 30, 2024</b>	<b>June 30, 2023</b>
Gross Loans	\$2,540,548	\$2,024,327
Total Investments	\$197,162	\$226,599
Total Assets	\$2,983,518	\$2,521,850
Total Low-Cost Deposits	\$1,447,549	\$1,078,074
Total Certificates of Deposit	\$1,090,428	\$961,393
Total Deposits	\$2,537,978	\$2,039,467
Year-to-Date Net Income	\$11,772	\$12,042
Total Risk-Based Capital Ratio	11.94%	13.66%
<b>First Carolina Financial Services, Inc. ("FCFS")</b>		
FCFS Shareholders' Equity	\$280,219	\$257,238
FCFS Common Stock Period-End Shares Outstanding	11,006	10,820
FCFS YTD Average Number Shares Outstanding	10,994	10,756
FCFS Book Value / Period-End Shares Outstanding	\$25.46	\$23.77
FCFS Earnings / Average Shares Outstanding	\$0.91	\$0.96

We remain optimistic about our prospects and look forward to seeing you in person as we are out and about over the second half of the year to thank you for your business and search for ways to do more together. As always, we appreciate your confidence, welcome your thoughts and feedback, and again thank you for your support. We are excited about the future of First Carolina Bank! Please see the attached deposit product flyer as you consider your current needs. All our best to you.

Sincerely,



Ronald A. Day  
 President and Chief Executive Officer  
 252-451-2960  
[ronday@firstcarolinabank.com](mailto:ronday@firstcarolinabank.com)

If you ever have questions regarding your FCFS shares, please contact [investorrelations@firstcarolinabank.com](mailto:investorrelations@firstcarolinabank.com).

### **Cautionary Statement Regarding Forward-Looking Statements**

*This letter contains forward-looking statements. These statements reflect management’s current beliefs as to the expected outcomes of future events and are not guarantees of future performance. Forward-looking statements are typically preceded by, followed by, or include words such as “may,” “could,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “projects,” “outlook” or similar expressions. Actual results or events might differ materially from those explicit or implicit in the forward-looking statements, and readers of this letter should not place undue reliance on such statements. Important factors that could cause actual results to differ materially include, without limitation: increases in our past due loans, whether due to the current interest-rate environment or other factors; our ability to grow loans and the banking franchise; that unfunded loan commitments may not fund or, if funded, may not perform as expected or contribute to our financial performance in the way we currently expect; the effects of future economic conditions, including inflation and changes in real estate values; that our prior investments in personnel and infrastructure may not produce the future benefits we expect; changes in governmental fiscal and monetary policies; legislative and regulatory changes and/or our relationship with our regulators; the risks of further changes in interest rates and potential impacts on loan demand, our borrowings, and our cost of funds; increasing competition for deposits and related funding costs and their impacts on our net interest margin and profitability; fluctuations in our financial results; potential increases in our provisions for credit losses, whether due to economic conditions affecting our borrowers, changes in assumptions, or otherwise; loss of key personnel, including any bankers that may be instrumental to our growth plans; changes in tax law; our ability to attract key talent, including commercial bankers; unexpected increases in non-interest expense that affect our efficiency; and privacy, security and other risks associated with our business. We assume no obligation and do not intend to update these forward-looking statements, except as required by law.*

### **Rocky Mount, NC – Headquarters Campus**



# First Carolina Bank (FCB)

## Quarterly Balance Sheet

	Ending Balance as of				
	Jun 2024	Mar 2024	Dec 2023	Sep 2023	Jun 2023
(Dollars in thousands, except per share data)					
<b>Assets</b>					
Cash & Due From Banks	\$10,092	\$6,107	\$5,207	\$6,039	\$6,871
Interest Bearing Deposits	\$136,098	\$190,864	\$155,762	\$105,074	\$197,402
Total Cash and Due From Banks	\$146,189	\$196,971	\$160,970	\$111,113	\$204,273
Total Investments	\$197,162	\$212,915	\$203,769	\$212,997	\$226,599
Gross Loans	\$2,540,548	\$2,370,331	\$2,230,443	\$2,163,037	\$2,024,327
Total Allowance for Credit Losses	(\$19,521)	(\$18,147)	(\$18,897)	(\$18,575)	(\$19,452)
Total Loans	\$2,521,026	\$2,352,184	\$2,211,546	\$2,144,462	\$2,004,875
Total Net Fixed Assets	\$35,044	\$33,051	\$32,229	\$31,242	\$29,812
Total Other Real Estate Owned	\$0	\$0	\$0	\$0	\$0
Total Goodwill/Intangible	\$1,792	\$1,792	\$1,792	\$1,792	\$1,792
Total Other Assets	\$82,305	\$94,055	\$114,992	\$55,177	\$54,500
Total Assets	\$2,983,518	\$2,890,968	\$2,725,297	\$2,556,784	\$2,521,850
<b>Liabilities</b>					
Total Non-Interest DDA	\$565,500	\$825,265	\$656,097	\$335,045	\$340,623
MMDA/NOW/Savings	\$882,050	\$835,885	\$764,935	\$742,151	\$737,452
Total Certificates of Deposit	\$1,090,428	\$855,496	\$947,948	\$989,706	\$961,393
Total Deposits	\$2,537,978	\$2,516,646	\$2,368,980	\$2,066,902	\$2,039,467
Total Borrowings	\$75,000	\$0	\$0	\$150,000	\$150,000
Total Accrued Expenses	\$18,992	\$24,459	\$14,899	\$5,835	\$4,890
Total Taxes & Other	\$12,880	\$17,393	\$16,350	\$15,839	\$15,288
Total Liabilities	\$2,644,851	\$2,558,498	\$2,400,228	\$2,238,576	\$2,209,646
Total Equity	\$338,668	\$332,470	\$325,069	\$318,208	\$312,204
Total Liabilities & Equity	\$2,983,518	\$2,890,968	\$2,725,297	\$2,556,784	\$2,521,850
<b>Capital Ratios:</b>					
FCB Tier 1 Capital	\$338,300	\$332,394	\$325,153	\$319,510	\$312,879
FCB Total Risk Based Capital	\$364,029	\$357,861	\$351,672	\$345,773	\$339,625
Tier 1 Leverage Ratio	11.85%	11.56%	12.47%	13.13%	13.55%
FCB Risk Based Capital Ratio	11.94%	12.12%	12.35%	12.67%	13.66%
<b>Asset Quality:</b>					
Non Accrual Loans	\$17,209	\$0	\$0	\$0	\$0
Total Other Real Estate Owned	\$0	\$0	\$0	\$0	\$0
Total Non-Performing Assets	\$17,209	\$0	\$0	\$0	\$0
<b>Asset Ratios:</b>					
Non Accrual/Loans	0.68%	0.00%	0.00%	0.00%	0.00%
Non-Performing Assets / Gross Loans	0.68%	0.00%	0.00%	0.00%	0.00%
Texas Ratio (NPA & loans >90days/Tier 1)	5.09%	0.00%	0.00%	0.00%	0.00%
Total Reserve to Gross Loans	1.01%	1.07%	1.18%	1.21%	1.31%

### First Carolina Financial Services ("FCFS")

FCFS Total Shareholders' Equity Consol	\$280,219	\$274,890	\$268,374	\$262,373	\$257,238
FCFS YTD Net Income	\$10,018	\$5,674	\$19,628	\$15,459	\$10,311
FCFS YTD Earnings / Average Share Outstanding	\$0.91	\$0.52	\$1.82	\$1.43	\$0.96
FCFS Stock Price	\$34.00	\$32.00	\$31.00	\$31.00	\$30.50
FCFS Book Value / Period-End Shares Outstanding	\$25.46	\$25.00	\$24.80	\$24.24	\$23.77
FCFS Tangible Book Value / Period-End Shares Outstanding	\$25.30	\$24.84	\$24.63	\$24.08	\$23.61
FCFS Period-End Number Shares Outstanding	11,006	10,995	10,823	10,823	10,820
FCFS YTD Average Number Common Stock Shares Outstanding	10,994	10,987	10,789	10,778	10,756
FCFS Return on Average Equity (ROE) YTD	7.34%	8.41%	7.63%	8.11%	8.23%

**First Carolina Bank (FCB)**  
**Quarterly Income Statement**

	Quarter Ended				
	Jun 2024	Mar 2024	Dec 2023	Sep 2023	Jun 2023
(Dollars in thousands, except per share data)					
Interest on Cash Balances	\$1,180	\$2,358	\$852	\$643	\$891
Total Investments Int Inc	\$2,957	\$3,221	\$3,226	\$3,404	\$3,019
Total Loan Interest Income	\$36,647	\$34,345	\$32,844	\$30,286	\$27,219
Total Loan Fees Income	\$1,933	\$1,797	\$1,900	\$1,674	\$1,541
<b>Total Interest Income</b>	<b>\$42,717</b>	<b>\$41,721</b>	<b>\$38,823</b>	<b>\$36,006</b>	<b>\$32,670</b>
MMDA/NOW/Savings	\$8,979	\$7,800	\$7,817	\$7,575	\$7,098
Total Certificates of Deposit	\$10,792	\$9,697	\$9,710	\$9,877	\$8,236
<b>Total Deposit Expense</b>	<b>\$19,771</b>	<b>\$17,498</b>	<b>\$17,527</b>	<b>\$17,452</b>	<b>\$15,334</b>
Total Borrowing Expense	\$817	\$68	\$1,989	\$947	\$1,068
<b>Total Interest Expense</b>	<b>\$20,588</b>	<b>\$17,566</b>	<b>\$19,516</b>	<b>\$18,399</b>	<b>\$16,402</b>
<b>Net Interest Income</b>	<b>\$22,129</b>	<b>\$24,155</b>	<b>\$19,307</b>	<b>\$17,607</b>	<b>\$16,268</b>
Total Customer Service Fees	\$961	\$683	\$415	\$242	\$236
Total Miscellaneous Income	\$400	\$302	\$311	\$319	\$284
Net Gain (Loss) On Sale Investments	\$0	\$0	\$0	\$110	\$0
Net Gain (Loss) On Sale Fixed Assets	\$0	\$0	\$0	\$0	\$0
Net Gain (Loss) On Sale OREO	\$0	\$0	\$0	\$0	\$0
<b>Total Non-Interest Income</b>	<b>\$1,361</b>	<b>\$985</b>	<b>\$725</b>	<b>\$672</b>	<b>\$520</b>
Total Salary Expense	\$4,873	\$4,778	\$4,610	\$4,026	\$3,895
Total Employee Benefits	\$1,949	\$2,232	\$1,731	\$1,895	\$1,695
Total Fas 91 Benefits	(\$135)	(\$128)	(\$125)	(\$144)	(\$145)
Total Contracted Labor	\$30	\$0	\$0	\$0	\$0
Total Occupancy Expense	\$471	\$471	\$453	\$475	\$453
Total Depreciation	\$404	\$340	\$336	\$333	\$326
Total Equipment Expense	\$203	\$175	\$199	\$157	\$162
Total Intangibles & Org	\$0	\$0	\$0	\$0	\$0
Total Bank Services Expense	\$5,873	\$7,648	\$3,366	\$1,718	\$72
Total Other Expenses	\$3,015	\$2,710	\$3,306	\$2,797	\$2,506
<b>Total Non-Interest Expense</b>	<b>\$16,683</b>	<b>\$18,226</b>	<b>\$13,877</b>	<b>\$11,258</b>	<b>\$8,964</b>
Total Provision for Credit Losses	\$265	(\$1,051)	\$260	(\$480)	\$326
<b>Income Before Taxes</b>	<b>\$6,542</b>	<b>\$7,966</b>	<b>\$5,895</b>	<b>\$7,501</b>	<b>\$7,498</b>
Total Income Taxes	\$1,328	\$1,407	\$867	\$1,486	\$1,461
<b>Net Income</b>	<b>\$5,213</b>	<b>\$6,558</b>	<b>\$5,029</b>	<b>\$6,014</b>	<b>\$6,037</b>
Net Revenue (1)	\$23,489	\$25,140	\$20,033	\$18,168	\$16,788
Total Expenses (excludes taxes and provision)	\$16,683	\$18,226	\$13,877	\$11,258	\$8,964
<b>Performance Ratios:</b>					
FCB Efficiency Ratio	71.02%	72.50%	69.27%	61.97%	53.40%
Return on Avg. Asssets (ROA)	0.73%	0.92%	0.77%	0.98%	1.05%
Return on Avg. Equity (ROE)	6.24%	8.03%	6.21%	7.58%	7.84%
Net Interest Margin (NIM)	3.24%	3.62%	3.09%	2.97%	2.93%

(1) Net Revenue calculated as Net Interest Income + Non-Interest Income.-G/L on Sale of Investments

# GREAT RATES, NO DEBATE.

# 5.15% APY<sup>1</sup>

4 MONTH CD

# 5.05% APY<sup>1</sup>

7 MONTH CD

*\$5,000 minimum balance; new money only. Funded checking account required unless HOA.*



## First Carolina Bank

### CAROLINA MONEY MARKET

**2.79% APY<sup>2</sup>** \$0.01 - \$24,999.99

**2.86% APY<sup>2</sup>** \$25,000 - \$99,999.99

**2.95% APY<sup>2</sup>** \$100,000 - \$249,999.99

**3.10% APY<sup>2</sup>** \$250,000 - \$499,999.99

**3.26% APY<sup>2</sup>** \$500,000 - \$999,999.99

**3.51% APY<sup>2</sup>** \$1,000,000 +

*Monthly fee of \$25 if daily balance falls below \$2,500. Funded checking account required unless HOA.*

1. APY means Annual Percentage Yield. Advertisd interest rate is effective as of April 23, 2024. This is a promotional rate that applies only to new Certificates of Deposit (CD) with a 4- or 7-month term. Upon renewal of the CD, our then-standard rate for CDs with that amount and term apply. We may change this promotional rate at any time without any prior notice. To qualify for the advertised APY, clients must have a funded personal or business checking account. The minimum balance required to open these CDs is \$5,000. Additional requirements may apply; contact your local branch for details. Offer is limited to a maximum deposit of \$250,000 per instrument. Substantial penalty for early withdrawal. Your account is covered by FDIC insurance to the maximum allowed by law.

2. APY means Annual Percentage Yield. Advertisd rates are effective as of March 21, 2023 and are available to new funds deposited with First Carolina Bank Money Market account. To qualify for the advertised APY, personal or business clients may be required to have or open a personal or business checking account and maintain a minimum balance of \$2,500 or more in a Carolina Money Market account. If the daily balance drops below \$2,500 during a statement period, a \$25 monthly fee will be applied. Rates are variable and subject to change at any time. Fees may reduce the earnings on this account. Excessive activity fee after six (6) withdrawals per statement cycle. Your account is covered by FDIC insurance to the maximum allowed by law.



[firstcarolinabank.com](https://www.firstcarolinabank.com)