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

FORM 10-K

☒ **Annual Report Pursuant To Section 13 Or 15(d) of The Securities Exchange Act of 1934**
For The Fiscal Year December 31, 2024.

Or

☐ **Transition Report Pursuant To Section 13 Or 15(d) of The Securities Exchange Act of 1934**
For the Transition Period from ___________ to _______________
Commission file number 000-27719

Southern First Bancshares, Inc.

(Exact name of registrant as specified in its charter)

South Carolina	**58-2459561**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6 Verdae Boulevard, Greenville, SC	**29607**
(Address of principal executive offices)	(Zip Code)

864-679-9000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Trading Symbol	Name of each exchange on which registered
Common Stock	**SFST**	**The NASDAQ Global Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐ 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. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 30, 2024 (based on the average bid and ask price of the Common Stock as quoted on the NASDAQ Global Market on June 30, 2024), was $224,378,032.

8,177,372 shares of the registrant's common stock were outstanding as of March 3, 2025.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 20, 2025 are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

Southern First Bancshares, Inc.
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements may relate to our financial condition, results of operation, plans, business strategy, objectives, or future performance. These statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words “may,” “would,” “could,” “should,” “will,” “seek to,” “strive,” “focus,” “expect,” “anticipate,” “predict,” “project,” “potential,” “believe,” “continue,” “assume,” “intend,” “plan,” and “estimate,” as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties that could cause our actual results to differ from those anticipated in any forward-looking statements include, but are not limited to, those described below under Item 1A. Risk Factors and the following:

- Restrictions or conditions imposed by our regulators on our operations;
- Increases in competitive pressure in the banking and financial services industries;
- Changes in access to funding or increased regulatory requirements with regard to funding, which could impair our liquidity;
- Changes in deposit flows, which may be negatively affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to clients on alternative investments and general economic or industry conditions;
- Credit losses as a result of declining real estate values, increasing interest rates, increasing unemployment, changes in payment behavior or other factors;
- Credit losses due to loan concentration;
- Changes in the amount of our loan portfolio collateralized by real estate and weaknesses in the real estate market;
- Our ability to successfully execute our business strategy;
- Our ability to attract and retain key personnel;
- The success and costs of our expansion into the Charlotte, North Carolina, Greensboro, North Carolina and Atlanta, Georgia markets and into potential new markets;
- Risks with respect to future mergers or acquisitions, including our ability to successfully expand and integrate the businesses and operations that we acquire and realize the anticipated benefits of the mergers or acquisitions;
- Changes in the interest rate environment which could reduce anticipated or actual margins;
- Changes in political conditions or the legislative or regulatory environment, including new governmental initiatives affecting the financial services industry;
- Changes in economic conditions resulting in, among other things, a deterioration in credit quality;
- Changes occurring in business conditions and inflation;
- Increased cybersecurity risk, including potential business disruptions or financial losses;
- Changes in technology;
- The adequacy of the level of our allowance for credit losses and the amount of loan loss provisions required in future periods;
- Examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for credit losses or write-down assets;
- Changes in U.S. monetary policy, the level and volatility of interest rates, the capital markets and other market conditions that may affect, among other things, our liquidity and the value of our assets and liabilities;
- Any increase in FDIC assessments which will increase our cost of doing business;

- Risks associated with complex and changing regulatory environments, including, among others, with respect to data privacy, artificial intelligence (“AI”), information security, climate change or other environmental, social and governance matters, and labor matters, relating to our operations;
- The rate of delinquencies and amounts of loans charged-off;
- The rate of loan growth in recent years and the lack of seasoning of a portion of our loan portfolio;
- Our ability to maintain appropriate levels of capital and to comply with our capital ratio requirements;
- Adverse changes in asset quality and resulting credit risk-related losses and expenses;
- Changes in accounting standards, rules and interpretations and the related impact on our financial statements;
- Risks associated with actual or potential litigation or investigations by customers, regulatory agencies or others;
- Adverse effects of failures by our vendors to provide agreed upon services in the manner and at the cost agreed;
- The potential effects of events beyond our control that may have a destabilizing effect on financial markets and the economy, such as epidemics and pandemics, war or terrorist activities, such as the war in Ukraine, the Middle East conflict, and the conflict between China and Taiwan, disruptions in our customers’ supply chains, disruptions in transportation, essential utility outages or trade disputes and related tariffs; and disruptions caused by widespread cybersecurity incidents; and
- Other risks and uncertainties detailed in this Annual Report on Form 10-K and, from time to time, in our other filings with the Securities and Exchange Commission (“SEC”).

If any of these risks or uncertainties materialize, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. For information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see “Risk Factors” under Part I, Item 1A of this Annual Report on Form 10-K. We urge investors to consider all of these factors carefully in evaluating the forward-looking statements contained in this Annual Report on Form 10-K. We make these forward-looking as of the date of this document and we do not intend, and assume no obligation, to update the forward-looking statements or to update the reasons why actual results could differ from those expressed in, or implied or projected by, the forward-looking statements, except as required by applicable law.

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PART I

Item 1. Business

General

Southern First Bancshares, Inc. (the “Company”) was incorporated in March 1999 under the laws of South Carolina and is a bank holding company registered under the Bank Holding Company Act of 1956 (the “BHCA”). Our primary business is to serve as the holding company for Southern First Bank (the “Bank”), a South Carolina state bank. The Bank is a commercial bank with eight retail offices located in the Greenville, Columbia, and Charleston markets of South Carolina, three retail offices in the Raleigh, Greensboro, and Charlotte markets of North Carolina and one retail office in Atlanta, Georgia. In addition, we opened our Dream Mortgage Center, a loan production office, located in Columbia, South Carolina during 2023.

The Bank is primarily engaged in the business of accepting demand deposits and savings deposits insured by the Federal Deposit Insurance Corporation (the “FDIC”), and providing commercial, consumer and mortgage loans to the general public.

Unless the context requires otherwise, references to the “Company,” “we,” “us,” “our,” or similar references mean Southern First Bancshares, Inc. and its subsidiaries.

Our Competitive Strengths

We believe that the following business strengths have been instrumental to the success of our core operations. We believe these attributes will enable us to continue profitable growth, while remaining fundamentally sound and driving value to our shareholders.

Simple and Efficient ClientFIRST Model. We operate our Bank using a simple and efficient style of banking that is focused on providing core banking products and services to our clients through a team of talented and experienced bankers. We refer to this model as “ClientFIRST” and it is structured to deliver superior client service via “relationship teams,” which provide each client with a specific banker contact and a consistent support team responsible for all of the client’s banking needs. We believe this model results in a consistent and superior level of professional service that provides us with a distinct competitive advantage by enabling us to build and maintain long-term relationships with desirable clients, enhancing the quality and stability of our funding and lending operations and positioning us to take advantage of future growth opportunities in our existing markets. We also believe that this client focused culture has led to our successful expansion into new markets in the past, and will enable us to be successful if we seek to expand into new markets in the future.

Our ClientFIRST model focuses on achieving cost efficiencies by diligently managing the growth of our number of employees and banking offices. We believe that the identification of talented bankers will drive our growth strategy, as opposed to a more general desire to enter a specific geography or market. This strategy translates into a smaller number of brick and mortar offices relative to our size and compared to peer banks, but larger overall deposit balances in our offices as compared to peers. As a result, our offices average approximately $240.5 million in total deposits. We believe this style of banking allows us to deliver exceptional client service, while achieving lower efficiency ratios relative to certain of our local competitors, as evidenced by our 73.5% efficiency ratio for the year ended December 31, 2024.

We continue to make significant investments in our IT systems and technology offerings to our clients that we believe will continue to drive low-cost deposit growth. We believe that our current mobile banking, on-line banking and cash management offerings are industry-leading solutions amongst community banks, and we plan to continue to invest in the latest technology solutions to enable us to meet the evolving needs of our clients and maintain this competitive advantage over other community banks.

Attractive South Carolina, North Carolina, and Georgia Markets. We have eight banking offices located in Greenville, Columbia and Charleston, South Carolina, which are the three largest markets in South Carolina; three banking offices located in Charlotte, Raleigh and Greensboro, North Carolina, which are the three largest markets in North Carolina; and one banking office located in Atlanta, Georgia, which is the largest market in Georgia. The following table illustrates our market share, by insured deposits as of the dates indicated, in these seven markets:

Market[1]	Total Offices	Our Market Deposits at June 30, 2024	Total Market Deposits[2]
		(Dollars in thousands)	
Greenville	4	$ 1,793,261	$ 25,853,933
Charleston	3	595,162	21,601,456
Columbia	1	318,530	27,815,655
Atlanta	1	423,760	236,728,095
Raleigh	1	186,582	93,740,594
Greensboro	1	105,580	16,839,786
Charlotte	1	54,815	457,313,881

(1) Represents the metropolitan statistical area ("MSA") for each market.
(2) The total market deposits data displayed are as of June 30, 2024 as reported by the FDIC.

Greenville. The city of Greenville is located in Greenville County, South Carolina approximately midway between Atlanta and Charlotte on the heavily traveled I-85 business corridor. The Greenville-Anderson MSA is the most populous market in South Carolina with an estimated population of 975,480 as reported for 2023. The median household income for the Greenville-Anderson-Mauldin MSA was $69,413 for 2023. A large and diverse metropolitan area, the Greenville-Anderson MSA is one of the southeast region's premier areas for business, serving as headquarters for Michelin and Current Lighting (formerly Hubbell Lighting) as well as hosting significant operations for BMW and Lockheed Martin.

Charleston. The city of Charleston is located in Charleston County, South Carolina. The Charleston-North Charleston MSA is the third most populous market in the state with an estimated population of 849,417 for 2023. Charleston is home to the deepest port in the Southeast and boasts top companies in the aerospace, biomedical and technology fields such as Boeing, the Medical University of South Carolina (MUSC) and Blackbaud. The median household income for the Charleston-North Charleston MSA was approximately $85,165 for 2023. One of our retail offices in the Charleston market is located in the city of Mount Pleasant, which is located just north of Charleston in Charleston County and ranks as the fourth largest city in South Carolina.

Columbia. The city of Columbia is located in Richland County, South Carolina and its surrounding suburban areas expand into adjoining Lexington County. Columbia is the state capital, the largest city in the state and the home of the University of South Carolina and Fort Jackson, the Army's largest Initial Entry Training Center. The Columbia MSA is the second most populous market in the state with an estimated population of 856,889 for 2023. The median household income for the Columbia MSA was $67,189 for 2023.

Raleigh. The city of Raleigh is the second largest city in the state of North Carolina and is located in Wake County, North Carolina. The Raleigh-Cary MSA is one of the most populous markets in the state with an estimated population of 1.51 million for 2023. Raleigh is the state capital and is home to North Carolina State University and is part of the Research Triangle area, together with Durham, North Carolina (home of Duke University) and Chapel Hill, North Carolina (home of the University of North Carolina at Chapel Hill). The median household income for the Raleigh-Cary MSA was approximately $96,096 for 2023.

Greensboro. The city of Greensboro is the third largest city in North Carolina and is located in Guilford County, North Carolina. The Greensboro-High Point MSA is one of the most populous markets in the state of North Carolina with an estimated population of 789,842 for 2023. Greensboro has traditionally been a fixture in the textiles, tobacco and furniture industries while also moving towards an increased presence of high-tech, aviation and transportation/logistics sectors. Greensboro, along with Winston-Salem and High Point, is commonly referred to as the Triad region of North Carolina and is home to companies such as Honda Aircraft, Lincoln Financial Group and Volvo Trucks of North America. The median household income for the Greensboro-High Point MSA was approximately $63,280 for 2023.

Charlotte. The city of Charlotte is the largest city in the state and is located in Mecklenburg County, North Carolina. The Charlotte-Concord-Gastonia MSA is the most populous market in the state of North Carolina with an estimated population of 2.81 million for 2023. Charlotte is the second largest banking city in the United States after New York and is home to the corporate headquarters of Bank of America, Truist Financial, and the east coast headquarters of Wells Fargo. Charlotte is also home to many Fortune 500 companies including Duke Energy, Honeywell and Lowe's. The median household income for the Charlotte-Concord-Gastonia MSA was approximately $81,262 for 2023.

Atlanta. The Atlanta-Sandy Springs-Alpharetta MSA has the eighth largest population in the U.S. estimated at 6.31 million for 2023. Atlanta is the state capital of, and largest city in, Georgia and is the world headquarters of corporations such as

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Coca-Cola, Home Depot, UPS, Delta Airlines and Turner Broadcasting. The median household income for the Atlanta-Sandy Springs-Alpharetta MSA is $86,505 for 2023.

We believe that the demographics and growth characteristics of these seven markets will provide us with significant opportunities to further develop existing client relationships and expand our client base.

Data related to the estimated population and median household income for each of the markets presented above is from the Federal Reserve Economic Data ("FRED") online database.

Experienced Management Team, Dedicated Board of Directors and Talented Employees. Our senior management team is led by R. Arthur Seaver, Jr., Calvin C. Hurst, Christian J. Zych, William M. Aiken, Silvia T. King, and Julie A. Fairchild, and whose biographies are included below. These executives lead a team of 28 additional senior team members which we believe compares favorably to any community bank management team assembled in South Carolina.

R. Arthur "Art" Seaver, Jr. has served as the Chief Executive Officer of our Company and our Bank since 1999. He has over 35 years of banking experience. From 1986 until 1992, Mr. Seaver held various positions with The Citizens & Southern National Bank of South Carolina. From 1992 until February 1999, he was with Greenville National Bank, which was acquired by Regions Bank in 1998. He was the Senior Vice President in lending and was also responsible for managing Greenville National Bank's deposit strategies prior to leaving to form the Bank. Mr. Seaver is a 1986 graduate of Clemson University with a bachelor's degree in Financial Management and a 1999 graduate of the BAI Graduate School of Community Bank Management.

Calvin C. Hurst has served as Chief Banking Officer of our Company and our Bank since March 2019 and as President since August 2022. Mr. Hurst has over 15 years of banking experience. From 2006 to 2008, Mr. Hurst served as a commercial underwriter for RBC Bank, and from 2008 to 2015 he served as commercial relationship manager for PNC Bank. Before joining Southern First, Mr. Hurst served as regional vice president for TD Bank. Mr. Hurst is a 2005 graduate of Furman University, with a Bachelor's degree in Business Administration and Economics.

Christian J. Zych has served as Chief Financial Officer of our Company and our Bank since May 2024. He has 30 years of experience in the banking industry. Mr. Zych is a highly accomplished leader with a proven track record of financial management and analysis, formulation and execution of corporate and financial strategy, and investor relations management. Mr. Zych holds a Master of Business Administration from Wake Forest University School of Business and a bachelor's degree in finance from Bentley University.

William M. Aiken, III has served as a Senior Executive Vice President and Chief Risk officer of our Company and our Bank since 2021 and previously served as an executive credit risk officer since 2020. He has over 25 years in the banking industry. Mr. Aiken has served in various roles at several banks during his career including most recently as a Chief Commercial Credit officer at a regional bank. He is a 1996 graduate of Clemson University, with a degree in Financial Management.

Silvia T. King has served as Chief Human Resources Officer of our Company and our Bank since March 2018. Ms. King has over 20 years of Human Resources leadership experience. From 2003 to 2009, Ms. King served in various human resource and senior management roles with Monsanto Company and Select Comfort Corporation. From 2009 to 2016, Ms. King served as senior human resources consultant for FGP International, a professional staffing firm in Greenville, South Carolina, and most recently as a human resources instructor with e-Cornell University. Ms. King holds degrees in Psychology and International Marketing from Clemson University and a Master of Human Resources degree from the University of South Carolina.

Julie A. Fairchild has served as Chief Accounting Officer and principal accounting officer of our Company and our Bank since October 2024. Ms. Fairchild joined the bank in 2005, serving in various roles, most recently as Executive Vice President of Accounting and Finance. Prior to joining the Bank, Ms. Fairchild served as audit manager for Elliott Davis LLC, a regional public accounting and consulting firm. Ms. Fairchild holds a Bachelor of Science degree in accounting from Bob Jones University and is a certified public accountant in the State of South Carolina.

In addition to Messrs. Seaver, Hurst, Zych, Aiken, Mses. King and Fairchild, our executive management team consists of 14 individuals who bring an average of 30 years of experience in the banking industry.

The management team is complemented by our dedicated board of directors with extensive local market knowledge and a wide range of experience including accounting, business, banking, manufacturing, insurance, management and finance. We believe that our management's and board's incentives are closely aligned with our shareholders through the ownership of a substantial amount of our stock. As of December 31, 2024, our executive officers and board of directors owned an aggregate of 643,642 shares of our common stock, including options to purchase shares of our common stock, which represented approximately 7.93% of the fully-diluted amount of our common stock outstanding. We believe that our officers' and directors' experience and local market knowledge are valuable assets and will enable them to guide us successfully in the future.

In addition, we believe that we have assembled a group of highly talented employees by being an employer of choice in the markets we serve. We employed a total of 297 FTE employees as of December 31, 2024. Our employees are skilled in the areas of banking, information technology, management, sales, advertising and marketing, among others. We strive to provide an "umbrella for great talent," characterized by a culture of transparency and collaboration which permeates all levels of the organization. To drive our culture of transparency and collaboration, our employees engage in a series of weekly meetings to understand the goals and plan for each week. These meetings are intended to remind our employees of our vision, strategy and ClientFIRST service, and provide our employees with information regarding monthly and quarterly goals and client or prospect needs. In addition, each week is started with a meeting of all Executive Vice Presidents so that all team members are informed on the latest developments of our Company. Our employees and their ClientFIRST approach to service have been instrumental to our success.

Our Business Strategy

We are focused on growing business relationships and building core deposits, profitable loans and noninterest income. We believe that we have built a dynamic franchise that meets the financial needs of our clients by providing an array of personalized products and services delivered by seasoned banking professionals with knowledge of our local markets. Our overall strategic goal is to provide the highest level of service to our clients while achieving high-performance metrics within the community banking market that drive franchise and shareholder value. Our specific business strategies include:

Focus on Profitable and Efficient Growth. Our executive management team and board of directors are dedicated to producing profits and returns for our shareholders. We actively manage the mix of assets and liabilities on our balance sheet to optimize our net interest margin while also maintaining expense controls and developing noninterest income streams. By continually striving to build a well-structured balance sheet, we seek to increase profitability and improve our return on average assets, return on average equity and efficiency ratio. We believe that, as the economy continues to improve, our focus on maximizing our net interest margin and minimizing our efficiency ratio while maintaining credit quality controls will translate into continued and improved profitability and shareholder returns. We are committed to enhancing these levels of profitability by focusing on our core competencies of commercial lending and core deposit gathering. We believe that we have the infrastructure currently in place, such as technology, support staff and administration, to support expansion with limited associated noninterest expense increases.

Provide a Distinctive Client Experience. Our markets have been subject to consolidation of local community banks primarily by larger, out-of-state financial institutions. We believe there is a large client base in our markets that prefers doing business with a local institution and may be dissatisfied with the service offered by national and larger regional banks. We believe that the exceptional level of professional service provided to our clients as a result of our ClientFIRST model provides us with a distinct competitive advantage over our local competitors. We also believe that technology innovation will continue to play a critical role in retaining clients and winning new business. We believe that our current mobile banking, on-line banking and cash management offerings are industry-leading solutions amongst community banks. During 2024, 38% of deposits were acquired through our office network, 44% came through the commercial remote deposit capture channel and the remaining 17% came through consumer mobile deposits. We believe that the volume in remote deposit capture and mobile deposit channels will continue to increase over time as more clients become acquainted with the convenience these services provide. By delivering superior professional service through our ClientFIRST model, coupled with our deep understanding of our markets and our commitment to providing the latest technology solutions to meet our clients' banking needs, we believe that we can attract new clients and expand our total loans and deposits.

Maintain a Rigorous Risk Management Infrastructure. As we grow, one of our top priorities is to continue to build a robust enterprise risk management infrastructure. We believe effective risk management requires a culture of risk management and governance throughout the Company. The legislative and regulatory landscape continues to quickly evolve, so we are continually performing risk assessments throughout the organization and re-allocating resources where appropriate. We will continue to add new resources and technology investments to help enhance all of our risk management processes throughout the Bank. Our risk management success is exemplified by our historic credit risk management and disciplined underwriting practices, which have enabled us to successfully grow our balance sheet while maintaining strong credit quality metrics. We do not reduce our credit standards or pricing discipline to generate new loans. In addition, we are heavily focused on compliance risk and cybersecurity risk, as both of these risks have increased since our inception. Our management team continually analyzes emerging fraud and security risks and utilizes tools, strategies and policies to manage risk while delivering an optimal and appropriate client experience. We believe our risk management structure allows our board and senior management to maintain effective oversight of our risks to ensure that our personnel are following prudent and appropriate risk management practices resulting in strong loan quality and minimal credit losses.

Attract Talented Banking Professionals With A "ClientFIRST" Focus. We believe that our ability to attract and retain banking professionals with strong community relationships and significant knowledge of our markets will continue to drive our success and grow our business in an efficient manner. By focusing on experienced, established bankers who deliver exceptional client service through our ClientFIRST model, we believe we can enhance our market position and add profitable growth opportunities. We believe that the strength of our exceptional client service and relationship banking approach will continue to help us attract these established bankers. We have carefully invested in our internal infrastructure, including support and back office personnel, and we believe that we can continue to add experienced frontline bankers to our existing markets, which will drive our efficient growth.

We will continue to expand our franchise, but only in a controlled manner and as permitted by our regulators. We may choose to open new locations, but only after rigorous due diligence and substantial quantitative analysis regarding the financial and capital impacts of such investments. We may also seek to enter new metropolitan markets contiguous to, or nearby, our current South Carolina footprint, such as our recently opened expansions in Greensboro and Charlotte, North Carolina, but only after careful study and the identification and vetting of a local, senior level banking team with significant experience and reputational strength in that market and receipt of any applicable regulatory approvals. We have not yet supplemented our historic strategy of organic deposit and loan growth with traditional mergers or acquisitions. We evaluate potential acquisition opportunities that we believe would be complementary to our business as part of our growth strategy. However, we have not yet identified any specific acquisition opportunity that meets our strict requirements and do not have any immediate plans, arrangements or understandings relating to any acquisition. Furthermore, we do not believe an acquisition is necessary to successfully drive our growth and execute our ClientFIRST model.

Lending Activities

General. We offer a full complement of loan services to businesses and individuals. This includes commercial, real estate, and consumer loans. Our underwriting standards vary for each type of loan, as described below. Because loans typically provide higher interest yields than other types of interest-earning assets, we invest a substantial percentage of our earning assets in our loan portfolio. At December 31, 2024, we had net loans of $3.59 billion, representing 87.9% of our total assets.

We focus our lending to businesses and individuals that reside in the markets that we serve. By focusing on this client base and by serving each client with a consistent relationship team of bankers, we have generated a loan portfolio with larger average loan amounts than we believe is typical for a community bank. As of December 31, 2024, our average loan size was approximately $375,000. At the same time, we have strived to maintain a diversified loan portfolio and limit the amount of our loans to any single client. As of December 31, 2024, our ten largest client loan relationships represented approximately $289.0 million, or 7.95%, of our loan portfolio.

In October 2023, we announced the opening of the Dream Mortgage Center in Columbia, South Carolina. The Dream Mortgage Center is a loan production center designed to create space for opportunities for homebuyer education, community events, and mortgage lending experts equipped with a variety of loan products.

Loan Approval. Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. We attempt to mitigate repayment risks by adhering to internal credit policies and procedures. These policies and procedures include officer and client lending limits, a multi-layered approval process for larger loans, documentation examination, and follow-up procedures for any exceptions to credit policies. Our loan approval policies provide for various levels of officer lending authority. When the amount of aggregate loans to a single borrower exceeds an individual officer's lending authority, the loan request will be considered for approval by a team of officers led by a senior lender, or by the voting members of the Credit Approval Support Team ("CAST") committee, based on the loan amount. The CAST committee, which is comprised of a group of our senior commercial lenders, senior credit administrators, chief risk officer, president, and chief executive officer, has pre-determined lending limits, and any loans in excess of this lending limit will be submitted for approval by our full board. We do not make any loans to any director or executive officer of the Bank unless the loan is approved by the board of directors of the Bank and all loans to directors, officers and employees are on terms not more favorable to such person than would be available to a person not affiliated with the Bank, consistent with federal banking regulations.

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Management monitors exposure to credit risk from potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, as well as concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g., principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. These types of loans are subject to strict underwriting standards and are more closely monitored than a loan with a low loan-to-value ratio. Furthermore, there are industry practices that could subject us to increased credit risk should economic conditions change over the course of a loan's life. For example, we make variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). The various types of loans are individually underwritten and monitored to manage the associated risks.

Credit Administration and Loan Review. We maintain a continuous loan review system. We also apply a credit grading system to each loan, and we use an independent process to review the loan files on a test basis to assess the grading of each loan. We periodically review performance benchmarks established by management in the areas of nonperforming assets, charge-offs, past dues, and loan documentation. Each loan officer is responsible for each loan he or she makes, regardless of whether other individuals or committees joined in the approval. This responsibility continues until the loan is repaid or until the loan is officially assigned to another officer.

Lending Limits. Our lending activities are subject to a variety of lending limits imposed by federal and state laws and regulations. In general, the Bank is subject to a legal limit on loans to a single borrower equal to 15% of the Bank's capital and unimpaired surplus. Based upon the capitalization of the Bank at December 31, 2024, the maximum amount we could lend to one borrower was $60.4 million. However, to mitigate concentration risk, our internal lending limit at December 31, 2024 was $42.3 million and may vary based on our assessment of the lending relationship. The board of directors will adjust the internal lending limit as deemed necessary to continue to mitigate risk and serve our clients. The Bank's legal lending limit will increase or decrease in response to increases or decreases in the Bank's level of capital. We are able to sell participations in our larger loans to other financial institutions, which allow us to manage the risk involved in these loans and to meet the lending needs of our clients requiring extensions of credit in excess of these limits.

Loan Portfolio Segments. Our loan portfolio is comprised of commercial and consumer loans made to small businesses and individuals for various business and personal purposes. While our loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers, the principal component of our loan portfolio is loans secured by real estate mortgages on either commercial or residential property. These loans will generally fall into one of the following six categories: commercial owner occupied real estate, commercial non-owner occupied real estate, commercial construction, consumer real estate, consumer construction, and home equity loans. We obtain a security interest in real estate whenever possible, in addition to any other available collateral, in order to increase the likelihood of the ultimate repayment of the loan. At December 31, 2024, loans secured by first or second mortgages on commercial and consumer real estate made up approximately 83.5% of our loan portfolio. In addition to loans secured by real estate, our loan portfolio includes commercial business loans and other consumer loans which comprised 15.3% and 1.2%, respectively, of our total loan portfolio at December 31, 2024.

Interest rates for all real estate loan categories may be fixed or adjustable, and will more likely be fixed for shorter-term loans. We generally charge an origination fee for each loan which is taken into income over the life of the loan as an adjustment to the loan yield. Other loan fees consist primarily of late charge fees. Real estate loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate. Fluctuations in the value of real estate, as well as other factors arising after a loan has been made, could negatively affect a borrower's cash flow, creditworthiness, and ability to repay the loan. Although, the loans are collateralized by real estate, the primary source of repayment may not be the sale of real estate.

The following describes the types of loans in our loan portfolio.

- *Commercial Real Estate Loans (Commercial Owner Occupied and Commercial Non-owner Occupied Real Estate Loans).* At December 31, 2024, commercial owner occupied and non-owner occupied real estate loans (other than construction loans) amounted to $1.58 billion, or 43.4% of our loan portfolio. Of our commercial real estate loan portfolio, $924.4 million in loans were non-owner occupied properties, representing 41.4% of our commercial loan portfolio and 25.5% of our total loan portfolio. The remainder of our commercial real estate loan portfolio, $651.6 million in loans or 29.2% of the commercial loan portfolio, were owner occupied. Owner occupied loans represented 17.9% of our total loan portfolio. At December 31, 2024, our individual commercial real estate loans ranged in size from approximately $15,000 to $21.0 million, with an average loan size of approximately $871,000. These loans generally have terms of five years or less, although payments may be structured on a longer amortization basis. We evaluate each borrower on an individual basis and attempt to determine the business risks and credit profile of each borrower. We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied office and retail buildings where the loan-to-value ratio, established by independent appraisals, does not exceed 85%. We also generally require that a borrower's cash flow exceeds 115% of monthly debt service obligations. As of December 31, 2024, $214.0 million, or 5.9% of our total loan portfolio, was collateralized by office properties, $170.6 million, or 4.7%, was collateralized by retail properties, $125.6 million, or 3.5%, was collateralized by hotels, and $96.7 million, or 2.7% was collateralized by multifamily properties. In order to seek to ensure secondary sources of payment and liquidity to support a loan request, we typically review all of the personal financial statements of the principal owners and require their personal guarantees.

- *Construction Real Estate Loans.* We offer adjustable and fixed rate construction real estate loans for commercial and consumer projects, typically to builders and developers and to consumers who wish to build their own homes. At December 31, 2024, total commercial and consumer construction loans amounted to $124.1 million, or 3.4% of our loan portfolio. Commercial construction loans represented $103.2 million, or 2.8%, of our total loan portfolio, while consumer construction loans represented $20.9 million, or 0.6% of our total loan portfolio. At December 31, 2024, our commercial construction real estate loans ranged in size from approximately $3,000 to $13.9 million, with an average loan balance of approximately $2.2 million. At December 31, 2024, our consumer or residential construction loans ranged in size from approximately $8,000 to $3.1 million, with an average loan size of approximately $580,000. The duration of our construction loans generally is limited to 18 months, although payments may be structured on a longer amortization basis. Commercial construction loans generally carry a higher degree of risk than long-term financing of existing properties because repayment depends on the ultimate completion of the project and sometimes on the sale of the property. Specific risks include:

  - cost overruns;
  - mismanaged construction;
  - inferior or improper construction techniques;
  - economic changes or downturns during construction;
  - a downturn in the real estate market;
  - rising interest rates which may prevent sale of the property; and
  - failure to sell completed projects in a timely manner.

  We attempt to reduce the risk associated with construction loans by obtaining personal guarantees where possible and by keeping the loan-to-value ratio of the completed project at or below 80%.

- *Commercial Business Loans.* We make loans for commercial purposes in various lines of businesses, including the manufacturing, service industry, and professional service areas. At December 31, 2024, commercial business loans amounted to $556.1 million, or 15.3% of our loan portfolio, and ranged in size from approximately $1,000 to $21.0 million, with an average loan size of approximately $287,000. Commercial loans are generally considered to have greater risk than first or second mortgages on real estate because commercial loans may be unsecured, or if they are secured, the value of the collateral may be difficult to assess and more likely to decrease than real estate.

  We are eligible to offer small business loans utilizing government enhancements such as the Small Business Administration's ("SBA") 7(a) program and SBA's 504 programs. These loans typically are partially guaranteed by the government, which helps to reduce their risk. Government guarantees of SBA loans do not exceed, and are generally less than, 80% of the loan. As of December 31, 2024, we had originated ten loans utilizing government enhancements and over 35 loans engaged in state-based small business partnerships.

- *Consumer Real Estate Loans and Home Equity Loans.* At December 31, 2024 consumer real estate loans (other than construction loans) amounted to $1.33 billion, or 36.7% of our loan portfolio. Included in the consumer real estate loans was $1.13 billion, or 31.1% of our loan portfolio, in first and second mortgages on individuals' homes, while home equity loans represented $204.9 million, or 5.6% of our total loan portfolio. At December 31, 2024, our individual residential real estate loans ranged in size from $5,000 to $5.3 million, with an average loan size of approximately $469,000. Generally, we limit the loan-to-value ratio on our consumer real estate loans to 85%. We offer fixed and adjustable rate consumer real estate loans with terms of up to 30 years. We also offer home equity lines of credit. At December 31, 2024, our individual home equity lines of credit ranged in size from $1,000 to $1.8 million, with an average of approximately $93,000. Our underwriting criteria and the risks associated with home equity loans and lines of credit are generally the same as those for first mortgage loans. Home equity lines of credit typically have terms of ten years or less. We generally limit the extension of credit to 90% of the market value of each property, although we may extend up to 100% of the market value.

- *Other Consumer Loans.* We make a variety of loans to individuals for personal and household purposes, including secured and unsecured installment loans and revolving lines of credit. These consumer loans are underwritten based on the borrower's income, current debt level, past credit history, and the availability and value of collateral. Consumer rates are both fixed and variable, with negotiable terms. At December 31, 2024, consumer loans other than real estate amounted to $42.1 million, or 1.2% of our loan portfolio, and ranged in size from $1,000 to $17.1 million, with an average loan size of approximately $33,000. Our installment loans typically amortize over periods up to 60 months. We will offer consumer loans with a single maturity date when a specific source of repayment is available. We typically require monthly payments of interest and a portion of the principal on our revolving loan products. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate.

Deposit Services

Our principal source of funds is core deposits. We offer a full range of deposit services, including checking accounts, commercial checking accounts, savings accounts, and other time deposits of various types, ranging from daily money market accounts to long-term certificates of deposit. At December 31, 2024, we had $550.3 million in out-of-market, or wholesale, certificates of deposits. In an effort to obtain lower cost deposits, we have focused on expanding our retail deposit program. We currently have 12 retail offices which assist us in obtaining low cost transaction accounts that are less affected by rising rates. Deposit rates are reviewed regularly by our senior management. We believe that the rates we offer are competitive with those offered by other financial institutions in our area. We focus on client service and our ClientFIRST culture to attract and retain deposits.

Other Banking Services

In addition to deposit and loan services, we offer other bank services such as internet banking, cash management, safe deposit boxes, direct deposit, automatic drafts, bill payment and mobile banking services. We earn fees for most of these services, including debit and credit card transactions, sales of checks, and wire transfers. We also receive ATM transaction fees from transactions performed by our non-clients. We are associated with the NYCE, Pulse, STAR, and Cirrus networks, which are available to our clients throughout the country. Since we outsource our ATM services, we are charged related transaction fees from our ATM service provider. We have contracted with Fidelity National Information Systems, an outside computer service company, to provide our core data processing services and our ATM processing. By outsourcing these services, we believe we are able to reduce our overhead by matching the expense in each period to the transaction volume that occurs during the period, as a significant portion of the fee charged is directly related to the number of loan and deposit accounts and the related number of transactions we have during the period. We believe that by being associated with a shared network of ATMs, we are better able to serve our clients and are able to attract clients who are accustomed to the convenience of using ATMs, although we do not believe that maintaining this association is critical to our success. We also offer purchasing cards to our business clients which are designed for business expenses and procurement purposes.

Competition

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. Competition among financial institutions is based upon interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of the services rendered, the convenience of banking facilities, and, in the case of loans to commercial borrowers, relative lending limits. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national, and international financial institutions that operate offices in Greenville, Columbia and Charleston, South Carolina; Charlotte, Raleigh and Greensboro, North Carolina; Atlanta, Georgia and elsewhere.

As of June 30, 2024, the most recent date for which market data is available, there were 40 financial institutions in our primary market of Greenville County, 27 financial institutions in the Columbia market, 36 financial institutions in the Charleston and Raleigh markets, 25 financial institutions in the Greensboro market, 50 financial institutions in the Charlotte market, and 81 financial institutions in the Atlanta market. We compete with other financial institutions in our market areas both in attracting deposits and in making loans. In addition, we have to attract our client base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions with substantially greater resources and lending limits, such as, Bank of America, Wells Fargo, and Truist. These institutions offer some services, such as extensive and established branch networks and trust services that we do not provide. In addition, many of our non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks. We believe the financial services industry will likely continue to become more competitive as further technological advances enable more financial institutions to provide expanded financial services without having a physical presence in our markets. Because larger competitors have advantages in attracting business from larger corporations, we do not generally compete for that business. Instead, we concentrate our efforts on attracting the business of individuals and small and medium-size businesses. With regard to such accounts, we generally compete on the basis of client service and responsiveness to client needs, the convenience of our offices and hours, and the availability and pricing of our products and services.

We believe our commitment to quality and personalized banking services through our ClientFIRST culture is a factor that contributes to our competitiveness and success.

Employees

At December 31, 2024, we employed a total of 297 full-time equivalent employees. We provide our full-time employees and certain part-time employees with a comprehensive program of benefits, including medical benefits, life insurance, long-term disability coverage and a 401(k) plan. Our employees are not represented by a collective bargaining agreement. Management considers its employee relations to be excellent.

Available Information

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K with the SEC which are accessible electronically at the SEC's website at www.sec.gov. We maintain an Internet website at www.southernfirst.com where these reports can also be accessed free of charge. No information contained on our website is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10-K.

SUPERVISION AND REGULATION

Both the Company and the Bank are subject to extensive state and federal banking laws and regulations that impose specific requirements or restrictions on and provide for general regulatory oversight of virtually all aspects of our operations. These laws and regulations are generally intended to protect depositors, not shareholders. Changes in applicable laws or regulations may have a material effect on our business and prospects.

The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on our operations. It is intended only to briefly summarize some material provisions. The following summary is qualified by reference to the statutory and regulatory provisions discussed.

Legislative and Regulatory Developments

Two legislative and regulatory responses to the 2008 financial crisis – the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and the Basel III-based capital rules –continue to have an impact on our operations.

In addition, newer regulatory developments implemented in response to the COVID-19 pandemic and the bank failures in 2023 will continue to have an impact on our operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act was signed into law in July 2010 and impacts financial institutions in numerous ways, including:

- The creation of a Financial Stability Oversight Council responsible for monitoring and managing systemic risk,
- Granting additional authority to the Board of Governors of the Federal Reserve (the "Federal Reserve") to regulate certain types of nonbank financial companies,
- Granting new authority to the FDIC as liquidator and receiver,
- Changing the manner in which deposit insurance assessments are made,
- Requiring regulators to modify capital standards,
- Establishing the Consumer Financial Protection Bureau (the "CFPB"),
- Capping interchange fees that banks charge merchants for debit card transactions,
- Imposing more stringent requirements on mortgage lenders, and
- Limiting banks' proprietary trading activities.

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There are many provisions in the Dodd-Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based. While some have been issued, many remain to be issued. Governmental intervention and new regulations could materially and adversely affect our business, financial condition and results of operations.

The Economic Growth, Regulatory Relief, and Consumer Protection Act

On May 24, 2018, President Trump signed into law the first major financial services reform bill since the enactment of the Dodd-Frank Act. The Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Reform Law”) modified or eliminated certain requirements on community and regional banks and nonbank financial institutions. For instance, under the Reform Act and related rule making:

- banks that have less than $10 billion in total consolidated assets and total trading assets and trading liabilities of less than five percent of total consolidated assets is excluded from Section 619 of the Dodd-Frank Act, known as the “Volcker Rule”, which prohibits “proprietary trading” and the ownership or sponsorship of private equity or hedge funds that are referred to as “covered funds”;
- the asset threshold for bank holding companies to qualify for treatment under the “Small Bank Holding Company and Savings and Loan Holding Company Policy Statement” was raised from $1 billion to $3 billion, which exempts these institutions from certain regulatory requirements including the Basel III capital rules;
- a “community bank leverage ratio” was adopted, which is applicable to certain banks and bank holding companies with total assets of less than $10 billion (as described below under “Basel Capital Standards”); and
- banks with up to $3 billion in total consolidated assets may be examined by their federal banking regulator every 18 months (as opposed to every 12 months).

Basel Capital Standards

Regulatory capital rules known as Basel III impose minimum capital requirements for bank holding companies and banks. The Basel III rules apply to all national and state banks and savings and loan associations regardless of size and bank holding companies and savings and loan holding companies other than “small bank holding companies,” generally holding companies with consolidated assets of less than $3 billion. More stringent requirements are imposed on “advanced approaches” banking organizations-those organizations with $250 billion or more in total consolidated assets, $10 billion or more in total foreign exposures, or that have opted into the Basel II capital regime.

The Basel III rules require the Company and the Bank to maintain the following minimum capital requirements:

- a common equity Tier 1 (“CET1”) risk-based capital ratio of 4.5%;
- a Tier 1 risk-based capital ratio of 6%;
- a total risk-based capital ratio of 8%; and
- a leverage ratio of 4%.

Under Basel III, Tier 1 capital includes two components: CET1 capital and additional Tier 1 capital. The highest form of capital, CET1 capital, consists solely of common stock (plus related surplus), retained earnings, accumulated other comprehensive income, otherwise referred to as AOCI, and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital is primarily comprised of noncumulative perpetual preferred stock, Tier 1 minority interests and grandfathered trust preferred securities (as discussed below). Tier 2 capital generally includes the allowance for credit losses up to 1.25% of risk-weighted assets, qualifying preferred stock, subordinated debt and qualifying tier 2 minority interests, less any deductions in Tier 2 instruments of an unconsolidated financial institution. Cumulative perpetual preferred stock is included only in Tier 2 capital, except that the Basel III rules permit bank holding companies with less than $15 billion in total consolidated assets to continue to include trust preferred securities and cumulative perpetual preferred stock issued before May 19, 2010 in Tier 1 Capital (but not in CET1 capital), subject to certain restrictions. AOCI is presumptively included in CET1 capital and often would operate to reduce this category of capital. When implemented, Basel III provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI. We made this opt-out election and, as a result, retained our pre-existing treatment for AOCI.

In addition, in order to avoid restrictions on capital distributions or discretionary bonus payments to executives, under Basel III, a banking organization must maintain a 2.5% “capital conservation buffer” on top of its minimum risk-based capital requirements. This buffer must consist solely of CET1 capital, but the buffer applies to all three risk-based measurements (CET1, Tier 1 capital and total capital). The 2.5% capital conservation buffer effectively results in the following minimum capital ratios (taking into account the capital conservation buffer): (i) a CET1 capital ratio of 7.0%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%.

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Proposed new rules for U.S. implementation of capital requirements under Basel IV rules, more recently referred to as the “Basel III Endgame”, were issued by the U.S. federal banking agencies on July 27, 2023. These proposed rules include broad-based changes to the risk-weighting framework for various credit exposures and operational risk capital requirements. However, the proposed rules generally apply only to large banking organizations with total assets of $100 billion or more, and are expected to not be applicable to us. Recent regulatory developments have introduced uncertainty regarding the implementation of the Basel III Endgame rules. Changes in leadership and evolving policy priorities within regulatory agencies have led to speculation about potential delays or modifications to the final rulemaking process.

As part of its response to the impact of the COVID-19 pandemic, in the first quarter of 2020, U.S. federal regulatory authorities issued an interim final rule that provided banking organizations that adopted the credit impairment model, the Current Expected Credit Loss, or CECL, during the 2020 calendar year with the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during the initial two-year delay (i.e., a five-year transition in total). In connection with our adoption of CECL on January 1, 2022, we did not elect to utilize the five-year CECL transition.

In November 2019, the federal banking regulators published final rules under the Reform Law (discussed above) implementing a simplified measure of capital adequacy for certain banking organizations that have less than $10 billion in total consolidated assets. Under the final rules, which went into effect on January 1, 2020, depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio of greater than 9%, off-balance-sheet exposures of 25% or less of total consolidated assets and trading assets plus trading liabilities of 5% or less of total consolidated assets, are deemed “qualifying community banking organizations” and are eligible to opt into the “community bank leverage ratio framework.” A qualifying community banking organization that elects to use the community bank leverage ratio framework and that maintains a leverage ratio of greater than 9% is considered to have satisfied the generally applicable risk-based and leverage capital requirements under the Basel III rules and, if applicable, is considered to have met the “well capitalized” ratio requirements for purposes of its primary federal regulator’s prompt corrective action rules, discussed below. We do not have any immediate plans to elect to use the community bank leverage ratio framework but may make such an election in the future.

As of December 31, 2024, the Bank was well-capitalized, as defined by FDIC regulations. As of December 31, 2024, the Company had regulatory capital in excess of the Federal Reserve’s requirements and met the Basel III rule requirements to be well-capitalized.

Acquisition Activity

The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. In addition, the prior approval of the FDIC is required for a bank to merge with another bank or purchase the assets or assume the deposits of another bank. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, the public benefits expected to be received from the acquisition, the projected capital ratios and levels on a post-acquisition basis, and the acquiring institution’s record of addressing the credit needs of the communities it serves, including the needs of low and moderate income neighborhoods, consistent with the safe and sound operation of the bank, under the Community Reinvestment Act (“CRA”).

On July 9, 2021, President Biden issued an Executive Order on Promoting Competition in the American Economy. Among other initiatives, the Executive Order encouraged the federal banking agencies to review their current merger oversight practices under the BHCA and the Bank Merger Act and adopt a plan for revitalization of such practices. In December 2021, the U.S. Department of Justice (“DOJ”) (in consultation with the Federal Reserve, the Office of the Comptroller of the Currency (the “OCC”), and FDIC announced that it was seeking additional public comments on whether and how the DOJ should revise the 1995 Bank Merger Competitive Review Guidelines. The comment period closed on February 15, 2022. In March 2022, the FDIC published a Request for Information seeking information and comments regarding the laws, practices, rules, regulations, guidance, and statements of policy that apply to merger transactions involving one or more insured depository institutions, including the merger between an insured depository institution and a noninsured institution. In a May 2022 speech, the acting head of the OCC announced that he had asked his staff to work with DOJ and other federal banking agencies to review the agency’s frameworks to analyze bank mergers. In May 2022, the CFPB announced the establishment of an Office of Competition and Innovation.

On September 17, 2024, the FDIC approved a final Statement of Policy on Bank Merger Transactions, updating its approach to evaluating bank mergers under the Bank Merger Act. The new policy emphasizes a principles-based

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evaluation, focusing on factors such as the effect of the transaction on competition, financial stability, and the convenience and needs of the community to be served. The OCC concurrently approved a final rule updating its regulations for business combinations involving national banks and federal savings associations, including a policy statement summarizing the principles used during its review of Bank Merger Act applications. Importantly, the Federal Reserve did not join with the FDIC and the OCC in this updated guidance. Additionally, the DOJ announced its withdrawal from the 1995 Bank Merger Competitive Review Guidelines, indicating that it would apply its 2023 Merger Guidelines to the banking industry.

These developments reflect a heightened regulatory focus on bank mergers, with an emphasis on maintaining competition, ensuring financial stability, and addressing community needs. However, given the shift in administration under President Trump, regulatory priorities may change. Financial institutions considering mergers or acquisitions should monitor potential regulatory shifts under the new administration, as changes in policy priorities may impact the level of scrutiny and the application of existing regulatory frameworks.

Proposed Legislation and Regulatory Action

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company or the Bank could have a material effect on the business of the Company.

On October 2, 2024, the FDIC released a notice of proposed rulemaking to strengthen recordkeeping requirements for certain types of custodial accounts. Under the proposed rule, FDIC-insured banks holding certain custodial accounts, as defined in the proposal, would be required to take certain steps to ensure accurate account records are maintained in order to determine the individual owner of the funds, including a requirement to reconcile the account for each individual owner on a daily basis. These requirements, as well as others, apply if the bank uses a third party to maintain records. The FDIC extended the comment period to January 16, 2025. It is unclear how President Trump’s administration will approach proposals under the previous administration.

Southern First Bancshares, Inc.

We own 100% of the outstanding capital stock of the Bank, and therefore we are considered to be a bank holding company under the federal Bank Holding Company Act of 1956. As a result, we are primarily subject to the supervision, examination and reporting requirements of the Federal Reserve under the BHCA and its regulations promulgated thereunder. Moreover, as a bank holding company of a bank located in South Carolina, we also are subject to the South Carolina Banking and Branching Efficiency Act.

Permitted Activities. Under the BHCA, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in, the following activities:

- banking or managing or controlling banks;
- furnishing services to or performing services for our subsidiaries; and
- any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and usual related activities;
- leasing personal or real property;
- operating a non-bank depository institution, such as a savings association;
- trust company functions;
- financial and investment advisory activities;

- conducting discount securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

As a bank holding company we also can elect to be treated as a "financial holding company," which would allow us to engage in a broader array of activities. In summary, a financial holding company can engage in activities that are financial in nature or incidental or complimentary to financial activities, including insurance underwriting, sales and brokerage activities, providing financial and investment advisory services, underwriting services and limited merchant banking activities. We have not sought financial holding company status, but may elect such status in the future as our business matures. If we were to elect financial holding company status, each insured depository institution we control would have to be well capitalized, well managed and have at least a satisfactory rating under the CRA as discussed below.

The Federal Reserve has the authority to order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the Bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Change in Control. Two statutes, the BHCA and the Change in Bank Control Act, together with regulations promulgated under them, require some form of regulatory review before any company may acquire "control" of a bank or a bank holding company. Under the BHCA, control is deemed to exist if a company acquires 25% or more of any class of voting securities of a bank holding company; controls the election of a majority of the members of the board of directors; or exercises a controlling influence over the management or policies of a bank or bank holding company. The Federal Reserve's standards for determining whether one company has control over another establish four categories of tiered presumptions of noncontrol that are based on the percentage of voting shares held by the investor (less than 5%, 5-9.9%, 10-14.9% and 15-24.9%) and the presence of other indicia of control. As the percentage of ownership increases, fewer indicia of control are permitted without falling outside of the presumption of noncontrol. These indicia of control include nonvoting equity ownership, director representation, management interlocks, business relationship and restrictive contractual covenants. Under the standards, investors can hold up to 24.9% of the voting securities and up to 33% of the total equity of a company without necessarily having a controlling influence. State laws generally, including South Carolina law, require state approval before an acquirer may become the holding company of a state bank.

Under the Change in Bank Control Act, a person or company is required to file a notice with the Federal Reserve if it will, as a result of the transaction, own or control 10% or more of any class of voting securities or direct the management or policies of a bank or bank holding company and either if the bank or bank holding company has registered securities or if the acquirer would be the largest holder of that class of voting securities after the acquisition. For a change in control at the holding company level, both the Federal Reserve and the subsidiary bank's primary federal regulator must approve the change in control; at the bank level, only the bank's primary federal regulator is involved. Transactions subject to the BHCA are exempt from Change in Control Act requirements. For state banks, state laws, including that of South Carolina, typically require approval by the state bank regulator as well.

In August 2024, the FDIC proposed amendments to its regulations implementing the Change in Bank Control Act. The proposed rule aims to remove certain existing exemptions and seeks public comment on the FDIC's overall approach to changes in control affecting FDIC-supervised institutions. If adopted, these amendments could result in more transactions being subject to the Change in Bank Control Act notice requirements and FDIC review.

Source of Strength. There are a number of obligations and restrictions imposed by law and regulatory policy on bank holding companies with regard to their depository institution subsidiaries that are designed to minimize potential loss to depositors and to the FDIC insurance funds in the event that the depository institution becomes in danger of defaulting under its obligations to repay deposits. Under a policy of the Federal Reserve, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, to avoid receivership of its insured depository institution subsidiary, a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become "undercapitalized" within the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized, or (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan.

The Federal Reserve also has the authority under the BHCA to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal law grants federal bank regulatory authorities' additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

In addition, the "cross guarantee" provisions of the Federal Deposit Insurance Act (the "FDIA") require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by the FDIC as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC's claim for damages is superior to claims of shareholders of the insured depository institution or its holding company, but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

The FDIA also provides that amounts received from the liquidation or other resolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general or unsecured senior liability, subordinated liability, general creditor or shareholder. This provision would give depositors a preference over general and subordinated creditors and shareholders in the event a receiver is appointed to distribute the assets of our Bank.

Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Capital Requirements. The Federal Reserve imposes certain capital requirements on the bank holding company under the BHCA, including a minimum leverage ratio and a minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are essentially the same as those that apply to the Bank and are described above under "Basel III Capital Standards." Subject to certain restrictions, we are able to borrow money to make a capital contribution to the Bank, and these loans may be repaid from dividends paid from the Bank to the Company. Our ability to pay dividends depends on, among other things, the Bank's ability to pay dividends to us, which is subject to regulatory restrictions as described below in "Southern First Bank—Dividends."

We are also able to raise capital for contribution to the Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

Dividends. Since the Company is a bank holding company, its ability to declare and pay dividends is dependent on certain federal and state regulatory considerations, including the guidelines of the Federal Reserve. The Federal Reserve has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. Further, under the prompt corrective action regulations, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

In addition, since the Company is a legal entity separate and distinct from the Bank and does not conduct stand-alone operations, its ability to pay dividends depends on the ability of the Bank to pay dividends to it, which is also subject to regulatory restrictions as described below in "Southern First Bank – Dividends."

South Carolina State Regulation. As a South Carolina bank holding company under the South Carolina Banking and Branching Efficiency Act, we are subject to limitations on sale or merger and to regulation by the South Carolina Board of Financial Institutions (the "S.C. Board"). We are not required to obtain the approval of the S.C. Board prior to acquiring the capital stock of a national bank, but we must notify them at least 15 days prior to doing so. We must receive the S.C. Board's approval prior to engaging in the acquisition of a South Carolina state chartered bank or another South Carolina bank holding company.

Southern First Bank

As a South Carolina bank, deposits in the Bank are insured by the FDIC up to a maximum amount, which is currently $250,000 per depositor. The S.C. Board and the FDIC regulate or monitor virtually all areas of the Bank's operations, including;

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;
- issuances of securities;
- payment of dividends;
- interest rates payable on deposits;
- interest rates or fees chargeable on loans;
- establishment of branches;
- corporate reorganizations;
- maintenance of books and records; and
- adequacy of staff training to carry on safe lending and deposit gathering practices.

These agencies, and the federal and state laws applicable to the Bank's operations, extensively regulate various aspects of our banking business, including, among other things, permissible types and amounts of loans, investments and other activities, capital adequacy, branching, interest rates on loans and on deposits, the maintenance of reserves on demand deposit liabilities, and the safety and soundness of our banking practices.

All insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate federal banking agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC, their federal regulatory agency, and state supervisor when applicable. The FDIC has developed a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report of any insured depository institution. The FDIC and the other federal banking regulatory agencies also have issued standards for all insured depository institutions relating, among other things, to the following:

- internal controls;
- information systems and audit systems;
- loan documentation;
- credit underwriting;
- interest rate risk exposure; and
- asset quality.

Prompt Corrective Action. As an insured depository institution, the Bank is required to comply with the capital requirements promulgated under the FDIA and the prompt corrective action regulations thereunder, which set forth five capital categories, each with specific regulatory consequences. Under these regulations, the categories are:

- Well Capitalized — The institution exceeds the required minimum level for each relevant capital measure. A well-capitalized institution (i) has a total risk-based capital ratio of 10% or greater, (ii) has a Tier 1 risk-based capital ratio of 8% or greater, (iii) has a common equity Tier 1 risk-based capital ratio of 6.5% or greater, (iv) has a leverage capital ratio of 5% or greater, and (v) is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.
- Adequately Capitalized — The institution meets the required minimum level for each relevant capital measure. No capital distribution may be made that would result in the institution becoming undercapitalized. An adequately capitalized institution (i) has a total risk-based capital ratio of 8% or greater, (ii) has a Tier 1 risk-based capital ratio of

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6% or greater, (iii) has a common equity Tier 1 risk-based capital ratio of 4.5% or greater, and (iv) has a leverage capital ratio of 4% or greater.

- Undercapitalized — The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution (i) has a total risk-based capital ratio of less than 8%, (ii) has a Tier 1 risk-based capital ratio of less than 6%, (iii) has a common equity Tier 1 risk-based capital ratio of less than 4.5% or greater, or (iv) has a leverage capital ratio of less than 4%.
- Significantly Undercapitalized — The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution (i) has a total risk-based capital ratio of less than 6%, (ii) has a Tier 1 risk-based capital ratio of less than 4%, (iii) has a common equity Tier 1 risk-based capital ratio of less than 3% or greater, or (iv) has a leverage capital ratio of less than 3%.
- Critically Undercapitalized — The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

If the FDIC determines, after notice and an opportunity for hearing, that the Bank is in an unsafe or unsound condition, the regulator is authorized to reclassify the Bank to the next lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

If a bank is not well capitalized, it cannot accept brokered deposits without prior regulatory approval. Even if approved, rate restrictions will govern the rate a bank may pay on brokered deposits. In addition, a bank that is not well capitalized cannot offer an effective yield in excess of 75 basis points over interest paid on deposits of comparable size and maturity in such institution’s normal market area for deposits accepted from within its normal market area, or national rate paid on deposits of comparable size and maturity for deposits accepted outside the bank’s normal market area. Moreover, the FDIC generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be categorized as undercapitalized. Undercapitalized institutions are subject to growth limitations (an undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless determined by the appropriate federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action) and are required to submit a capital restoration plan. The agencies may not accept a capital restoration plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. In addition, for a capital restoration plan to be acceptable, the depository institution’s parent holding company must guarantee that the institution will comply with the capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of an amount equal to 5.0% of the depository institution’s total assets at the time it became categorized as undercapitalized or the amount that is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is categorized as significantly undercapitalized.

Significantly undercapitalized categorized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become categorized as adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. The appropriate federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and for loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution, that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if payment of such a management fee or the making of such would cause a bank to become undercapitalized, it could not pay a management fee or dividend to the bank holding company.

As of December 31, 2024, the Bank was deemed to be “well capitalized.”

Standards for Safety and Soundness. The FDIA also requires the federal banking regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; and (v) asset growth. The agencies also must prescribe standards for asset quality, earnings, and stock valuation, as well as standards for compensation, fees and benefits. The federal banking agencies have adopted regulations and Interagency Guidelines Prescribing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if the FDIC determines that the Bank fails to meet any standards prescribed by the guidelines, the agency may require the Bank to submit to the agency an acceptable plan to achieve compliance with the standard, as required by the FDIC. The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans. The FDIC requested comments on a proposal that would amend the regulations implementing section 29 of the Federal Deposit Insurance Act. Section 29 contains brokered deposits restrictions that apply to less than well capitalized depository institutions. The proposed changes include: (i) modifying the definition of “deposit broker”; (ii) eliminating the exclusive deposit placement arrangement exception; and (ii) revising the interpretation of the primary purpose exception to consider a third party’s intent in placing customer funds at a particular insured depository institution. The FDIC extended the comment-period, which concluded on November 21, 2024.

Insurance of Accounts and Regulation by the FDIC. The Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks to $250,000 per account. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund.

As an FDIC-insured bank, the Bank must pay deposit insurance assessments to the FDIC based on its average total assets minus its average tangible equity. The Bank’s assessment rates are currently based on its risk classification (i.e., the level of risk it poses to the FDIC’s deposit insurance fund). Institutions classified as higher risk pay assessments at higher rates than institutions that pose a lower risk. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances.

In addition to the ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances. For example, in November 2023, the FDIC implemented a special assessment to recover the approximately $16.3 billion loss to the Deposit Insurance Fund associated with protecting uninsured depositors following the closures of Silicon Valley Bank and Signature Bank earlier in the year. However, the assessment was limited to banks with more than $5 billion uninsured deposits as of December 31, 2022, so we did not receive any assessment. As of March 2025, no further special assessments have been imposed.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any practice, condition or violation that might lead to termination of the Bank’s deposit insurance.

Transactions with Affiliates and Insiders. The Company is a legal entity separate and distinct from the Bank and its other subsidiaries. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company or its non-bank subsidiaries. The Company and the Bank are subject to Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W.

Section 23A of the Federal Reserve Act places limits on the amount of loans or extensions of credit by a bank to any affiliate, including its holding company, and on a bank’s investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of any affiliates of the bank. Section 23A also applies to derivative transactions, repurchase agreements and securities lending and borrowing transactions that cause a bank to have credit exposure to an affiliate. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank’s capital and surplus and, as to all affiliates combined, to 20% of the Bank’s capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. The Bank is forbidden to purchase low quality assets from an affiliate.

Section 23B of the Federal Reserve Act, among other things, prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. If there are

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no comparable transactions, a bank's (or one of its subsidiaries') affiliate transaction must be on terms and under circumstances, including credit standards, that in good faith would be offered to, or would apply to, nonaffiliated companies. These requirements apply to all transactions subject to Section 23A as well as to certain other transactions.

The affiliates of a bank include any holding company of the bank, any other company under common control with the bank (including any company controlled by the same shareholders who control the bank), any subsidiary of the bank that is itself a bank, any company in which the majority of the directors or trustees also constitute a majority of the directors or trustees of the bank or holding company of the bank, any company sponsored and advised on a contractual basis by the bank or an affiliate, and any mutual fund advised by a bank or any of the bank's affiliates. Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve decides to treat these subsidiaries as affiliates.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Extensions of credit include derivative transactions, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions to the extent that such transactions cause a bank to have credit exposure to an insider. Any extension of credit to an insider (i) must be made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unrelated third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

On December 22, 2020, the federal banking agencies issued an interagency statement extending the temporary relief from enforcement action against banks or asset managers, which become principal shareholders of banks, with respect to certain extensions of credit by banks that otherwise would violate Regulation O, provided the asset managers and banks satisfy certain conditions designed to ensure that there is a lack of control by the asset manager over the bank.

The federal banking agencies have extended the temporary relief from enforcement actions related to Regulation O multiple times, most recently on December 27, 2024. The relief, which applies to banks and asset managers that become principal stockholders of banks, will now expire on the earlier of January 1, 2026, or the effective date of a final Federal Reserve rule revising Regulation O. This extension allows additional time for regulators to address the treatment of bank credit extensions to complex-controlled portfolio companies that qualify as insiders. Financial institutions and asset managers should continue monitoring updates, as a final rule could impact the relief before its expiration.

Dividends. The Company's principal source of cash flow, including cash flow to pay dividends to its shareholders, is dividends it receives from the Bank. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company. As a South Carolina chartered bank, the Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the S.C. Board, the Bank is generally permitted under South Carolina state banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the S.C. Board. The FDIC also has the authority under federal law to enjoin a bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances. The Bank must also maintain the CET1 capital conservation buffer of 2.5% to avoid becoming subject to restrictions on capital distributions, including dividends, as described above.

Branching. Under current South Carolina law, the Bank may open branch offices throughout South Carolina with the prior approval of the S.C. Board. In addition, with prior regulatory approval, the Bank is able to acquire existing banking operations in South Carolina. Furthermore, federal legislation permits interstate branching, including out-of-state acquisitions by bank holding companies, interstate branching by banks, and interstate merging by banks. The Dodd-Frank Act removes previous state law restrictions on de novo interstate branching in states such as South Carolina. This change permits out-of-state banks to open de novo branches in states where the laws of the state where the de novo branch to be opened would permit a bank chartered by that state to open a de novo branch.

Community Reinvestment Act. The CRA requires that the FDIC evaluate the record of the Bank in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria imposes additional requirements and limitations on our Bank. On February 27, 2025, the date of the most recent examination report, the Bank received a Satisfactory CRA rating.

In December 2019, the FDIC and the Office of the Comptroller of the Currency (the "OCC") issued a notice of proposed rulemaking intended to (i) clarify which activities qualify for CRA credit; (ii) update where activities count for CRA credit; (iii) create a more transparent and objective method for measuring CRA performance; and (iv) provide for more transparent, consistent, and timely CRA-related data collection, recordkeeping, and reporting. However, the Federal Reserve did not join the proposed rulemaking. In January 2025, the OCC, FDIC, and Federal Reserve issued additional guidance clarifying that digital and fintech-driven activities may be eligible for CRA credit provided they meet established criteria. This guidance reflects efforts to modernize CRA evaluations in light of evolving banking practices.

In May 2020, the OCC issued its final CRA rule, which was later rescinded in December 2021, replacing it with a rule based on the rules adopted jointly by the federal banking agencies in 1995, as amended and superseded by an updated joint framework. On the same day that the OCC announced its plans to rescind the CRA final rule, the OCC, the FDIC, and the Federal Reserve announced that they are working together to "strengthen and modernize the rules implementing the CRA." On May 5, 2022, the OCC, FDIC, and Federal Reserve released a notice of proposed rulemaking regarding the CRA and invited public comment on the proposed rules. The comment period closed on August 5, 2022. On October 24, 2023, the OCC, the FDIC, and the Federal Reserve issued the final rule to strengthen and modernize regulations implementing the CRA. The final rule took effect on April 1, 2024; however, compliance with the majority of the final rule's provisions will not be required until January 1, 2026, and the data reporting requirements of the final rule will not take effect until January 1, 2027. The final rules, among other things, include: (i) applying four new performance tests to evaluate the CRA performance of large banks (assets of $2 billion or more): the Retail Lending Test, Retail Services and Products Test, Community Development Financing Test, and Community Development Services Test; (ii) retaining a strategic plan option, with modifications to reflect the new performance tests and updates to the approval standards; (iii) clarifying community development activities by updating the definition of community development, providing a process by which banks may request confirmation that an activity is eligible for community development consideration, and providing for a publicly available interagency illustrative list of qualifying community development activities; (iv) updating delineation requirements for facility-based assessment areas and establishing new retail lending assessment areas for certain large banks; (v) updating data collection, maintenance, and reporting requirements for large banks, tailoring those requirements based on large bank asset size and leveraging existing data where possible, while not imposing new data collection and reporting requirements for small and intermediate banks; and (vi) continuing public file and public notice disclosure requirements and creating a new public comment process to facilitate public engagement. Several banking industry groups filed a lawsuit seeking to invalidate the CRA final rule, in which they argued that the federal banking agencies exceeded their statutory authority in adopting the CRA final rule. In March 2024, a federal judge granted an injunction to extend the CRA final rule's effective date, originally set for April 1, 2024. The effective date will be extended each day the injunction remains in place, pending the resolution of the lawsuit. Management has and will continue to evaluate any changes to the CRA's regulations and their impact to the Bank.

Fair Lending Requirements. We are subject to certain fair lending requirements and reporting obligations involving lending operations. A number of laws and regulations provide these fair lending requirements and reporting obligations, including, at the federal level, the Equal Credit Opportunity Act ("ECOA"), as amended by the Dodd-Frank Act, and Regulation B, as well as the Fair Housing Act ("FHA") and regulations implementing the FHA. ECOA and Regulation B prohibit discrimination in any aspect of a credit transaction based on a number of prohibited factors, including race or color, religion, national origin, sex, marital status, age, the applicant's receipt of income derived from public assistance programs, and the applicant's exercise, in good faith, of any right under the Consumer Credit Protection Act. ECOA and Regulation B include lending acts and practices that are specifically prohibited, permitted, or required, and these laws and regulations proscribe data collection requirements, legal action statute of limitations, and disclosure of the consumer's ability to receive a copy of any appraisal(s) and valuation(s) prepared in connection with certain loans secured by dwellings. In January 2023, the OCC revised its "Fair Lending" booklet of the Comptroller's Handbook to incorporate clarified details and risk factors for a variety of examination scenarios addressing fair lending and to update references to supervisory guidance, sound risk management practices, and applicable legal standards. While this OCC guidance does not apply to the Bank explicitly, it represents best practices guidance for the Bank. FHA prohibits discrimination in all aspects of residential real-estate related transactions based on prohibited factors, including race or color, national origin, religion, sex, familial status, and handicap.

In addition to prohibiting discrimination in credit transactions on the basis of prohibited factors, these laws and regulations can cause a lender to be liable for policies that result in a disparate treatment of or have a disparate impact on a protected class of persons. In June 2024, the CFPB released its 2023 Fair Lending Annual Report to Congress, reporting that it took action against Citibank for intentional, illegal discrimination against Armenian Americans applying for credit cards. The CFPB also identified significant issues around institutions failing to report demographic information required under the Home Mortgage Disclosure Act (HMDA). If a pattern or practice of lending discrimination is alleged by a regulator, then the matter may be referred by the agency to the DOJ for investigation. In December 2012, the DOJ and CFPB entered into a Memorandum of Understanding under which the agencies have agreed to share information, coordinate investigations, and have generally committed to strengthen their coordination efforts.

In addition to substantive penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with fair lending requirements into account when regulating and supervising other activities of the bank, including in acting on expansionary proposals.

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Consumer Protection Regulations. The activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. This includes Title X of the Dodd-Frank Act, which prohibits engaging in any unfair, deceptive, or abusive acts or practices ("UDAAP"). UDAAP claims involve detecting and assessing risks to consumers and to markets for consumer financial products and services. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The loan operations of the Bank are also subject to federal laws applicable to credit transactions, such as:

- the Truth-In-Lending Act ("TILA") and Regulation Z, governing disclosures of credit and servicing terms to consumer borrowers and including substantial requirements for mortgage lending and servicing, as mandated by the Dodd-Frank Act;
- the Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the communities they serve;
- ECOA and Regulation B, prohibiting discrimination on the basis of race, color, religion, or other prohibited factors in any aspect of a credit transaction;
- the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act and Regulation V, as well as the rules and regulations of the FDIC governing the use of consumer reports, provision of information to credit reporting agencies, certain identity theft protections and certain credit and other disclosures;
- the Fair Debt Collection Practices Act and Regulation F, governing the manner in which consumer debts may be collected by collection agencies and intending to eliminate abusive, deceptive, and unfair debt collection practices;
- the Real Estate Settlement Procedures Act ("RESPA") and Regulation X, which governs various aspects of residential mortgage loans, including the settlement and servicing process, dictates certain disclosures to be provided to consumers, and imposes other requirements related to compensation of service providers, insurance escrow accounts, and loss mitigation procedures;
- The Secure and Fair Enforcement for Mortgage Licensing Act ("SAFE Act") which mandates a nationwide licensing and registration system for residential mortgage loan originators. The SAFE Act also prohibits individuals from engaging in the business of a residential mortgage loan originator without first obtaining and maintaining annually registration as either a federal or state licensed mortgage loan originator;
- The Homeowners Protection Act, or the PMI Cancellation Act, provides requirements relating to private mortgage insurance on residential mortgages, including the cancelation and termination of PMI, disclosure and notification requirements, and the requirement to return unearned premiums;
- The Fair Housing Act prohibits discrimination in all aspects of residential real-estate related transactions based on race or color, national origin, religion, sex, and other prohibited factors;
- The Servicemembers Civil Relief Act and Military Lending Act, providing certain protections for servicemembers, members of the military, and their respective spouses, dependents and others; and
- Section 106(c)(5) of the Housing and Urban Development Act requires making home ownership available to eligible homeowners.

The deposit operations of the Bank are also subject to federal laws, such as:

- the Federal Deposit Insurance Act ("FDIA"), which, among other things, limits the amount of deposit insurance available per insured depositor category to $250,000 and imposes other limits on deposit-taking;
- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the Electronic Funds Transfer Act and Regulation E, which governs the rights, liabilities, and responsibilities of consumers and financial institutions using electronic fund transfer services, and which generally mandates disclosure requirements, establishes limitations on liability applicable to consumers for unauthorized electronic fund transfers, dictates certain error resolution processes, and applies other requirements relating to automatic deposits to and withdrawals from deposit accounts;
- The Expedited Funds Availability Act and Regulation CC, setting forth requirements to make funds deposited into transaction accounts available according to specified time schedules, disclose funds availability policies to customers, and relating to the collection and return of checks and electronic checks, including the rules regarding the creation or receipt of substitute checks; and
- the Truth in Savings Act and Regulation DD, which requires depository institutions to provide disclosures so that consumers can make meaningful comparisons about depository institutions and accounts.

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In light of the growing concern by regulators about relationships between chartered financial institutions and their third-party service providers, the FDIC joined the other federal supervisory agencies in passing the Interagency Guidance on Third-Party Relationships: Risk Management. This new guidance provided risk management oversight guidelines for financial institutions to incorporate in their ongoing relationships with third party vendors.

The CFPB is an independent regulatory authority housed within the Federal Reserve. The CFPB has broad authority to regulate the offering and provision of consumer financial products and services. The CFPB has the authority to supervise and examine depository institutions with more than $10 billion in assets for compliance with federal consumer laws. The authority to supervise and examine depository institutions with $10 billion or less in assets, such as us, for compliance with federal consumer laws remains largely with those institutions' primary regulators. However, the CFPB may participate in examinations of these smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. As such, the CFPB may participate in examinations of the Bank. In addition, states are permitted to adopt consumer protection laws and regulations that are stricter than the regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain institutions.

The CFPB has issued a number of significant rules that impact nearly every aspect of the lifecycle of consumer financial products and services, including rules regarding residential mortgage loans. These rules implement Dodd-Frank Act amendments to ECOA, TILA and RESPA. On July 18, 2024 regulators, including the CFPB, issued interagency guidance on reconsideration of value (ROVs) of residential real estate transactions. The CFPB continued its scrutiny of so called "pay-to-pay" and "junk fee" regimes, proposing rules related to credit card penalties. In March 2024, the CFPB finalized a rule that addresses late fees charged by card issuers that together with their affiliates have one million or more open credit card accounts. Further, the CFPB proposed rulemaking related to Residential Property Assessed Clean Energy Financing, quality control standards for automated valuation models, and personal financial data rights (discussed in more detail above). The CFPB's focus on fees was emphasized through its ongoing enforcement activity, including a notable enforcement action taken against Bank of America that required the payment of more than $100 million to customers, with similar size fines paid to both the CFPB and the OCC.

In February 2025, President Trump took significant actions affecting the CFPB. He dismissed Director Rohit Chopra and appointed Treasury Secretary Scott Bessent as Acting Director. Subsequently, Office of Management and Budget Director Russell Vought was named Acting Director, during which time the CFPB's operations were halted, its headquarters closed, and its employees instructed to cease work. These moves have been met with legal challenges and public debate regarding the future of the agency.

The Office of Foreign Assets Control. The Office of Foreign Assets Control ("OFAC"), which is a division of the U.S. Treasury, is responsible for helping to insure that U.S. entities do not engage in transactions with "enemies" of the U.S., as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT); the USA PATRIOT Act; the Office of Foreign Asset Control. Financial institutions must maintain AML/CFT programs, including internal policies, compliance officers, training, and independent audits, in accordance with the Bank Secrecy Act ("BSA") and other federal laws. They must adhere to know your customer and enhanced due diligence requirements, particularly for high-risk customers and foreign institutions, to prevent money laundering and terrorism financing. Institutions must also report suspicious activities to law enforcement and ensure compliance with risk-based customer due diligence procedures. The USA PATRIOT Act amended the BSA to enhance financial transparency and information-sharing between institutions, regulators, and law enforcement. It mandates customer identification programs, increased due diligence for non-U.S. persons, and stricter reporting of transactions over $10,000 to FinCEN. Financial institutions must also monitor and report transactions involving individuals or entities suspected of terrorist financing. Regulators actively enforce compliance, imposing penalties on institutions failing to meet AML/CFT obligations.

The USA PATRIOT Act amended the Bank Secrecy Act and provides, in part, for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including: (i) requiring standards for verifying customer identification at account opening; (ii) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (iii) reports by nonfinancial trades and businesses filed with the U.S. Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000; (iv) filing suspicious activities reports if a bank believes a customer may be violating U.S. laws and regulations; and (v) requires enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

Under the USA PATRIOT Act, the regulators can provide lists of the names of persons suspected of involvement in terrorist activities. The Bank can be requested, to search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must file a suspicious activity report and contact the applicable governmental authorities.

The Office of Foreign Assets Control ("OFAC"), which is a division of the U.S. Department of the Treasury (the "Treasury"), is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of names of persons and organizations with which the Bank is prohibited from engaging in business. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report, and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

In August 2023, the FFIEC updated its BSA/AML Examination Manual to clarify risk-based compliance expectations. The FDIC emphasizes oversight of third-party AML/CFT service providers, with enforcement actions against institutions that fail to monitor vendors effectively.

The Anti-Money Laundering Act of 2020 led to FinCEN's Corporate Transparency Act ("CTA"), requiring many corporate entities to disclose beneficial ownership information. Court rulings deeming the CTA unconstitutional, creating uncertainty regarding its future enforcement. However, on February 18, 2025, a federal judge lifted this previous nationwide injunction that had blocked the enforcement of the CTA. In response, FinCEN announced that reporting companies are now required to comply with the CTA's beneficial ownership information reporting requirements. To provide entities additional time to meet these obligations, FinCEN has extended the filing deadline to March 21, 2025. FinCEN also indicated plans to assess options for further modifying deadlines and intends to initiate a process to revise the BOI reporting rule to reduce burdens for lower-risk entities, including many U.S. small businesses.

Following Russia's invasion of Ukraine, OFAC imposed extensive sanctions under Executive Order 14024, including restrictions on Russian financial institutions, expanded sovereign debt prohibitions, and increased scrutiny of sanctions evasion. FinCEN issued an alert in March 2022, advising heightened vigilance. Sanctions enforcement continued through 2023 and 2024. Globally, the Financial Action Task Force ("FATF") updates its high-risk jurisdiction lists, affecting due diligence requirements for international transactions. In October 2023, FATF removed Albania, Cayman Islands, Jordan, and Panama from its monitoring list and added Bulgaria.

Privacy, Data Security and Credit Reporting. Under privacy protection provisions of the Gramm-Leach-Bliley Act of 1999 ("GLBA") and related regulations, we are limited in our ability to disclose non-public information about consumers to nonaffiliated third parties. Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or if the Bank is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. It is the Bank's policy not to disclose any personal information unless required by law.

Consumers must be notified in the event of a data breach under applicable state laws. Multiple states and Congress are considering laws or regulations which could create new individual privacy rights and impose increased obligations on companies handling personal data. For example, on November 18, 2021, the federal financial regulatory agencies published a final rule that will impose upon banking organizations and their service providers new notification requirements for significant cybersecurity incidents. Specifically, the final rule requires banking organizations to notify their primary

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federal regulator as soon as possible and no later than 36 hours after the discovery of a “computer-security incident” that rises to the level of a “notification incident” within the meaning attributed to those terms by the final rule. Banks’ service providers are required under the final rule to notify any affected bank to or on behalf of which the service provider provides services “as soon as possible” after determining that it has experienced an incident that materially disrupts or degrades, or is reasonably likely to materially disrupt or degrade, covered services provided to such bank for as much as four hours. The final rule took effect on April 1, 2022 and banks and their service providers must have complied with the requirements of the rule by May 1, 2022. Effective December 9, 2022, the Federal Trade Commission’s amendments to GLBA’s Safeguards Rule went into effect and financial institutions are continuing to implement this rule including its ongoing monitoring and risk assessment protocols.

States continue to take the lead in passing privacy focused legislation. Nine additional states passed some form of consumer privacy protection laws, only some of which include an exemption for entities regulated under GLBA. Congress has proposed significant privacy focused legislation largely targeting technology companies, however, to date, none of these laws have been passed.

The CFPB also took additional action related to consumer privacy. In October 2024, the CFPB issued a final rule implementing Section 1033 of the Consumer Financial Protection Act, requiring banks to provide consumers with access to their financial transaction data upon request. This rule is expected to require updates to data access policies by 2026.

In addition, pursuant to the Fair and Accurate Credit Transactions Act of 2003 (the “FACT Act”) and the implementing regulations of the federal banking agencies and Federal Trade Commission, the Bank is required to have in place an “identity theft red flags” program to detect, prevent and mitigate identity theft. The Bank has implemented an identity theft red flags program designed to meet the requirements of the FACT Act and the joint final rules. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank ("FHLB") of Atlanta, which is one of 12 regional FHLBs that administer home financing credit for depository institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Financing Board. All advances from the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. On September 30, 2024, the Federal Housing Finance Agency issued a notice of proposed rulemaking on that would improve FHLBs ability to provide liquidity to members by aligning the treatment of interest-bearing deposit accounts and other authorized overnight investments with the treatment of Federal Funds sales.

Effect of Governmental Monetary Policies. Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the U.S. government and its agencies. The Federal Reserve’s monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve have major effects upon the levels of bank loans, investments and deposits through its open market operations in U.S. government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies. In response to the COVID-19 pandemic, in 2020, the Federal Open Market Committee (“FOMC”) reduced the targeted federal funds interest rate range to 0.0% to 0.25%; however, due in part to rising inflation, throughout 2022 the target federal funds rate increased to between 4.25% and 4.50%. Throughout 2023, the target federal funds rate increased to 5.50%. In early 2024, with signs of moderating inflation and a slowing growth outlook, the FOMC initiated a gradual easing of monetary policy, reducing the target range to approximately 4.0% to 4.25% by the end of 2024. In January 2025, amid mixed economic signals, the FOMC maintained this target range while emphasizing its readiness to adjust policy further as economic conditions evolve.

Incentive Compensation. In addition to the potential restrictions on discretionary bonus compensation under the Basel III rules, the federal bank regulatory agencies have issued guidance on incentive compensation policies (the “Incentive Compensation Guidance”) intended to ensure that the incentive compensation policies of financial institutions do not undermine the safety and soundness of such institutions by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an institution, either individually or as part of a group, is based upon the key principles that a financial institution’s incentive compensation arrangements should comply with the following principles: (i) provide employees incentives that appropriately balance risk and reward; (ii) be compatible with effective controls and risk-management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The scope and content of federal bank regulatory agencies' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. In 2016, federal agencies proposed regulations which could significantly change the regulation of incentive compensation programs at financial institutions. The proposal would create four tiers of institutions based on asset size. Institutions in the top two tiers would be subject to rules much more detailed and proscriptive than are currently in effect. If interpreted aggressively by the regulators, the proposed rules could be used to prevent, as a practical matter, larger institutions from engaging in certain lines of business where substantial commission and bonus pool arrangements are the norm. In the 2016 proposal, the top two tiers included institutions with more than $50 billion of assets, which would not currently apply to us. We cannot predict what final rules may be adopted, nor how they may be implemented and, therefore, it cannot be determined at this time whether compliance with such policies will adversely affect our ability to hire, retain and motivate our key employees.

Corporate Governance. The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that affect most U.S. publicly traded companies. The Dodd-Frank Act (i) grants stockholders of U.S. publicly traded companies an advisory vote on executive compensation and so-called "golden parachute" payments, (ii) enhances independence requirements for compensation committee members, (iii) requires the SEC to adopt rules directing national securities exchanges to establish listing standards requiring all listed companies to adopt incentive-based compensation clawback policies for executive officers, and (iv) provides the SEC with authority to adopt proxy access rules that would allow stockholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy materials. The SEC has completed the bulk (although not all) of the rulemaking necessary to implement these provisions. However, on October 14, 2021, the SEC signaled a renewed interest in this rulemaking initiative by re-opening the comment period on a proposed rule issued originally in 2015 regarding clawbacks of incentive-based executive compensation. On October 26, 2022, the SEC adopted final rules implementing the incentive-based compensation recovery (clawback) provisions of the Dodd-Frank Act. The final rules directed the stock exchanges to establish listing standards requiring listed companies to develop and implement a policy providing for the recovery of erroneously awarded incentive-based compensation received by current or former executive officers and to satisfy related disclosure obligations. As of December 1, 2023, the final clawback rules from The NASDAQ Stock Market were effective. The Company's updated clawback policies were effective November 21, 2023.

Concentrations in Commercial Real Estate. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance ("CRE Guidance") provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to commercial real estate lending, having observed substantial growth in many commercial real estate asset and lending markets, increased competitive pressures, rising commercial real estate concentrations in banks, and an easing of commercial real estate underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor and manage the risks arising from commercial real estate lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their commercial real estate concentration risk.

Based on the Bank's loan portfolio as of December 31, 2024, it did not exceed the 300% and 100% guidelines for commercial real estate loans or construction and land development loans. The Bank will continue to monitor its portfolio to manage this increased risk.

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Item 1A. Risk Factors.

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may adversely impact our business operations. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected.

Risks Related to Economic Conditions

Our business may be adversely affected by conditions in the financial markets and economic conditions generally.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer and whose success we rely on to drive our growth, is highly dependent upon the business environment in the primary markets where we operate and in the United States as a whole. Unlike larger banks that are more geographically diversified, we are a regional bank that provides banking and financial services to customers primarily in Greenville, Columbia, Charleston, and Summerville, South Carolina; Raleigh, Greensboro and Charlotte, North Carolina; and Atlanta, Georgia. The economic conditions in these local markets may be different from, and in some instances worse than, the economic conditions in the United States as a whole. In 2024 and early 2025, continued regional economic uncertainty—exacerbated by persistent inflation, supply chain disruptions, and subdued consumer spending—has further increased the risks in our primary markets.

Some elements of the business environment that affect our financial performance include short-term and long-term interest rates, the prevailing yield curve, inflation and price levels, monetary and trade policy, unemployment and the strength of the domestic economy and the local economy in the markets in which we operate. Unfavorable market conditions can result in a deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan delinquencies, defaults, charge-offs, foreclosures, additional provisions for credit losses, adverse asset values of the collateral securing our loans and an overall material adverse effect on the quality of our loan portfolio. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; epidemics and pandemics; or a combination of these or other factors.

In addition, there are continuing concerns related to, among other things, the level of U.S. government debt and fiscal actions that may be taken to address that debt, a potential resurgence of economic and political tensions with China, the Russian invasion of Ukraine, and the Middle East conflict, all of which may have a destabilizing effect on financial markets and economic activity. Economic pressure on consumers and overall economic uncertainty may result in changes in consumer and business spending, borrowing and saving habits. These economic conditions and/or other negative developments in the domestic or international credit markets or economies may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate values and sales volumes and high unemployment or underemployment may also result in higher than expected loan delinquencies, increases in our levels of nonperforming and classified assets and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity and financial condition.

A significant portion of our loan portfolio is secured by real estate, and events that negatively affect the real estate market could hurt our business.

As of December 31, 2024, approximately 84% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A weakening of the real estate market in our primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. Deterioration in the real estate market could cause us to adjust our opinion of the level of credit quality in our loan portfolio. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. Acts of nature, including hurricanes, tornados, earthquakes, fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively affect our financial condition.

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Risks Related to Lending Activities

Our loan portfolio contains a number of real estate loans with relatively large balances.

Because our loan portfolio contains a number of real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans, which could result in a net loss of earnings, an increase in the provision for credit losses and an increase in loan charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

Commercial real estate loans increase our exposure to credit risk.

At December 31, 2024, 55.4% of our loan portfolio was secured by commercial real estate. Loans secured by commercial real estate are generally viewed as having more risk of default than loans secured by residential real estate or consumer loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers, the accuracy of the estimate of the property's value at completion of construction, and the estimated cost of construction. Such loans are generally riskier than loans secured by residential real estate or consumer loans because those loans are typically not secured by real estate collateral. An adverse development with respect to one lending relationship can expose us to a significantly greater risk of loss compared with a single-family residential mortgage loan because we typically have more than one loan with such borrowers. Additionally, these loans typically involve larger loan balances to single borrowers or groups of related borrowers compared with single-family residential mortgage loans. Therefore, the deterioration of one or a few of these loans could cause a significant decline in the related asset quality. A return of recessionary conditions could result in a sharp increase in loans charged-off and could require us to significantly increase our allowance for credit losses, which could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

Imposition of limits by the bank regulators on commercial and multi-family real estate lending activities could curtail our growth and adversely affect our earnings.

The 2006 "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" (the "CRE Guidance") provides that a bank's commercial real estate lending exposure could receive increased supervisory scrutiny where total non-owner occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, represent 300% or more of an institution's total risk-based capital, and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. Our level of commercial real estate and multi-family loans represents 247.2% of the Bank's total risk-based capital at December 31, 2024. If the FDIC, our primary federal regulator, were to impose restrictions on the amount of commercial real estate loans we can hold in our portfolio our earnings would be adversely affected.

In December 2015, the regulatory agencies released a statement on prudent risk management for commercial real estate lending that indicated, among other things, the intent to continue "to pay special attention" to commercial real estate lending activities and concentrations going forward. More recently, in 2024, the FDIC and the Federal Reserve reaffirmed their commitment to stringent oversight of CRE exposures in response to evolving market conditions. In early 2025, preliminary guidance from regulators suggested that any further acceleration in CRE loan growth or deterioration in loan performance could prompt the imposition of additional limits or remedial actions, which, if implemented, could curtail our growth and adversely affect our earnings.

Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value.

At December 31, 2024, commercial business loans comprised 15.3% of our total loan portfolio. Our commercial business loans are originated primarily based on the identified cash flow and general liquidity of the borrower and secondarily on the underlying collateral provided by the borrower and/or repayment capacity of any guarantor. The borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use. In addition, business assets may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral value provided by the borrower and liquidity of the guarantor. If these borrowers do not have sufficient cash flows or resources to pay these loans as they come due or the value of the underlying collateral is insufficient to fully secure these loans, we may suffer losses on these loans that exceed our allowance for credit losses.

We may have higher credit losses than we have allowed for in our allowance for credit losses.

Our actual loans losses could exceed our allowance for credit losses and therefore our historic allowance for credit losses may not be adequate. As of December 31, 2024, 55.4% of our loan portfolio was secured by commercial real estate. Repayment of such loans is generally considered more subject to market risk than residential mortgage loans. Industry experience shows that a portion of loans will become delinquent and a portion of loans will require partial or entire charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond our control, including among other things, changes in market conditions affecting the value of loan collateral, the cash flows of our borrowers and problems affecting borrower credit. If we suffer credit losses that exceed our allowance for credit losses, our financial condition, liquidity or results of operations could be materially and adversely affected.

Our decisions regarding allowance for credit losses and credit risk may materially and adversely affect our business.

Making loans and other extensions of credit is an essential element of our business. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans and other extensions of credit may not be repaid. The risk of nonpayment is affected by a number of factors, including: the duration of the credit; credit risks of a particular client; changes in economic and industry conditions; and in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

We attempt to maintain an appropriate allowance for credit losses to provide for probable losses in our loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors, including but not limited to: an ongoing review of the quality, mix, and size of our overall loan portfolio; our historical loan loss experience; evaluation of economic conditions; regular reviews of loan delinquencies and loan portfolio quality; ongoing review of financial information provided by borrowers; and the amount and quality of collateral, including guarantees, securing the loans.

The determination of the appropriate level of the allowance for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. A deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for credit losses. In addition, regulatory agencies periodically review our allowance for credit losses and may require an increase in the provision for credit losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for credit losses, we will need additional provisions to increase the allowance for credit losses. Any increases in the allowance for credit losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our financial condition and results of operations.

A percentage of the loans in our portfolio may include exceptions to our loan policies and supervisory guidelines.

All of the loans that we make are subject to written loan policies adopted by our board of directors and to supervisory guidelines imposed by our regulators. Our loan policies are designed to reduce the risks associated with the loans that we make by requiring our loan officers to take certain steps that vary depending on the type and amount of the loan, prior to closing a loan. These steps include, among other things, making sure the proper liens are documented and perfected on property securing a loan, and requiring proof of adequate insurance coverage on property securing loans. Loans that do not fully comply with our loan policies are known as “exceptions.” We categorize exceptions as policy exceptions, financial statement exceptions and document exceptions. As a result of these exceptions, such loans may have a higher risk of loan loss than the other loans in our portfolio that fully comply with our loan policies. In addition, we may be subject to regulatory action by federal or state banking authorities if they believe the number of exceptions in our loan portfolio represents an unsafe banking practice.

Risks Related to Capital and Liquidity

Liquidity needs could adversely affect our financial condition and results of operations.

Dividends from the Bank provide the primary source of funds for the Company. The primary sources of funds of the Bank are client deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and international instability. In 2024 and early 2025, increased competition for deposits and volatility in wholesale funding markets have added to liquidity pressures.

Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to clients on alternative investments and general economic conditions. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include proceeds from FHLB advances, sales of investment securities and loans, and federal funds lines of credit from correspondent banks, as well as out-of-market time deposits. While we believe that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if we continue to grow and experience increasing loan demand. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

The Company is a stand-alone entity with its own liquidity needs to service its debt or other obligations. Other than dividends from the Bank, the Company does not have additional means of generating liquidity without obtaining additional debt or equity funding. If we are unable to receive dividends from the Bank or obtain additional funding, we may be unable to pay our debt or other obligations.

Legal, Accounting, Regulatory and Compliance Risks

We are subject to extensive regulation that has limited the conduct of our business, and could impose financial requirements, each of which could have an adverse impact on our operations.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. We are subject to regulation by the Federal Reserve. The Bank is subject to extensive regulation, supervision, and examination by our primary federal regulator, the FDIC, the regulating authority that insures client deposits, and by our primary state regulator, the S.C. Board. Also, as a member of the Federal Home Loan Bank, the Bank must comply with applicable regulations of the Federal Housing Finance Board and the Federal Home Loan Bank. Regulation by these agencies is intended primarily for the protection of our depositors and the deposit insurance fund and not for the benefit of our shareholders. The Bank’s activities are also regulated under consumer protection laws applicable to our lending, deposit, and other activities. A sufficient claim against us under these laws could have a material adverse effect on our results of operations. Recent regulatory developments in 2023 and early 2024 have led to enhanced expectations in areas such as cybersecurity, data privacy, digital asset management, and anti-money laundering. These evolving requirements are increasing our compliance costs and the complexity of our regulatory obligations.

Failure to comply with laws, regulations or policies could also result in heightened regulatory scrutiny and in sanctions by regulatory agencies (such as a memorandum of understanding, a written supervisory agreement or a cease and desist order), civil money penalties and/or reputation damage. Any of these consequences could restrict our ability to expand our business or could require us to raise additional capital or sell assets on terms that are not advantageous to us or our shareholders and could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, such violations may occur despite our best efforts.

We are subject to fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB and other federal and state agencies are responsible for enforcing these laws and regulations. A finding by these regulators of noncompliance with these laws could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, and imposition of restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation, which if successful could adversely impact our rating under the CRA. As of our most recent examination report, the Bank received a “Satisfactory” CRA rating.

We face risks related to the adoption of future legislation and potential changes in federal regulatory agency leadership, policies, and priorities.

In 2025, the U.S. political landscape remains uncertain, with the Republicans holding the majority in both the U.S. House of Representatives and the U.S. Senate. A unified Republican Congress has created conditions for potential shifts in policy, though partisan division may still result in challenges to enacting sweeping reforms. Under the Biden Administration, Congressional committees with jurisdiction over the banking sector pursued oversight and legislative initiatives in a variety of areas, including addressing climate-related risks, promoting diversity and equality within the banking industry and addressing other Environmental, Social, and Governance matters, improving competition in the banking sector and enhancing oversight of bank mergers and acquisitions, establishing a regulatory framework for digital assets and markets, and oversight of pandemic responses and economic recovery. The Trump Administration, alongside a unified Republican Congress, may pursue policies or changes that (i) reverse or suspend key actions implemented under the Biden Administration, (ii) promote deregulation by easing regulatory burdens on financial institutions, (iii) adopt a technology-forward approach, and (iv) take a more favorable stance on bank mergers and acquisitions, potentially streamlining the approval process to encourage consolidation within the banking sector. The prospects for the enactment of major banking reform legislation remain unclear at this time.

Furthermore, leadership changes within federal banking agencies and financial regulators continue to shape the regulatory environment. Since the change in presidential administration in 2020, key positions across agencies—including the Comptroller of the Currency, CFPB, CFTC, SEC, and the U.S. Treasury—experienced significant turnover. While some leadership positions were filled, others remained vacant, leading to ongoing shifts in regulatory priorities and enforcement approaches. In early 2025, additional turnover and policy realignments within these agencies have further contributed to regulatory uncertainty in the financial services sector. The unified Republican government could further alter the composition of these agencies, introducing new leadership and new policies and rules that could significantly impact the banking sector. The potential impact of the unified Republican government on additional changes in agency structure, personnel, policies and priorities on the financial services sector, including the Company and the Bank, cannot be fully predicted at this time. Regulations and laws may be modified at any time, and new legislation may be enacted that will affect us. Any future changes in federal and state laws and regulations, as well as the interpretation and implementation of such laws and regulations, could affect us in substantial and unpredictable ways, including those listed above or other ways that could have a material adverse effect on our business, financial condition or results of operations.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the USA Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by OFAC. Federal and state bank regulators also focus on compliance with Bank Secrecy Act and anti-money laundering regulations. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively affect our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered “predatory.” These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. Loans with certain terms and conditions and that otherwise meet the definition of a “qualified mortgage” may be protected from liability to a borrower for failing to make the necessary determinations. In either case, we may find it necessary to tighten our mortgage loan underwriting standards in response to the CFPB rules, which may constrain our ability to make loans consistent with our business strategies. It is our policy not to make predatory loans and to determine borrowers' ability to repay, but the law and related rules create the potential for increased liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

The Federal Reserve may require us to commit capital resources to support the Bank.

The Federal Reserve requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the “source of strength” doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under these requirements, in the future, we could be required to provide financial assistance to the Bank if the Bank experiences financial distress.

A capital injection may be required at times when we do not have the resources to provide it, and therefore we may be required to borrow the funds. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's cash flows, financial condition, results of operations and prospects.

Risks Related to Our Operations

Competition with other financial institutions may have an adverse effect on our ability to retain and grow our client base, which could have a negative effect on our financial condition or results of operations.

The banking and financial services industry is very competitive and includes services offered from other banks, savings and loan associations, credit unions, mortgage companies, other lenders, and institutions offering uninsured investment alternatives. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. The financial services industry has and is experiencing an ongoing trend towards consolidation in which fewer large national and regional banks and other financial institutions are replacing many smaller and more local banks. These larger banks and other financial institutions hold a large accumulation of assets and have significantly greater resources and a wider geographic presence or greater accessibility. In some instances, these larger entities operate without the traditional brick and mortar facilities that restrict geographic presence. Some competitors have more aggressive marketing campaigns and better brand recognition, and are able to offer more services, more favorable pricing or greater customer convenience than the Bank. In addition, competition has increased from new banks and other financial services providers that target our existing or potential clients. As consolidation continues among large banks, we expect other smaller institutions to try to compete in the markets we serve. This competition could reduce our net income by decreasing the number and size of the loans that we originate and the interest rates we charge on these loans. Additionally, these competitors may offer higher interest rates, which could decrease the deposits we attract or require us to increase rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations which could increase our cost of funds.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge as part of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Technological developments have allowed competitors, including some non-depository institutions, to compete more effectively in local markets and have expanded the range of financial products, services and capital available to our target clients. If we are unable to implement, maintain and use such technologies effectively, we may not be able to offer products or achieve cost-efficiencies necessary to compete in the industry. In addition, some of these competitors have fewer regulatory constraints and lower cost structures.

We are subject to environmental risks that could result in losses.

In the course of business, the Bank may acquire, through foreclosure, or deed in lieu of foreclosure, properties securing loans it has originated or purchased which are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, the Bank may be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have a material adverse effect on our business, results of operations and financial condition.

We face increasing climate change risks, including more frequent severe weather events—such as hurricanes, tropical storms, tornadoes, winter storms, freezes, and floods—that could damage or destroy residential and multifamily real estate collateral or impair borrowers' ability to make payments. Such events could lower the value of our collateral, raise delinquency rates, and trigger broader economic downturns, thereby materially affecting our business and financial results. The potential losses and costs associated with these climate-related risks are difficult to predict.

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We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, internet connections and network access. While we have selected these third-party vendors carefully, we do not control their actions. Any problem caused by these third parties, including poor performance of services, data breaches, failure to provide services, disruptions in communication services provided by a vendor and failure to handle current or higher volumes, could adversely affect our ability to deliver products and services to our clients and otherwise conduct our business, and may harm our reputation. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us. Replacing these third-party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by the Bank cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Bank. Any such losses could have a material adverse effect on our financial condition and results of operations.

We are subject to losses due to errors, omissions or fraudulent behavior by our employees, clients, counterparties or other third parties.

We are exposed to many types of operational risk, including the risk of fraud by employees and third parties, clerical recordkeeping errors and transactional errors. Our business is dependent on our employees as well as third-party service providers to process a large number of increasingly complex transactions. We could be materially and adversely affected if employees, clients, counterparties or other third parties caused an operational breakdown or failure, either as a result of human error, fraudulent manipulation or purposeful damage to any of our operations or systems.

In deciding whether to extend credit or to enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information, which we do not independently verify. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a client's audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the client. Our financial condition and results of operations could be negatively affected to the extent we rely on financial statements that do not comply with GAAP or are materially misleading, any of which could be caused by errors, omissions, or fraudulent behavior by our employees, clients, counterparties, or other third parties.

In addition, criminals committing fraud increasingly are using more sophisticated techniques and in some cases are part of larger criminal rings, which allow them to be more effective. This type of fraudulent activity has taken many forms, ranging from check fraud, mechanical devices attached to ATM machines, social engineering and phishing attacks to obtain personal information or impersonation of our clients through the use of falsified or stolen credentials. Additionally, an individual or business entity may properly identify themselves, particularly when banking online, yet seek to establish a business relationship for the purpose of perpetrating fraud. Further, in addition to fraud committed against us, we may suffer losses as a result of fraudulent activity committed against third parties. Increased deployment of technologies, such as chip card technology, defray and reduce aspects of fraud; however, criminals are turning to other sources to steal personally identifiable information, such as unaffiliated healthcare providers and government entities, in order to impersonate the consumer to commit fraud. Many of these data compromises are widely reported in the media.

As a result of the increased sophistication of fraud activity, we have increased our spending on systems and controls to detect and prevent fraud. This will result in continued ongoing investments in the future. Nevertheless, these investments may prove insufficient and fraudulent activity could result in losses to us or our customers; loss of business and/or customers; damage to our reputation; the incurrence of additional expenses (including the cost of notification to consumers, credit monitoring and forensics, and fees and fines imposed by the card networks); disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability any of which could have a material adverse effect on our business, financial condition and results of operations.

Our operational or security systems may experience an interruption or breach in security, including as a result of cyber-attacks.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems, including as a result of cyber-attacks, could result in failures or disruptions in our client relationship management, deposit, loan, and other systems and also the disclosure or misuse of confidential or proprietary information. While we have systems, policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of client business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, information security risks for financial institutions have increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increasing sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Our technologies, systems, networks, and our customers' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' or other third parties' business operations. As cyber threats continue to evolve, we may also be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

While we have not experienced any material losses relating to cyber-attacks or other information security breaches to date, we may suffer such losses in the future and any information security breach could result in significant costs to us, which may include fines and penalties, potential liabilities from governmental or third party investigations, proceedings or litigation, legal, forensic and consulting fees and expenses, costs and diversion of management attention required for investigation and remediation actions, and the negative impact on our reputation and loss of confidence of our customers and others, any of which could have a material adverse impact on our business, financial condition and operating results.

Our enterprise risk management framework may not be effective in mitigating risk and reducing the potential for losses.

Our enterprise risk management framework seeks to mitigate risk and loss to us. We have established comprehensive policies and procedures and an internal control framework designed to provide a sound operational environment for the types of risk to which we are subject, including credit risk, market risk (interest rate and price risks), liquidity risk, operational risk, compliance risk, legal risk, strategic risk, and reputational risk. However, as with any risk management framework, there are inherent limitations to our current and future risk management strategies, including risks that we have not appropriately anticipated or identified. In addition, our businesses and the markets in which we operate are continuously evolving. We may fail to adequately or timely enhance our enterprise risk framework to address those changes. If our enterprise risk framework is ineffective, either because it fails to keep pace with changes in the financial markets, regulatory requirements, our businesses, our counterparties, clients or service providers or for other reasons, we could incur losses, suffer reputational damage or find ourselves out of compliance with applicable regulatory or contractual mandates. In addition to our executive committee, the Risk Committee of the Board, the Audit Committee of the Board, as well as the Company's Chief Risk Officer are all responsible for the "risk management framework" of the Company. These committees each meet regularly, with the authority to convene additional meetings, as circumstances require.

Our interest rate risk is overseen by the Risk Committee which monitors our compliance with regulatory guidance in the formulation and implementation of our interest rate risk program. The Risk Committee reviews the results of our interest rate risk modeling quarterly to assess whether we have appropriately measured our interest rate risk, mitigated our exposures appropriately and any residual risk is acceptable. In addition to our annual review of this policy, our Board of Directors reviews the interest rate risk policy limits at least annually.

Our controls and procedures may fail or be circumvented.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

Failure to keep pace with technological change could adversely affect our business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations. In 2024 and early 2025, the pace of technological change has accelerated, and the rapid evolution of cybersecurity threats, as well as the need to integrate new digital platforms, has increased the risks associated with failure to adapt.

The development and use of AI presents risks and challenges that may adversely impact our business.

The development and use of AI by us or our third-party vendors poses significant risks. The evolving legal and regulatory landscape—covering intellectual property, privacy, consumer protection, employment, and more—could force costly changes and heighten non-compliance risks. AI models, especially generative ones, might produce biased, inaccurate, or harmful outputs, disclose confidential information, or infringe on intellectual property rights. Moreover, their inherent complexity limits transparency, complicating oversight and error reduction. Reliance on third-party models further exposes us to risks associated with unauthorized training data and their risk management practices. Any of these issues could lead to legal liabilities, reputational harm, and adverse impacts on our business.

Our profitability is dependent on our banking activities.

Because we are a bank holding company, our profitability is directly attributable to the success of the Bank. Our banking activities compete with other banking institutions on the basis of products, service, convenience and price, among others. Due in part to both regulatory changes and consumer demands, banks have experienced increased competition from other entities offering similar products and services. We rely on the profitability of the Bank and dividends received from the Bank for payment of our operating expenses and satisfaction of our obligations. As is the case with other similarly situated financial institutions, our profitability will be subject to the fluctuating cost and availability of funds, changes in the prime lending rate and other interest rates, changes in economic conditions in general, and other factors.

Risks Related to Our Industry

We are subject to interest rate risk, which could adversely affect our financial condition and profitability.

A significant portion of our banking assets are subject to changes in interest rates. As of December 31, 2024, approximately 81% of our loan portfolio was in fixed rate loans, while only 19% was in variable rate loans. Like most financial institutions, our earnings significantly depend on our net interest income, the principal component of our earnings, which is the difference between interest earned by us from our interest-earning assets, such as loans and investment securities, and interest paid by us on our interest-bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” will negatively impact our earnings. Many factors beyond our control impact interest rates, including economic conditions, governmental monetary policies, inflation, recession, changes in unemployment, the money supply, and disorder and instability in domestic and foreign financial markets. Changes in monetary policies of the various government agencies could influence not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our assets and liabilities.

In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates. In a rising interest rate environment, the interest rate increases often result in larger payment requirements for our floating interest rate borrowers, which increases the potential for default. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. An increase (or decrease) in interest rates also requires us to increase (or decrease) the interest rates that we pay on our deposits. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to increases in nonperforming assets, charge-offs and delinquencies, further increases to the allowance for credit losses, and a reduction of income recognized, among others, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on non-accrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. At the same time, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets could have a material adverse impact on our net interest income.

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In March 2020, in response to the COVID-19 pandemic, the Federal Reserve reduced the target Federal Funds rate to between zero and 0.25%. However, starting in March 2022 and continuing through mid-2023, the Federal Reserve raised the target Federal Funds rate to between 5.25% and 5.50% in response to persistent inflationary pressures. As of 2025, interest rates remain elevated, and prolonged higher rates could result in net interest margin compression as interest-bearing liability rates continue to reprice upwards, while interest-earning assets may have already repriced to peak yields. Rapid changes in interest rates make it difficult for us to balance our loan and deposit portfolios, which may adversely affect our results of operations by, for example, reducing asset yields or spreads, creating operating and system issues, or having other adverse impacts on our business. When short-term interest rates are low for a prolonged period and assuming longer-term interest rates fall further, we could experience net interest margin compression as our interest-earning assets would continue to reprice downward while our interest-bearing liability rates could fail to decline in tandem, which would have an adverse effect on our net interest income and could have an adverse effect on our business, financial condition and results of operations. When interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income. When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income.

In addition, our mortgage operations provide a portion of our noninterest income. We generate mortgage revenues primarily from gains on the sale of residential mortgage loans pursuant to programs currently offered by Fannie Mae, Ginnie Mae or Freddie Mac. In this rising or higher interest rate environment, our originations of mortgage loans have decreased, resulting in fewer loans that are available to be sold to investors, which has decreased mortgage revenues in noninterest income. In addition, our results of operations are affected by the amount of noninterest expenses associated with mortgage activities, such as salaries and employee benefits, other loan expense, and other costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

Inflationary pressures and rising prices may affect our results of operations and financial condition.

In 2021 through 2022, inflation rose to levels not seen for over 40 years, reaching 7% and 6.5%, respectively. In 2023, the annual inflation rate decreased to 3.4% but inflationary pressures are currently expected to remain elevated throughout 2024. During the latter part of 2024 and into early 2025, the annual inflation rate averaged approximately 4.2%, although some moderation has been observed in early 2025. Nonetheless, persistently higher input costs, wage pressures, and ongoing supply chain disruptions continue to challenge our customers' ability to service their debt, thereby potentially increasing our credit risk. Inflation could lead to increased costs to our customers, making it more difficult for them to repay their loans or other obligations increasing our credit risk. Sustained higher interest rates by the Federal Reserve may be needed to tame persistent inflationary price pressures, which could push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations.

The Federal Reserve has implemented significant economic strategies that have affected interest rates, inflation, asset values, and the shape of the yield curve.

In recent years, the Federal Reserve has maintained a relatively tight monetary policy to address persistent inflationary pressures, resulting in elevated short-term interest rates. In mid-2024, as inflation began to moderate, the Federal Reserve signaled a gradual recalibration of its policy stance, though it remains cautious amid ongoing economic uncertainty.

Effects on the yield curve often are most pronounced at the short end of the curve, which is of particular importance to us and other banks. Among other things, easing strategies are intended to lower interest rates, expand the money supply, and stimulate economic activity, while tightening strategies are intended to increase interest rates, discourage borrowing, tighten the money supply, and restrain economic activity. Recent periods have demonstrated that when short-term rates rise more rapidly than long-term rates, the yield curve can invert—an occurrence that, while relatively uncommon, may signal potential economic slowdowns or increased recessionary risks.

It is unclear how long it will take for long-term rates to catch up. Many external factors may interfere with the effects of these plans or cause them to be changed, sometimes quickly. Such factors include significant economic trends or events as well as significant international monetary policies and events. Elevated interest rates, combined with an inverted or flattening yield curve, can increase borrowing costs, depress asset values, and reduce loan demand—factors that may adversely affect our operating results and financial condition. Moreover, unexpected shifts in domestic or international economic policies, or abrupt changes in market conditions, could lead to rapid alterations in the yield curve and further impact the broader financial system.

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Negative public opinion surrounding the Company and the financial institutions industry generally could damage our reputation and adversely impact our earnings.

Reputation risk, or the risk to our business, earnings and capital from negative public opinion surrounding the Company and the financial institutions industry generally, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract clients and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our clients and communities, this risk will always be present given the nature of our business.

Adverse developments affecting the financial services industry, such as recent bank failures or concerns involving liquidity, may have a material adverse effect on the Company's operations.

The high-profile bank failures in 2023 involving Silicon Valley Bank, Signature Bank, and First Republic Bank caused general uncertainty and concern regarding the liquidity adequacy of the banking sector. Although we were not directly affected by these bank failures, the resulting speed and ease in which news, including social media commentary, led depositors to withdraw or attempt to withdraw their funds from these and other financial institutions, which then caused the stock prices of many financial institutions to become volatile. In 2024 and into 2025, continued concerns regarding the stability of certain regional banks and potential liquidity risks have further contributed to market volatility and investor caution. Additional bank failures could have an adverse effect on our financial condition and results of operations, either directly or through an adverse impact on certain of our customers.

In response to these bank failures and the resulting market reaction, the Secretary of the Treasury approved actions enabling the FDIC to complete its resolutions of the failed banks in a manner that fully protects depositors by utilizing the Deposit Insurance Fund, including the use of Bridge Banks to assume all of the deposit obligations of the failed banks, while leaving unsecured lenders and equity holders of such institutions exposed to losses. With the risk of any additional bank failures, we may face the potential for reputational risk, deposit outflows, increased costs and competition for liquidity, and increased credit risk which, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Our reliance on brokered deposits could adversely affect our liquidity and operating results.

Among other sources of funds, in 2024, we relied on brokered deposits to provide funds with which to make loans and provide other liquidity needed. Our brokered deposits were $550.3 million, representing 16.0% of our total deposits at December 31, 2024 and included fixed-rate time deposits with maturities through October 2028. Brokered deposits are utilized, along with other wholesale funding sources, to fund loan growth and offset core deposit outflows. Generally, these deposits may not be as stable as other types of deposits. In the future, these depositors may not replace their deposits with us as they mature, or we may have to pay a higher rate of interest to keep those deposits or to replace them with other deposits or sources of funds. Not being able to maintain or replace these deposits as they mature could affect our liquidity. Paying higher deposit rates to maintain or replace these types of deposits could adversely affect our net interest margin and operating results.

Risks Related to Our Strategic Plans

We are dependent on key individuals and the loss of one or more of these key individuals could curtail our growth and adversely affect our prospects.

R. Arthur Seaver, Jr., our chief executive officer, and Calvin C. Hurst, our president, each have extensive and long-standing ties within our primary market area and substantial experience with our operations, and each has contributed significantly to our growth. If we lose the services of any of these individuals, they would be difficult to replace, and our business and development could be materially and adversely affected. We may not be successful in retaining key personnel, and the unexpected loss of services of one or more of our key personnel could have a material adverse effect on our business because of their skill, knowledge of our primary markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. In particular, D. Andrew Borrmann, our chief financial officer, announced his resignation on February 27, 2024. Leadership transitions can be inherently difficult to manage, and an inadequate transition to a permanent successor may cause disruptions to our business due to, among other things, diverting management's attention or causing a deterioration in morale.

Our success also depends, in part, on our continued ability to attract and retain experienced loan originators, as well as other management personnel, including other executive vice presidents. Competition for personnel is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business strategy may be lengthy.

If the services of any of our other key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to the Company, or at all, which could have a material adverse effect on our business, results of operation, financial condition, and future prospects. The departure of any of our other personnel could also have a material adverse impact on our business, results of operations and growth prospects.

The success of our growth strategy depends on our ability to identify and retain individuals with experience and relationships in the markets in which we intend to expand.

To expand our franchise successfully, we must identify and retain experienced key management members with local expertise and relationships in these markets. We expect that competition for qualified management in the markets in which we may expand will be intense and that there will be a limited number of qualified persons with knowledge of and experience in the community banking industry in these markets. Even if we identify individuals that we believe could assist us in establishing a presence in a new market, we may be unable to recruit these individuals away from more established financial institutions. In addition, the process of identifying and recruiting individuals with the combination of skills and attributes required to carry out our strategy requires both management and financial resources and is often lengthy. Our inability to identify, recruit, and retain talented personnel to manage new offices effectively would limit our growth and could materially adversely affect our business, financial condition, and results of operations.

We will face risks with respect to future expansion.

We routinely evaluate opportunities to expand into new markets, as we did in Columbia, South Carolina in 2007, Charleston, South Carolina in 2012, Raleigh, North Carolina in 2017, Atlanta, Georgia in 2017, Summerville, South Carolina and Greensboro, North Carolina in 2018 and Charlotte, North Carolina in 2021. We may also expand our lines of business or offer new products or services as well as seek to acquire other financial institutions or parts of those institutions. Any merger and acquisition activities could be material and could require us to use a substantial amount of common stock, cash, other liquid assets, and/or incur debt. Moreover, these types of expansions involve various risks, including:

- the time and costs of evaluating new markets, hiring or retaining experienced local management, and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on our results of operations;
- the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management, and market risks with respect to a target institution;
- incurring the time and expense associated with identifying and evaluating potential merger or acquisition targets and other expansion opportunities and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business;
- the possibility that the expected benefits of a transaction may not materialize in the timeframe expected or at all, or may be costlier to achieve;
- the risk that we may be unsuccessful in attracting and retaining deposits and originating high quality loans in new markets;
- difficulty or unanticipated expense associated with converting the operating systems of an acquired or merged company into ours;
- delay in completing a merger, acquisition or other expansion activities due to litigation, closing conditions or the regulatory approval process; and
- the risk of loss of key employees and clients of the Company or the acquired or merged company.

There is no assurance that existing branches or future branches, if any, will maintain or achieve deposit levels, loan balances or other operating results necessary to avoid losses or produce profits. Our growth may entail an increase in overhead expenses if we add new branches and staff. There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, any new branches established can be expected to negatively impact earnings for some period of time until they reach certain economies of scale. Our historical results may not be indicative of future results or results that may be achieved, particularly if we continue to expand.

Failure to successfully address these and other issues related to any expansion could have a material adverse effect on our business, financial condition and results of operations, including short-term and long-term liquidity, and could adversely affect our ability to successfully implement our business strategy.

New lines of business or new products and services may subject us to additional risk.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business and/or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business and/or new products or services could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

Risks Related to Our Common Stock

Our ability to pay cash dividends is limited, and we may be unable to pay future dividends even if we desire to do so.

The Federal Reserve has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. Further, under the prompt corrective action regulations, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company. As a South Carolina chartered bank, the Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the S.C. Board, the Bank is generally permitted under South Carolina state banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the S.C. Board. The FDIC also has the authority under federal law to enjoin a bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances. If the Bank is not permitted to pay cash dividends to the Company, it is unlikely that we would be able to pay cash dividends on our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, and if declared by our board of directors.

Our stock price may be volatile, which could result in losses to our investors and litigation against us.

Our stock price has been volatile in the past and several factors could cause the price to fluctuate substantially in the future. These factors include but are not limited to: actual or anticipated variations in earnings, changes in analysts' recommendations or projections, our announcement of developments related to our businesses, operations and stock performance of other companies deemed to be peers, new technology used or services offered by traditional and non-traditional competitors, news reports of trends, irrational exuberance on the part of investors, new federal banking regulations, and other issues related to the financial services industry. Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to our performance. General market declines or market volatility in the future, especially in the financial institutions sector, could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices. Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Moreover, in the past, securities class action lawsuits have been instituted against some companies following periods of volatility in the market price of its securities. We could in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources from our normal business.

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Future sales of our stock by our shareholders or the perception that those sales could occur may cause our stock price to decline.

Although our common stock is listed for trading on The NASDAQ Global Market, the trading volume in our common stock is lower than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our common stock, significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions.

Economic and other circumstances may require us to raise capital at times or in amounts that are unfavorable to us. If we have to issue shares of common stock, they will dilute the percentage ownership interest of existing shareholders and may dilute the book value per share of our common stock and adversely affect the terms on which we may obtain additional capital.

We may need to incur additional debt or equity financing in the future to make strategic acquisitions or investments or to strengthen our capital position. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control and our financial performance. We cannot provide assurance that such financing will be available to us on acceptable terms or at all, or if we do raise additional capital that it will not be dilutive to existing shareholders.

If we determine, for any reason, that we need to raise capital, subject to applicable NASDAQ rules, our board generally has the authority, without action by or vote of the shareholders, to issue all or part of any authorized but unissued shares of stock for any corporate purpose, including issuance of equity-based incentives under or outside of our equity compensation plans. Additionally, we are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. The market price of our common stock could decline as a result of sales by us of a large number of shares of common stock or preferred stock or similar securities in the market or from the perception that such sales could occur. If we issue preferred stock that has a preference over the common stock with respect to the payment of dividends or upon liquidation, dissolution or winding-up, or if we issue preferred stock with voting rights that dilute the voting power of the common stock, the rights of holders of the common stock or the market price of our common stock could be adversely affected. Any issuance of additional shares of stock will dilute the percentage ownership interest of our shareholders and may dilute the book value per share of our common stock. Shares we issue in connection with any such offering will increase the total number of shares and may dilute the economic and voting ownership interest of our existing shareholders.

Provisions of our articles of incorporation and bylaws, South Carolina law, and state and federal banking regulations, could delay or prevent a takeover by a third party.

Our articles of incorporation and bylaws could delay, defer, or prevent a third party takeover, despite possible benefit to the shareholders, or otherwise adversely affect the price of our common stock. Our governing documents:

- authorize a class of preferred stock that may be issued in series with terms, including voting rights, established by the board of directors without shareholder approval;
- authorize 20,000,000 shares of common stock and 10,000,000 shares of preferred stock that may be issued by the board of directors without shareholder approval;
- classify our board with staggered three year terms, preventing a change in a majority of the board at any annual meeting;
- require advance notice of proposed nominations for election to the board of directors and business to be conducted at a shareholder meeting;
- grant the board of directors the discretion, when considering whether a proposed merger or similar transaction is in the best interests of the Company and our shareholders, to take into account the effect of the transaction on the employees, clients and suppliers of the Company and upon the communities in which offices of the Company are located, to the extent permitted by South Carolina law;
- provide that the number of directors shall be fixed from time to time by resolution adopted by a majority of the directors then in office, but may not consist of fewer than five nor more than 25 members; and
- provide that no individual who is or becomes a "business competitor" or who is or becomes affiliated with, employed by, or a representative of any individual, corporation, or other entity which the board of directors, after having such matter formally brought to its attention, determines to be in competition with us or any of our subsidiaries (any such individual, corporation, or other entity being a "business competitor") shall be eligible to serve as a director if the board of directors determines that it would not be in our best interests for such individual

to serve as a director (any financial institution having branches or affiliates within Greenville County, South Carolina is presumed to be a business competitor unless the board of directors determines otherwise).

In addition, the South Carolina business combinations statute provides that a 10% or greater shareholder of a resident domestic corporation cannot engage in a "business combination" (as defined in the statute) with such corporation for a period of two years following the date on which the 10% shareholder became such, unless the business combination or the acquisition of shares is approved by a majority of the disinterested members of such corporation's board of directors before the 10% shareholder's share acquisition date. This statute further provides that at no time (even after the two-year period subsequent to such share acquisition date) may the 10% shareholder engage in a business combination with the relevant corporation unless certain approvals of the board of directors or disinterested shareholders are obtained or unless the consideration given in the combination meets certain minimum standards set forth in the statute. The law is very broad in its scope and is designed to inhibit unfriendly acquisitions but it does not apply to corporations whose articles of incorporation contain a provision electing not to be covered by the law. Our articles of incorporation do not contain such a provision. An amendment of our articles of incorporation to that effect would, however, permit a business combination with an interested shareholder even though that status was obtained prior to the amendment.

Finally, the Change in Bank Control Act and the BHCA generally require filings and approvals prior to certain transactions that would result in a party acquiring control of the Company or the Bank.

Our common stock is not an insured deposit and is not guaranteed by the FDIC.

Shares of our common stock are not a bank deposit and, therefore, losses in value are not insured by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in shares of our common stock is inherently risky for the reasons described herein and our shareholders will bear the risk of loss if the value or market price of our common stock is adversely affected.

General Risk Factors

We may be subject to claims and litigation asserting lender liability.

From time to time, clients and others make claims and take legal action pertaining to our performance of fiduciary responsibilities. These claims are often referred to as “lender liability” claims and are sometimes brought in an effort to produce or increase leverage against us in workout negotiations or debt collection proceedings. Lender liability claims frequently assert one or more of the following allegations: breach of fiduciary duties, fraud, economic duress, breach of contract, breach of the implied covenant of good faith and fair dealing, and similar claims. Whether customer claims and legal action related to the performance of our responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a favorable manner, they may result in significant financial liability and/or adversely affect our market reputation, products and services, as well as potentially affecting customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition, results of operations and liquidity.

From time to time, we are, or may become, involved in suits, legal proceedings, information-gatherings, investigations and proceedings by governmental and self-regulatory agencies that may lead to adverse consequences.

Many aspects of the banking business involve a substantial risk of legal liability. From time to time, we are, or may become, the subject of information-gathering requests, reviews, investigations and proceedings, and other forms of regulatory inquiry, including by bank regulatory agencies, self-regulatory agencies, the SEC and law enforcement authorities. The results of such proceedings could lead to significant civil or criminal penalties, including monetary penalties, damages, adverse judgements, settlements, fines, injunctions, restrictions on the way we conduct our business or reputational harm.

Item 1B. Unresolved Staff Comments.

None.

Item 1C. Cybersecurity.

We depend heavily on various information systems and electronic resources to conduct our business operations. Additionally, a majority of our clients, service providers, and other business partners on whom we rely, including providers of our online banking, mobile banking, and accounting systems, utilize their own electronic information systems. Any of these systems are susceptible to compromise, whether by employees, clients, or other authorized individuals, as well as by malicious actors employing sophisticated and continuously evolving software, tools, and strategies. Given our status as a financial services provider and our relative size, we and our business partners are considered high-value targets for such malicious actors. For further details, please refer to the "Risks Related to Information Security and Business Interruption" section of the Risk Factors outlined in Item 1A of this Form 10-K.

As a result, we have devoted significant resources to assessing, identifying, and managing cybersecurity risks and threats, including:

- Maintaining policies and procedures regarding security operations and governance through the implementation of an Information Security Program;
- Establishing a committee responsible for security administration, including regular assessments of our systems, existing controls, vulnerabilities, and potential improvements;
- Implementing multi-layered controls to avoid reliance on single controls;
- Utilizing both preventative and detective tools to monitor and block suspicious activity and to alert of potential threats;
- Keeping abreast of new technology and evaluating tools to help respond to threats to cybersecurity in real time;
- Managing and maintaining cybersecurity controls utilizing available people, processes and technology;
- Utilizing a third-party risk management program for purposes of identifying, assessing and managing risks involved with external service providers;
- Conducting thorough due diligence concerning our third-party service providers, including evaluating their cybersecurity practices;
- Collaborating with third-party cybersecurity consultants, who perform regular penetration testing, vulnerability assessments, and other procedures to identify potential weaknesses in our systems and processes;
- Providing regular cybersecurity training for both our employees and Board of Directors.

The Information Security Program, overseen by our Executive Project and Technology Risk Committee (“EPTRC”), plays a vital role in our overall risk management system. It encompasses administrative, technical, and physical measures aimed at safeguarding the security and confidentiality of client records and information. We also have an Incident Response Plan which is continually updated in response to an ever-changing threat landscape to provide long-term strategies for remediation, prevention of future incidents and resiliency to all types of threats. The incident response team (i) includes subject matter experts to address cyber threats and (ii) includes members of management responsible to monitor threat escalation and identify events that may warrant Board notification and a Form 8-K cybersecurity notice.

Occasionally, we have encountered cybersecurity threats necessitating adjustments to our procedures and the integration of extra safeguards. Although these specific threats or incidents haven't significantly impacted us thus far, it is possible that future threats and incidents we detect could potentially have a material adverse effect on our business strategy, results of operations, and financial condition.

Our management team is tasked with the daily management of the cybersecurity risks we encounter and supervises the EPTRC. Our EPTRC, in turn, oversees the assessment of information security, the creation of policies, standards, and procedures, as well as testing, training, and security reporting processes for our Company. The EPTRC is comprised of management with the appropriate expertise and authority to ensure effective oversight of the Information Security Program.

Furthermore, our Board of Directors, both collectively and through its Risk Committee, holds responsibility for overseeing risk management, including cybersecurity risks. In this capacity, the Board and the Risk Committee, supported by management and third-party cybersecurity advisors, ensure that the risk management processes devised and executed by management are adequate and operational as intended. Annually, the Board reviews and approves our information security program, vendor management policy (including third-party service providers), acceptable use policy, incident response policy, and business continuity planning policy. These policies are developed and implemented by our management team. To fulfill their duties, the Board receives regular updates from the Risk Committee regarding cybersecurity risks and management’s endeavors to prevent, detect, mitigate, and address any cybersecurity incidents, at least quarterly.

Item 2. Properties.

Our principal executive offices and the Bank's main office are located at 6 Verdae Boulevard, Greenville, South Carolina 29607. In addition, we currently operate eight additional offices located in Greenville, Columbia, Summerville and Charleston, South Carolina, one office in Raleigh, North Carolina, one office in Greensboro, North Carolina, one office in Charlotte, North Carolina, and one office in Atlanta, Georgia. We lease eight of our offices and own the remaining five locations.

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Item 3. Legal Proceedings.

In the ordinary course of operations, we may be a party to various legal proceedings from time to time. We do not believe that there is any pending or threatened proceeding against us, which, if determined adversely, would have a material effect on our business, results of operations, or financial condition.

Item 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market for Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Market Information and Holders of Record

Our common stock is currently traded on the NASDAQ Global Market under the symbol “SFST.” We had approximately 3,100 shareholders of record on February 13, 2025.

Dividends

We have not declared or paid any cash dividends on our common stock since our inception. For the foreseeable future, we do not intend to declare cash dividends. We intend to retain earnings to grow our business and strengthen our capital base. Our ability to pay cash dividends depends primarily on the ability of our subsidiary, the Bank to pay dividends to us. As a South Carolina chartered bank, the Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the S.C. Board, the Bank is generally permitted under South Carolina state banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the S.C. Board. The FDIC also has the authority under federal law to enjoin a bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances.

Equity Compensation Plan Information

The following table sets forth information regarding equity compensation plans approved by security holders at December 31, 2024. We had no equity compensation plans that were not approved by security holders at December 31, 2024. The number of shares and the exercise prices for options have been adjusted for the 10% stock dividends in 2006, 2011, 2012, and 2013.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)(3)	Number of securities remaining available for future issuance under equity compensation plans (c) (excluding securities reflected in column(a))
Equity compensation plans approved by security holders			
2010 Stock Incentive Plan – options(1)	64,177	$ 28.78	-
2016 Equity Incentive Plan – options(1)	240,922	37.98	-
2020 Equity Incentive Plan (2)	7,500	52.85	258,622
Total	312,599	$ 36.34	258,622

(1) Under the terms of the 2010 and 2016 Plans no further incentive stock option awards may be granted; however, the Plans will remain in effect until all awards have been exercised or forfeited and we determine to terminate the Plans.
(2) The 2020 Equity Incentive Plan provides for shares to be issued as either stock options or restricted stock grants.
(3) The weighted-average exercise prices in this column are based on outstanding options and do not take into account unvested awards of restricted stock as these awards do not have an exercise price.

Stock Performance Graph

The performance graph below compares the Company’s cumulative total return over the most recent five-year period with the SNL Southeast Bank Index, a banking industry performance index for the southeastern United States, and the Russell

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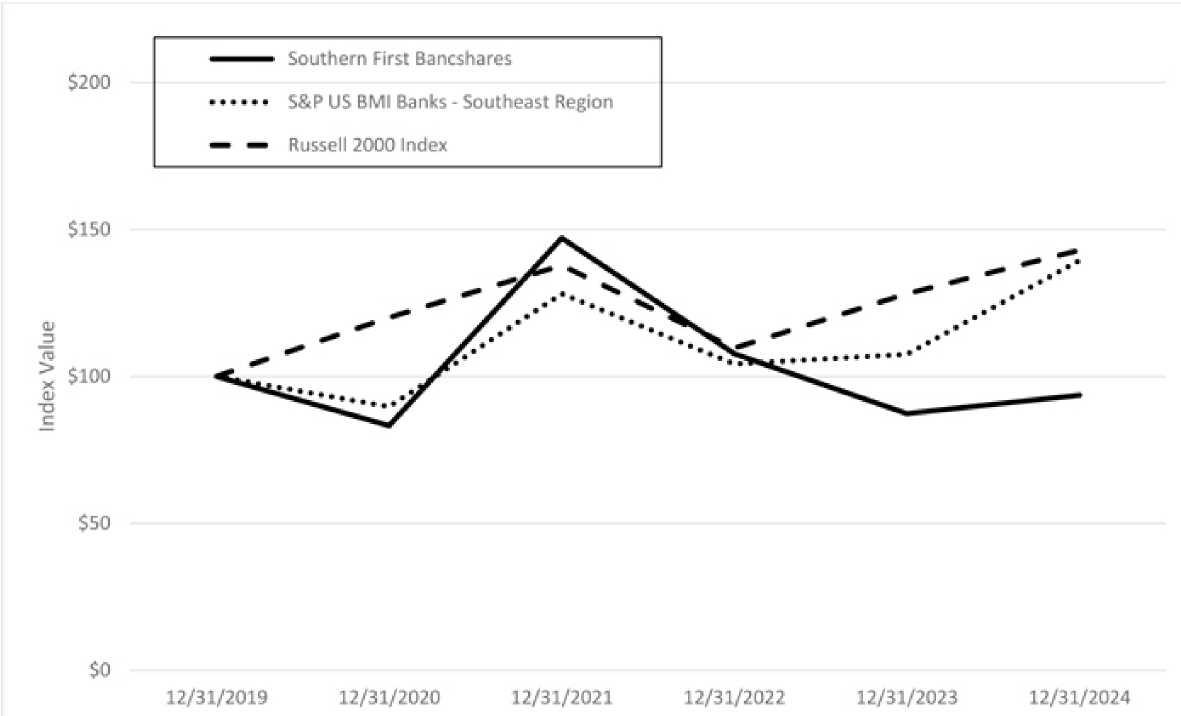
2000 Index, a small-cap stock market index which the Company was added to in June 2016. Returns are shown on a total return basis, assuming the reinvestment of dividends and a beginning stock index value of $100 per share. ***The following performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the performance graphs by reference therein.***



	Period Ending					
	12/31/2019	**12/31/2020**	**12/31/2021**	**12/31/2022**	**12/31/2023**	**12/31/2024**
Southern First Bancshares	100.00	83.20	147.07	107.67	87.31	93.55
S&P US BMI Banks – Southeast Bank Index	100.00	89.66	128.06	104.16	107.45	139.40
Russell 2000 Index	100.00	119.96	137.74	109.59	128.14	142.93

Sales of Unregistered Equity Securities

None

Stock Repurchases

The Company does not have a current repurchase plan and, as such, future repurchases will require additional approval of our Board of Directors and the Federal Reserve.

Item 6. [Reserved]

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this Annual Report on Form 10-K.

OVERVIEW

Our business model continues to be client-focused, utilizing relationship teams to provide our clients with a specific banker contact and support team responsible for all of their banking needs. The purpose of this structure is to provide a consistent and superior level of professional service, and we believe it provides us with a distinct competitive advantage. We consider exceptional client service to be a critical part of our culture, which we refer to as "ClientFIRST."

At December 31, 2024, we had total assets of $4.09 billion, a slight increase from total assets of $4.06 billion at December 31, 2023. The largest components of our total assets are loans which were $3.63 billion and $3.60 billion at December 31, 2024 and 2023, respectively. Our liabilities and shareholders' equity at December 31, 2024 totaled $3.76 billion and $330.4 million, respectively, compared to liabilities of $3.74 billion and shareholders' equity of $312.5 million at December 31, 2023. The principal component of our liabilities is deposits which were $3.44 billion and $3.38 billion at December 31, 2024 and 2023, respectively.

Like most community banks, we derive the majority of our income from interest received on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. Another key measure is the difference between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities, which is called our net interest spread. In addition to earning interest on our loans and investments, we earn income through fees and other charges to our clients.

Our net income available to common shareholders for the years ended December 31, 2024 and 2023 was $15.5 million and $13.4 million, or diluted earnings per share ("EPS") of $1.91 and $1.66 for the years ended December 31, 2024 and 2023, respectively. The increase in net income resulted primarily from an increase in net interest income and an increase in noninterest income, partially offset by an increase in noninterest expenses and a decrease in the provision for credit losses. In addition, our net income available to shareholders was $29.1 million, or EPS of $3.61 for the year ended December 31, 2022.

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SELECTED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial information for the periods and as of the dates indicated. We derived our balance sheet and income statement data for the years ended December 31, 2024, 2023, and 2022 from our audited consolidated financial statements. You should read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the related notes thereto, which are included elsewhere in this Annual Report on Form 10-K.

		Years Ended December 31,		
(dollars in thousands, except per share data)		2024	2023	2022
BALANCE SHEET DATA				
Total assets	$	4,087,593	4,055,789	3,691,981
Investment securities		151,617	154,641	104,180
Loans (1)		3,631,767	3,602,627	3,273,363
Allowance for credit losses		39,914	40,682	38,639
Deposits		3,435,765	3,379,564	3,133,864
FHLB advances and other borrowings		240,000	275,000	175,000
Subordinated debentures		24,903	36,322	36,214
Common equity		330,444	312,467	294,512
Preferred stock		-	-	-
Shareholders' equity		330,444	312,467	294,512
SELECTED RESULTS OF OPERATIONS DATA				
Interest income	$	201,212	177,598	117,662
Interest expense		119,990	99,944	20,041
Net interest income		81,222	77,654	97,621
Provision for credit losses		125	1,260	6,155
Net interest income after provision for credit losses		81,097	76,394	91,466
Noninterest income		12,141	9,860	9,580
Noninterest expenses		73,326	68,827	62,933
Income before income tax expense		19,912	17,427	38,113
Income tax expense		4,382	4,001	8,998
Net income available to common shareholders	$	15,530	13,426	29,115
PER COMMON SHARE DATA				
Basic	$	1.92	1.67	3.66
Diluted		1.91	1.66	3.61
Book value		40.47	38.63	36.76
Weighted average number of common shares outstanding:				
Basic, in thousands		8,081	8,047	7,958
Diluted, in thousands		8,117	8,078	8,072
SELECTED FINANCIAL RATIOS				
Performance Ratios:				
Return on average assets		0.38%	0.34%	0.90%
Return on average equity		4.84%	4.44%	10.20%
Return on average common equity		4.84%	4.44%	10.20%
Net interest margin, tax equivalent(2)		2.06%	2.07%	3.19%
Efficiency ratio (3)		78.54%	78.65%	58.71%
Asset Quality Ratios:				
Nonperforming assets to total loans (1)		0.30%	0.11%	0.08%
Nonperforming assets to total assets		0.27%	0.10%	0.07%
Net charge-offs to average total loans		0.04%	0.00%	(0.05%)
Allowance for credit losses to nonperforming loans		366.94%	1,026.58%	1,470.74%
Allowance for credit losses to total loans		1.10%	1.13%	1.18%
Holding Company Capital Ratios:				
Total risk-based capital ratio		12.70%	12.57%	12.91%
Tier 1 risk-based capital ratio		11.16%	10.60%	10.88%
Leverage ratio		8.55%	8.14%	9.17%
Common equity tier 1 ratio(4)		10.75%	10.19%	10.44%
Tangible common equity(5)		8.08%	7.70%	7.98%
Growth Ratios:				
Change in assets		0.78%	9.85%	26.20%
Change in loans		0.81%	10.06%	31.47%
Change in deposits		1.66%	7.84%	22.23%
Change in net income to common shareholders		15.67%	-53.89%	-37.67%
Change in earnings per common share - diluted		15.06%	-54.02%	-38.29%

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Footnotes to table:
(1) Excludes loans held for sale.
(2) The tax-equivalent adjustment to net interest income adjusts the yield for assets earning tax-exempt income to a comparable yield on a taxable basis.
(3) Noninterest expense divided by the sum of net interest income and noninterest income.
(4) The common equity tier 1 ratio is calculated as the sum of common equity divided by risk-weighted assets.
(5) The common equity ratio is calculated as total equity less preferred stock divided by total assets.

CRITICAL ACCOUNTING ESTIMATES

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the U.S. and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in Note 1 to our Consolidated Financial Statements as of December 31, 2024.

Certain accounting policies inherently involve a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported, which could have a material impact on the carrying values of our assets and liabilities and our results of operations. We consider these accounting policies and estimates to be critical accounting policies. We have identified the determination of the allowance for credit losses, the fair valuation of financial instruments and income taxes to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new or additional information becomes available or circumstances change, including overall changes in the economic climate and/or market interest rates. Therefore, management has reviewed and approved these critical accounting policies and estimates and has discussed these policies with the Company’s Audit Committee.

Allowance for Credit Losses

The allowance for credit losses (“ACL”) is management’s current estimate of expected credit losses that will result from the inability of our borrowers to make required loan payments, with particular applicability on our balance sheet to loans and unfunded loan commitments. Estimating the amount of the ACL requires significant judgment and the use of estimates related to historical experience, current conditions, reasonable and supportable forecasts, and the value of collateral on collateral-dependent loans. Credit losses are charged against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is charged to operations based on management’s periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

There are many factors affecting the ACL; some are quantitative while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all the potential factors that could potentially result in credit losses, the process includes subjective elements and is susceptible to significant change. To the extent actual outcomes are worse than management estimates, additional provision for credit losses could be required that could adversely affect our earnings or financial position in future periods.

See Note 1 – Summary of Significant Accounting Policies and Activities for further detailed descriptions of our estimation process and methodology related to the ACL. See also Note 4 – Loans and Allowance for Credit Losses and “Provision for Credit Losses” in this MD&A.

Fair Valuation of Financial Instruments

Certain assets and liabilities are measured at fair value on a recurring basis, including securities and derivative instruments. Assets and liabilities carried at fair value inherently include subjectivity and may require the use of significant assumptions, adjustments and judgment including, among others, discount rates, rates of return on assets, cash flows, default rates, loss rates, terminal values and liquidation values. A significant change in assumptions may result in a significant change in fair value, which in turn, may result in a higher degree of financial statement volatility and could result in significant impact on our results of operations, financial condition or disclosures of fair value information.

The fair value hierarchy requires use of observable inputs first and subsequently unobservable inputs when observable inputs are not available. Our fair value measurements involve various valuation techniques and models, which involve inputs that are observable (Level 1 or Level 2 in fair value hierarchy), when available. The level of judgment required to determine fair value is dependent on the methods or techniques used in the process. Assets and liabilities that are measured at fair value using quoted prices in active markets (Level 1) do not require significant judgment while the valuation of assets and liabilities when quoted market prices are not available (Levels 2 and 3) may require significant

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judgment to assess whether observable or unobservable inputs for those assets and liabilities provide reasonable determination of fair value. See Note 12 to the Consolidated Financial Statements for additional information regarding the fair values measured at each level of the fair value hierarchy, additional discussion regarding fair value measurements, and a brief description of how fair value is determined for categories that have unobservable inputs.

Income Taxes

The financial statements have been prepared on the accrual basis. When income and expenses are recognized in different periods for financial reporting purposes versus for the purposes of computing income taxes currently payable, deferred taxes are provided on such temporary differences. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the consolidated financial statements or tax returns. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

RESULTS OF OPERATIONS

Net Interest Income and Margin

Our level of net interest income is determined by the level of earning assets and the management of our net interest margin. For the years ended December 31, 2024, 2023, and 2022, our net interest income was $81.2 million, $77.7 million, and $97.6 million, respectively. The $3.6 million, or 4.6%, increase in net interest income during 2024, compared to 2023, was driven by a $23.6 million increase in interest income, partially offset by a $20.0 million increase in interest expense. During 2023, our net interest income decreased $20.0 million, or 20.5%, compared to 2022. This decrease in net interest income was driven by a $79.9 million increase in interest expense, primarily related to our interest-bearing deposits, partially offset by a $59.9 million increase in interest income during the 2023 period.

Interest income for the years ended December 31, 2024, 2023, and 2022 was $201.2 million, $177.6 million, and $117.7 million, respectively. A significant portion of our interest income relates to our strategy to maintain a large portion of our assets in higher earning loans compared to lower yielding investments and federal funds sold. As such, 92.9% of our interest income related to interest on loans during 2024, compared to 93.5% during 2023 and 97.1% during 2022. Also, included in interest income on loans was $1.6 million related to the net amortization of loan fees and capitalized loan origination costs for the year ended December 31, 2024, compared to $1.7 million for the years ended December 31, 2023 and 2022, respectively. The increase in interest income during 2024 was driven by an increase in average interest-earning assets, combined with higher yields on those assets.

Interest expense was $120.0 million, $99.9 million, and $20.0 million for the years ended December 31, 2024, 2023, and 2022, respectively. Interest expense on deposits for 2024 represented 90.7% of total interest expense, compared to 91.4% for 2023, and 90.3% for 2022, while interest expense on borrowings represented 9.3% of total interest expense for 2024, compared to 8.6% for 2023, and 9.7% for 2022. The increase in interest expense on deposits during the 2024 and 2023 periods was driven by the increase in the rate paid on deposit balances which relates to the Federal Reserve’s 525 basis point increase in the federal funds rate beginning in March 2022 and continuing through July 2023.

We have included a number of tables to assist in our description of various measures of our financial performance. For example, the “Average Balances, Income and Expenses, Yields and Rates” table shows the average balance of each category of our assets and liabilities as well as the yield we earned or the rate we paid with respect to each category during 2024, 2023, and 2022. Similarly, the “Rate/Volume Analysis” table demonstrates the effect of changing interest rates and changing volume of assets and liabilities on our financial condition during the periods shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and we have included tables to illustrate our interest rate sensitivity with respect to interest-earning and interest-bearing accounts.

The following table sets forth information related to our average balance sheet, average yields on assets, and average costs of liabilities at December 31, 2024, 2023 and 2022. We derived these yields or costs by dividing income or expense by the average balance of the corresponding assets or liabilities. We derived average balances from the daily balances throughout the periods indicated. During the same periods, we had no securities purchased with agreements to resell. All investments were owned at an original maturity of over one year. Nonaccrual loans are included in earning assets in the following tables. Loan yields have been reduced to reflect the negative impact on our earnings of loans on nonaccrual status. The net of capitalized loan costs and fees are amortized into interest income on loans.

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Average Balances, Income and Expenses, Yields and Rates

	Year Ended December 31,								
			2024			2023			2022
(dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Interest-earning assets									
Federal funds sold and interest-bearing deposits with banks	$ 160,683	$ 8,537	5.31%	$ 134,495	$ 6,998	5.20%	$ 88,077	$ 1,439	1.63%
Investment securities, taxable	138,494	5,645	4.08%	121,739	4,296	3.53%	97,328	1,793	1.84%
Investment securities, nontaxable (1)	8,012	217	2.71%	7,941	217	2.73%	10,604	256	2.41%
Loans (2)	3,629,570	186,863	5.15%	3,497,623	166,137	4.75%	2,870,733	114,233	3.98%
Total interest-earning assets	3,936,759	201,262	5.11%	3,761,798	177,648	4.72%	3,066,742	117,721	3.84%
Noninterest-earning assets	159,441			162,771			157,380		
Total assets	$ 4,096,200			$ 3,924,569			$ 3,224,122		
Interest-bearing liabilities									
NOW accounts	$ 303,580	2,810	0.93%	$ 299,703	2,254	0.75%	$ 374,956	816	0.22%
Savings & money market	1,561,925	61,455	3.93%	1,708,874	61,241	3.58%	1,364,961	13,138	0.96%
Time deposits	900,628	44,509	4.94%	631,967	27,878	4.41%	301,793	4,148	1.37%
Total interest-bearing deposits	2,766,133	108,774	3.93%	2,640,544	91,373	3.46%	2,041,710	18,102	0.89%
FHLB advances and other borrowings	240,344	9,066	3.77%	169,963	6,382	3.75%	19,614	209	1.07%
Subordinated debt	33,448	2,150	6.43%	36,265	2,189	6.04%	36,156	1,730	4.78%
Total interest-bearing liabilities	3,039,925	119,990	3.95%	2,846,772	99,944	3.51%	2,097,480	20,041	0.96%
Noninterest-bearing liabilities	735,363			775,116			841,233		
Shareholders' equity	320,912			302,681			285,409		
Total liabilities and shareholders' equity	$ 4,096,200			$ 3,924,569			$ 3,224,122		
Net interest spread			1.16%			1.21%			2.88%
Net interest income(tax equivalent)/margin		$ 81,272	2.06%		$ 77,704	2.07%		$ 97,680	3.19%
Less: tax-equivalent adjustment (1)		(50)			(50)			(59)	
Net interest income		$ 81,222			$ 77,654			$ 97,621	

(1) The tax-equivalent adjustment to net interest income adjusts the yield for assets earning tax-exempt income to a comparable yield on a taxable basis.
(2) Includes loans held for sale and nonaccrual loans.

Our net interest margin, on a tax-equivalent basis (TE), was 2.06%, 2.07% and 3.19% for the years ended December 31, 2024, 2023 and 2022, respectively. Our net interest margin (TE) was relatively stable in 2024, compared to 2023 as both our yield on interest earning assets and rate of interest bearing liabilities increased similarly during the year. During 2023, our net interest margin decreased 112 basis points, compared to 2022, driven primarily by higher costs on our interest-bearing liabilities.

Our average interest-earning assets increased by $175.0 million during the year ended December 31, 2024, compared to 2023, while the related yield on our interest-earning assets increased by 39 basis points. The increase in average interest-earning assets was driven by a $131.9 million increase in average loan balances and a $26.2 million increase in federal funds sold and interest-bearing deposits with banks. In addition, the increase in yield on our interest earning assets was driven by a 40 basis point increase in the yield on our loan portfolio.

During the year ended December 31, 2023, our average interest-earning assets increased by $695.1 million, compared to 2022, while the yield on our interest-earning assets increased by 88 basis points. The increase in average interest-earning assets was driven primarily by a $626.9 million increase in average loan balances combined with a $46.4 million increase in federal funds sold and interest-bearing deposits with banks. In addition, the increase in yield on our interest earning assets was driven by a 357 basis point increase in the yield on our federal funds sold and other interest-bearing deposits which repriced as the Federal Reserve increased the federal funds rate by 100 basis points during 2023.

Our average interest-bearing liabilities increased by $193.2 million during 2024 while the cost of our interest-bearing liabilities increased by 44 basis points. The increase in average interest-bearing liabilities was driven primarily by a $268.7 million increase in average time deposits at an average rate of 4.94% and an increase of $70.4 million in FHLB advances and other borrowings. During 2023, our average interest-bearing liabilities increased by $749.3 million, compared to 2022, while the cost of our interest-bearing liabilities increased by 255 basis points.

Our net interest spread was 1.16% for the year ended December 31, 2024, compared to 1.21% for the same period in 2023 and 2.88% for 2022. The net interest spread is the difference between the yield we earn on our interest-earning assets and the rate we pay on our interest-bearing liabilities. The 44 basis point increase in the cost of our interest-bearing liabilities, partially offset by a 39 basis point increase in yield on our interest-earning assets resulted in a 5 basis point

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decrease in our net interest spread for the 2024 period. We anticipate continued pressure on our net interest spread and net interest margin in future periods as our deposits continue to reprice immediately with increases in the fed funds rate, compared to our loan portfolio which reprices as loans are originated or renewed.

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volume. The following tables set forth the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented.

								Year Ended
	December 31, 2024 vs. 2023				December 31, 2023 vs. 2022			
	Increase (Decrease) Due to Change in				Increase (Decrease) Due to Change in			
(dollars in thousands)	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
Interest income								
Loans	$ 6,267	13,933	526	20,726	$ 24,945	22,127	4,832	51,904
Investment securities	579	682	88	1,349	401	1,725	347	2,473
Federal funds sold	1,363	147	29	1,539	758	3,144	1,657	5,559
Total interest income	8,209	14,762	643	23,614	26,104	26,996	6,836	59,936
Interest expense								
Deposits	2,316	14,712	373	17,401	3,371	58,928	10,972	73,271
FHLB advances and other borrowings	2,644	29	12	2,685	1,602	528	4,044	6,174
Subordinated debt	4	(44)	-	(40)	5	452	1	458
Total interest expense	4,964	14,697	385	20,046	4,978	59,908	15,017	79,903
Net interest income	$ 3,245	65	258	3,568	$ 21,126	(32,912)	(8,181)	(19,967)

Net interest income, the largest component of our income, was $81.2 million for the year ended December 31, 2024, a $3.6 million increase from net interest income of $77.7 million for the year ended December 31, 2023. The increase in net interest income was driven by a $23.6 million increase in interest income, partially offset by a $20.0 million increase in interest expense. The 40 basis point increase in loan yield combined with the $131.9 million increase in average loan balances drove the increase in interest income while the 47 basis point increase in deposit costs drove the increase in interest expense.

Net interest income was $77.7 million for the year ended December 31, 2023, a $20.0 million decrease from net interest income of $97.6 million for the year ended December 31, 2022. The decrease in net interest income was driven by a $79.9 million increase in interest expense, partially offset by a $59.9 million increase in interest income. The 257 basis point increase in deposit costs drove the increase in interest expense while the $626.9 million increase in average loan balances combined with the 77 basis point increase in loan yield drove the increase in interest income.

Provision for Credit Losses

The provision for credit losses, which includes a provision for losses on unfunded commitments, is a charge to earnings to maintain the allowance for credit losses and reserve for unfunded commitments at levels consistent with management's assessment of expected losses in the loan portfolio at the balance sheet date. We review the adequacy of the allowance for credit losses on a quarterly basis. Please see the discussion below under "Results of Operations – Allowance for Credit Losses" for a description of the factors we consider in determining the amount of the provision we expense each period to maintain this allowance.

There was a $125,000 provision for credit losses for the year ended December 31, 2024, compared to a provision of $1.3 million and $6.2 million for the years ended December 31, 2023 and 2022, respectively. The $125,000 provision during 2024 included a provision of $500,000 for credit losses and a reversal of $375,000 for unfunded commitments. The $500,000 provision was driven primarily by $29.1 million in loan growth during the year combined with slightly lower expected loss rates due to historically low charge-offs, while the $375,000 reversal was driven by a $5.5 million decrease in unfunded commitments combined with lower historical loss rates. The $1.3 million provision during 2023 included a $2.2 million provision for credit losses and a reversal of $949,000 for unfunded commitments. The $2.2 million provision was driven primarily by $329.3 million in loan growth during the year, while the $949,000 reversal was driven by a $153.7 million decrease in unfunded commitments. The $6.2 million provision during 2022, which included a $780,000 provision for unfunded commitments, was driven primarily by $783.5 million in loan growth during the year, combined with a $259.6 million increase in unfunded commitments. In addition, to loan growth, the provision for credit losses was impacted by

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slightly lower expected loss rates due to historically low charge-offs during the 12 months ended December 31, 2022 while minor adjustments to two internal qualitative factors increased the qualitative component of the allowance and related provision expense.

Following is a summary of the activity in the allowance for credit losses.

		December 31,	
(dollars in thousands)	2024	2023	2022
Balance, beginning of period	$ 40,682	38,639	30,408
Adjustment for CECL	-	-	1,500
Provision for credit losses	500	2,209	5,375
Loan charge-offs	(1,734)	(761)	(485)
Loan recoveries	466	595	1,841
Net loan (charge-offs) recoveries	(1,268)	(166)	1,356
Balance, end of period	$ 39,914	40,682	38,639

As of December 31, 2024, the allowance for credit losses totaled $39.9 million, or 1.10% of gross loans. In comparison, the allowance for credit losses totaled $40.7 million as of December 31, 2023, or 1.13% of gross loans, and $38.6 million as of December 31, 2022, or 1.18% of gross loans.

During the year ended December 31, 2024, we had net charge-offs of $1.3 million, consisting of $1.7 million of loans charged-off in the current year, partially offset by $466,000 of recoveries on loans previously charged-off. Net charge-offs were 0.04% of the average outstanding loan portfolio for 2024. In addition, nonperforming assets increased to 0.27% of total assets while our level of classified assets decreased to 4.25% at December 31, 2024.

We reported net charge-offs of $166,000 and net recoveries of $1.4 million for the years ended December 31, 2023 and 2022, respectively, including charge-offs of $761,000 and $485,000 in 2023 and 2022, respectively. The net charge-offs of $166,000 and net recoveries of $1.4 million during 2023 and 2022, respectively, represented 0.0.% and 0.05% of the average outstanding loan portfolios for 2023 and 2022, respectively. In addition, nonperforming assets were 0.10% and 0.07% of total assets for 2023 and 2022, respectively, and classified assets were 4.25% and 4.72% at December 31, 2023 and 2022, respectively.

Noninterest Income

The following table sets forth information related to our noninterest income.

		Year Ended December 31,	
(dollars in thousands)	2024	2023	2022
Mortgage banking income	$ 5,560	4,036	4,198
Service fees on deposit accounts	1,764	1,382	1,265
ATM and debit card income	2,337	2,245	2,163
Income from bank owned life insurance	1,569	1,379	1,289
Gain (loss) on disposal of fixed assets	28	-	(394)
Other income	883	818	1,059
Total noninterest income	$ 12,141	9,860	9,580

Noninterest income was $12.1 million for the year ended December 31, 2024, a $2.3 million, or 23.1%, increase compared to noninterest income of $9.9 million for the year ended December 31, 2023. The increase in noninterest income during 2024, compared to 2023, resulted primarily from an increase in mortgage banking income, service fees on deposit accounts and income from bank owned life insurance. Mortgage banking income increased by $1.5 million, or 37.8%, due to higher mortgage volume during the year. Service fees on deposit accounts increased by $382,000, or 27.6%, due to transaction volume and increased use of the commercial credit cards offered to our clients.

Noninterest income was $9.9 million for the year ended December 31, 2023, a $280,000, or 2.9%, increase compared to noninterest income of $9.6 million for the year ended December 31, 2022. The increase in noninterest income during 2023, compared to 2022, resulted primarily from a loss on disposal of assets during the prior year. Offsetting the increases in noninterest income were decreases in mortgage banking income and other income. Other income decreased due to a decrease in loan fee income during 2023 as compared to 2022 due to fewer loan originations.

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Noninterest Expenses

The following table sets forth information related to our noninterest expenses.

	Year Ended December 31,		
(dollars in thousands)	2024	2023	2022
Compensation and benefits	$ 43,546	40,275	38,790
Occupancy	10,291	10,255	9,105
Outside service and data processing costs	7,741	7,078	6,112
Insurance	4,022	3,766	1,686
Professional fees	2,404	2,496	2,635
Marketing	1,412	1,357	1,216
Other	3,910	3,600	3,389
Total noninterest expenses	$ 73,326	68,827	62,933

Noninterest expenses were $73.3 million for the year ended December 31, 2024, a $4.5 million, or 6.5%, increase from noninterest expense of $68.8 million for 2023.

The increase in total noninterest expenses during 2024, compared to 2023, resulted primarily from the following:

- Compensation and benefits expense increased $3.3 million, or 8.1%, during 2024 relating primarily to an increase in group insurance and other benefits expenses as well as increases in salaries and incentive compensation.
- Outside service and data processing costs increased $663,000, or 9.4%, primarily due to increased electronic banking, software licensing costs and debit card related expenses.
- Insurance expenses increased $256,000, or 6.8%, related to higher FDIC insurance premiums.
- Other noninterest expenses increased $310,000, or 8.6%, due primarily to an increase in debit card losses, collection expense, and other staff related expenses.

Noninterest expenses were $68.8 million for the year ended December 31, 2023, a $5.9 million, or 9.4%, increase from noninterest expense of $62.9 million for 2022.

The increase in total noninterest expenses during 2023, compared to 2022, resulted primarily from the following:

- Compensation and benefits expense increased $1.5 million, or 3.8%, during 2023 relating primarily to an increase in salaries and incentive compensation.
- Occupancy expenses increased $1.2 million, or 12.6%, driven by increased depreciation, insurance, property taxes and maintenance expenses primarily related to our new headquarters building.
- Outside service and data processing costs increased $966,000, or 15.8%, primarily due to increased electronic banking, software licensing costs and debit card related expenses.
- Insurance expenses increased $2.1 million, or 123.4%, related to higher FDIC insurance premiums.
- Marketing expenses increased $141,000, or 11.6%, driven by an increase in community sponsorships and business development.
- Other noninterest expenses increased $211,000, or 6.2%, due primarily to an increase in telephone expense and deposit account and fraud losses.

Partially offsetting the above increases was a decrease in professional fees of $139,000, or 5.3% due to less legal fees and consulting expenses during 2023.

Our efficiency ratio was 78.5% for 2024 and 78.7% for 2023. The efficiency ratio represents the percentage of one dollar of expense required to be incurred to earn a full dollar of revenue and is computed by dividing noninterest expense by the sum of net interest income and noninterest income. Our efficiency ratio was elevated for the twelve months ended December 31, 2024 due to the comparatively smaller increase in net interest income and noninterest income, as compared to the increase in noninterest expenses during the year.

Income Taxes

Income tax expense was $4.4 million, $4.0 million and $9.0 million for the years ended December 31, 2024, 2023 and 2022, respectively. Our effective tax rate was 22.0% for the year ended December 31, 2024, compared to 23.0% for 2023, and 23.6% for 2022. The fluctuation in the effective rate for each of the periods is driven by the effect of equity compensation transactions and return to provision differences on our actual tax rate during the year compared to what was estimated during the year.

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Investment Securities

At December 31, 2024 and 2023, our investment securities portfolio was $151.6 million and $154.6 million, respectively, and represented approximately 3.7% and 3.8% of our total assets, respectively. Our available for sale investment portfolio included corporate bonds, US treasuries, US agency securities, SBA securities, state and political subdivisions, asset-backed securities, and mortgage-backed securities with a fair value of $132.1 million and amortized cost of $146.6 million for an unrealized loss of $14.5 million at December 31, 2024 compared to a fair value of $134.7 million and amortized cost of $149.1 million for an unrealized loss of $14.4 million at December 31, 2023.

The amortized costs and the fair value of our investments are as follows.

	December 31,					
	2024		2023		2022	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for Sale						
Corporate bonds	$ 2,121	1,927	2,147	1,910	2,172	1,883
US treasuries	999	908	9,495	9,394	999	871
US government agencies	17,540	15,795	20,594	18,656	13,007	10,617
State and political subdivisions	22,387	19,322	22,642	19,741	22,910	18,906
Asset-backed securities	36,613	36,538	33,450	33,236	6,435	6,229
Mortgage-backed securities	66,988	57,637	60,730	51,765	64,800	54,841
Total	$ 146,648	132,127	149,058	134,702	110,323	93,347

Contractual maturities and yields on our investments are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2024									
	Less Than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for Sale										
Corporate bonds	$ -	-	$ 1,927	2.02%	$ -	-	$ -	-	$ 1,927	2.02%
US treasuries	-	-	908	1.27%	-	-	-	-	908	1.27%
US government agencies	-	-	5,021	1.10%	10,774	4.51%	-	-	15,795	3.43%
State and political subdivisions	461	2.13%	1,726	1.61%	5,049	2.10%	12,086	2.13%	19,322	2.08%
Asset-backed securities	-	-	23	6.14%	3,420	5.25%	33,095	5.87%	36,538	5.81%
Mortgage-backed securities	-	-	6,549	1.28%	7,548	3.00%	43,540	2.45%	57,637	2.39%
Total	$ 461	2.13%	$ 16,154	1.35%	$ 26,791	3.73%	$ 88,721	3.68%	$ 132,127	3.40%

Other investments are comprised of the following and are recorded at cost which approximates fair value.

	December 31,	
(dollars in thousands)	2024	2023
Federal Home Loan Bank stock	$ 14,516	16,063
Other investments	4,571	3,473
Investment in Trust Preferred subsidiaries	403	403
Total	$ 19,490	19,939

Loans

Since loans typically provide higher interest yields than other types of interest-earning assets, a substantial percentage of our earning assets are invested in our loan portfolio. Average loans for the years ended December 31, 2024 and 2023 were $3.63 billion and $3.50 billion, respectively. Before allowance for credit losses, total loans outstanding at December 31, 2024 and 2023 were $3.63 billion and $3.60 billion, respectively.

The principal component of our loan portfolio is loans secured by real estate mortgages. As of December 31, 2024, our loan portfolio included $3.03 billion, or 83.5%, of real estate loans, compared to $3.05 billion, or 84.8%, as of December

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31, 2023. Most of our real estate loans are secured by residential or commercial property. We obtain a security interest in real estate, in addition to any other available collateral, in order to increase the likelihood of the ultimate repayment of the loan. Generally, we limit the loan-to-value ratio on loans to coincide with the appropriate regulatory guidelines. We attempt to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration in certain types of collateral and business types. In addition to traditional residential mortgage loans, we issue second mortgage residential real estate loans and home equity lines of credit. Home equity lines of credit totaled $204.9 million as of December 31, 2024, of which approximately 46% were in a first lien position, while the remaining balance was second liens, compared to $183.0 million as of December 31, 2023, of which approximately 46% were in first lien positions and the remaining balance was in second liens. The average home equity loan had a balance of approximately $92,000 and a loan to value of approximately 74% as of December 31, 2024, compared to an average loan balance of $85,000 and a loan to value of approximately 73% as of December 31, 2023. Further, 0.12% and 0.8% of our total home equity lines of credit were over 30 days past due as of December 31, 2024 and 2023, respectively.

Following is a summary of our loan composition for each of the last three years ended December 31, 2024. Of the $29.1 million in loan growth in 2024, $10.3 million of growth was in commercial related loans, while $18.9 million of growth was in consumer related loans, specifically consumer real estate mortgages which grew by $46.2 million and home equity lines of credit which grew by $21.9 million during 2024. Offsetting the growth in consumer real estate loans and home equity lines of credit was a $42.5 million decrease in consumer construction loans. The increase in consumer real estate loans is related to our focus to continue to originate high quality 1-4 family consumer real estate loans. Our average consumer real estate loan currently has a principal balance of $468,000, a term of 23 years, and an average rate of 4.36%.

						December 31,
		2024		2023		2022
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial						
Owner occupied RE	$ 651,597	17.9%	$ 631,657	17.5%	$ 612,901	18.7%
Non-owner occupied RE	924,367	25.5%	942,529	26.2%	862,579	26.3%
Construction	103,204	2.8%	150,680	4.2%	109,726	3.4%
Business	556,117	15.3%	500,161	13.9%	468,112	14.3%
Total commercial loans	2,235,285	61.5%	2,225,027	61.8%	2,053,318	62.7%
Consumer						
Real estate	1,128,629	31.1%	1,082,429	30.0%	931,278	28.4%
Home equity	204,897	5.6%	183,004	5.1%	179,300	5.5%
Construction	20,874	0.6%	63,348	1.7%	80,415	2.5%
Other	42,082	1.2%	48,819	1.4%	29,052	0.9%
Total consumer loans	1,396,482	38.5%	1,377,600	38.2%	1,220,045	37.3%
Total gross loans, net of deferred fees	3,631,767	100.0%	3,602,627	100.0%	3,273,363	100.0%
Less – allowance for credit losses	(39,914)		(40,682)		(38,639)	
Total loans, net	$ 3,591,853		$ 3,561,945		$ 3,234,724	

We have included the table below to provide additional clarity on our commercial real estate exposure. We have not identified any geographic concentrations within these collateral types. Our level of non-owner occupied commercial real estate loans represents 247.2% of the Bank's total risk-based capital at December 31, 2024.

				December 31, 2024
(dollars in thousands)	Outstanding	% of Loan Portfolio	Average Loan Size	Weighted Average LTV
Collateral				
Office	$ 214,048	5.89%	$ 1,364	57%
Retail	170,601	4.70%	1,543	52%
Hotel	125,557	3.46%	7,250	48%
Multifamily	96,735	2.66%	2,385	45%

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Maturities and Sensitivity of Loans to Changes in Interest Rates

The information in the following table is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

The following table summarizes the composition and maturities of the loan portfolio.

	December 31, 2024				
(dollars in thousands)	One year or less	After one but within five years	After five but within fifteen years	After fifteen years	Total
Commercial					
Owner occupied RE	$ 21,235	220,648	369,748	39,966	651,597
Non-owner occupied RE	129,269	547,864	227,987	19,247	924,367
Construction	6,479	77,636	19,089	-	103,204
Business	129,978	277,830	144,056	4,253	556,117
Total commercial loans	286,961	1,123,978	760,880	63,466	2,235,285
Consumer					
Real estate	20,982	82,896	281,091	743,660	1,128,629
Home equity	3,454	36,722	160,380	4,341	204,897
Construction	5,849	2,133	10,427	2,465	20,874
Other	7,660	30,633	3,040	749	42,082
Total consumer loans	37,945	152,384	454,938	751,215	1,396,482
Total gross loan, net of deferred fees	$ 324,906	1,276,362	1,215,818	814,681	3,631,767

The following table summarizes the loans due after one year by category.

	Interest Rate	
(dollars in thousands)	Fixed	Floating or Adjustable
Commercial		
Owner occupied RE	$ 599,179	31,183
Non-owner occupied RE	701,297	93,801
Construction	63,019	33,706
Business	281,316	144,823
Total commercial loans	1,644,811	303,513
Consumer		
Real estate	1,107,647	-
Home equity	9,899	191,544
Construction	15,025	-
Other	8,038	26,384
Total consumer loans	1,140,609	217,928
Total gross loan, net of deferred fees	$2,785,420	521,441

Nonperforming Assets

Nonperforming assets include real estate acquired through foreclosure or deed taken in lieu of foreclosure and loans on nonaccrual status. The following table shows the nonperforming assets and the related percentage of nonperforming assets to total assets and gross loans for the three years ended December 31, 2024. Generally, a loan is placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when we believe, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the loan is doubtful. A payment of interest on a loan that is classified as nonaccrual is recognized as a reduction in principal when received. Our policy with respect to nonperforming loans requires the borrower to make a minimum of six consecutive payments in accordance with the loan terms before that loan can be placed back on accrual status. Further, the borrower must show capacity to continue performing into the future prior to restoration of accrual status.

(dollars in thousands)		December 31, 2024	2023	2022
Commercial				
Non-owner occupied RE	$	7,641	1,423	247
Business		1,016	319	182
Consumer				
Real estate		1,908	985	207
Home equity		312	1,236	195
Nonaccruing troubled debt restructurings (TDRs)		-	-	1,796
Total nonaccrual loans, including nonaccruing TDRs		10,877	3,963	2,627
Total nonperforming assets	$	10,877	3,963	2,627
Asset Quality Ratios:				
Nonperforming assets/total assets		0.27%	0.10%	0.07%
Nonaccrual loans/gross loans		0.30%	0.11%	0.08%
Total loans over 90 days past due [1]	$	2,641	1,300	402
Loans over 90 days past due and still accruing		-	-	-
Accruing troubled debt restructurings		-	-	4,503

[1] Loans over 90 days are included in nonaccrual loans

At December 31, 2024, nonperforming assets were $10.9 million, or 0.27% of total assets and 0.30% of gross loans, compared to $4.0 million, or 0.10% of total assets and 0.11% of gross loans at December 31, 2023. Nonaccrual loans increased $6.9 million during the twelve months ending December 31, 2024 due primarily to one commercial relationship related to the assisted living industry. The amount of foregone interest income on the nonaccrual loans as of December 31, 2024 and 2023 was approximately $200,000 and $73,000, respectively, for the twelve-month periods.

A significant portion, or 94.9%, of nonaccrual loans at December 31, 2024 were secured by real estate. We have evaluated the underlying collateral on these loans and believe that the collateral on these loans is sufficient to minimize future losses. As a result of this level of coverage on nonaccrual loans, we believe the allowance for credit losses of $39.9 million for the year ended December 31, 2024 is adequate.

As a general practice, most of our commercial loans and a portion of our consumer loans are originated with relatively short maturities of less than ten years. As a result, when a loan reaches its maturity, we frequently renew the loan and thus extend its maturity using similar credit standards as those used when the loan was first originated. Due to these loan practices, we may, at times, renew loans which are classified as nonaccrual after evaluating the loan's collateral value and financial strength of its guarantors. Nonaccrual loans are renewed at terms generally consistent with the ultimate source of repayment and rarely at reduced rates. In these cases, we will generally seek additional credit enhancements, such as additional collateral or additional guarantees to further protect the loan. When a loan is no longer performing in accordance with its stated terms, we will typically seek performance under the guarantee.

In addition, approximately 84% of our loans are collateralized by real estate and approximately 95% of our individually evaluated loans are secured by real estate. Individual loan evaluations are generally performed for individually evaluated loans, which includes nonaccrual loans and certain loans not meeting the risk characteristics of the pool, whether on accrual or nonaccrual status. We use third party appraisers to determine the fair value of collateral dependent loans. Our current loan and appraisal policies require us to review individually evaluated loans at least annually and determine whether it is necessary to obtain an updated appraisal, either through a new external appraisal or an internal appraisal evaluation. We review each of our individually evaluated loans on a quarterly basis to determine the level of impairment. As of December 31, 2024, we do not have any individually evaluated loans carried at a value in excess of the appraised value. We typically charge-off a portion or create a specific reserve for individually evaluated loans when we do not expect repayment to occur as agreed upon under the original terms of the loan agreement.

At December 31, 2024, individually evaluated loans totaled approximately $12.2 million for which $4.5 million of these loans have a reserve of approximately $1.9 million allocated in the allowance. At December 31, 2023, individually evaluated loans totaled approximately $4.8 million for which $3.7 million of these loans had a reserve of approximately $688,000 allocated in the allowance.

We adopted Accounting Standards Update ("ASU") 2022-02, Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02") effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measurement of troubled debt restructurings and enhanced disclosures for loan

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modifications to borrowers experiencing financial difficulty. Loan modifications to borrowers experiencing financial difficulty were not material for the twelve months ended December 31, 2024 and December 31, 2023.

Allowance for Credit Losses

At December 31, 2024 and December 31, 2023, the allowance for credit losses was $39.9 million and $40.7 million, respectively, or 1.10% and 1.13% of outstanding loans, respectively. The allowance for credit losses as a percentage of our outstanding loan portfolio decreased from the prior year primarily due to historically low loan charge-offs which factors into the expected loss rate on our current loan portfolio. In addition, our nonperforming assets increased to 0.27% as a percentage of total assets at December 31, 2024 from 0.10%, as a percentage of total assets, at December 31, 2023, while our classified assets were 4.25% of capital as of December 31, 2024 and December 31, 2023. See Note 4 to the Consolidated Financial Statements for more information on our allowance for credit losses.

The following table summarizes the net charge-off detail as a percentage of average loans by loan composition for the three years ended December 31, 2024.

	Year ended December 31,					
	2024		2023		2022	
(dollars in thousands)	Amount	%	Amount	%	Amount	%
Net charge-offs:						
Commercial						
Non-owner occupied RE	$ (1,029)	(0.03)%	$ (57)	0.00%	$ 1,540	0.05%
Business	(468)	(0.01)%	279	0.01%	153	0.01%
Total commercial	(1,497)	(0.04)%	222	0.01%	1,693	0.06%
Consumer						
Home equity	210	0.01%	(373)	(0.01)%	(247)	0.01%
Other	19	0.00%	(15)	0.00%	(90)	0.00%
Total consumer	229	0.01%	(388)	(0.01)%	(337)	0.00%
Net loan (charge-offs) recoveries	$ (1,268)		$ (166)		$ 1,356	
Net loan (charge-offs) recoveries as a % of average loans		(0.04)%		0.00%		(0.05)%

The following table summarizes the allocation of the allowance for credit losses among the various loan categories.

	Year ended December 31,			
	2024		2023	
(dollars in thousands)	Amount	%[1]	Amount	%[1]
Commercial				
Owner occupied RE	$ 5,482	17.9%	$ 6,118	17.5%
Non-owner occupied RE	10,219	25.2%	11,167	26.2%
Construction	940	2.8%	1,594	4.2%
Business	7,745	15.3%	7,385	13.9%
Total commercial	24,386	61.5%	26,264	61.8%
Consumer				
Real estate	12,359	31.1%	10,647	30.0%
Home equity	2,655	5.6%	2,600	5.1%
Construction	115	0.6%	677	1.7%
Other	399	1.2%	494	1.4%
Total consumer	15,528	38.5%	14,418	38.2%
Total allowance for credit losses	$ 39,914	100.0%	$ 40,682	100.0%

(1) Percentage of loans in each category to total loans

Deposits and Other Interest-Bearing Liabilities

Our primary source of funds for loans and investments is our deposits and advances from the FHLB. In the past, we have chosen to obtain a portion of our certificates of deposits from areas outside of our market in order to obtain longer term deposits than are readily available in our local market. Our internal guidelines regarding the use of brokered CDs limit our brokered CDs to 30% of total deposits. These guidelines allow us to take advantage of the attractive terms that wholesale funding can offer while mitigating the related inherent risk.

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Our retail deposits represented $2.89 billion, or 84.0% of total deposits, at December 31, 2024 and $3.00 billion, or 88.8% of total deposits, at December 31, 2023. Brokered deposits were $550.3 million, representing 16.0% of our total deposits at December 31, 2024, and $379.4 million, or 12.6%, at December 31, 2023 and are included in time deposits greater than $250,000 in the following table. Our loan-to-deposit ratio was 106%, 107%, and 104% at December 31, 2024, 2023, and 2022, respectively.

The following table shows the average balance amounts and the average rates paid on deposits held by us.

	December 31,					
	2024		2023		2022	
(dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Noninterest bearing demand deposits	$ 676,792	-%	$ 717,275	-%	$ 788,960	-%
Interest bearing demand deposits	303,580	0.93%	299,703	0.75%	374,956	0.22%
Money market accounts	1,531,994	4.00%	1,672,550	3.66%	1,323,487	0.99%
Savings accounts	29,931	0.25%	36,324	0.11%	41,474	0.05%
Time deposits less than $250,000	211,494	4.59%	106,169	5.04%	81,664	1.17%
Time deposits greater than $250,000	689,134	5.03%	525,798	4.30%	220,192	1.45%
Total deposits	$3,442,925	3.15%	$3,357,819	2.72%	$2,830,733	0.64%

During the 12 months ended December 31, 2024, our average transaction account balances decreased by $183.7 million, or 6.7%, while our average time deposit balances increased by $268.8 million, or 42.5%. Core deposits exclude out-of-market deposits and time deposits of $250,000 or more and provide a relatively stable funding source for our loan portfolio and other earning assets. Our core deposits were $2.66 billion, $2.81 billion, and $2.76 billion at December 31, 2024, 2023 and 2022, respectively.

All of our time deposits are certificates of deposits. The maturity distribution of our time deposits of $250,000 or more is as follows:

	December 31,	
(dollars in thousands)	2024	2023
Three months or less	$ 233,514	169,419
Over three through six months	187,478	86,342
Over six through twelve months	130,568	58,293
Over twelve months	222,468	254,011
Total	$ 774,028	568,065

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2024 and December 31, 2023 were $774.0 million and $568.1 million, respectively, including wholesale deposits.

At December 31, 2024 and 2023, we estimate that we have approximately $1.3 billion, respectively, in uninsured deposits including related interest accrued and unpaid. Since it is not reasonably practicable to provide a precise measure of uninsured deposits, the amounts above are estimates and are based on the same methodologies and assumptions used for the Bank’s regulatory reporting requirements by the FDIC for the Call Report.

Liquidity and Capital Resources

Liquidity is our ability to fund operations, to meet depositor withdrawals, to provide for customers’ credit needs, and to meet maturing obligations and existing commitments. Our liquidity principally depends on our cash flows from operating activities, investment in and maturity of assets, changes in balances of deposits and borrowings, and our ability to borrow funds. The several large bank failures across the United States in the first five months of 2023 exemplify the potential serious results of the unexpected inability of insured depository institutions to obtain needed liquidity to satisfy deposit withdrawal requests, including how quickly such requests can accelerate once uninsured depositors lose confidence in an institutions ability to satisfy its obligations to depositors. We seek to ensure our funding needs are met by maintaining a level of liquidity through asset and liability management. Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree

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of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

At December 31, 2024 and 2023, our cash and cash equivalents amounted to $162.9 million and $156.2 million, or 4.0% and 3.9% of total assets, respectively. Our investment securities at December 31, 2024 and 2023 amounted to $151.6 million and $154.6 million, or 3.7% and 3.8% of total assets, respectively. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner.

Our ability to maintain and expand our deposit base and borrowing capabilities serves as our primary source of liquidity. We plan to meet our future cash needs through the liquidation of temporary investments, the generation of deposits, and from additional borrowings. In addition, we will receive cash upon the maturity and sale of loans and the maturity of investment securities. We maintain six federal funds purchased lines of credit with correspondent banks totaling $128.5 million to meet short-term liquidity needs. There were no borrowings against the lines at December 31, 2024. At December 31, 2024, we had $210.8 million pledged and available with the Federal Reserve Discount Window.

We are also a member of the FHLB of Atlanta, from which applications for borrowings can be made. The FHLB requires that securities, qualifying mortgage loans, and stock of the FHLB owned by the Bank be pledged to secure any advances from the FHLB. The unused borrowing capacity currently available from the FHLB at December 31, 2024 was $807.5 million, based on the Bank's $14.5 million investment in FHLB stock, as well as qualifying mortgages available to secure any future borrowings. However, we are able to pledge additional securities to the FHLB in order to increase our available borrowing capacity. In addition, at December 31, 2024 we had $205.4 million of letters of credit outstanding with the FHLB to secure client deposits.

We have a relationship with IntraFi Promontory Network, allowing us to provide deposit customers with access to aggregate FDIC insurance in amounts exceeding $250,000. This gives us the ability, as and when needed, to attract and retain large deposits from insurance conscious customers. With IntraFi, we have the option to keep deposits on balance sheet or sell them to other members of the network. Additionally, subject to certain limits, the Bank can use IntraFi to purchase cost-effective funding without collateralization and in lieu of generating funds through traditional brokered CDs or the FHLB. In this manner, IntraFi can provide us with another funding option. Thus, it serves as a deposit-gathering tool and an additional liquidity management tool. Under the Economic Growth, Regulatory Relief, and Consumer Protection Act, a well capitalized bank with a CAMELS rating of 1 or 2 may hold reciprocal deposits up to the lesser of 20% of its total liabilities or $5 billion without those deposits being treated as brokered deposits.

We also have a line of credit with another financial institution for $15.0 million, which was unused at December 31, 2024. The line of credit was issued on December 28, 2024 at an interest rate of the U.S. Prime Rate plus 0.25% and a maturity date of February 28, 2025. The line was renewed under the same terms with a new maturity date of March 5, 2026.

We believe that our existing stable base of core deposits, federal funds purchased lines of credit with correspondent banks, availability with the Federal Reserve's Discount Window, and borrowings from the FHLB will enable us to successfully meet our long-term liquidity needs. However, as short-term liquidity needs arise, we have the ability to sell a portion of our investment securities portfolio should we be required to meet those needs.

Total shareholders' equity was $330.4 million at December 31, 2024 and $312.5 million at December 31, 2023. The $18.0 million increase during 2024 is due primarily to net income to common shareholders of $15.5 million, stock option exercises and expenses of $2.6 million combined with a $130,000 loss in other comprehensive income.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), equity to assets ratio (average equity divided by average assets), and tangible common equity ratio (total equity less preferred stock divided by total assets) for the three years ended December 31, 2024. Since our inception, we have not paid cash dividends.

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(dollars in thousands)	December 31, 2024	2023	2022
Return on average assets	0.38%	0.34%	0.90%
Return on average equity	4.84%	4.44%	10.20%
Return on average common equity	4.84%	4.44%	10.20%
Average equity to average assets ratio	7.83%	7.71%	8.85%
Tangible common equity to assets ratio	8.08%	7.70%	7.98%

Under the capital adequacy guidelines, regulatory capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common shareholders' equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed to be inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for credit losses, subject to certain limitations. We are also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

Regulatory capital rules, which we refer to as Basel III, impose minimum capital requirements for bank holding companies and banks. The Basel III rules apply to all national and state banks and savings associations regardless of size and bank holding companies and savings and loan holding companies other than "small bank holding companies," generally holding companies with consolidated assets of less than $3 billion. In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a "capital conservation buffer" on top of our minimum risk-based capital requirements. This buffer must consist solely of common equity Tier 1, but the buffer applies to all three measurements (common equity Tier 1, Tier 1 capital and total capital). The capital conservation buffer consists of an additional amount of CET1 equal to 2.5% of risk-weighted assets.

To be considered "well-capitalized" for purposes of certain rules and prompt corrective action requirements, the Bank must maintain a minimum total risked-based capital ratio of at least 10%, a total Tier 1 capital ratio of at least 8%, a common equity Tier 1 capital ratio of at least 6.5%, and a leverage ratio of at least 5%. As of December 31, 2024, our capital ratios exceed these ratios and we remain "well capitalized."

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements. See Note 21 to the Consolidated Financial Statements for ratios of the Company.

	Actual		For capital adequacy purposes minimum [1]		To be well capitalized under prompt corrective action provisions minimum	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2024						
Total Capital (to risk weighted assets)	$ 402,629	12.66%	$ 254,412	8.00%	$ 318,015	10.00%
Tier 1 Capital (to risk weighted assets)	362,875	11.41%	190,809	6.00%	254,412	8.00%
Common Equity Tier 1 (to risk weighted assets)	362,875	11.41%	143,107	4.50%	206,709	6.50%
Tier 1 Capital (to average assets)	362,875	8.75%	165,941	4.00%	207,426	5.00%
As of December 31, 2023						
Total Capital (to risk weighted assets)	$ 390,197	12.28%	$ 254,278	8.00%	$ 317,847	10.00%
Tier 1 Capital (to risk weighted assets)	350,455	11.03%	190,708	6.00%	254,278	8.00%
Common Equity Tier 1 (to risk weighted assets)	350,455	11.03%	143,031	4.50%	206,601	6.50%
Tier 1 Capital (to average assets)	350,455	8.47%	165,414	4.00%	206,767	5.00%
As of December 31, 2022						
Total Capital (to risk weighted assets)	$ 366,988	12.45%	$ 235,892	8.00%	$ 294,865	10.00%
Tier 1 Capital (to risk weighted assets)	330,108	11.20%	176,919	6.00%	235,892	8.00%
Common Equity Tier 1 (to risk weighted assets)	330,108	11.20%	132,689	4.50%	191,662	6.50%
Tier 1 Capital (to average assets)	330,108	9.43%	140,040	4.00%	175,050	5.00%

(1) Ratios do not include the capital conservation buffer of 2.5%.

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On September 30, 2019, we sold and issued $23.0 million in aggregate principal amount of 4.75% Fixed-to-Floating Rate Subordinated Notes due 2029 to eligible purchasers in a private offering. We used the proceeds from the offering, which were approximately $22.5 million, for general corporate purposes, including providing capital to the Bank and supporting organic growth. The Notes rank junior in right to payment to the Company's current and future senior indebtedness. The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes for the Company and are subject to certain limitations. On September 30, 2024, in conjunction with the semi-annual interest payment, we redeemed $11.5 million of our outstanding subordinated debt. Beginning September 30, 2024, the interest rate on the subordinated debt reset to an interest rate per annum equal to the Three-Month Term SOFR plus 340.8 basis points (8.00% at December 31, 2024), payable quarterly in arrears. See Note 9 to the Consolidated Financial Statements for more information on our subordinated debentures.

The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from the Bank. The dividends that may be paid by the Bank to the Company are subject to legal limitations and regulatory capital requirements.

Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into account in our consolidated financial statements. Rather, our financial statements have been prepared on an historical cost basis in accordance with generally accepted accounting principles.

Unlike most industrial companies, our assets and liabilities are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on our performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude. As discussed previously, we seek to manage the relationships between interest sensitive assets and liabilities in order to protect against wide rate fluctuations, including those resulting from inflation.

Off-Balance Sheet Risk

Commitments to extend credit are agreements to lend to a client as long as the client has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2024, unfunded commitments to extend credit were approximately $719.1 million, of which $57.5 million were at fixed rates and $661.6 million were at variable rates. At December 31, 2023, unfunded commitments to extend credit were $724.6 million, of which approximately $145.6 million were at fixed rates and $579.0 million were at variable rates. A majority of the unfunded commitments related to commercial business lines of credit and home equity lines of credit. Based on historical experience, we anticipate that a significant portion of these lines of credit will not be funded. We evaluate each client's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At December 31, 2024 and 2023, there were $16.2 million and $16.1 million of commitments under letters of credit, respectively. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Except as disclosed in this Annual Report, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments that significantly impact earnings.

Market Risk and Interest Rate Sensitivity

Market risk is the risk of loss from adverse changes in market prices and rates, which principally arises from interest rate risk inherent in our lending, investing, deposit gathering, and borrowing activities. Other types of market risks, such as foreign currency exchange rate risk and commodity price risk, do not generally arise in the normal course of our business.

We actively monitor and manage our interest rate risk exposure to seek to control the mix and maturities of our assets and liabilities utilizing a process we call asset/liability management. The essential purposes of asset/liability management are to seek to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities in order to minimize potentially adverse impacts on earnings from changes in market interest rates. Our

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asset/liability management committee ("ALCO") monitors and considers methods of managing exposure to interest rate risk by repricing assets or liabilities, selling securities available for sale, replacing an asset or liability at maturity, by adjusting the interest rate during the life of an asset or liability, or by the use of derivatives such as interest rate swaps and other hedging instruments. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. We have both an internal ALCO consisting of senior management that meets no less than quarterly and a board risk committee that meets quarterly, and both committees are responsible for maintaining the level of interest rate sensitivity of our interest sensitive assets and liabilities within board-approved limits.

As of December 31, 2024, the following table summarizes the forecasted impact on net interest income using a base case scenario given upward and downward movements in interest rates of 100, 200, and 300 basis points based on forecasted assumptions of prepayment speeds, nominal interest rates and loan and deposit repricing rates. Estimates are based on current economic conditions, historical interest rate cycles and other factors deemed to be relevant. However, underlying assumptions may be impacted in future periods which were not known to management at the time of the issuance of the Consolidated Financial Statements. Therefore, management's assumptions may or may not prove valid. No assurance can be given that changing economic conditions and other relevant factors impacting our net interest income will not cause actual occurrences to differ from underlying assumptions. In addition, this analysis does not consider any strategic changes to our balance sheet which management may consider as a result of changes in market conditions.

Interest rate scenario	Change in net interest income from base
Up 300 basis points	(12.50)%
Up 200 basis points	(7.54)%
Up 100 basis points	(3.31)%
Base	-
Down 100 basis points	5.86%
Down 200 basis points	15.62%
Down 300 basis points	29.42%

Contractual Obligations

We have commitments with various investment partners under the Small Business Investment Company ("SBIC") and the Rural Business Investment Company ("RBIC") programs for which we have committed to make capital contributions from time to time. As of December 31, 2024, $1.2 million remained outstanding under these commitments.

We utilize a variety of short-term and long-term borrowings to supplement our supply of lendable funds, to assist in meeting deposit withdrawal requirements, and to fund growth of interest-earning assets in excess of traditional deposit growth. Certificates of deposit, structured repurchase agreements, FHLB advances, and subordinated debentures serve as our primary sources of such funds.

Obligations under noncancelable operating lease agreements are payable over several years with the longest obligation expiring in 2032. We do not feel that any existing noncancelable operating lease agreements are likely to materially impact our financial condition or results of operations in an adverse way. Contractual obligations relative to these agreements are noted in the table below. Option periods that we have not yet exercised are not included in this analysis as they do not represent contractual obligations until exercised.

The following table provides payments due by period for obligations under long-term borrowings and operating lease obligations as of December 31, 2024.

	December 31, 2024					
	Payments Due by Period					
(dollars in thousands)	Within One Year	Over One to Two Years	Over Two to Three Years	Over Three to Four Years	After Five Years	Total
Certificates of deposit	$ 741,679	113,327	29,416	81,005	2,163	967,590
Subordinated debentures	-	-	-	-	24,903	24,903
Operating lease obligations	2,157	2,210	2,267	2,015	20,187	28,836
Total	$ 743,836	115,537	31,683	83,020	47,253	1,021,329

Accounting, Reporting, and Regulatory Matters

See Note 1 – Summary of Significant Accounting Policies and Activities in our “Notes to Consolidated Financial Statements” for a discussion on the effects of recently issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Risk and Interest Rate Sensitivity and – Liquidity and Capital Resources.

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Item 8. Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Southern First Bancshares, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the U.S. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that in reasonable detail, accurately and fairly reflect the transactions and disposition of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with the authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material impact on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. Based on this evaluation under the COSO criteria, management concluded that the internal control over financial reporting was effective as of December 31, 2024.

The effectiveness of the internal control structure over financial reporting as of December 31, 2024 has been audited by Elliott Davis, LLC, an independent registered public accounting firm, as stated in their report included in this Annual Report on Form 10-K, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2024.

/s/ R. Arthur Seaver, Jr.
Chief Executive Officer
Southern First Bancshares, Inc.

/s/ Christian J. Zych
Chief Financial Officer
Southern First Bancshares, Inc.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Southern First Bancshares, Inc. and Subsidiary

Opinion on the Internal Control Over Financial Reporting

We have audited Southern First Bancshares, Inc. and Subsidiary's (the “Company”) internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2024 and 2023 and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2024 of the Company and our report dated March 3, 2025 expressed an unqualified opinion.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Elliott Davis, LLC

Greenville, South Carolina
March 3, 2025

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Report of Independent Registered Public Accounting Firm (PCAOB ID 149)

To the Shareholders and Board of Directors of
Southern First Bancshares, Inc. and Subsidiary

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Southern First Bancshares, Inc. and Subsidiary (the "Company") as of December 31, 2024 and 2023, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2024, and the related notes to the consolidated financial statements (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 3, 2025, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses

As described in Note 4 to the Company's financial statements, the Company has a gross loan portfolio of $3.6 billion and related allowance for credit losses of $39.9 million as of December 31, 2024. As described by the Company in Note 1, the Company calculates lifetime probability of default and loss given default rates based on historical loss experience, which is used to calculate expected losses based on a loan pool's loss rate and the age of loans in the pool. Management also considers further adjustments to historical loss information for current conditions and reasonable and supportable forecasts that differ from the conditions that exist for the period over which historical information is evaluated as well as other changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management but measured by objective measurements period over period. The data for each measurement may be obtained from internal or external sources. These adjustments are based upon quarterly trend assessments in certain economic factors as well as associate retention and turnover, portfolio concentrations, and growth characteristics.

We identified the Company's estimate of the allowance for credit losses as a critical audit matter. The principal considerations for our determination of the allowance for credit losses as a critical audit matter related to the high degree of subjectivity in the Company's judgments in determining the qualitative factors. Auditing these complex judgments and assumptions by the Company involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included the following:

- We tested the design and operating effectiveness of controls relating to the Company's determination of the allowance for credit losses, including controls over qualitative factors.
- We tested the design and operating effectiveness of controls relating to management's review of reliability and accuracy of data used to calculate and estimate the various components of the allowance for credit losses, including accuracy of the calculation and validation procedures over the models.
- We evaluated the relevance and the reasonableness of assumptions related to evaluation of the loan portfolio, current and forecasted economic conditions, and other risk factors used in development of the qualitative factors.
- We evaluated the reasonableness of assumptions and data used by the Company in developing the qualitative factors by comparing these data points to internally developed and third-party sources, and other audit evidence gathered.
- We assessed the overall trends in credit quality, including adjustments for the qualitative factors by comparing the overall allowance for credit losses to those recorded by the Company's peer institutions.
- We evaluated subsequent events and transactions and considered whether they corroborated or contradicted the Company's conclusion.

/s/ Elliott Davis, LLC

We have served as the Company's auditor since 1999.

Greenville, South Carolina
March 3, 2025

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SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)	December 31, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 22,553	28,020
Federal funds sold	128,452	119,349
Interest-bearing deposits with banks	11,858	8,801
Total cash and cash equivalents	162,863	156,170
Investment securities:		
Investment securities available for sale	132,127	134,702
Other investments	19,490	19,939
Total investment securities	151,617	154,641
Mortgage loans held for sale	4,565	7,194
Loans	3,631,767	3,602,627
Less allowance for credit losses	(39,914)	(40,682)
Loans, net	3,591,853	3,561,945
Bank owned life insurance	54,070	52,501
Property and equipment, net	88,794	94,301
Deferred income taxes, net	13,467	12,200
Other assets	20,364	16,837
Total assets	$ 4,087,593	4,055,789
LIABILITIES		
Deposits	$ 3,435,765	3,379,564
Federal Home Loan Bank advances and other borrowings	240,000	275,000
Subordinated debentures	24,903	36,322
Other liabilities	56,481	52,436
Total liabilities	3,757,149	3,743,322
SHAREHOLDERS' EQUITY		
Preferred stock, par value $.01 per share, 10,000,000 shares authorized	-	-
Common stock, par value $.01 per share, 20,000,000 shares authorized, 8,164,872 shares issued and outstanding at December 31, 2024; 10,000,000 shares authorized, 8,088,186 shares issued and outstanding at December 31, 2023	82	81
Nonvested restricted stock	(3,884)	(3,596)
Additional paid-in capital	124,641	121,777
Accumulated other comprehensive loss	(11,472)	(11,342)
Retained earnings	221,077	205,547
Total shareholders' equity	330,444	312,467
Total liabilities and shareholders' equity	$ 4,087,593	4,055,789

See notes to consolidated financial statements that are an integral part of these consolidated statements.

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SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per share data)		For the years ended December 31, 2024	2023	2022
Interest income				
Loans	$	186,863	166,137	114,233
Investment securities		5,812	4,463	1,990
Federal funds sold and interest-bearing deposits with banks		8,537	6,998	1,439
Total interest income		201,212	177,598	117,662
Interest expense				
Deposits		108,774	91,373	18,102
Borrowings		11,216	8,571	1,939
Total interest expense		119,990	99,944	20,041
Net interest income		81,222	77,654	97,621
Provision for credit losses		125	1,260	6,155
Net interest income after provision for credit losses		81,097	76,394	91,466
Noninterest income				
Mortgage banking income		5,560	4,036	4,198
Service fees on deposit accounts		1,764	1,382	1,265
ATM and debit card income		2,337	2,245	2,163
Income from bank owned life insurance		1,569	1,379	1,289
Gain (loss) on disposal of fixed assets		28	-	(394)
Other income		883	818	1,059
Total noninterest income		12,141	9,860	9,580
Noninterest expenses				
Compensation and benefits		43,546	40,275	38,790
Occupancy		10,291	10,255	9,105
Outside service and data processing costs		7,741	7,078	6,112
Insurance		4,022	3,766	1,686
Professional fees		2,404	2,496	2,635
Marketing		1,412	1,357	1,216
Other		3,910	3,600	3,389
Total noninterest expenses		73,326	68,827	62,933
Income before income tax expense		19,912	17,427	38,113
Income tax expense		4,382	4,001	8,998
Net income available to common shareholders	$	15,530	13,426	29,115
Earnings per common share				
Basic	$	1.92	1.67	3.66
Diluted	$	1.91	1.66	3.61
Weighted average common shares outstanding				
Basic		8,080,623	8,046,633	7,958,294
Diluted		8,117,057	8,078,454	8,071,690

See notes to consolidated financial statements that are an integral part of these consolidated statements.

SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,		
(dollars in thousands)	2024	2023	2022
Net income	$ 15,530	13,426	29,115
Other comprehensive income (loss):			
Unrealized gain (loss) on securities available for sale:			
Unrealized holding gain (loss) arising during the period, pretax	(165)	2,620	(16,027)
Tax benefit (expense)	35	(552)	3,367
Reclassification of realized (gain) loss	-	-	(12)
Tax expense (benefit)	-	-	2
Other comprehensive income (loss)	(130)	2,068	(12,670)
Comprehensive income	$ 15,400	15,494	16,445

See notes to consolidated financial statements that are an integral part of these consolidated statements.

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SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024, 2023 AND 2022

	Common stock		Preferred stock		Nonvested restricted stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained Earnings	Total
(dollars in thousands, except share data)	Shares	Amount	Shares	Amount					
December 31, 2021	**7,925,819**	**$ 79**	**-**	**$ -**	**$ (1,435)**	**$ 114,226**	**$ (740)**	**$ 165,771**	**$ 277,901**
Adoption of ASU 2016-13	-	-	-	-	-	-	-	(2,765)	(2,765)
Net income	-	-	-	-	-	-	-	29,115	29,115
Proceeds from exercise of stock options	32,375	1	-	-	-	904	-	-	905
Issuance of restricted stock, net of forfeitures	52,851	-	-	-	(2,970)	2,970	-	-	-
Compensation expense related to restricted stock, net of tax	-	-	-	-	1,099	-	-	-	1,099
Compensation expense related to stock options, net of tax	-	-	-	-	-	927	-	-	927
Other comprehensive loss	-	-	-	-	-	-	(12,670)	-	(12,670)
December 31, 2022	**8,011,045**	**$ 80**	**-**	**$ -**	**$ (3,306)**	**$ 119,027**	**$ (13,410)**	**$ 192,121**	**$ 294,512**
Net income	-	-	-	-	-	-	-	13,426	13,426
Proceeds from exercise of stock options	26,250	-	-	-	-	518	-	-	518
Issuance of restricted stock, net of forfeitures	50,891	1	-	-	(1,705)	1,704	-	-	-
Compensation expense related to restricted stock, net of tax	-	-	-	-	1,415	-	-	-	1,415
Compensation expense related to stock options, net of tax	-	-	-	-	-	528	-	-	528
Other comprehensive income	-	-	-	-	-	-	2,068	-	2,068
December 31, 2023	**8,088,186**	**$ 81**	**-**	**$ -**	**$ (3,596)**	**$ 121,777**	**$ (11,342)**	**$ 205,547**	**$ 312,467**
Net income	-	-	-	-	-	-	-	15,530	15,530
Proceeds from exercise of stock options	16,250	-	-	-	-	294	-	-	294
Issuance of restricted stock, net of forfeitures	60,436	1	-	-	(2,197)	2,196	-	-	-
Compensation expense related to restricted stock, net of tax	-	-	-	-	1,909	-	-	-	1,909
Compensation expense related to stock options, net of tax	-	-	-	-	-	374	-	-	374
Other comprehensive loss	-	-	-	-	-	-	(130)	-	(130)
December 31, 2024	**8,164,872**	**$ 82**	**-**	**$ -**	**$ (3,884)**	**$ 124,641**	**$ (11,472)**	**$ 221,077**	**$ 330,444**

See notes to consolidated financial statements that are an integral part of these consolidated statements.

SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
(dollars in thousands)	2024	2023	2022
Operating activities			
Net income	$ 15,530	13,426	29,115
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for credit losses	125	1,260	6,155
Depreciation and other amortization	4,810	4,816	3,698
Accretion and amortization of securities discounts and premiums, net	554	61	694
(Gain) loss on sale of investment securities available for sale	-	-	(12)
(Gain) loss on sale of fixed assets	(28)	-	394
Net change in operating leases	145	233	872
Compensation expense related to stock options and restricted stock grants	2,283	1,943	2,026
Gain on sale of loans held for sale	(5,447)	(3,790)	(2,914)
Loans originated and held for sale	(188,906)	(147,040)	(165,698)
Proceeds from sale of loans held for sale	196,982	147,553	178,251
Increase in cash surrender value of bank owned life insurance	(1,569)	(1,379)	(1,289)
Increase in deferred tax asset	(1,232)	(230)	(22)
Increase in other assets, net	(3,527)	(1,378)	(5,047)
Increase in other liabilities, net	5,838	2,178	4,082
Net cash provided by operating activities	25,558	17,653	50,305
Investing activities			
Increase (decrease) in cash realized from:			
Increase in loans, net	(30,408)	(329,431)	(782,130)
Purchase of property and equipment	(785)	(1,242)	(13,950)
Purchase of investment securities:			
Available for sale	(23,937)	(63,224)	(13,048)
Other investments	(4,301)	(51,642)	(27,751)
Proceeds from maturities, calls and repayments of investment securities:			
Available for sale	25,793	24,428	10,833
Other investments	4,750	42,536	20,939
Proceeds from sales of investment securities available for sale	-	-	12,429
Proceeds from sale of fixed assets	28	-	95
Net cash used for investing activities	(28,860)	(378,575)	(792,583)
Financing activities			
Increase (decrease) in cash realized from:			
Increase in deposits, net	56,201	245,700	570,038
Increase (decrease) in Federal Home Loan Bank advances and other borrowings	(35,000)	100,000	175,000
Decrease in subordinated debentures	(11,500)	-	-
Proceeds from the exercise of stock options	294	518	905
Net cash provided by financing activities	9,995	346,218	745,943
Net increase (decrease) in cash and cash equivalents	6,693	(14,704)	3,665
Cash and cash equivalents, beginning of year	156,170	170,874	167,209
Cash and cash equivalents, end of year	$ 162,863	156,170	170,874
Supplemental information			
Cash paid for			
Interest	$ 119,348	93,351	18,877
Income taxes	3,767	1,514	11,828
Schedule of non-cash transactions			
Unrealized gain (loss) on securities, net of income taxes	(130)	2,068	(12,660)
Right-of-use assets obtained in exchange for lease obligations:			
Operating leases	-	145	595

See notes to consolidated financial statements that are an integral part of these consolidated statements.

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NOTE 1 – Summary of Significant Accounting Policies and Activities

Southern First Bancshares, Inc. (the "Company") is a South Carolina corporation that owns all of the capital stock of Southern First Bank (the "Bank") and all of the stock of Greenville First Statutory Trust I and II (collectively, the "Trusts"). The Trusts are special purpose non-consolidated entities organized for the sole purpose of issuing trust preferred securities. The Bank's primary federal regulator is the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is also regulated and examined by the South Carolina Board of Financial Institutions. The Bank is primarily engaged in the business of accepting demand deposits and savings deposits insured by the FDIC, and providing commercial, consumer and mortgage loans to the general public.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Southern First Bank. In consolidation, all significant intercompany transactions have been eliminated. The accounting and reporting policies conform to accounting principles generally accepted in the United States of America. In accordance with guidance issued by the Financial Accounting Standards Board ("FASB"), the operations of the Trusts have not been consolidated in these financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of income and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, derivatives, real estate acquired in settlement of loans, fair value of financial instruments, evaluating investment securities for credit impairment and valuation of deferred tax assets.

Risks and Uncertainties

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default within the Company's loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company. There were several notable bank failures in 2023, driven primarily by liquidity challenges as depositors rapidly withdrew funds. These failures were exacerbated by the impact of rising interest rates, which left affected banks unable to sell long-term investment securities without incurring significant losses. In response, regulators took steps to stabilize the banking system, including ensuring that losses to the Deposit Insurance Fund used to support uninsured depositors would be recovered through a special assessment on banks, as mandated by law. This has increased and may continue to increase the cost of our FDIC insurance assessments. While the immediate banking turmoil has largely subsided, ongoing economic uncertainties—including the Federal Reserve's evolving monetary policy, persistent inflationary pressures, and concerns about commercial real estate exposure—continue to shape the financial landscape. The long-term impact of these developments on the economy, financial institutions, and regulatory frameworks remains uncertain.

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The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to changes with respect to valuation of assets, amount of required credit loss allowance and operating restrictions resulting from the regulators' judgments based on information available to them at the time of their examinations.

The Bank makes loans to individuals and businesses in the Upstate, Midlands, and Lowcountry regions of South Carolina as well as the Triangle, Triad and Charlotte regions of North Carolina and Atlanta, Georgia for various personal and commercial purposes. The Bank's loan portfolio has a concentration of real estate loans. As of December 31, 2024 and 2023, real estate loans represented 83.5% and 84.8% of total loans, respectively. However, borrowers' ability to repay their loans is not dependent upon any specific economic sector.

As of December 31, 2024, the Company's and the Bank's capital ratios were in excess of all regulatory requirements. While management believes that we have sufficient capital to withstand an extended economic recession, our reported and regulatory capital ratios could be adversely impacted by future credit losses.

The Company maintains access to multiple sources of liquidity, including a $15.0 million holding company line of credit with another bank which could be used to support capital ratios at the subsidiary bank. As of December 31, 2024, the $15.0 million line was unused.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management performed an evaluation to determine whether there have been any subsequent events since the balance sheet date and determined that no subsequent events occurred requiring accrual or disclosure.

Reclassifications

Certain amounts, previously reported, have been reclassified to state all periods on a comparable basis and had no effect on shareholders' equity or net income.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest bearing deposits and federal funds sold. Cash and cash equivalents have original maturities of three months or less, and federal funds sold are generally purchased and sold for one-day periods. Accordingly, the carrying value of these instruments is deemed to be a reasonable estimate of fair value. At December 31, 2024 and 2023, included in cash and cash equivalents was $5.4 million and $5.1 million, respectively, on deposit with the Federal Reserve Bank.

Investment Securities

We classify our investment securities as held to maturity securities, trading securities and available for sale securities as applicable.

Investment securities are designated as held to maturity if we have the intent and the ability to hold the securities to maturity. Held to maturity securities are carried at amortized cost, adjusted for the amortization of any related premiums or the accretion of any related discounts into interest income using a methodology which approximates a level yield of interest over the estimated remaining period until maturity.

Investment securities that are purchased and held principally for the purpose of selling in the near term are reported as trading securities. Trading securities are carried at fair value with unrealized holding gains and losses included in earnings.

We classify investment securities as available for sale when at the time of purchase we determine that such securities may be sold at a future date or if we do not have the intent or ability to hold such securities to maturity. Securities designated as available for sale are recorded at fair value. Changes in the fair value of available for sale debt securities are included in shareholders' equity as unrealized gains or losses, net of the related tax effect. Realized gains or losses on available for sale securities are computed on the specific identification basis.

Allowance for Credit Losses – Investment Securities

For available for sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or if it is more likely than not that it will be required to sell the security before recovery of the amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income with the establishment of an allowance under the Current Expected Credit Loss Model ("CECL"). For debt securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether any decline in fair value is due to credit loss factors. In making this assessment, management considers any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses under CECL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024 and 2023, there was no allowance for credit losses related to the available-for-sale portfolio. In addition, the Company had no held to maturity securities at December 31, 2024 and 2023.

Accrued interest receivable on available for sale debt securities totaled $576,000 and $530,000 at December 31, 2024 and December 31, 2023, respectively, and was excluded from the estimate of credit losses.

Other Investments

Other investments include stock acquired for membership and regulatory purposes, such as Federal Home Loan Bank of Atlanta ("FHLB") stock, investments in unconsolidated subsidiaries and other nonmarketable securities. FHLB stock is generally pledged against any borrowings from the FHLB and cash dividends on our FHLB stock are recorded in investment income. Other nonmarketable securities consist of investments in funds related to the Small Business Investment Company ("SBIC") and Rural Business Investment Company ("RBIC") programs, as well as an investment in a South Carolina not-for-profit corporation. No ready market exists for these stocks and they have no quoted market value. As a result, these securities are carried at cost and are periodically evaluated for impairment.

Loans

Loans are stated at the principal balance outstanding. Unamortized net loan fees and the allowance for possible credit losses are deducted from total loans on the balance sheets. Interest income is recognized over the term of the loan based on the principal amount outstanding. The net of loan origination fees received and direct costs incurred in the origination of loans is deferred and amortized to interest income over the contractual life of the loans adjusted for actual principal prepayments using a method approximating the interest method.

Allowance for Credit Losses - Loans

Under CECL, the allowance for credit losses on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans.

Management assesses the adequacy of the allowance on a quarterly basis. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of historical default and loss experience, current and projected economic conditions, asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay a loan, the estimated value of any underlying collateral, composition of the loan portfolio, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. Management believes the level of the allowance for credit losses is adequate to absorb all expected future losses inherent in the loan portfolio at the balance sheet date. The allowance is increased through provision for credit losses and decreased by charge-offs, net of recoveries of amounts previously charged-off.

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The allowance for credit losses is measured on a collective basis for pools of loans with similar risk characteristics. The Company has identified the following pools of financial assets with similar risk characteristics for measuring expected credit losses:

Commercial loans

- Owner occupied real estate - Owner occupied commercial mortgages consist of loans to purchase or re-finance owner occupied nonresidential properties. This includes office buildings, other commercial facilities, and farmland. Commercial mortgages secured by owner occupied properties are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination. While these loans and leases are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation.

- Non-owner occupied real estate - Non-owner occupied commercial mortgages consist of loans to purchase or refinance investment nonresidential properties. This includes office buildings and other facilities rented or leased to unrelated parties, as well as farmland and multifamily properties. The primary risk associated with income producing commercial mortgage loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt. While these loans are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation.

- Construction - Construction loans consist of loans to finance land for development of commercial or residential real property and construction of multifamily apartments or other commercial properties. These loans are highly dependent on the supply and demand for commercial real estate as well as the demand for newly constructed residential homes and lots acquired for development. Deterioration in demand could result in decreased collateral values, which could make repayments of outstanding loans difficult for customers.

- Commercial business - Commercial business loans consist of loans or lines of credit to finance accounts receivable, inventory or other general business needs, business credit cards, and lease financing agreements for equipment, vehicles, or other assets. The primary risk associated with commercial and industrial and lease financing loans is the ability of borrowers to achieve business results consistent with those projected at origination. Failure to achieve these projections presents risk the borrower will be unable to service the debt consistent with the contractual terms of the loan.

Consumer loans

- Real estate - Residential mortgages consist of loans to purchase or refinance the borrower’s primary dwelling, second residence or vacation home and are often secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.

- Home equity - Home equity loans consist of home equity lines of credit and other lines of credit secured by first or second liens on the borrower’s primary residence. These loans are secured by both senior and junior liens on the residential real estate and are particularly susceptible to declining collateral values. This risk is elevated for loans secured by junior lines as a substantial decline in value could render the junior lien position effectively unsecured.

- Construction - Construction loans consist of loans to construct a borrower’s primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date. These loans are typically secured by undeveloped or partially developed land in anticipation of completing construction of a 1-4 family residential property. There is risk these construction and development projects can experience delays and cost overruns exceeding the borrower’s financial ability to complete the project. Such cost overruns can result in foreclosure of partially completed and unmarketable collateral.

- Other - Consumer loans consist of loans to finance unsecured home improvements, student loans, automobiles and revolving lines of credit that can be secured or unsecured. The value of the underlying collateral within this class is at risk of potential rapid depreciation which could result in unpaid balances in excess of the collateral.

For all loan pools, the Company uses a lifetime probability of default and loss given default modeling approach to estimate the allowance for credit losses on loans. This method uses historical correlations between default experience and the age of loans to forecast defaults and losses, assuming that a loan in a pool shares similar risk characteristics such as loan product type, risk rating and loan age, and demonstrates similar default characteristics as other loans in that pool, as the loan progresses through its lifecycle. The Company calculates lifetime probability of default and loss given default rates based on historical loss experience, which is used to calculate expected losses based on the pool's loss rate and the age of loans in the pool. Management believes that the Company's historical loss experience provides the best basis for its assessment of expected credit losses to determine the allowance for credit losses. The Company uses its own internal data to measure historical credit loss experience within the pools with similar risk characteristics over an economic cycle. The probability of default and loss given default method also includes assumptions of observed migration over the lifetime of the underlying loan data.

Management also considers further adjustments to historical loss information for current conditions and reasonable and supportable forecasts that differ from the conditions that exist for the period over which historical information is evaluated as well as other changes in qualitative factors not inherently considered in the quantitative analyses. The Company generally utilizes a four-quarter forecast period in evaluating the appropriateness of the reasonable and supportable forecast scenarios which are incorporated through qualitative adjustments. There is immediate reversion to historical loss rates. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management but measured by objective measurements period over period. The data for each measurement may be obtained from internal or external sources. The current period measurements are evaluated and assigned a factor commensurate with the current level of risk relative to past measurements over time. The resulting qualitative adjustments are applied to the relevant collectively evaluated loan pools. These adjustments are based upon quarterly trend assessments in certain economic factors such as labor, inflation, consumer sentiment and real disposable income, as well as associate retention and turnover, portfolio concentrations, and growth characteristics. The qualitative analysis increases or decreases the allowance allocation for each loan pool based on the assessment of factors described above. Management continues to update and expand the qualitative framework to further address factors not captured in the quantitative process.

Loans that do not share similar risk characteristics with the collectively evaluated pools are evaluated on an individual basis and are excluded from the collectively evaluated loan pools. Individual loan evaluations are generally performed for nonaccrual loans and other loans as considered necessary. Such loans are evaluated for credit losses based on either discounted cash flows or the fair value of collateral. The Company has elected the practical expedient under ASC 326 to estimate expected credit losses based on the fair value of collateral, which considers selling costs in the event sale of the collateral is expected. Loans for which terms have been modified are evaluated using these same individual evaluation methods. In the event the discounted cash flow method is used for a loan modification, the original interest rate is used to discount expected cash flows.

While the Company's policies and procedures used to estimate the allowance for credit losses, as well as the resulting provision for credit losses charged to income, are considered adequate by management and are reviewed periodically by regulators, model validators and internal audit, they are necessarily approximate and imprecise. There are factors beyond the Company's control, such as changes in projected economic conditions, real estate markets or particular industry conditions which may materially impact asset quality and the adequacy of the allowance for credit losses and thus the resulting provision for credit losses.

Accrued Interest Receivable

Accrued interest receivable related to loans totaled $11.0 million and $11.6 million at December 31, 2024 and December 31, 2023, respectively, and was reported in other assets on the consolidated balance sheets. The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectable interest.

Unfunded Commitments

Effective with the adoption of CECL, the Company estimates expected credit losses on commitments to extend credit over the contractual period in which the Company is exposed to credit risk on the underlying commitments, unless the obligation is unconditionally cancelable by the Company. The allowance for off-balance sheet credit exposures, which is reflected within other liabilities on the consolidated balance sheets, is adjusted for as an increase or decrease to the provision for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The allowance is calculated using the same aggregate reserve rates calculated for the funded portion of loans at the portfolio level applied to the amount of commitments expected to fund.

The Company's CECL allowances will fluctuate over time due to macroeconomic conditions and forecasts as well as the size and composition of the loan portfolios.

Nonaccrual and Past Due Loans

Loans are generally placed on nonaccrual status when principal or interest becomes 90 days past due, or when payment in full is not anticipated. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. Cash receipts on nonaccrual loans are not recorded as interest income, but are used to reduce the loan’s principal balance. A nonaccrual loan is generally returned to accrual status and accrual of interest is resumed when payments have been made according to the terms and conditions of the loan for a continuous six month period. Our loans are considered past due when contractually required principal or interest payments have not been made on the due dates.

Nonperforming Assets

Nonperforming assets include real estate acquired through foreclosure or deed taken in lieu of foreclosure, loans on nonaccrual status and loans past due 90 days or more and still accruing interest. Loans are placed on nonaccrual status when, in the opinion of management, the collection of additional interest is uncertain. Thereafter no interest is taken into income until such time as the borrower demonstrates the ability to pay both principal and interest.

Individually Evaluated Loans

Our individually evaluated loans include loans on nonaccrual status and other loans as needed. For loans that are classified as individually evaluated, an allowance is established when the fair value (discounted cash flows, collateral value, or observable market price) of the individually evaluated loan less costs to sell, are lower than the carrying value of that loan. A loan is considered individually evaluated when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due, among other factors. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as individually evaluated. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including, without limitation, 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. The allowance for credit loss is measured on a loan by loan basis for commercial and consumer loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Loan Charge-off Policy

For commercial loans, we generally fully charge off or charge collateralized loans down to net realizable value when management determines the loan to be uncollectible; repayment is deemed to be projected beyond reasonable time frames; the loan has been classified as a loss by either our internal loan review process or our banking regulatory agencies; the client has filed bankruptcy and the loss becomes evident owing to a lack of assets; or the loan is 120 days past due unless both well-secured and in the process of collection. For consumer loans, we generally charge down to net realizable value when the loan is 180 days past due.

Loan Modifications to Borrowers Experiencing Financial Difficulty

Loans that are modified are reviewed by the Company to identify if the modification was due to a borrower experiencing financial difficulty. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. The modification of the terms of such loans includes one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date, a permanent reduction of the recorded investment of the loan, or an other-than-insignificant payment delay. The adoption of Accounting Standards Update (“ASU”) 2022-02 on January 1, 2023 eliminated the recognition and measurement of troubled debt restructurings (“TDRs”) and enhanced disclosures for modifications to loans related to borrowers experiencing financial difficulties.

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Other Real Estate Owned ("OREO")

Real estate acquired through foreclosure is initially recorded at the lower of cost or estimated fair value less selling costs. Subsequent to the date of acquisition, it is carried at the lower of cost or fair value, adjusted for net selling costs. Fair values of real estate owned are reviewed regularly and write-downs are recorded when it is determined that the carrying value of real estate exceeds the fair value less estimated costs to sell. Costs relating to the development and improvement of such property are capitalized, whereas those costs relating to holding the property are expensed.

Property and Equipment

Property and equipment are stated at cost. Major repairs are charged to operations, while major improvements are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss is included in income from operations.

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Operating Leases

The Company maintains operating leases on land and buildings for various office spaces. The operating right-of-use asset is included in property and equipment and the operating right-of-use liability is included in other liabilities on the balance sheets. The right-of-use asset and lease liability are recognized at lease commencement by calculating the net present value of the lease payments over the lease term.

Bank Owned Life Insurance Policies

Bank owned life insurance policies represent the cash value of policies on certain officers of the Company.

Comprehensive Income

Comprehensive income (loss) consists of net income and net unrealized gains (losses) on securities and is presented in the statements of shareholders' equity and comprehensive income. The statement requires only additional disclosures in the consolidated financial statements; it does not affect our results of operations.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, the Company has made no significant judgments in applying the revenue guidance prescribed in Topic 606 that affect the determination of the amount and timing of revenue from contracts with customers.

Income Taxes

The financial statements have been prepared on the accrual basis. When income and expenses are recognized in different periods for financial reporting purposes versus for the purposes of computing income taxes currently payable, deferred taxes are provided on such temporary differences. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the consolidated financial statements or tax returns. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The Company believes that its income tax filing positions taken or expected to be taken on its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded. The Company's federal and state income tax returns are open and subject to examination from the 2021 tax return year and forward.

Stock-Based Compensation

The Company has a stock-based employee compensation plan. Compensation cost is recognized for all stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant.

Adoption of New Accounting Standard

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326). The ASU introduced a new credit loss methodology, the Current Expected Credit Loss ("CECL") methodology, which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities, and other receivables at the time the financial asset is originated or acquired. It also applies to off-balance sheet credit exposures, such as unfunded commitments to extend credit. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, is recognized through an allowance for credit losses and adjusted each period for changes in credit risk.

On January 1, 2022, the Company adopted the guidance prospectively with a cumulative adjustment to retained earnings. Results for reporting periods beginning after January 1, 2022 are presented under CECL while prior period amounts continue to be reported in accordance with the previously applicable incurred loss accounting methodology. The transition adjustment for the adoption of CECL included an increase in the allowance for credit losses on loans of $1.5 million and an increase in the reserve for unfunded loan commitments of $2.0 million, which is recorded within other liabilities. The adoption of CECL had an insignificant impact on the Company's investment securities portfolio. The Company recorded a net decrease to retained earnings of $2.8 million as of January 1, 2022 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Federal banking regulatory agencies provided optional relief to delay the adverse regulatory capital impact of CECL at adoption. The Company did not elect to use this optional relief.

In January 2023, the Company adopted ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02"), which eliminated the accounting guidance for troubled debt restructurings ("TDRs") while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, for public business entities, the guidance requires disclosure of current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20. The Company adopted the guidance using the modified retrospective method. Upon adoption of this guidance, the Company no longer establishes a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective cohort and a historical loss rate is applied to the current loan balance to arrive at the quantitative baseline portion of the allowance. The difference between the allowance previously determined and the current allowance was not material to the Company's financial statements.

In January 2023, the Company adopted ASU 2022-01, "Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method", which intended to better align hedge accounting with an organization's risk management strategies. The ASU became applicable to the Company in the second quarter of 2023 when we entered into a fair value hedge using the portfolio layer method.

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In December 2022, the FASB issued amendments to defer the sunset date of the Reference Rate Reform Topic of the Accounting Standards Codification from December 31, 2022 to December 31, 2024, because the current relief in Reference Rate Reform Topic may not cover a period of time during which a significant number of modifications may take place. The amendments were effective upon issuance. The amendments did not have a material effect on the Company's financial statements.

In November 2023, the FASB amended the Segment Reporting topic in the Accounting Standards Codification to improve disclosures about a public entity's reportable segments and provide more detailed information about a reportable segment's expenses. The amendments were effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption was permitted. Upon adoption, the Company applied the amendments retrospectively to all prior periods presented in the financial statements. The amendments did not have a material effect on the Company's financial statements.

Newly Issued, But Not Yet Effective Accounting Standards

In December 2023, the FASB amended the Income Taxes topic in the Accounting Standards Codification to improve the transparency of income tax disclosures. The amendments are effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2024, the FASB amended the *Income Statement – Reporting Comprehensive Income* topic in the Accounting Standards Codification to require public companies to disclose, in interim and annual reporting periods, additional information about certain expenses in the notes to the financial statements. The amendments are effective for annual periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The Company will apply the amendments retrospectively to all prior periods presented in the financial statements. The Company does not expect these amendments to have a material effect on its financial statements.

Operating Segments

The Company adopted Accounting Standards Update 2023-07 "Segment Reporting (Topic 280) – Improvement to Reportable Segment Disclosures" on January 1, 2024. The Company, through the Bank, provides a broad range of financial services to individuals and companies in South Carolina, North Carolina, and Georgia. The Company operates through a single operating and reporting segment, primarily as a bank through services including demand, time and savings deposits; lending services; ATM processing and mortgage banking services. The Company's chief operating decision maker, the Company's Chief Executive Officer, assesses performance for the Company and decides how to allocate resources based on net income that also is reported on the income statement as consolidated net income. The measure of segment assets is reported on the balance sheet as total consolidated assets. While the chief operating decision maker monitors the operating results of its lines of business, operations are managed and financial performance is evaluated on a consolidated basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

NOTE 2 – Investment Securities

The amortized costs and fair value of investment securities are as follows:

					December 31, 2024
		Amortized	Gross Unrealized		Fair
(dollars in thousands)Corporate bonds [Member]		Cost	Gains	Losses	Value
Available for sale					
Corporate bonds	$	2,121	-	194	1,927
US treasuries		999	-	91	908
US government agencies		17,540	1	1,746	15,795
State and political subdivisions		22,387	-	3,065	19,322
Asset-backed securities		36,613	36	111	36,538
Mortgage-backed securities		66,988	19	9,370	57,637
Total investment securities available for sale	$	146,648	56	14,577	132,127

					December 31, 2023
		Amortized	Gross Unrealized		Fair
(dollars in thousands)		Cost	Gains	Losses	Value
Available for sale					
Corporate bonds	$	2,147	-	237	1,910
US treasuries		9,495	1	102	9,394
US government agencies		20,594	-	1,938	18,656
State and political subdivisions		22,642	11	2,912	19,741
Asset-backed securities		33,450	2	216	33,236
Mortgage-backed securities		60,730	-	8,965	51,765
Total investment securities available for sale	$	149,058	14	14,370	134,702

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During 2024 and 2023, $10.6 million and $16.5 million, respectively, of investment securities matured. No gain or loss was recognized on the maturities of the investment securities. During 2022, approximately $12.6 million of investment securities were sold, resulting in a gross gain on sale of investment securities of $83,000 and a gross loss on sale of investment securities of $71,000.

The amortized costs and fair values of investment securities available for sale at December 31, 2024 and 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers have the right to prepay the obligations.

(dollars in thousands)	December 31, 2024 Amortized Cost	December 31, 2024 Fair Value	December 31, 2023 Amortized Cost	December 31, 2023 Fair Value
Available for sale				
Due within one year	$ 470	461	$ 9,503	9,467
Due after one through five years	17,897	16,154	10,222	9,279
Due after five through ten years	29,512	26,791	32,159	28,380
Due after ten years	98,769	88,721	97,174	87,576
Total investment securities	$ 146,648	132,127	$ 149,058	134,702

The tables below summarize gross unrealized losses on investment securities and the fair market value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2024 and 2023.

	December 31, 2024								
	Less than 12 months			12 months or longer			Total		
(dollars in thousands)	#	Fair value	Unrealized losses	#	Fair value	Unrealized losses	#	Fair value	Unrealized losses
Available for sale									
Corporate bonds	-	$ -	$ -	1	$ 1,927	$ 194	1	$ 1,927	$ 194
US treasuries	-	-	-	1	908	91	1	908	91
US government agencies	1	2,694	1	9	10,269	1,745	10	12,963	1,746
State and political subdivisions	3	1,436	153	30	17,886	2,912	33	19,322	3,065
Asset-backed securities	6	15,828	83	5	5,344	28	11	21,172	111
Mortgage-backed securities	6	8,226	409	61	45,360	8,961	67	53,586	9,370
Total investment securities	16	$ 28,184	$ 646	107	$ 81,694	$ 13,931	123	$ 109,878	$ 14,577

	December 31, 2023								
	Less than 12 months			12 months or longer			Total		
(dollars in thousands)	#	Fair value	Unrealized losses	#	Fair value	Unrealized losses	#	Fair value	Unrealized losses
Available for sale									
Corporate bonds	-	$ -	$ -	1	$ 1,910	$ 237	1	$ 1,910	$ 237
US treasuries	-	-	-	1	897	102	1	897	102
US government agencies	2	7,533	50	10	11,123	1,888	12	18,656	1,938
State and political subdivisions	-	-	-	30	18,964	2,912	30	18,964	2,912
Asset-backed securities	8	26,746	145	7	4,866	71	15	31,612	216
Mortgage-backed securities	2	2,869	36	62	48,896	8,929	64	51,765	8,965
Total investment securities	12	$ 37,148	$ 231	111	$ 86,656	$ 14,139	123	$ 123,804	$ 14,370

At December 31, 2024, the Company had 123 individual investments that were in an unrealized loss position. The unrealized losses were primarily attributable to changes in interest rates, rather than deterioration in credit quality. The individual securities are each investment grade securities. The Company considers factors such as the financial condition of the issuer including credit ratings and specific events affecting the operations of the issuer, volatility of the security, underlying assets that collateralize the debt security, and other industry and macroeconomic conditions. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. As such, there is no allowance for credit losses on available for sale securities recognized as of December 31, 2024.

Other investments are comprised of the following and are recorded at cost which approximates fair value:

	December 31,	
(dollars in thousands)	2024	2023
Federal Home Loan Bank stock	$ 14,516	$ 16,063
Other nonmarketable investments	4,571	3,473
Investment in Trust Preferred subsidiaries	403	403
Total other investments	$ 19,490	$ 19,939

The Company has evaluated other investments for impairment and determined that the other investments are not impaired as of December 31, 2024 and ultimate recoverability of the par value of the investments is probable. All of the FHLB stock is used to collateralize advances with the FHLB.

At December 31, 2024 and 2023, there were no securities pledged as collateral for repurchase agreements from brokers.

NOTE 3 – Mortgage Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are reported as loans held for sale and carried at fair value under the fair value option with changes in fair value recognized in current period earnings. Loans held for sale include mortgage loans which are saleable into the secondary mortgage markets and their fair values are estimated using observable quoted market or contracted prices or market price equivalents, which would be used by other market participants. At the date of funding of the mortgage loan held for sale, the funded amount of the loan, the related derivative asset or liability of the associated interest rate lock commitment, less direct loan costs becomes the initial recorded investment in the loan held for sale. Such amount approximates the fair value of the loan. At December 31, 2024, mortgage loans held for sale totaled $4.6 million compared to $7.2 million at December 31, 2023.

Mortgage loans held for sale are considered de-recognized, or sold, when the Company surrenders control over the financial assets. Control is considered to have been surrendered when the transferred assets have been isolated from the Company, beyond the reach of the Company and its creditors; the purchaser 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 that both entitles and obligates the Company to repurchase or redeem the transferred assets before their maturity or the ability to unilaterally cause the holder to return specific assets.

Gains and losses from the sale of mortgage loans are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale and are recorded in mortgage banking income in the statement of income. Mortgage banking income also includes the unrealized gains and losses associated with the loans held for sale and the realized and unrealized gains and losses from derivatives.

Mortgage loans sold to investors by the Company, and which were believed to have met investor and agency underwriting guidelines at the time of sale, may be subject to repurchase or indemnification in the event of specific default by the borrower or subsequent discovery that underwriting standards were not met. The Company may, upon mutual agreement, agree to repurchase the loans or indemnify the investor against future losses on such loans. In such cases, the Company bears any subsequent credit loss on the loans. As appropriate, the Company establishes mortgage repurchase reserves related to various representations and warranties that reflect management’s estimate of losses. Historically, losses related to repurchased mortgage loans has not been material.

NOTE 4 – Loans and Allowance for Credit Losses

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in the Upstate, Midlands, and Lowcountry regions of South Carolina, the Triangle, Triad, and Charlotte regions of North Carolina as well as Atlanta, Georgia. The Company’s loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. The Company focuses its lending activities on businesses and individuals that reside in the markets that we serve. The principal component of the loan portfolio is loans secured by real estate mortgages which account for 83.5% of total loans at December 31, 2024. Commercial loans comprise 55.4% of total real estate loans and consumer loans account for 44.6%. Commercial real estate loans are further categorized into owner occupied which represents 17.9% of total loans and non-owner occupied loans which represents 25.5%. Commercial construction loans represent only 2.8% of the total loan portfolio.

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In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). The various types of loans are individually underwritten and monitored to manage the associated risks.

Loan Portfolio Composition

The following table summarizes the composition of our loan portfolio. Total gross loans are recorded net of deferred loan fees and costs, which totaled $6.2 million and $7.0 million as of December 31, 2024 and December 31, 2023, respectively.

	December 31			
(dollars in thousands)	2024		2023	
Commercial				
Owner occupied RE	$ 651,597	17.9%	$ 631,657	17.5%
Non-owner occupied RE	924,367	25.5%	942,529	26.2%
Construction	103,204	2.8%	150,680	4.2%
Business	556,117	15.3%	500,161	13.9%
Total commercial loans	2,235,285	61.5%	2,225,027	61.8%
Consumer				
Real estate	1,128,629	31.1%	1,082,429	30.0%
Home equity	204,897	5.6%	183,004	5.1%
Construction	20,874	0.6%	63,348	1.7%
Other	42,082	1.2%	48,819	1.4%
Total consumer loans	1,396,482	38.5%	1,377,600	38.2%
Total gross loans, net of deferred fees	3,631,767	100.0%	3,602,627	100.0%
Less – allowance for credit losses	(39,914)		(40,682)	
Total loans, net	$ 3,591,853		$ 3,561,945	

The composition of gross loans by rate type is as follows:

	December 31,	
(dollars in thousands)	2024	2023
Floating rate loans	$ 697,897	$ 574,352
Fixed rate loans	2,933,870	3,028,275
Total loans	$ 3,631,767	$ 3,602,627

At December 31, 2024, approximately $1.29 billion of the Company's mortgage loans were pledged as collateral for advances from the FHLB, as set forth in Note 8.

Credit Quality Indicators

The Company tracks credit quality based on its internal risk ratings. Upon origination, a loan is assigned an initial risk grade, which is generally based on several factors such as the borrower's credit score, the loan-to-value ratio, the debt-to-income ratio, etc. After loans are initially graded, they are monitored regularly for credit quality based on many factors, such as payment history, the borrower's financial status, and changes in collateral value. Loans can be downgraded or upgraded depending on management's evaluation of these factors. Internal risk-grading policies are consistent throughout each loan type.

A description of the general characteristics of the risk grades is as follows:

- Pass— A pass loan ranges from minimal to average credit risk; however, still has acceptable credit risk.

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- Watch— A watch loan exhibits above average credit risk due to minor weaknesses and warrants closer scrutiny by management.

- Special mention—A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution's credit position at some future date.

- Substandard— A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, which may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Doubtful— A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

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The following table presents loan balances classified by credit quality indicators by year of origination as of December 31, 2024.

									December 31, 2024
(dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving	Revolving Converted to Term	Total
Commercial									
Owner occupied RE									
Pass	$ 51,338	47,997	186,361	122,306	66,561	145,743	160	238	620,704
Watch	480	1,180	3,638	1,962	8,828	11,012	-	-	27,100
Special Mention	-	-	162	-	-	2,840	-	-	3,002
Substandard	-	-	-	-	-	791	-	-	791
Total Owner occupied RE	51,818	49,177	190,161	124,268	75,389	160,386	160	238	651,597
Non-owner occupied RE									
Pass	50,685	70,517	321,726	145,658	95,994	183,723	360	220	868,883
Watch	-	954	6,081	10,238	4,705	8,435	-	-	30,413
Special Mention	-	-	-	7,579	-	8,882	-	-	16,461
Substandard	-	-	969	-	-	7,641	-	-	8,610
Total Non-owner occupied RE	50,685	71,471	328,776	163,475	100,699	208,681	360	220	924,367
Current period gross write-offs	-	-	-	-	-	(1,029)	-	-	(1,029)
Construction									
Pass	24,076	26,501	34,067	15,000	-	-	-	-	99,644
Watch	-	2,420	1,140	-	-	-	-	-	3,560
Total Construction	24,076	28,921	35,207	15,000	-	-	-	-	103,204
Business									
Pass	54,814	41,743	129,450	38,312	15,716	51,566	196,246	803	528,650
Watch	-	132	5,353	2,174	1,423	5,243	8,776	389	23,490
Special Mention	660	95	805	-	65	533	-	206	2,364
Substandard	28	-	-	-	385	630	570	-	1,613
Total Business	55,502	41,970	135,608	40,486	17,589	57,972	205,592	1,398	556,117
Current period gross write-offs	-	-	-	(143)	(347)	(18)	(72)	-	(580)
Total Commercial loans	182,081	191,539	689,752	343,229	193,677	427,039	206,112	1,856	2,235,285
Consumer									
Real estate									
Pass	78,287	144,487	277,854	263,079	160,007	153,584	-	-	1,077,298
Watch	671	2,409	6,961	8,573	4,147	4,632	-	-	27,393
Special Mention	817	1,536	5,987	2,664	2,804	5,181	-	-	18,989
Substandard	212	508	967	746	821	1,695	-	-	4,949
Total Real estate	79,987	148,940	291,769	275,062	167,779	165,092	-	-	1,128,629
Home equity									
Pass	-	-	-	-	-	-	188,451	-	188,451
Watch	-	-	-	-	-	-	9,114	-	9,114
Special Mention	-	-	-	-	-	-	6,173	-	6,173
Substandard	-	-	-	-	-	-	1,159	-	1,159
Total Home equity	-	-	-	-	-	-	204,897	-	204,897
Current period gross write-offs	-	-	-	-	-	-	(45)	-	(45)
Construction									
Pass	7,700	3,636	9,222	316	-	-	-	-	20,874
Total Construction	7,700	3,636	9,222	316	-	-	-	-	20,874
Other									
Pass	2,732	836	1,521	1,593	1,229	2,609	29,660	-	40,180
Watch	167	61	12	366	-	129	595	-	1,330
Special Mention	36	35	325	66	-	65	45	-	572
Total Other	2,935	932	1,858	2,025	1,229	2,803	30,300	-	42,082
Current period gross write-offs	-	-	-	-	-	(38)	(42)	-	(80)
Total Consumer loans	90,622	153,508	302,849	277,403	169,008	167,895	235,197	-	1,396,482
Total loans	$ 272,703	345,047	992,601	620,632	362,685	594,934	441,309	1,856	3,631,767
Total Current period gross write-offs	-	-	-	(143)	(347)	(1,085)	(159)	-	(1,734)

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The following table presents loan balances classified by credit quality indicators by year of origination as of December 31, 2023.

								December 31, 2023	
(dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Revolving Converted to Term	Total
Commercial									
Owner occupied RE									
Pass	$ 42,846	180,654	138,549	64,818	59,880	110,502	85	166	597,500
Watch	-	3,460	460	15,997	3,525	6,616	-	-	30,058
Special Mention	-	181	-	-	-	3,057	-	-	3,238
Substandard	-	-	-	-	-	861	-	-	861
Total Owner occupied RE	42,846	184,295	139,009	80,815	63,405	121,036	85	166	631,657
Non-owner occupied RE									
Pass	84,617	298,063	162,697	107,364	59,260	163,990	9,249	-	885,240
Watch	1,007	3,260	9,914	533	5,545	10,630	-	-	30,889
Special Mention	-	-	7,759	-	8,252	879	-	-	16,890
Substandard	-	-	313	-	8,088	1,109	-	-	9,510
Total Non-owner occupied RE	85,624	301,323	180,683	107,897	81,145	176,608	9,249	-	942,529
Current period gross write-offs	-	(200)	-	-	-	(42)	-	-	(242)
Construction									
Pass	27,262	86,161	24,399	11,459	-	-	-	-	149,281
Watch	-	1,399	-	-	-	-	-	-	1,399
Total Construction	27,262	87,560	24,399	11,459	-	-	-	-	150,680
Business									
Pass	48,705	134,999	48,557	18,868	17,292	47,708	146,745	1,431	464,305
Watch	127	15,867	1,833	1,010	842	3,584	7,570	506	31,339
Special Mention	241	961	98	857	184	447	150	97	3,035
Substandard	-	-	155	-	132	1,195	-	-	1,482
Total Business	49,073	151,827	50,643	20,735	18,450	52,934	154,465	2,034	500,161
Current period gross write-offs	-	-	-	(28)	-	-	(15)	(22)	(65)
Total Commercial loans	204,805	725,005	394,734	220,906	163,000	350,578	163,799	2,200	2,225,027
Consumer									
Real estate									
Pass	144,179	273,585	278,138	176,395	66,087	105,383	-	-	1,043,767
Watch	490	5,658	8,230	3,917	2,051	3,890	-	-	24,236
Special Mention	143	2,499	1,657	1,291	2,220	3,360	-	-	11,170
Substandard	-	-	635	817	318	1,486	-	-	3,256
Total Real estate	144,812	281,742	288,660	182,420	70,676	114,119	-	-	1,082,429
Home equity									
Pass	-	-	-	-	-	-	171,003	-	171,003
Watch	-	-	-	-	-	-	6,393	-	6,393
Special Mention	-	-	-	-	-	-	4,283	-	4,283
Substandard	-	-	-	-	-	-	1,325	-	1,325
Total Home equity	-	-	-	-	-	-	183,004	-	183,004
Current period gross write-offs	-	-	-	-	-	-	(438)	-	(438)
Construction									
Pass	14,339	39,893	9,116	-	-	-	-	-	63,348
Total Construction	14,339	39,893	9,116	-	-	-	-	-	63,348
Other									
Pass	1,278	2,551	2,361	1,457	803	2,604	36,549	-	47,603
Watch	9	29	348	-	15	163	58	-	622
Special Mention	33	333	-	-	23	82	41	-	512
Substandard	-	-	75	-	-	-	7	-	82
Total Other	1,320	2,913	2,784	1,457	841	2,849	36,655	-	48,819
Current period gross write-offs	-	-	-	-	-	-	(16)	-	(16)
Total Consumer loans	160,471	324,548	300,560	183,877	71,517	116,968	219,659	-	1,377,600
Total loans	$ 365,276	1,049,553	695,294	404,783	234,517	467,546	383,458	2,200	3,602,627
Total Current period gross write-offs	-	(200)	-	(28)	-	(42)	(469)	(22)	(761)

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The following tables present loan balances by age and payment status.

	December 31, 2024					
(dollars in thousands)	Accruing 30-59 days past due	Accruing 60-89 days past due	Accruing 90 days or more past due	Nonaccrual loans	Accruing current	Total
Commercial						
Owner occupied RE	$ 292	-	-	-	651,305	651,597
Non-owner occupied RE	-	-	-	7,641	916,726	924,367
Construction	-	-	-	-	103,204	103,204
Business	1,319	-	-	1,016	553,782	556,117
Consumer						
Real estate	3,839	938	-	1,908	1,121,944	1,128,629
Home equity	41	-	-	312	204,544	204,897
Construction	-	-	-	-	20,874	20,874
Other	-	-	-	-	42,082	42,082
Total loans	$ 5,491	938	-	10,877	3,614,461	3,631,767

	December 31, 2023					
(dollars in thousands)	Accruing 30-59 days past due	Accruing 60-89 days past due	Accruing 90 days or more past due	Nonaccrual loans	Accruing current	Total
Commercial						
Owner occupied RE	$ 74	-	-	-	631,583	631,657
Non-owner occupied RE	8,102	-	-	1,423	933,004	942,529
Construction	-	-	-	-	150,680	150,680
Business	567	-	-	319	499,275	500,161
Consumer						
Real estate	1,750	-	-	985	1,079,694	1,082,429
Home equity	601	30	-	1,236	181,137	183,004
Construction	-	-	-	-	63,348	63,348
Other	25	25	-	-	48,769	48,819
Total loans	$ 11,119	55	-	3,963	3,587,490	3,602,627

As of December 31, 2024 and December 31, 2023, loans 30 days or more past due represented 0.25% and 0.37% of the Company's total loan portfolio, respectively. Commercial loans 30 days or more past due were 0.07% and 0.27% of the Company's total loan portfolio as of December 31, 2024 and December 31, 2023, respectively. Consumer loans 30 days or more past due were 0.18% and 0.09% of total loans as of December 31, 2024 and December 31, 2023, respectively.

Nonperforming assets

The following table shows the nonperforming assets and the related percentage of nonperforming assets to total assets and gross loans. Generally, a loan is placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when we believe, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the contractual principal or interest on the loan is doubtful. A payment of interest on a loan that is classified as nonaccrual is recognized as a reduction in principal when received.

	December 31,	
(dollars in thousands)	2024	2023
Nonaccrual loans	$ 10,877	3,963
Other real estate owned	-	-
Total nonperforming assets	$ 10,877	3,963
Nonperforming assets as a percentage of:		
Total assets	0.27%	0.10%
Gross loans	0.30%	0.11%
Total loans over 90 days past due	$ 2,641	1,300
Loans over 90 days past due and still accruing	-	-

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The table below summarizes nonaccrual loans by major categories for the periods presented.

	December 31, 2024			December 31, 2023		
(dollars in thousands)	Nonaccrual loans with no allowance	Nonaccrual loans with an allowance	Total nonaccrual loans	Nonaccrual loans with no allowance	Nonaccrual loans with an allowance	Total nonaccral loans
Commercial						
Non-owner occupied RE	$ 5,844	1,797	7,641	$ 653	770	1,423
Business	-	1,016	1,016	164	155	319
Total commercial	5,844	2,813	8,657	817	925	1,742
Consumer						
Real estate	1,526	382	1,908	-	985	985
Home equity	312	-	312	343	893	1,236
Total consumer	1,838	382	2,220	343	1,878	2,221
Total nonaccrual loans	$ 7,682	3,195	10,877	$ 1,160	2,803	3,963

Foregone interest income on the nonaccrual loans for the year ended December 31, 2024 was approximately $200,000 and approximately $73,000 for the same period in 2023. We did not recognize interest income on nonaccrual loans for the twelve months ended December 31, 2024 and December 31, 2023. Accrued interest of approximately $113,000 was reversed during the twelve months ended December 31, 2024 and approximately $71,000 was reversed during the twelve months ended December 31, 2023.

Modifications to Borrowers Experiencing Financial Difficulty

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

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses due to the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Loan modifications to borrowers experiencing financial difficulty were not material for the twelve months ended December 31, 2024 and December 31, 2023.

Allowance for Credit Losses

The following table summarizes the activity related to the allowance for credit losses for the years ended December 31, 2024 and December 31, 2023 under the CECL methodology. The $500,000 provision for credit losses for the 12 months ended December 31, 2024 was driven primarily by $29.1 million in loan growth for the year, while the $2.2 million provision for credit losses for the 12 months ended December 31, 2023 was driven primarily by $329.3 million in loan growth for the year. In addition, expected loss rates declined during both years due to historically low charge-offs.

	For the years ended December 31, 2024								
	Commercial				Consumer				
(dollars in thousands)	Owner occupied RE	Non-owner occupied RE	Construction	Business	Real Estate	Home Equity	Construction	Other	Total
Balance, beginning of period	$ 6,118	11,167	1,594	7,385	10,647	2,600	677	494	40,682
Provision for credit losses	(636)	81	(654)	828	1,712	(155)	(562)	(114)	500
Loan charge-offs	-	(1,029)	-	(580)	-	(45)	-	(80)	(1,734)
Loan recoveries	-	-	-	112	-	255	-	99	466
Net loan recoveries (charge-offs)	-	(1,029)	-	(468)	-	210	-	19	(1,268)
Balance, end of period	$ 5,482	10,219	940	7,745	12,359	2,655	115	399	39,914
Net charge-offs to average loans (annualized)									0.04%
Allowance for credit losses to gross loans									1.10%
Allowance for credit losses to nonperforming loans									366.94%

	For the years ended December 31, 2023								
	Commercial				Consumer				
(dollars in thousands)	Owner occupied RE	Non-owner occupied RE	Construction	Business	Real Estate	Home Equity	Construction	Other	Total
Balance, beginning of period	$ 5,867	10,376	1,292	7,861	9,487	2,551	893	312	38,639
Provision for credit losses	251	848	302	(755)	1,160	422	(216)	197	2,209
Loan charge-offs	-	(242)	-	(65)	-	(438)	-	(16)	(761)
Loan recoveries	-	185	-	344	-	65	-	1	595
Net loan recoveries (charge-offs)	-	(57)	-	279	-	(373)	-	(15)	(166)
Balance, end of period	$ 6,118	11,167	1,594	7,385	10,647	2,600	677	494	40,682
Net recoveries to average loans (annualized)									0.00%
Allowance for credit losses to gross loans									1.13%
Allowance for credit losses to nonperforming loans									1026.55%

	For the years ended December 31, 2022								
	Commercial				Consumer				
(dollars in thousands)	Owner occupied RE	Non-owner occupied RE	Construction	Business	Real Estate	Home Equity	Construction	Other	Total
Balance, beginning of period	$ 4,700	10,518	625	4,887	7,083	1,697	578	320	30,408
Adjustment for CECL	(313)	333	154	1,057	(294)	438	130	(5)	1,500
Provision for credit losses	1,480	(2,015)	513	1,764	2,698	663	185	87	5,375
Loan charge-offs	-	-	-	(55)	-	(339)	-	(91)	(485)
Loan recoveries	-	1,540	-	208	-	92	-	1	1,841
Net loan recoveries (charge-offs)	-	1,540	-	153	-	(247)	-	(90)	1,356
Balance, end of period	$ 5,867	10,376	1,292	7,861	9,487	2,551	893	312	38,639
Net recoveries to average loans (annualized)									(0.05%)
Allowance for credit losses to gross loans									1.18%
Allowance for credit losses to nonperforming loans									1470.84%

Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. The Company reviews individually evaluated loans for designation as collateral dependent loans, as well as other loans that management of the Company designates as having higher risk. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses.

Under CECL, for collateral dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The following table presents an analysis of collateral-dependent loans of the Company as of December 31, 2024 and December 31, 2023.

	December 31, 2024			
(dollars in thousands)	Real estate	Business assets	Other	Total
Commercial				
Non-owner occupied RE	$ 7,641	-	-	7,641
Business	460	556	-	1,016
Total commercial	8,101	556	-	8,657
Consumer				
Real estate	1,908	-	-	1,908
Home equity	312	-	-	312
Total consumer	2,220	-	-	2,220
Total collateral dependent loans	$ 10,321	556	-	10,877

(dollars in thousands)	December 31, 2023 Real estate	Business assets	Other	Total
Commercial				
Non-owner occupied RE	$ 720	-	-	720
Business	164	-	-	164
Total commercial	884	-	-	884
Consumer				
Real estate	166	-	-	166
Home equity	343	-	-	343
Total consumer	509	-	-	509
Total collateral dependent loans	$ 1,393	-	-	1,393

Allowance for Credit Losses - Unfunded Loan Commitments

The allowance for credit losses for unfunded loan commitments was $1.5 million and $1.8 million at December 31, 2024 and 2023, respectively, and is separately classified on the balance sheet within other liabilities. The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the twelve months ended December 31, 2024 and December 31, 2023.

(dollars in thousands)	For the years ended December 31, 2024	2023	2022
Balance, beginning of period	$ 1,831	2,780	-
Adjustment for adoption of CECL	-	-	2,000
Provision for (reversal of) credit losses	(375)	(949)	780
Balance, end of period	$ 1,456	1,831	2,780
Unfunded Loan Commitments	719,084	724,606	878,324
Reserve for Unfunded Commitments to Unfunded Loan Commitments	0.20%	0.25%	0.32%

NOTE 5 – Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Components of property and equipment included in the consolidated balance sheets are as follows:

(dollars in thousands)	December 31, 2024	2023
Land	$ 11,244	11,244
Buildings	54,932	54,630
Leasehold improvements	5,789	5,762
Furniture and equipment	22,304	21,863
Software	409	409
Construction in process	56	130
Accumulated depreciation and amortization	(26,547)	(21,907)
Property and equipment, excluding ROU assets	68,187	72,131
ROU assets	20,607	22,170
Total property and equipment	$ 88,794	94,301

Construction in process at December 31, 2024 and 2023 consisted primarily of costs associated with information technology projects that will be completed in 2025. Depreciation and amortization expense for the years ended December 31, 2024 and 2023 was $4.7 million, respectively. Depreciation and amortization are charged to operations utilizing a straight-line method over the estimated useful lives of the assets. The estimated useful lives for the principal items follow:

Type of Asset	Life in Years
Software	3
Furniture and equipment	5 to 7
Leasehold improvements	5 to 15
Buildings	40

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NOTE 6 – Leases

The Company had operating right-of-use ("ROU") assets, included in property and equipment, of $20.6 million and $22.2 million as of December 31, 2024 and 2023, respectively. The Company had lease liabilities, included in other liabilities, of $23.2 million and $24.6 million as of December 31, 2024 and 2023, respectively. We maintain operating leases on land and buildings for various office spaces. The lease agreements have maturity dates ranging from April 2025 to February 2032, some of which include options for multiple five-year extensions. The weighted average remaining life of the lease term for these leases was 4.95 years and 5.91 years as of December 31, 2024 and 2023, respectively. The ROU asset and lease liability are recognized at lease commencement by calculating the present value of lease payments over the lease term. The ROU assets also include any initial direct costs incurred and lease payments made at or before commencement date and are reduced by any lease incentives.

The discount rate used in determining the lease liability for each individual lease was the FHLB fixed advance rate which corresponded with the remaining lease term at implementation of the accounting standard and as of the lease commencement date for leases subsequently entered into. The weighted average discount rate for leases was 2.28% and 2.94% as of December 31, 2024 and 2023, respectively.

Total operating lease costs were $2.4 million for the years ended December 31, 2024 and 2023, respectively.

Operating lease payments due as of December 31, 2024 were as follows:

(dollars in thousands)		Operating Leases
2025	$	2,157
2026		2,210
2027		2,267
2028		2,015
2029		1,501
Thereafter		18,686
Total undiscounted lease payments		28,836
Discount effect of cash flows		5,610
Total lease liability	$	23,226

NOTE 7 – Deposits

The following is a detail of the deposit accounts:

		December 31,	
(dollars in thousands)		2024	2023
Noninterest bearing	$	683,081	674,167
Interest bearing:			
NOW accounts		314,588	310,218
Money market accounts		1,438,530	1,605,278
Savings		31,976	31,669
Time deposits		967,590	758,232
Total deposits	$	3,435,765	3,379,564

At December 31, 2024 and 2023, time deposits greater than $250,000 were $774.0 million and $568.1 million, respectively.

Also, at December 31, 2024, the Company had $550.3 million deposits in brokered deposits, or deposits that were obtained outside the Company's primary market, while at December 31, 2023 the Company had $379.4 million in brokered deposits. Interest expense on time deposits greater than $250,000 was $34.8 million for the year ended December 31, 2024, $22.5 million for the year ended December 31, 2023, and $3.2 million for the year ended December 31, 2022.

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At December 31, 2024 the scheduled maturities of time deposits are as follows:

(dollars in thousands)		
2025	$	741,679
2026		113,327
2027		29,416
2028		81,005
2029		2,163
Total time deposits	$	967,590

NOTE 8 – Federal Home Loan Bank Advances and Other Borrowings

At December 31, 2024, we had $240.0 million of convertible fixed rate FHLB advances with a weighted average rate of 3.74%, while at December 31, 2023 we had $275.0 million in FHLB advances with a weighted average rate of 3.89%. Of the $275.0 million outstanding at December 31, 2023, $35.0 million was at a variable rate and $240.0 million was at fixed rates. At December 31, 2024, the $240.0 million was secured with approximately $1.29 billion of mortgage loans and $14.5 million of stock in the FHLB. At December 31, 2023, the $275.0 million was secured with approximately $1.25 billion of mortgage loans and $16.1 million of stock in the FHLB. Listed below is a summary of the terms and maturities of the advances outstanding at December 31, 2024 and 2023.

(dollars in thousands)	December 31, 2024			December 31, 2023		
Maturity		**Amount**	**Rate**		**Amount**	**Rate**
February 29, 2024	$	-	-	$	35,000	5.57%
April 28, 2028		40,000	3.51%		40,000	3.51%
May 15, 2028		-	-		35,000	3.13%
June 28, 2028		40,000	3.54%		40,000	3.54%
July 10, 2028		-	-		45,000	3.78%
July 10, 2028		40,000	3.87%		40,000	3.87%
July 10, 2028		40,000	3.96%		40,000	3.96%
May 15, 2029		35,000	3.90%		-	-
July 10, 2029		45,000	3.69%		-	-
Total FHLB advances outstanding	$	240,000	3.74%	$	275,000	3.89%

NOTE 9 – Subordinated Debentures

On June 26, 2003, Greenville First Statutory Trust I (a non-consolidated subsidiary) issued $6.0 million floating rate trust preferred securities with a maturity of June 26, 2033. At December 31, 2024, the interest rate was 7.77% and is indexed to the Three-month SOFR rate on the determination date plus 3.10% and adjusted quarterly. The Company received from the Trust the $6.0 million proceeds from the issuance of the securities and the $186,000 initial proceeds from the capital investment in the Trust, and accordingly has shown the funds due to the Trust as $6.2 million junior subordinated debentures.

On December 22, 2005, Greenville First Statutory Trust II (a non-consolidated subsidiary) issued $7.0 million floating rate trust preferred securities with a maturity of December 22, 2035. At December 31, 2024, the interest rate was 6.03% and is indexed to the Three-month SOFR rate on the determination date plus 1.44% and adjusted quarterly. The Company received from the Trust the $7.0 million proceeds from the issuance of the securities and the $217,000 initial proceeds from the capital investment in the Trust, and accordingly has shown the funds due to the Trust as $7.2 million junior subordinated debentures.

The current regulatory rules allow certain amounts of junior subordinated debentures to be included in the calculation of regulatory capital. However, provisions within the Dodd-Frank Act prohibit institutions that had more than $15 billion in assets on December 31, 2009 from including trust preferred securities as Tier 1 capital beginning in 2013, with one-third phased out over the two years ending in 2015. Financial institutions with less than $15 billion in total assets, such as the Bank, may continue to include their trust preferred securities issued prior to May 19, 2010 in Tier 1 capital, but cannot include in Tier 1 capital trust preferred securities issued after such date.

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On September 30, 2019, the Company entered into Subordinated Note Purchase Agreements (collectively, the “Purchase Agreement”) with certain qualified institutional buyers and accredited investors (the “Purchasers”) pursuant to which the Company sold and issued $23.0 million in aggregate principal amount of its 4.75% Fixed-to-Floating Rate Subordinated Notes due 2029 (the “Notes”). The Notes were offered and sold by the Company to eligible purchasers in a private offering in reliance on the exemption from the registration requirements of Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”) and the provisions of Regulation D promulgated thereunder (the “Private Placement”).

The Notes have a ten-year term and, from and including the date of issuance to but excluding September 30, 2024, will bear interest at a fixed annual rate of 4.75%, payable semi-annually in arrears, for the first five years of the term. From and including September 30, 2024 to but excluding the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to a benchmark rate (the Three-Month Term SOFR) plus 340.8 basis points (8.00% at December 31, 2024), payable quarterly in arrears. As provided in the Notes, the interest rate on the Notes during the applicable floating rate period may be determined based on a rate other than Three-Month Term SOFR. The Purchase Agreement contains certain customary representations, warranties and covenants made by the Company, on the one hand, and the Purchasers, severally and not jointly, on the other hand.

On September 30, 2019, in connection with the sale and issuance of the Notes, the Company entered into a Registration Rights Agreement (the “Registration Rights Agreement”) with the Purchasers. Under the terms of the Registration Rights Agreement, the Company has agreed to take certain actions to provide for the exchange of the Notes for subordinated notes that are registered under the Securities Act and have substantially the same terms as the Notes (the “Exchange Notes”). Under certain circumstances, if the Company fails to meet its obligations under the Registration Rights Agreement, it would be required to pay additional interest to the holders of the Notes.

The Notes were issued under an Indenture, dated September 30, 2019 (the “Indenture”), by and between the Company and UMB Bank, National Association, as trustee. The Notes are not subject to any sinking fund and are not convertible into or, other than with respect to the Exchange Notes, exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Notes are not subject to redemption at the option of the holder. The Notes are unsecured, subordinated obligations of the Company only and are not obligations of, and are not guaranteed by, any subsidiary of the Company. The Notes rank junior in right to payment to the Company’s current and future senior indebtedness. The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes for the Company; however, the amount that is eligible to be included in Tier 2 capital will be reduced by 20% each year during the last five years before maturity date of the Notes beginning in the quarter ended December 31, 2024.

On September 30, 2024, in conjunction with the semi-annual interest payment, the Company redeemed $11.5 million of the outstanding subordinated debt.

NOTE 10 – Unused Lines of Credit

At December 31, 2024, the Company had six lines of credit to purchase federal funds that totaled $128.5 million which were unused at December 31, 2024. The lines of credit are available on a one to 14 day basis for general corporate purposes of the Company. The lenders have reserved the right to withdraw the line at their option. The Company has an additional line of credit with the FHLB to borrow funds, subject to a pledge of qualified collateral. The Company has collateral that would support approximately $807.5 million in additional borrowings with the FHLB at December 31, 2024.

At December 31, 2024, we had $210.8 million pledged and available with the Federal Reserve Discount Window. Comparatively, at December 31, 2023, we had $227.1 million pledged and available with the Federal Reserve Discount Window. At December 31, 2023, we had $13.0 million of marketable investment securities pledged in the Federal Reserve’s Bank Term Funding Program which closed on March 11, 2024.

The Company also has an unsecured, interest only line of credit for $15 million with another financial institution which was unused at December 31, 2024. The line bears interest at the U.S. Prime Rate plus 0.25% and was renewed to March 5, 2026. The loan agreement contains various financial covenants related to capital, earnings and asset quality.

NOTE 11 – Derivative Financial Instruments

The Company utilizes derivative financial instruments primarily to hedge its exposure to changes in interest rates. All derivative financial instruments are recognized as either assets or liabilities and measured at fair value.

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The Company enters into commitments to originate residential mortgage loans held for sale, at specified interest rates and within a specified period of time, with clients who have applied for a loan and meet certain credit and underwriting criteria (interest rate lock commitments). These interest rate lock commitments ("IRLCs") meet the definition of a derivative financial instrument and are reflected in the balance sheet at fair value with changes in fair value recognized in current period earnings. Unrealized gains and losses on the IRLCs are recorded as derivative assets and derivative liabilities, respectively, and are measured based on the value of the underlying mortgage loan, quoted mortgage-backed securities ("MBS") prices and an estimate of the probability that the mortgage loan will fund within the terms of the interest rate lock commitment, net of estimated commission expenses.

The Company manages the interest rate and price risk associated with its outstanding IRLCs and mortgage loans held for sale by entering into derivative instruments such as forward sales of MBS. These derivatives are free- standing derivatives and are not designated as instruments for hedge accounting. Management expects these derivatives will experience changes in fair value opposite to changes in fair value of the IRLCs and mortgage loans held for sale, thereby reducing earnings volatility. The Company takes into account various factors and strategies in determining the portion of the mortgage pipeline (IRLCs and mortgage loans held for sale) it wants to economically hedge. The gain or loss resulting from the change in the fair value of the derivative is recognized in the Company's statement of income during the period of change.

The Company entered into a pay-fixed portfolio layer method ("PLM") fair value swap, designated as a hedging instrument, with a total notional amount of $200.0 million in the second quarter of 2023. The hedging instrument matures on May 25, 2028. The Company entered into a second pay-fixed PLM fair value swap, designated as a hedging instrument, with a total notional amount of $100.0 million in the third quarter of 2024. The hedging instrument matures on August 27, 2027. Under the PLM method, the hedged item is designated as a hedged layer of a closed portfolio of financial loans that is anticipated to remain outstanding for the designated hedged period. Adjustments are made to record the swap at fair value on the consolidated balance sheets, with changes in fair value recognized in interest income. The carrying value of the fair value swap on the consolidated balance sheets will also be adjusted through interest income, based on changes in fair value attributable to changes in the hedged risk.

The following table represents the carrying value of the PLM hedged asset and liability and the cumulative fair value hedging adjustment included in the carrying value of the hedged instrument as of December 31, 2024 and December 31, 2023.

		December 31,		
	2024		2023	
(dollars in thousands)	Carrying Amount	Hedged Asset	Carrying Amount	Hedged Liability
Fixed Rate Asset/Liability[1]	$ 303,698	3,698	199,518	482

1 These amounts included the amortized cost basis of closed portfolios of fixed rate loans used to designate hedging relationships in which the hedged item is the stated amount of the assets in the closed portfolio anticipated to be outstanding for the designated hedged period. As of December 31, 2024, the amortized cost basis of the closed portfolio used in this hedging relationship was $665.7 million, the cumulative basis adjustment associated with this hedging relationship was $3.7 million, and the amount of the designated hedged item was $300.0 million.

The following table summarizes the Company's outstanding financial derivative instruments at December 31, 2024 and December 31, 2023.

	December 31, 2024		
			Fair Value
(dollars in thousands)	Notional	Balance Sheet Location	Asset/(Liability)
Derivatives designated as hedging instruments:			
Fair value swap	$ 300,000	Other assets	$ 3,698
Derivatives not designated as hedging instruments:			
Mortgage loan interest rate lock commitments	15,841	Other assets	188
MBS forward sales commitments	10,500	Other assets	40
Total derivative financial instruments	$ 326,341		$ 3,926

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	December 31, 2023		
			Fair Value
(dollars in thousands)	Notional	Balance Sheet Location	Asset/(Liability)
Derivatives designated as hedging instruments:			
Fair value swap	$ 200,000	Other liabilities	$ (482)
Derivatives not designated as hedging instruments:			
Mortgage loan interest rate lock commitments	12,973	Other assets	159
MBS forward sales commitments	10,000	Other liabilities	(68)
Total derivative financial instruments	$ 222,973		$ (391)

Accrued interest receivable related to the interest rate swap as of December 31, 2024 and 2023 totaled $259,000 and $285,000, respectively, and is excluded from the fair value presented in the table above.

The Company assesses the effectiveness of the fair value swap hedge with a regression analysis that compares the changes in forward curves to determine the value. The effective portion of changes in fair value of derivatives designated as fair value hedges is recorded through interest income. The Company does not offset derivative assets and derivative liabilities for financial statement presentation purposes.

The following table summarizes the effect of the fair value hedging relationship recognized in the consolidated statements of income for the twelve months ended December 31, 2024 and December 31, 2023.

	For the years ended December 31,	
(dollars in thousands)	2024	2023
Gain (loss) on fair value hedging relationship:		
Hedged asset/(liability)	$ 3,698	(482)
Fair value derivative designated as hedging instrument	(3,668)	511
Total gain recognized in interest income on loans	$ 30	29

NOTE 12 – Fair Value Accounting

FASB ASC 820, “Fair Value Measurement and Disclosures Topic,” defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted market price in active markets
Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include certain debt and equity securities that are traded in an active exchange market.

Level 2 – Significant other observable inputs
Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include fixed income securities and mortgage-backed securities that are held in the Company’s available-for-sale portfolio and valued by a third-party pricing service, as well as certain individually evaluated loans.

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Level 3 – Significant unobservable inputs
Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Fair Value of Financial Instruments

Financial instruments require disclosure of fair value information, whether or not recognized in the consolidated balance sheets, when it is practical to estimate the fair value. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contractual obligation which requires the exchange of cash. Certain items are specifically excluded from the disclosure requirements, including the Company's common stock, premises and equipment and other assets and liabilities.

The following is a description of valuation methodologies used to estimate fair value for assets recorded at fair value. Fair value approximates carrying value for the following financial instruments due to the short-term nature of the instrument: cash and due from banks, federal funds sold, other investments, federal funds purchased, and securities sold under agreement to repurchase.

Investment Securities

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities and debentures issued by government sponsored entities, municipal bonds and corporate debt securities. In certain cases where there is limited activity or less transparency around inputs to valuations, securities are classified as Level 3 within the valuation hierarchy. Securities held to maturity are valued at quoted market prices or dealer quotes similar to securities available for sale. The carrying value of Other Investments, such as Federal Reserve Bank and FHLB stock, approximates fair value based on their redemption provisions.

Mortgage Loans Held for Sale

Loans held for sale include mortgage loans which are saleable into the secondary mortgage markets and their fair values are estimated using observable quoted market or contracted prices or market price equivalents, which would be used by other market participants. These saleable loans are considered Level 2.

Individually Evaluated Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered individually evaluated and an allowance for credit losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered individually evaluated. Once a loan is identified as individually evaluated, management measures the impairment in accordance with FASB ASC 326. The fair value of individually evaluated loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those individually evaluated loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with FASB ASC 820, "Fair Value Measurement and Disclosures," individually evaluated loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the individually evaluated loan as nonrecurring Level 2. The Company's current loan and appraisal policies require the Company to obtain updated appraisals on an "as is" basis at renewal, or in the case of an individually evaluated loan, on an annual basis, either through a new external appraisal or an appraisal evaluation. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the individually evaluated loan as nonrecurring Level 3. The fair value of individually evaluated loans may also be estimated using the present value of expected future cash flows to be realized on the loan, which is also considered a Level 3 valuation. These fair value estimates are subject to fluctuations in assumptions about the amount and timing of expected cash flows as well as the choice of discount rate used in the present value calculation.

Other Real Estate Owned

OREO, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for credit losses. Gains or losses on sale and generally any subsequent adjustments to the value are recorded as a component of real estate owned activity. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the OREO as nonrecurring Level 3.

Derivative Financial Instruments

The Company estimates the fair value of IRLCs based on the value of the underlying mortgage loan, quoted MBS prices and an estimate of the probability that the mortgage loan will fund within the terms of the IRLC, net of commission expenses (Level 2). The Company estimates the fair value of forward sales commitments based on quoted MBS prices (Level 2). The Company estimates the fair value of the derivative liability based on changes in the benchmark interest rate component of the hedged loans. The estimated variable rate cash inflows were compared to the fixed rate outflows and such difference was discounted to a present value to estimate the fair value of the interest rate swaps. The components of the valuation were observable or could be corroborated by observable market data and, therefore, were classified within Level 2 of the valuation hierarchy.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

					December 31, 2024
(dollars in thousands)		Level 1	Level 2	Level 3	Total
Assets					
Securities available for sale:					
Corporate bonds	$	-	1,927	-	1,927
US treasuries		-	908	-	908
US government agencies		-	15,795	-	15,795
State and political subdivisions		-	19,322	-	19,322
Asset-backed securities		-	36,538	-	36,538
Mortgage-backed securities		-	57,637	-	57,637
Mortgage loans held for sale		-	4,565	-	4,565
Mortgage loan interest rate lock commitments		-	188	-	188
Derivative asset		-	3,698	-	3,698
MBS forward sales commitments		-	40	-	40
Total assets measured at fair value on a recurring basis	$	-	140,618	-	140,618

The Company had no liabilities recorded at fair value on a recurring basis as of December 31, 2024.

					December 31, 2023
(dollars in thousands)		Level 1	Level 2	Level 3	Total
Assets					
Securities available for sale:					
Corporate bonds	$	-	1,910	-	1,910
US treasuries		-	9,394	-	9,394
US government agencies		-	18,656	-	18,656
State and political subdivisions		-	19,741	-	19,741
Asset-backed securities		-	33,236	-	33,236
Mortgage-backed securities		-	51,765	-	51,765
Mortgage loans held for sale		-	7,194	-	7,194
Mortgage loan interest rate lock commitments		-	159	-	159
Total assets measured at fair value on a recurring basis	$	-	142,055	-	142,055
Liabilities					
Derivative liability	$	-	482	-	482
MBS forward sales commitments		-	68	-	68
Total liabilities measured at fair value on a recurring basis	$	-	550	-	550

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Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company is predominantly an asset based lender with real estate serving as collateral on approximately 84% of loans as of December 31, 2024. Loans which are deemed to be individually evaluated are valued net of the allowance for credit losses, and other real estate owned is valued at the lower of cost or net realizable value of the underlying real estate collateral. Such market values are generally obtained using independent appraisals, which the Company considers to be level 2 inputs. The tables below present the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis.

					December 31, 2024
(dollars in thousands)		**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Individually evaluated loans	$	-	9,139	1,127	10,266
Total assets measured at fair value on a nonrecurring basis	$	-	9,139	1,127	10,266

					December 31, 2023
		Level 1	**Level 2**	**Level 3**	**Total**
Assets					
Individually evaluated loans	$	-	1,160	2,976	4,136
Total assets measured at fair value on a nonrecurring basis	$	-	1,160	2,976	4,136

The Company had no liabilities carried at fair value or measured at fair value on a nonrecurring basis.

For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of December 31, 2024 and 2023, the significant unobservable inputs used in the fair value measurements were as follows:

	Valuation Technique	**Significant Unobservable Inputs**	**Range of Inputs**
Individually evaluated loans	Appraised Value/ Discounted Cash Flows	Discounts to appraisals or cash flows for estimated holding and/or selling costs or age of appraisal	0-25%

Fair Value of Financial Instruments

Financial instruments require disclosure of fair value information, whether or not recognized in the consolidated balance sheets, when it is practical to estimate the fair value. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contractual obligation which requires the exchange of cash. Certain items are specifically excluded from the disclosure requirements, including the Company's common stock, premises and equipment and other assets and liabilities.

The following is a description of valuation methodologies used to estimate fair value for certain other financial instruments.

Fair value approximates carrying value for the following financial instruments due to the short-term nature of the instrument: cash and due from banks, federal funds sold, other investments, federal funds purchased, and securities sold under agreement to repurchase.

Loans – The valuation of loans held for investment is estimated using the exit price notion which incorporates factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach, using the eight categories as disclosed in Note 4 – Loans and Allowance for Credit Losses. Loans are considered a Level 3 classification.

Deposits – Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying value. The fair value of certificate of deposit accounts are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

FHLB Advances and Other Borrowings – Fair value for FHLB advances and other borrowings are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

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Subordinated debentures – Fair value for subordinated debentures are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments.

The Company has used management's best estimate of fair value based on the above assumptions. Thus, the fair values presented may not be the amounts that could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses, which would be incurred in an actual sale or settlement, are not taken into consideration in the fair value presented.

The estimated fair values of the Company's financial instruments at December 31, 2024 and 2023 are as follows:

					December 31, 2024
(dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Other investments, at cost	$ 19,490	19,490	-	-	19,490
Loans(1)	3,579,640	3,319,602	-	-	3,319,602
Financial Liabilities:					
Deposits	3,435,765	3,158,893	-	3,158,893	-
Subordinated debentures	24,903	27,539	-	27,539	-

					December 31, 2023
(dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Other investments, at cost	$ 19,939	19,939	-	-	19,939
Loans(1)	3,557,120	3,337,768	-	-	3,337,768
Financial Liabilities:					
Deposits	3,379,564	2,961,182	-	2,961,182	-
Subordinated debentures	36,322	40,712	-	40,712	-

(1) Carrying amount is net of the allowance for credit losses and individually evaluated loans.

NOTE 13 – Earnings Per Common Share

The following schedule reconciles the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2024, 2023, and 2022. Dilutive common shares arise from the potentially dilutive effect of the Company's outstanding stock options and unvested restricted stock. The assumed conversion of stock options and warrants can create a difference between basic and dilutive net income per common share.

At December 31, 2024, 2023, and 2022, options totaling 153,755, 269,072, and 131,433, respectively, were anti-dilutive in the calculation of earnings per share as their exercise price exceeded the fair market value. These options were therefore excluded from the diluted earnings per share calculation.

			For the years ended December 31,
(dollars in thousands, except share data)	2024	2023	2022
Numerator:			
Net income	$ 15,530	13,426	29,115
Net income available to common shareholders	$ 15,530	13,426	29,115
Denominator:			
Weighted-average common shares outstanding - basic	8,080,623	8,046,633	7,958,294
Common stock equivalents	36,434	31,821	113,396
Weighted-average common shares outstanding - diluted	8,117,057	8,078,454	8,071,690
Earnings per common share:			
Basic	$ 1.92	1.67	3.66
Diluted	$ 1.91	1.66	3.61

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NOTE 14 – Commitments and Contingencies

The Company has an agreement with a data processor which expires in 2028 to provide certain item processing, electronic banking, and general ledger processing services. Components of this contract vary based on transaction and account volume, monthly charges and certain termination fees.

The Company has commitments with various investment partners under the Small Business Investment Company ("SBIC") and the Rural Business Investment Company ("RBIC") programs for which we have committed to make capital contributions from time to time. These commitments totaled approximately $1.2 million at December 31, 2024.

The Company may be subject to litigation and claims in the normal course of business. As of December 31, 2024, management believes there is no material litigation pending.

NOTE 15 – Income Taxes

The components of income tax expense were as follows:

	For the years ended December 31,		
(dollars in thousands)	2024	2023	2022
Current income taxes:			
Federal	$ 4,992	3,769	8,482
State	623	460	1,273
Total current tax expense	5,615	4,229	9,755
Deferred income benefit	(1,233)	(228)	(757)
Income tax expense	$ 4,382	4,001	8,998

The following is a summary of the items that caused recorded income taxes to differ from taxes computed using the statutory tax rate:

	For the years ended December 31,		
(dollars in thousands)	2024	2023	2022
Tax expense at statutory rate	$ 4,182	3,660	8,004
Effect of state income taxes, net of federal benefit	195	364	1,006
Exempt income	13	7	(27)
Effect of stock-based compensation	128	133	42
Other	(136)	(163)	(27)
Income tax expense	$ 4,382	4,001	8,998

The components of the deferred tax assets and liabilities are as follows:

	December 31,	
(dollars in thousands)	2024	2023
Deferred tax assets:		
Allowance for credit losses	$ 8,636	8,543
Reserve for unfunded commitments	315	384
Unrealized loss on securities available for sale	3,050	3,015
Net deferred loan fees	1,343	1,475
Deferred compensation	1,557	1,458
Accrued bonuses	687	-
Lease liabilities	4,999	5,175
Other	608	479
Total deferred tax assets	21,195	20,529
Deferred tax liabilities:		
Property and equipment	2,892	3,334
Hedging transactions	79	74
Prepaid expenses	302	255
ROU assets	4,435	4,656
Other	20	10
Total deferred tax assets	7,728	8,329
Net deferred tax asset	$ 13,467	12,200

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

NOTE 16 – Related Party Transactions

Certain directors, executive officers, and companies with which they are affiliated, are clients of and have banking transactions with the Company in the ordinary course of business. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the lender.

A summary of loan transactions with directors and executive officers, including their affiliates is as follows:

	For the years ended December 31,	
(dollars in thousands)	2024	2023
Balance, beginning of year	$ 25,252	17,217
New loans	7,000	17,455
Less loan payments	(7,107)	(9,420)
Balance, end of year	$ 25,145	25,252

Deposits by executive officers and directors and their related interests at December 31, 2024 and 2023, were $7.0 million and $6.4 million, respectively.

The Company has a land lease with a director on the property for a branch office, with monthly payments of $9,026. In addition, the Company periodically enters into various consulting agreements with the director for development, administration and advisory services related to the purchase of property and construction of current and future branch office sites, including the development of the new bank headquarters in Greenville, South Carolina. There were no payments to the director for these services during 2024 or 2023.

The Company received rent payments from a company of which a director is a private investor and chairman of the board. Rent received totaled $91,000 and $88,000 for the twelve months ended December 31, 2024 and December 31, 2023, respectively.

The Company is of the opinion that the lease payments and consulting fees represent market costs that could have been obtained in similar "arms length" transactions.

NOTE 17 – Financial Instruments With Off-Balance Sheet Risk

In the ordinary course of business, and to meet the financing needs of its clients, the Company is a party to various financial instruments with off-balance sheet risk. These financial instruments, which include commitments to extend credit and standby letters of credit, involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets. The contract amount of those instruments reflects the extent of involvement the Company has in particular classes of financial instruments.

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

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2024, unfunded commitments to extend credit were approximately $719.1 million, of which $57.5 million is at fixed rates and $661.6 million is at variable rates. At December 31, 2023, unfunded commitments to extend credit were approximately $724.6 million, of which $145.6 million is at fixed rates and $579.0 million is at variable rates. The Company evaluates each client's credit-worthiness 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 borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate. See Note 4 – Loans and Allowance for Credit Losses for additional information on unfunded commitments.

At December 31, 2024 and 2023, there was a $16.2 million and $16.1 million commitment, respectively, under letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. Collateral varies but may include accounts receivable, inventory, equipment, marketable securities and property. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements. The fair value of off balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. The total fair value of such instruments is not material.

NOTE 18 – Employee Benefit Plan

On January 1, 2000, the Company adopted the Southern First Bancshares, Inc. Profit Sharing and 401(k) Plan for the benefit of all eligible employees. The Company contributes to the Plan annually upon approval by the Board of Directors. Contributions made to the Plan for the years ended December 31, 2024, 2023, and 2022 amounted to $1.1 million, $1.1 million, and $995,000, respectively.

The Company also provides a nonqualified deferred compensation plan for 20 executive officers in the form of a Supplemental Executive Retirement Plan (“SERP”). The SERP provides retirement income for these officers. As of December 31, 2024 and 2023, the Company had an accrued benefit obligation of $7.2 million and $6.9 million, respectively. The Company incurred expenses related to this plan of $417,000 for the year ended December 31, 2024. The Company had a reversal of $1.1 million for the year ended December 31, 2023 and incurred expenses of $284,000 for the twelve months ended December 31, 2022.

NOTE 19 – Stock-Based Compensation

The Company utilizes certain stock incentive plans as long-term retention programs intended to attract, retain, and provide incentives for key employees and non-employee directors in the form of incentive and non-qualified stock options, restricted stock, and restricted stock units. Shares are granted under plans approved by the Company’s shareholders. As of December 31, 2024, there were 258,622 shares available for grant under the 2020 Southern First Bancshares, Inc. Equity Incentive Plan.

Compensation cost is recognized for stock options and restricted stock awards issued to employees and non-employee directors and is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company’s common stock at the date of grant is used as the fair value of restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option and restricted stock awards.

Stock-based compensation expense was recorded as follows:

		For the years ended December 31,		
(dollars in thousands)		2024	2023	2022
Stock option expense	$	374	528	927
Restricted stock grant expense		1,909	1,415	1,099
Total stock-based compensation expense	$	2,283	1,943	2,026

Stock Options

All stock options have an exercise price that is equal to the closing fair market value of the Company’s stock on the date the options were granted. Options granted under the plans generally vest over a four-year period and expire 10 years from the grant date. The Company did not grant any stock options during the years ended December 31, 2024, 2023, or 2022.

At December 31, 2024, there was $32,000 of total unrecognized compensation cost related to nonvested stock option grants. The cost is expected to be recognized over a weighted-average period of 0.3 years. The fair value of stock option grants that vested during 2024, 2023, and 2022 was $576,000, $846,000 and $1.1 million, respectively.

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A summary of the status of the stock option plan and changes for the period is presented below:

	For the years ended December 31,								
	2024			2023			2022		
	Shares	Weighted average exercise price	Weighted Average Remaining Contractual Life	Shares	Weighted average exercise price	Weighted Average Remaining Contractual Life	Shares	Weighted average exercise price	Weighted Average Remaining Contractual Life
Outstanding at beginning of year	331,349	$ 35.51		427,224	$ 34.32		464,724	$ 33.97	
Granted	-	-		-	-		-	-	
Exercised	(15,250)	17.17		(27,250)	20.18		(32,375)	27.94	
Forfeited or expired	(3,500)	41.55		(68,625)	34.15		(5,125)	43.14	
Outstanding at end of year	312,599	$ 36.34	4.1 years	331,349	$ 35.51	4.9 years	427,224	$ 34.32	5.7 years
Options exercisable at year-end	288,849	$ 36.00	4.0 years	267,376	$ 34.48	4.5 years	287,902	$ 32.35	4.8 years
Weighted average fair value of options granted during the year		$ -			$ -			$ -	
Shares available for grant	258,622			319,058			370,824		

The aggregate intrinsic value (the difference between the Company's closing stock price on the last trading day of the year and the exercise price, multiplied by the number of in-the-money options) of 312,599 and 331,349 stock options outstanding at December 31, 2024 and 2023 was $1.4 million and $1.3 million, respectively. The aggregate intrinsic value of 288,849 and 267,376 stock options exercisable at December 31, 2024 and 2023 was $1.4 million and $1.3 million, respectively.

Restricted Stock Grants

Shares of restricted stock granted to employees under the stock plans are subject to restrictions as to continuous employment for a specified time period following the date of grant. During this period, the holder is entitled to full voting rights and dividends.

At December 31, 2024, there was $3.9 million of total unrecognized compensation cost related to nonvested restricted stock grants. The cost is expected to be recognized over a weighted-average period of 2.5 years.

A summary of the status of the Company's nonvested restricted stock and changes for the years ended December 31, 2024, 2023, and 2022 is as follows:

	December 31,					
	2024		2023		2022	
	Restricted Shares	Weighted Average Grant-Date Fair Value	Restricted Shares	Weighted Average Grant-Date Fair Value	Restricted Shares	Weighted Average Grant-Date Fair Value
Nonvested at beginning of year	109,533	$ 44.40	80,337	$ 52.53	41,699	$ 44.71
Granted	65,373	36.47	69,880	37.12	53,376	56.25
Vested	(30,118)	44.72	(21,695)	48.95	(14,213)	43.26
Forfeited	(4,937)	37.95	(18,989)	46.83	(525)	61.14
Nonvested at end of year	139,851	$ 40.85	109,533	$ 44.40	80,337	$ 52.53

Restricted Stock Units

On January 21, 2025, the Company's Board of Directors amended the 2020 Southern First Bancshares, Inc. Equity Incentive Plan, to, among other things, allow for restricted stock units to be granted. As of December 31, 2024 and December 31, 2023, restricted stock units were unavailable under such plan.

NOTE 20 – Dividends

The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from the Bank. The dividends that may be paid by the Bank to the Company are subject to legal limitations and regulatory capital requirements.

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Also, the payment of cash dividends on the Company's common stock by the Company in the future will be subject to certain other legal and regulatory limitations (including the requirement that the Company’s capital be maintained at certain minimum levels) and will be subject to ongoing review by banking regulators. The Federal Reserve has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve’s policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition.

NOTE 21 – Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. The capital rules require banks and bank holding companies to maintain a minimum total risked-based capital ratio of at least 8%, a total Tier 1 capital ratio of at least 6%, a minimum common equity Tier 1 capital ratio of at least 4.5%, and a leverage ratio of at least 4%. Bank holding companies and banks are also required to hold a capital conservation buffer of common equity Tier 1 capital of 2.5% to avoid limitations on capital distributions and discretionary executive compensation payments. The capital conservation buffer was phased in incrementally over time, becoming fully effective on January 1, 2019, and consists of an additional amount of common equity equal to 2.5% of risk-weighted assets.

To be considered “well-capitalized” for purposes of certain rules and prompt corrective action requirements, the Bank must maintain a minimum total risked-based capital ratio of at least 10%, a total Tier 1 capital ratio of at least 8%, a common equity Tier 1 capital ratio of at least 6.5%, and a leverage ratio of at least 5%. As of December 31, 2024, our capital ratios exceed these ratios and we remain “well capitalized.”

The following table summarizes the capital amounts and ratios of the Bank and the Company and the regulatory minimum requirements at December 31, 2024 and 2023.

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(dollars in thousands)	Actual Amount	Actual Ratio	For capital adequacy purposes minimum Amount	For capital adequacy purposes minimum Ratio	To be well capitalized under prompt corrective action provisions minimum Amount	To be well capitalized under prompt corrective action provisions minimum Ratio
As of December 31, 2024						
The Bank						
Total Capital (to risk weighted assets)	$ 402,629	12.66%	$ 254,412	8.00%	$ 318,015	10.00%
Tier 1 Capital (to risk weighted assets)	362,875	11.41%	190,809	6.00%	254,412	8.00%
Common Equity Tier 1 Capital (to risk weighted assets)	362,875	11.41%	143,107	4.50%	206,709	6.50%
Tier 1 Capital (to average assets)	362,875	8.75%	165,941	4.00%	207,426	5.00%
The Company						
Total Capital (to risk weighted assets)	403,867	12.70%	254,392	8.00%	n/a	n/a
Tier 1 Capital (to risk weighted assets)	354,916	11.16%	190,794	6.00%	n/a	n/a
Common Equity Tier 1 Capital (to risk weighted assets)	341,916	10.75%	143,096	4.50%	n/a	n/a
Tier 1 Capital (to average assets)	354,916	8.55%	165,963	4.00%	n/a	n/a

(dollars in thousands)	Actual Amount	Actual Ratio	For capital adequacy purposes minimum Amount	For capital adequacy purposes minimum Ratio	To be well capitalized under prompt corrective action provisions minimum Amount	To be well capitalized under prompt corrective action provisions minimum Ratio
As of December 31, 2023						
The Bank						
Total Capital (to risk weighted assets)	$ 390,197	12.28%	$ 254,278	8.00%	$ 317,847	10.00%
Tier 1 Capital (to risk weighted assets)	350,455	11.03%	190,708	6.00%	254,278	8.00%
Common Equity Tier 1 Capital (to risk weighted assets)	350,455	11.03%	143,031	4.50%	206,601	6.50%
Tier 1 Capital (to average assets)	350,455	8.47%	165,414	4.00%	206,767	5.00%
The Company						
Total Capital (to risk weighted assets)	399,551	12.57%	254,278	8.00%	n/a	n/a
Tier 1 Capital (to risk weighted assets)	336,809	10.60%	190,708	6.00%	n/a	n/a
Common Equity Tier 1 Capital (to risk weighted assets)	323,809	10.19%	143,031	4.50%	n/a	n/a
Tier 1 Capital (to average assets)	336,809	8.14%	165,436	4.00%	n/a	n/a

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NOTE 22 – Parent Company Financial Information

Following is condensed financial information of Southern First Bancshares, Inc. (parent company only):

Condensed Balance Sheets

(dollars in thousands)	December 31, 2024	2023
Assets		
Cash and cash equivalents	$ 3,641	9,408
Investment in subsidiaries	351,806	339,516
Other assets	149	146
Total assets	$ 355,596	349,070
Liabilities and Shareholders' Equity		
Accrued expenses	$ 249	281
Subordinated debentures	24,903	36,322
Shareholders' equity	330,444	312,467
Total liabilities and shareholders' equity	$ 355,596	$ 349,070

Condensed Statements of Income

(dollars in thousands)	For the years ended December 31, 2024	2023	2022
Revenues			
Interest income	$ 12	15	20
Total revenue	12	15	20
Expenses			
Interest expense	2,149	2,197	1,730
Other expenses	255	249	240
Total expenses	2,404	2,446	1,970
Income tax benefit	502	511	409
Loss before equity in undistributed net income of subsidiaries	(1,890)	(1,920)	(1,541)
Equity in undistributed net income of subsidiaries	17,420	15,346	30,656
Net income	$ 15,530	13,426	29,115

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Condensed Statements of Cash Flows

(dollars in thousands)		For the years ended December 31, 2024	2023	2022
Operating activities				
Net income	$	15,530	13,426	29,115
Adjustments to reconcile net income to cash provided by operating activities				
Equity in undistributed net income of subsidiaries		(17,420)	(15,346)	(30,656)
Compensation expense related to stock options and restricted stock grants		2,283	1,943	2,026
Increase in other assets		(3)	(125)	-
Increase in accrued expenses		49	110	113
Net cash provided by operating activities		439	8	598
Investing activities				
Investment in subsidiaries, net		5,000	(5,000)	-
Net cash provided by (used for) investing activities		5,000	(5,000)	-
Financing activities				
Proceeds from the exercise of stock options and warrants		294	518	905
Decrease in subordinated debentures		(11,500)	-	-
Net cash (used) provided by financing activities		(11,206)	518	905
Net (decrease) increase in cash and cash equivalents		(5,767)	(4,474)	1,503
Cash and cash equivalents, beginning of year		9,408	13,882	12,379
Cash and cash equivalents, end of year	$	3,641	9,408	13,882

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on our management’s evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”)) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

For management’s report on internal control over financial reporting and the attestation report thereon issued by our independent registered public accounting firm, see Item 8. Financial Statements and Supplementary Data.

Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during our fourth quarter of fiscal 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

ITEM 1.01 Entry into a Material Definitive Agreement.

On February 28, 2025, the Company entered into a Modification of Loan (the “Modification Agreement”) amending both the Loan Agreement (“Loan Agreement”) and the Promissory Note (the “Promissory Note”), each dated as of December 28, 2023, by and between the Company and TIB, National Association (the “Lender”). The Loan Agreement and Promissory Note provide for a revolving multiple advances loan of up to an aggregate principal amount of $15.0 million. Reference is made to Exhibits 10.1 and 10.2 to the Company’s Current Report on Form 8-K filed January 3, 2024, which are incorporated herein by reference, for a further description of the Loan Agreement and Promissory Note with the Lender. The definition of capitalized terms, if not so defined herein, may be found in the Modification Agreement.

The Modification Agreement extends the revolving line of credit to a maturity date of March 5, 2026. The Company also agrees under the Modification Agreement to pay the Lender a Non-Usage Fee of 0.25%, which fee shall be $37,500 less the interest accrued and paid under the Note, and collected on the Maturity Date. On March 3, 2025, there was a zero principal balance outstanding borrowed under the Promissory Note.

The description contained herein of the Modification Agreement does not purport to be complete and is qualified in its entirety by reference to the terms of such document, a copy of which is filed as an exhibit to this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 2.03 Creation of a Direct Financial Obligation.

The relevant disclosure set forth in Item 1.01 above is incorporated herein by reference in response to this Item 2.03

Trading Plans

During the three months ended December 31, 2024, no director or “officer” of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

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Item 9C. Disclosures Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

In response to this Item, this information is contained in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 20, 2025 and is incorporated herein by reference.

Item 11. Executive Compensation.

In response to this Item, this information is contained in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 20, 2025 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

In response to this Item, the information required by Item 201(d) is contained in Item 5 of this report. The other information required by this item is contained in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 20, 2025 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information is contained in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 20, 2025 is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

In response to this Item, this information is contained in our Proxy Statement for the Annual Meeting of Shareholders to be held on May 20, 2025 and is incorporated herein by reference.

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Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

The following consolidated financial statements are located in Item 8 of this report.

Management's Report on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2024 and 2023
Consolidated Statements of Income for the years ended December 31, 2024, 2023 and 2022
Consolidated Statements of Comprehensive Income for the years ended December 31, 2024, 2023 and 2022
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2024, 2023 and 2022
Consolidated Statements of Cash Flows for the years ended December 31, 2024, 2023 and 2022
Notes to the Consolidated Financial Statements

(2) Financial Statement Schedules

These schedules have been omitted because they are not required, are not applicable or have been included in our consolidated financial statements.

(3) Exhibits

See the "Exhibit Index" immediately following the signature page of this report.

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EXHIBIT INDEX

3.1	Amended and Restated Articles, as amended, of Southern First Bancshares, Inc. (effective May 30, 2024). (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q filed on July 31, 2024).
3.2	Amended and Restated Bylaws dated March 18, 2008 (incorporated by reference to Exhibit 3.4 of the Company's Form 10-K filed March 24, 2008).
3.3	Amendment to Amended and Restated Bylaws dated March 18, 2008 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q filed on November 2, 2020).
4.1	Description of the Company's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.1 of the Company's Form 10-K filed on March 2, 2020).
4.2	Form of certificate of common stock (incorporated by reference to Exhibit 4.2 of the Company's Registration Statement on Form SB-2, File No. 333-83851).
4.3	Indenture dated as of September 30, 2019 between Southern First Bancshares, Inc. and UMB Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on September 30, 2019).
4.4	Form of 4.75% Fixed-to-Floating Subordinated Note due 2029 of Southern First Bancshares, Inc. (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on September 30, 2019).
4.5	Form of Global 4.75% Fixed-to-Floating Subordinated Note due 2029 of Southern First Bancshares, Inc. (incorporated by reference to the Exhibit 2 to Exhibit 4.1 of the Company's Form 8-K filed on September 30, 2019).
10.1	Southern First Bancshares, Inc. 2010 Stock Incentive Plan (incorporated by reference to Appendix A of the Company's Proxy Statement on Schedule 14A filed April 6, 2010).*
10.2	Amendment to Southern First Bancshares, Inc. 2010 Stock Incentive Plan (incorporated by reference to Appendix A of the Company's Proxy Statement on Schedule 14A filed on April 15, 2014).*
10.3	Amendment to Southern First Bancshares, Inc. 2010 Stock Incentive Plan (incorporated by reference to Appendix A of the Company's Proxy Statement on Schedule 14A filed on April 14, 2015).*
10.4	Form of Award Agreement for Stock Options (incorporated by reference to Exhibit 4.6 of the Company's Form S-8 filed on August 12, 2010).*
10.5	Form of Award Agreement for Restricted Stock (incorporated by reference to Exhibit 4.7 of the Company's Form S-8 filed on August 12, 2010).*
10.6	Sublease Agreement between Greenville First Bank, N.A. and Augusta Road Holdings, LLC dated February 26, 2004 (incorporated by reference to Exhibit 10.6 of the Company's Form 10-QSB for the period ended June 30, 2004).
10.7	R. Arthur Seaver, Jr. Amended and Restated Employment Agreement (incorporated by reference to Exhibit 10.5 of the Company's Form 8-K filed October 3, 2013).*
10.8	Calvin C. Hurst Employment Agreement (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on August 1, 2023).*
10.9	Amendment to Employment Agreement by and between Southern First Bank and Calvin C. Hurst, dated May 6, 2024 (incorporated by reference to Exhibit 10.2 of Southern First Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on May 7, 2024).*
10.10	Form of Split Dollar Agreement between certain executives and Southern First Bancshares, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed February 18, 2009).*
10.11	Form of Southern First Bank, N.A. Salary Continuation Agreement dated December 17, 2008 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed December 23, 2008).*
10.12	Form of First Amendment to Southern First Bank, N.A. Salary Continuation Agreement dated December 17, 2008 (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed December 23, 2008).*
10.13	Michael D. Dowling Salary Continuation Agreement (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed October 3, 2013).*

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10.14	R. Arthur Seaver, Jr. Second Amendment to Salary Continuation Agreement (incorporated by reference to Exhibit 10.4 of the Company's Form 8-K filed October 3, 2013).*
10.15	Southern First Bancshares, Inc. 2016 Equity Incentive Plan (incorporated by reference to Appendix A of the Company's Proxy Statement on Schedule 14A filed on April 12, 2016).*
10.16	Form of Award Agreement for Stock Options (incorporated by reference to Exhibit 4.6 of the Company's Form S-8 filed on August 18, 2016).*
10.17	Form of Award Agreement for Restricted Stock (incorporated by reference to Exhibit 4.7 of the Company's Form S-8 filed on August 18, 2016).*
10.18	Amendment dated as of January 31, 2019 to R. Arthur Seaver, Jr. Amended and Restated Employment Agreement (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on February 6, 2019).*
10.19	William Marion Aiken, III Employment Agreement (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on May 2, 2023).*
10.20	Amendment to Employment Agreement by and between Southern First Bank and William M. Aiken, III, dated May 6, 2024 (incorporated by reference to Exhibit 10.3 of Southern First Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on May 7, 2024).*
10.21	Form of Subordinated Note Purchase Agreement dated as of September 30, 2019 by and among Southern First Bancshares, Inc. and certain qualified institutional buyers and accredited investors (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on September 30, 2019).
10.22	Form of Registration Rights Agreement dated as of September 30, 2019 by and among Southern First Bancshares, Inc. and certain qualified institutional buyers and accredited investors (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on September 30, 2019).
10.23	Loan Agreement, dated as of December 28, 2023, by and between Southern First Bancshares, Inc. and TIB, National Association (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 3, 2024).
10.24	Promissory Note, dated as of December 28, 2023, by and between Southern First Bancshares, Inc. and TIB, National Association (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on January 3, 2024).
10.25	Pledge Agreement, dated as of December 28, 2023, by and between Southern First Bancshares, Inc. and TIB, National Association (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on January 3, 2024).
10.26	Amendment to the Southern First Bancshares, Inc. 2020 Equity Incentive Plan (incorporated by reference to Appendix A of the Company's Proxy Statement for its 2024 Annual Meeting of Shareholders filed on April 3, 2024).*
10.27	Employment Agreement by and between Southern First Bank and Christian Zych, dated May 6, 2024 (incorporated by reference to Exhibit 10.1 of Southern First Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on May 7, 2024).*
10.28	Amendment to the Southern First Bancshares, Inc. 2020 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 24, 2025).*
10.29	Form of Restricted Stock Unit Grant Notice (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on January 24, 2025).*
10.30	Modification of Loan, dated as of February 28, 2025, by and between the Company and TIB, National Association.
19.1	Insider Trading Policy.
21	Subsidiaries.
23	Consent of Independent Public Accountants.
24	Power of Attorney (contained herein as part of the signature pages).
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32	Section 1350 Certifications of the Principal Executive Officer and Principal Financial Officer.

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97	Incentive Compensation Recovery Policy, effective November 21, 2023 (incorporated by reference to Exhibit 97 of the Company's Form 10-K filed on March 5, 2024.
101	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2023, formatted in eXtensible Business Reporting Language (XBRL); (i) the Consolidated Balance Sheets at December 31, 2023 and December 31, 2022, (ii) Consolidated Statements of Income for the years ended December 31, 2023, 2022, and 2021, (iii) Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 2023, 2022, and 2021, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2023, 2022, and 2021, and (iv) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Management contract or compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN FIRST BANCSHARES, INC.

Date: March 3, 2025	By: /s/R. Arthur Seaver, Jr. Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints R. Arthur Seaver, Jr., his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto the attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that the attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/R. Arthur Seaver, Jr. R. Arthur Seaver, Jr.	Director, Chief Executive Officer *(Principal Executive Officer)*	March 3, 2025
/s/Christian J. Zych Christian J. Zych	Chief Financial Officer *(Principal Financial Officer)*	March 3, 2025
/s/Julie A. Fairchild Julie A. Fairchild	Chief Accounting Officer *(Principal Accounting Officer)*	March 3, 2025
/s/Andrew B. Cajka, Jr. Andrew B. Cajka, Jr.	Director	March 3, 2025
/s/Mark A. Cothran Mark A. Cothran	Director	March 3, 2025
/s/Leighton M. Cubbage Leighton M. Cubbage	Director	March 3, 2025
/s/David G. Ellison David G. Ellison	Director	March 3, 2025
/s/Anne S. Ellefson Anne S. Ellefson	Director	March 3, 2025
/s/ Terry Grayson-Caprio Terry Grayson-Caprio	Director	March 3, 2025
/s/Tecumseh Hooper, Jr. Tecumseh Hooper, Jr.	Director	March 3, 2025
/s/Rudolph G. Johnstone, III M.D. Rudolph G. Johnstone, III, M.D.	Director	March 3, 2025
/s/ Ray A. Lattimore Ray A. Lattimore	Director	March 3, 2025
/s/Anna T. Locke Anna T. Locke	Director	March 3, 2025
/s/ William A. Maner, IV William A. Maner, IV	Director	March 3, 2025

/s/James B. Orders, III James B. Orders, III	Director, Chairman	March 3, 2025