Southpoint Bancshares, Inc. and Subsidiary

Consolidated Financial Statements and
Supplemental Schedules

Years Ended December 31, 2024 and 2023

SOUTH POINT
BANK

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MAULDIN & JENKINS

CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
SouthPoint Bancshares, Inc.
Birmingham, Alabama

Opinion

We have audited the consolidated financial statements of **SouthPoint Bancshares, Inc. and Subsidiary**, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SouthPoint Bancshares, Inc. and Subsidiary as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), 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 April 30, 2025 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SouthPoint Bancshares, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Southpoint Bancshares, Inc. and Subsidiary as of December 31, 2023 were audited by other auditors whose report dated March 28, 2024 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SouthPoint Bancshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information shown on pages 51to 55 is presented for purposes of additional analysis and is not required part of the consolidated financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29,2025 on our consideration of Southpoint Bancshares, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SouthPoint Bancshares, Inc. and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SouthPoint Bancshares, Inc. and Subsidiary's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Birmingham, Alabama
April 30, 2025

MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Southpoint Bancshares, Inc.

Adverse Opinion on Internal Control over Financial Reporting

We have audited Southpoint Bancshares, Inc. and Subsidiary's (the Company) internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions), as of December 31, 2024, based on criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weakness described in the Basis for Adverse Opinion on Internal Control over Financial Reporting section of our report on the achievement of the objectives of the control criteria, the Company has not maintained 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 (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of the Company and the related consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations, comprehensive income (loss), stockholders equity and cash flows for the years then ended, and the notes to the consolidated financial statements. Our report dated April 30, 2025 expressed an unmodified opinion on the consolidated financial statements.

We considered the material weakness described in the Basis for Adverse Opinion on Internal Control over Financial Reporting section of our report in determining the nature, timing, and extent of audit procedures applied in our audit of the 2024 financial statements, and this report does not affect our report on the financial statements.

Basis for Adverse Opinion on Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial and regulatory reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. The following material weakness has been identified and included in the accompanying Management's Report on Internal Control.

The Company's internal controls failed to adequately and timely identify loan losses affecting financial and regulatory reporting. The impact of the failure resulted in the Company recording an adjusting entry of $33 million to the allowance for credit losses through a provision for credit losses as of December 31, 2024 and charge offs in excess of $38 million.

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

Responsibilities of Management for Internal Control over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control.

Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with generally accepted auditing standards will always detect a material weakness when it exists.

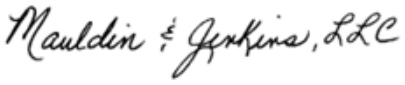
In performing an audit of internal control over financial reporting in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction 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 and correct, misstatements. Also, projections of any assessment 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.



Mauldin & Jenkins, LLC

Birmingham, Alabama
April 30, 2025

SouthPoint Bancshares, Inc

Consolidated Balance Sheets

As of December 31, 2024 and 2023	2024	2023
ASSETS		
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 10,761,392	$ 13,288,075
Interest-bearing deposits in other banks	120,017,782	73,909,549
Total cash and cash equivalents	130,779,174	87,197,624
Securities available for sale (amortized cost of $69,859,578 and $43,935,855 at December 31, 2024 and 2023, respectively)	58,848,765	34,861,930
Restricted equity securities	1,509,585	1,279,585
Loans held-for-sale	4,600,999	1,866,368
Loans, net of allowance for credit losses of $13,359,185 and $17,221,702 at December 31, 2024 and 2023, respectively	1,479,299,673	1,463,712,748
Accrued interest receivable	8,044,119	8,133,797
Premises and equipment, net	24,189,769	23,425,812
Intangible assets	1,873,200	2,140,800
Goodwill	12,639,390	12,639,390
Other real estate	5,708,180	129,628
Bank-owned life insurance	12,967,022	12,250,238
Deferred tax assets	15,211,379	5,676,982
Investment in low income housing tax credits	2,471,295	2,915,255
Other assets	3,432,775	2,766,453
TOTAL ASSETS	$ 1,761,575,325	$ 1,658,996,610
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Interest-bearing	$ 1,520,365,761	$ 1,251,398,364
Noninterest-bearing	104,314,600	126,765,174
Total deposits	1,624,680,361	1,378,163,538
Other borrowings	-	125,000,000
Line of credit	-	3,000,000
Subordinated debentures	33,650,269	33,496,906
Accrued expense and other liabilities	10,543,284	16,134,386
Total liabilities	1,668,873,914	1,555,794,830
SHAREHOLDERS' EQUITY:		
Preferred stock, $1 par value: 10,010,000 shares authorized; none issued or outstanding	-	-
Common stock, $1 par value: 10,000,000 shares authorized; 3,006,146 and 3,001,946 shares issued at December 31, 2024 and 2023, respectively, and 2,902,065 and 2,890,192 shares outstanding at December 31, 2024 and 2023, respectively	3,006,146	3,001,946
Additional paid-in capital	50,475,839	50,184,371
Retained earnings	49,126,856	58,481,873
Accumulated other comprehensive loss	(8,698,542)	(7,168,401)
Treasury stock, 104,081 and 111,754 shares at cost at December 31, 2024 and 2023, respectively	(1,208,888)	(1,298,009)
Total shareholders' equity	92,701,411	103,201,780
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,761,575,325	$ 1,658,996,610

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Operations

Years Ended December 31, 2024 and 2023	**2024**	**2023**
INTEREST INCOME		
Interest and fees on loans	$ 109,954,653	$ 87,141,319
Interest on investment securities	1,397,440	1,118,327
Interest on deposits in banks and other	4,322,356	3,063,573
Total interest income	115,674,449	91,323,219
INTEREST EXPENSE		
Interest expense on deposits	56,360,482	28,965,922
Interest on borrowed funds	5,604,088	11,538,844
Total interest expense	61,964,570	40,504,766
NET INTEREST INCOME	53,709,879	50,818,453
Provision for credit losses	41,400,000	5,400,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	12,309,879	45,418,453
NONINTEREST INCOME		
Service charges, fees and commissions	3,004,126	2,889,519
Mortgage origination and servicing-release premium fees	5,356,879	5,026,051
Net loss on sale of available-for-sale securities	(1,471)	(1,261)
Other income	335,484	399,146
Total noninterest income	8,695,018	8,313,455
NONINTEREST EXPENSES		
Salaries and employee benefits	17,476,556	19,199,088
Data processing expenses	4,153,628	3,399,887
Net occupancy expenses	1,490,125	1,318,830
Professional fees	927,925	1,231,094
Other operating expenses	10,019,308	8,636,653
Total noninterest expenses	34,067,542	33,785,552
INCOME (LOSS) BEFORE INCOME TAXES	(13,062,645)	19,946,356
INCOME TAX EXPENSE (BENEFIT)	(3,707,628)	4,357,287
NET INCOME (LOSS)	$ (9,355,017)	$ 15,589,069

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2024 and 2023	**2024**	**2023**
NET INCOME (LOSS)	$ (9,355,017)	$ 15,589,069
Other comprehensive income (loss):		
Unrealized (loss) gain arising during the period on securities available-for-sale, net of tax benefit (expense) of $407,056 in 2024 and ($231,516) in 2023	(1,531,303)	868,947
Reclassification adjustment for net losses realized in net income, net of tax of ($309) in 2024 and ($265) in 2023	1,162	996
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(1,530,141)	869,943
TOTAL COMPREHENSIVE INCOME (LOSS)	$ (10,885,158)	$ 16,459,012

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balances at January 1, 2023	$ 2,997,046	$ 49,901,635	$ 42,892,804	$ (8,038,344)	$ (1,379,150)	$ 86,373,991
Net income	-	-	15,589,069	-	-	15,589,069
Other comprehensive Income	-	-	-	869,943	-	869,943
Restricted stock awards	4,900	132,200	-	-	-	137,200
Treasury stock issued to KSOP	-	150,436	-	-	81,141	231,577
Balances at December 31, 2023	3,001,946	50,184,371	58,481,873	(7,168,401)	(1,298,009)	103,201,780
Net loss	-	-	(9,355,017)	-	-	(9,355,017)
Other comprehensive loss	-	-	-	(1,530,141)	-	(1,530,141)
Restricted stock awards	4,200	119,700	-	-	-	123,900
Treasury stock issued to KSOP	-	171,768	-	-	89,121	260,889
Balances at December 31, 2024	$ 3,006,146	$ 50,475,839	$ 49,126,856	$ (8,698,542)	$ (1,208,888)	$ 92,701,411

See accompanying notes to consolidated financial statements.

SouthPoint Bancshares, Inc
Consolidated Statements of Cash Flows

Years Ended December 31, 2024 and 2023	**2024**	**2023**
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income (loss)	$ (9,355,017)	$ 15,589,069
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,498,300	1,174,067
Proceeds from sale of loans held-for-sale	121,020,546	121,020,546
Origination of loans held-for-sale	(123,674,836)	(120,528,186)
Fair value change in loans held-for-sale	(80,341)	(26,442)
Provision for credit losses	41,400,000	5,400,000
Net realized loss on securities	1,471	1,261
Realized loss on disposition and write down of other real estate, net	21,091	170,552
Realized gain on disposition of premises and equipment	-	(34,693)
Amortization of premiums and discounts on securities available-for-sale, net	164,129	187,556
Amortization of debt issuance costs	153,363	208,901
Amortization of low income housing tax credits, core deposit intangible and other	69,768	40,404
Share based compensation	123,900	137,200
Deferred tax (benefit) expense	(9,127,650)	(1,958,212)
Increase in cash surrender value of life insurance	(306,531)	(282,595)
Change in accrued interest receivable	89,678	(3,438,689)
Change in other assets	(666,322)	1,307,239
Change in accrued expenses and other liabilities	(5,991,744)	6,343,613
Net cash provided by operating activities	15,339,805	25,311,591
Cash flows from investing activities:		
Purchases of premises and equipment	(2,109,365)	(3,338,838)
Proceeds from sale of premises and equipment	-	907,730
Net change in loans	(61,641,070)	(332,936,499)
Paydowns, calls, and maturities of available-for-sale securities	1,134,397	952,567
Purchase of available-for-sale securities	(27,223,720)	-
Purchase of restricted equity securities	(230,000)	(414,600)
Proceeds from sale of restricted equity securities	-	4,250,000
Net proceeds from disposition of foreclosed real estate	3,037	39,648
Purchase of bank owned life insurance	(410,253)	(410,253)
Net cash used in investing activities	(90,476,974)	(330,950,245)

SouthPoint Bancshares, Inc

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2024 and 2023	2024	2023
Cash flows from financing activities:		
Net change in deposits	246,718,719	466,358,660
Repayments in other borrowings	(165,000,000)	(200,000,000)
Advances in other borrowings	40,000,000	-
(Decrease) increase in line-of-credit	(3,000,000)	3,000,000
Net cash provided by financing activities	118,718,719	269,358,660
Net increase (decrease) in cash and cash equivalents	$ 43,581,550	$ (36,279,994)
Cash and cash equivalents at beginning of year	87,197,624	123,477,618
Cash and cash equivalents at end of year	$ 130,779,174	$ 87,197,624
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 61,612,898	$ 40,255,746
Income taxes	10,147,400	-
NONCASH TRANSACTIONS:		
Treasury stock awards	123,900	137,200
Treasury stock issued to ESOP	260,889	231,577
Loans transferred to other real estate	5,602,680	49,128
Right-of-use assets obtained in exchange for new lease liabilities	152,892	-

See accompanying notes to consolidated financial statements.

Note 1: Organization

SouthPoint Bancshares, Inc. (the Company), an Alabama corporation, operates primarily in the domestic commercial banking industry. The Company's subsidiary, SouthPoint Bank (the Bank), was formed and incorporated in 2005 as a state-chartered bank under the Code of Alabama, as amended. The Bank provides full-service banking to customers primarily located in central Alabama. The Bank is subject to regulation by the State of Alabama Banking Department and the Federal Deposit Insurance Corporation (FDIC). The Bank operates from its eleven branch locations in central Alabama, and five loan production offices located throughout the State of Alabama. SPB Properties, LLC holds certain assets of the Bank and is a wholly-owned subsidiary of the Bank.

Note 2: Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank, and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated. Unless otherwise indicated herein, the financial results of the Company refer to the Company and the Bank and its subsidiary on a consolidated basis. The consolidated financial statements of the Company are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents

For the purpose of cash flows, the Company considers cash on hand and cash or cash equivalents on deposit with other banks, due from banks, and federal funds sold to be cash equivalents. The Company maintains various correspondent or other bank accounts, which may, at times, have balances that exceed the FDIC insurance coverage. The amount by which cash and cash equivalents exceeded FDIC insurance coverage at December 31, 2024, was approximately $919,000. The Company has not and does not expect to incur losses with these bank accounts.

Securities Available-for-Sale

Securities available-for-sale represent those securities which the Company has designated for sale. Such securities are carried at fair value with unrealized gains and losses reported as accumulated other comprehensive income (loss), net of any related deferred taxes, in a separate component of shareholders' equity until realized. Gains or losses realized on disposition are based on the net proceeds and the adjusted carrying amount on the securities sold, using the specific identification method, and are included in noninterest income in the accompanying consolidated statements of income.

The Company evaluates individual securities available-for-sale in an unrealized loss position by first determining whether the decline in fair value below the amortized cost basis of the security has resulted from a credit loss or other factors. A credit loss exists when the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. In determining whether a credit loss exists, the Company considers the extent to which the fair value is less than the amortized cost basis, adverse conditions related to the security, the industry, or geographic areas, the payment structure of the debt security, failure of the issuer to make scheduled payments, and any changes to the rating of the security. Impairment related to credit losses is recognized through an allowance for credit losses up to the amount that fair value is less than the amortized cost basis. Changes to the allowance are recognized through earnings as a provision for (or recovery of) credit losses. Losses related to other factors is recognized in other comprehensive income.

Note 2: Summary of Significant Accounting Policies (Continued)

Securities Available-for-Sale (Continued)

If the Company intends to sell, or it is more likely than not the Company will be required to sell, the security before recovery of its amortized cost basis, any allowance for credit losses is written off and the amortized cost basis is written down to the security's fair value at the reporting date with any incremental impairment recognized in earnings.

The accrual of interest on a security available-for-sale is discontinued when the security becomes 90 days delinquent or whenever management believes the issuer will be unable to make payments as they become due. When securities are placed on nonaccrual status, all unpaid accrued interest is reversed against interest income. No accrued interest was written off during 2024 and 2023.

The Company excludes accrued interest receivable from the amortized cost basis of securities available-for-sale when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on securities available-for-sale totaling approximately $445,000 and $291,000 at December 31, 2024 and 2023, respectively, was excluded from the amortized cost basis of securities available-for-sale and is included in accrued interest receivable on the consolidated balance sheet.

Loans

The Company grants commercial, real estate, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and real estate loans throughout Alabama. Loans are stated at unpaid principal balances, less the allowance for credit losses and net deferred loan fees.

Loan origination or commitment fees are deferred and accreted using the interest method over the life of the loan. Direct loan origination costs are capitalized and amortized over the life of the loan as a reduction of the loan yield as an offset to interest and fees on loans. Amortization of deferred loan fees is discontinued if a loan is placed on nonaccrual status.

Allowance for Credit Losses on Loans and Unfunded Loan Commitments

The allowance for credit losses on loans is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Company's loan portfolio. The allowance for credit losses on loans is established through provisions for credit losses charged against earnings. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the allowance for credit losses on loans, and subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

The Company uses a current expected credit loss ("CECL") model to estimate the allowance for credit losses on loans. The CECL model considers historical loss rates and other qualitative adjustments, as well as a new forward-looking component that considers reasonable and supportable forecasts over the expected life of each loan. To develop the allowance for credit losses on loans estimate under the CECL model, the Company segments the loan portfolio into loan pools based on loan type and similar credit risk elements; performs an individual evaluation of certain collateral dependent and other credit-deteriorated loans; calculates the historical loss rates for the segmented loan pools; applies the loss rates over the calculated life of the collectively evaluated

Note 2: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

loan pools; adjusts for forecasted macro-level economic conditions and other anticipated changes in credit quality; and determines qualitative adjustments based on factors and conditions unique to the Company's loan portfolio.

Under the CECL model, loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates. Management individually evaluates nonaccrual loans and other loans with evidence of credit deterioration. For loans individually evaluated, a specific reserve is estimated based on either the fair value of collateral or the discounted value of expected future cash flows.

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the fair value of the collateral as of the date of the consolidated balance sheet, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

The following describes the types of collateral that secure collateral dependent loans:

- Commercial, financial, and agricultural loans considered collateral dependent are primarily secured by accounts receivable, inventory and equipment.

- Real estate construction loans are primarily secured by residential and commercial properties, which are under construction and/or redevelopment, and by raw land.

- Real estate mortgage loans are primarily secured by first liens on residential and commercial real estate.

Management evaluates all collectively evaluated loans using the discounted cash flow methodology. The discounted cash flow methodology uses loan level attributes (such as interest rates and maturity dates), as well as pool level inputs (such as prepayment rates and probability of default and loss given default rates), to estimate credit losses over the contractual term of each collectively evaluated loan. Expected credit losses are determined by comparing the loan's amortized cost with the expected future principal and interest cash flows. Individual loan level results are aggregated for collectively evaluated loans and are then adjusted for qualitative factors deemed appropriate by management.

Management has elected to utilize the Company's historical loss data with a five-year lookback period for the probability of default and loss given default historical rate calculations required for the discounted cash flow methodology. Probability of default rates are then forecasted over a 24-month period using a regression model based on national unemployment rate and 10-year treasury yield forecasts obtained from Fannie Mae. Management has elected to use a straight-line reversion method for a 12-month period subsequent to the 24-month forecast period for probability of default rates.

Note 2: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

The quantitative analysis described above is supplemented with other qualitative factors based on the risks present for each collectively evaluated loan pool. These qualitative factors include: effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; industry conditions; and effects of changes in credit concentrations.

The Company excludes accrued interest receivable from the amortized cost basis of loans when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on loans totaling approximately $7,599,000 and $7,842,000 at December 31, 2024 and 2023, respectively, was excluded from the amortized cost basis of loans and is included in accrued interest receivable on the consolidated balance sheet.

In addition to the allowance for credit losses on loans, the Company estimates a reserve for unfunded loan commitments at a level that management believes is adequate to absorb estimated probable credit losses over the contractual terms of the Company's noncancellable loan commitments. The reserve for unfunded commitments recorded in accrued expense and other liabilities on the accompanying balance sheet is established through provisions for credit losses charged against earnings. At December 31, 2024, the recorded reserve for unfunded loan commitments totaled approximately $509,000. There was no recorded reserve for unfunded commitments at December 31, 2023.

Unfunded loan commitments are segmented into the same pools used for estimating the allowance for credit losses on loans. Estimated credit losses on unfunded loan commitments are based on the same methodology, inputs, and assumptions used to estimate credit losses on collectively evaluated loans, adjusted for estimated funding probabilities. The estimated funding probabilities represent management's estimate of the amount of the current unfunded loan commitment that will be funded over the remaining contractual life of the commitment and is based on historical data.

The Company may modify loans to borrowers experiencing financial difficulty and grant certain concessions that include principal forgiveness, a term extension, an other-than-insignificant payment delay, an interest rate reduction, or a combination of these concessions. An assessment of whether the borrower is experiencing financial difficulty is made at the time of the loan modification.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

While management believes that it has established the allowance for credit losses in accordance with GAAP and has taken into account the views of its regulators and the current economic environment, there can be no assurance that in the future the Bank's regulators or its economic environment will not require further increases in the allowance for credit losses.

Note 2: Summary of Significant Accounting Policies (Continued)

Income Recognition on Individually Evaluated and Nonaccrual Loans

Loans, including individually evaluated loans, are generally classified as nonaccrual if they are past due as to payment of principal or interest for a period of more than 90 days, unless such loans are well-collateralized and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as nonaccrual.

Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms of principal and interest.

While a loan is classified as nonaccrual, and the future collectability of the recorded loan balance is doubtful, collections of principal and interest are generally applied as a reduction to principal outstanding. When the future collectability of the recorded loan balance is expected, interest income may be recognized. In the case where a nonaccrual loan has been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for credit losses until prior charge-offs have been fully recovered.

Mortgage Loans Held-for-Sale and Mortgage Banking Derivatives

The Company, through the Bank, enters into mandatory delivery of a portion of its residential mortgage loans originated for sale in the secondary market. In connection with mandatory delivery, mortgage loans held-for-sale are carried at fair value under the fair value option with changes in fair value recognized in current period earnings.

Fair value of mortgage loans held-for-sale is typically calculated using observable market information including pricing from actual market transactions, investor commitment prices, or broker quotations. Fair value for mortgage loans covered by investor commitments is generally based on commitment prices and the value for uncommitted loans is generally based on current delivery prices.

In connection with its mortgage banking activities, the Company enters into loan commitments, considered derivative instruments, to fund residential mortgage loans with applicants. These interest rate lock commitments (IRLC) represent an agreement to extend credit to a mortgage loan applicant whereby the interest rate on the loan is set prior to funding. The loan commitment binds the Company (subject to the loan approval process) to fund the loan at a specified rate, regardless of whether interest rates have changed between the commitment date through the funding date or expiration date. The loan commitments generally range between 15 and 60 days; however, the borrower is not obligated to obtain the loan. The Company is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. Forward delivery commitments on mortgage-backed securities (“MBS”) and forward sales of MBS to be announced (“TBAs”) are used to manage the interest rate risk and price risk. Historical commitment-to-closing ratios are considered to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs.

Note 2: Summary of Significant Accounting Policies (Continued)

Mortgage Loans Held-for-Sale and Mortgage Banking Derivatives (Continued)

Gains and losses from the sale of mortgages are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale, and are recorded in mortgage origination and servicing-release premium fees in the consolidated statements of income. The sales proceeds reflect the cash received. Mortgage origination and servicing-release premium fees also includes the unrealized gains and losses associated with the mortgage loans held-for-sale and the realized and unrealized gains and losses from derivatives.

Other Real Estate

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. No write-downs occurred in 2024 and 2023.

After foreclosure, valuations are periodically performed by management, and property held-for-sale is carried at the lower of the new cost basis or fair value less estimated costs to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized (up to fair value less estimated selling costs), whereas costs relating to holding property are expensed.

Any subsequent write-downs of amounts recorded as other real estate are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less estimated costs to sell.

Bank-Owned Life Insurance

The Bank purchased life insurance policies on certain employees. These policies are recorded at their cash surrender value or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in noninterest income. The Bank is the named beneficiary for each policy.

Premises and Equipment

Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Expenditures for additions and improvements that extend the useful life of an asset are capitalized. Expenditures for repairs and maintenance are charged to expense when incurred. Assets which are disposed of are removed from the accounts, and the resulting gains or losses are recorded in other operating income or expenses. Depreciation is computed by the straight-line method based on the depreciable lives of individual assets, ranging from three to 40 years.

Note 2: Summary of Significant Accounting Policies (Continued)

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangibles with finite lives are amortized over their estimated useful lives. Goodwill and other intangible assets are subject to impairment testing annually or more frequently if events or circumstances indicate possible impairment; if impaired, such assets are recorded at fair value. Other intangible assets, consisting of core deposit intangibles, are reviewed for events or circumstances which could impact the recoverability of the intangible asset, such as a loss of core deposits, increased competition or adverse changes in the economy. No impairment was identified for the Company's goodwill or its intangible assets in 2024 or 2023.

Purchased Loans

The Company acquired loans individually and in groups or portfolios. These loans are initially measured at fair value with no allowance for credit losses. The Company's allowance for credit losses on all acquired loans reflect only those losses incurred subsequent to acquisition.

Certain acquired loans may have experienced deterioration of credit quality between origination and the Company's acquisition of the loans. At acquisition, the Company reviews each loan to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Company will be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the Company determines whether each such loan is to be accounted for individually or whether such loans will be assembled into pools of loans based on common risk characteristics (for example, credit score, loan type, and date of origination). The Company considers expected prepayments and estimates the amount and timing of undiscounted principal, interest, and other cash flows expected at acquisition for each loan and aggregated pool of loans. The excess of the loan's or pool's scheduled contractual principal and interest payments over all cash flows expected at acquisition is calculated as the nonaccretable difference. The excess of cash flows expected to be collected over the fair value of each loan or pool (accretable yield) is accreted into interest income over the remaining life of the loan or pool.

At each reporting date, the Company continues to estimate cash flows expected to be collected for each loan or pool. If expected cash flows have decreased from the acquisition date estimate, the Company recognizes an allowance for credit losses. If expected cash flows have increased from the acquisition date estimate, the Company increases the amount of accretable yield to be recognized as interest income over the remaining life of the loan or pool.

Note 2: Summary of Significant Accounting Policies (Continued)

Lease Accounting

The Company is a lessee in multiple noncancelable operating leases. If the contract provides the Company the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The Company has elected to use a risk-free rate for a term similar to the underlying lease as the discount rate if the implicit rate in the lease contract is not readily determinable.

The ROU asset for operating leases is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized.

The Company has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with lease costs included in short-term lease expense. The Company recognizes short-term lease cost on a straight-line basis over the lease term.

Restricted Equity Securities and Borrowings (Advances)

The Company is a member and has purchased stock in the Federal Home Loan Bank of Atlanta (FHLB) and First National Bankers Bank (FNBB). The Company has elected to account for equity securities without readily determinable fair values using the alternative measurement method. Under this method, these securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Borrowings represent advances under an advance and security agreement with the FHLB, as well as secured borrowings with the Federal Reserve Bank of Atlanta (FRB) Discount Window under a similar security agreement. Under the terms of the agreements, the Company is required to maintain qualifying collateral, consisting primarily of loans, based on collateral rates set by the FHLB and the FRB.

Note 2: Summary of Significant Accounting Policies (Continued)

Treasury Stock

Treasury stock purchases and sales are accounted for using the cost method.

Advertising

Advertising costs are expensed as incurred.

Income Taxes

The Company files a consolidated federal income tax return and separate State of Alabama excise tax returns. The Subsidiary provides for income taxes on a separate basis and remits to the Company amounts determine to be currently payable. These returns are filed using the accrual basis of accounting. Provisions for income taxes are based on amounts reported in the consolidated statements of income (after exclusion of nontaxable income, such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes.

Stock Options and Stock Awards

The Board of Directors approved the 2015 Stock Incentive Plan (Stock Plan), which amended, restated, and replaced the 2005 Stock Incentive Plan, which expired in October 2015. The 2015 Stock Plan permitted the granting of nonstatutory (nonqualified), incentive, and restricted stock option awards, to enhance shareholder investment by attracting, retaining, and motivating key employees and directors of the Company and to align the interests of management with those of shareholders. The maximum number of shares to be issued under the Stock Plan are 315,150. See Note 17 for activity of the 2015 Stock Plan.

The option price is determined by the Board of Directors or a committee appointed by the Board of Directors to administer the Stock Plan, who may use the latest stock trade information or an independent valuation. Options granted are generally subject to vesting in equal increments over a vesting period of at least three years.

The Company uses a stock valuation model for stock awards issued pursuant to the 2015 Stock Plan, which results in share-based compensation expense. The Company uses the Black-Scholes fair value model for determining option value and share-based payments, which includes such factors as expected term, interest rate, forfeiture estimates, volatility, and dividend yield, to estimate compensation expense associated with the stock option awards.

Financial Instruments

The Company uses fair value methods and measurements to determine fair value for certain assets and liabilities for recording and disclosure purposes. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined by quoted market prices. The fair value guidance established three categories within a fair value hierarchy, which are presented below:

Note 2: Summary of Significant Accounting Policies (Continued)

Financial Instruments (Continued)

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access.

- Level 2 – Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, volatilities, and default rates, and inputs that are derived principally from or corroborated by observable market data.

- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Additional guidance is available for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, including guidance on circumstances that may indicate that a transaction is not orderly and requires additional disclosures about fair value measurements.

The Company also reports fair value measurement of nonfinancial assets and liabilities. These measurements occur on a nonrecurring basis, and recognition at fair value occurs when nonfinancial assets and liabilities are deemed to be other-than-temporarily impaired.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the allowance for credit losses, fair value of investment securities available-for-sale, valuation of other real estate, and current and deferred income taxes.

Investment in securities available-for-sale is exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and that the values of the Bank's investments are sensitive to changes in economic and regulatory conditions, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the value of those investments reported.

Note 2: Summary of Significant Accounting Policies (Continued)

Use of Estimates (Continued)

The determination of the adequacy of the allowance for credit losses is based on estimates that are particularly susceptible to significant changes in the economic and regulatory environment and local market conditions. The Bank's loans are generally secured by specific items of collateral, including real property, consumer, and business assets. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

Although the Company has a diversified loan portfolio, and management uses available information to recognize losses on loans, further reduction in the carrying amounts of loans may be necessary based on changes in local economic conditions or other factors.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Revenue from Contracts with Customers

The Company has adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("Accounting Standards Codification ("ASC") Topic 606") ("ASU 2014-09"). The Company concluded ASU 2014-09 did not change the timing or presentation of revenue recognition for its current revenue streams.

The majority of the Company's revenues are interest earned on loans, investment securities, and other financial instruments which are unaffected as they are outside the scope of ASU 2014-09. ASC Topic 606 focuses on revenues from contracts earned over time. Fee income, which is within the scope of Topic 606, is generally earned over a short period of time, such as monthly, or is earned concurrently with a specific transaction. The Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. There are no ASC Topic 606 implications unless the Company finances the sale of the OREO property. ASC Topic 606 could change the timing of revenue recognition in the case of seller financing.

Comprehensive Income (Loss)

Annual comprehensive income (loss) reflects the change in the Company's equity during the year arising from transactions and events other than investment by and distributions to shareholders. The only components of other comprehensive income (loss) consist of realized and unrealized gains and losses related to investment securities.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these consolidated financial statements through March 27, 2025, the date that the consolidated financial statements were available to be issued.

Note 3: Securities Available-for-Sale

Investment securities available-for-sale consisted of the following at December 31, 2024 and 2023:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2024				
Mortgage-backed securities	$ 28,805,380	$ -	$ (2,866,742)	$ 25,938,638
State, county, and municipal securities	38,554,198	1,538	(8,040,609)	30,515,127
Trust preferred securities	2,500,000	-	(105,000)	2,395,000
Total securities available for sale	$ 69,859,578	$ 1,538	$ (11,012,351)	$ 58,848,765
December 31, 2023				
Mortgage-backed securities	$ 10,961,990	$ -	$ (1,892,202)	$ 9,069,788
State, county, and municipal securities	30,473,865	-	(6,965,274)	23,508,591
Trust preferred securities	2,500,000	-	(216,449)	2,283,551
Total securities available for sale	$ 43,935,855	$ -	$ (9,073,925)	$ 34,861,930

During 2024, the Bank had a loss amounting to $1,471 on the call of a security. There were no sales of securities during 2024. During 2023, the Bank had a loss amounting to $1,261 on the call of a security. There were no sales of securities during 2023.

At December 31, 2024, the Company had 16 investment securities in an unrealized loss position for less than 12 months with a fair value of $25,146,063 and unrealized losses totaling $1,156,683 and 34 investment securities in an unrealized loss positions greater than 12 months with a fair value of $31,146,165 and unrealized losses totaling $9,855,668.

At December 31, 2023, the Company had no investment securities in an unrealized loss position for less than 12 months and 34 investment securities in an unrealized loss positions greater than 12 months with a fair value of $32,961,930 and unrealized losses totaling $9,073,925.

These unrealized losses relate principally to the changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In reaching the conclusion that an allowance for credit losses is unnecessary, management observed that the securities were issued by a government body or agency, the securities continue to be highly rated (AA or better) where applicable, the issuer continues to make contractual payments, and the quality of any underlying assets or credit enhancements has not changed. Since management has the ability to hold debt securities for the foreseeable future, the Company expects to recover the amortized cost basis of these securities before they are sold or mature.

Note 3: Securities Available-for-Sale (Continued)

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2024, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Amounts maturing:		
Due in one to five years	$ 750,000	$ 750,000
After five years through 10 years	1,500,000	1,395,000
After 10 years	67,609,578	56,703,765
Total	$ 69,859,578	$ 58,848,765

Expected maturities of mortgage-backed securities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities with a fair value of approximately $920,000 and $20,620,000 were pledged to the State Treasurer of Alabama as of December 31, 2024 and 2023, respectively.

Note 4: Loans

The composition of loans by primary loan classification and by pooled and individually analyzed loans as of December 31, 2024 and 2023, are as follows:

	Commercial, Financial and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Allowance for Credit Losses	Net Loans
2024						
Pooled loans	$ 437,514,724	$ 207,004,435	$ 787,956,930	$ 23,044,298	$ (12,279,062)	$1,443,241,325
Individually analyzed loans	10,961,015	5,457,430	20,720,026	-	(1,080,123)	36,058,348
Total Loans	448,475,739	212,461,865	808,676,956	23,044,298	(13,359,185)	1,479,299,673
2023						
Pooled loans	483,392,341	216,247,550	742,365,757	27,966,833	(13,233,793)	1,456,738,688
Individually analyzed loans	9,571,474	417,883	926,487	46,125	(3,987,909)	6,974,060
Total Loans	$ 492,963,815	$ 216,665,433	$ 743,292,244	$ 28,012,958	$ (17,221,702)	$1,463,712,748

The Company had net deferred loan fees of approximately $1,763,000 and $2,076,000 as of December 31, 2024 and 2023, respectively.

Note 4: Loans (Continued)

The allocation and changes in the allowance for credit losses, by loan classification, as of and for the years ended December 31, 2024 and 2023, are as follows:

	Commercial, Financial, and Agricultural	Real Estate Construction	Real Estate Mortgage	Consumer and Other	Unallocated	Total
Balance at December 31, 2023	$ 4,231,397	$ 2,057,373	$ 8,415,350	$ 125,274	$ 2,392,308	$ 17,221,702
Charge-offs	(39,090,001)	(2,721,955)	(2,598,229)	(525,435)	-	(44,935,620)
Recoveries	16,000	5,361	98,922	61,459	-	181,742
Net Charge-offs	(39,074,001)	(2,716,594)	(2,499,307)	(463,976)	-	(44,753,878)
Provision	39,785,641	2,051,494	(924,401)	427,111	(448,484)	40,891,361
Balance at December 31, 2024	4,943,037	1,392,273	4,991,642	88,409	1,943,824	13,359,185
Balance at December 31, 2022	3,942,963	1,743,542	4,911,463	298,274	696,452	11,592,694
Charge-offs	(60,161)	-	(100,174)	(127,596)	-	(287,931)
Recoveries	464,988	-	24,528	27,423	-	516,939
Net Charge-offs	404,827	-	(75,646)	(100,173)	-	229,008
Provision	(116,393)	313,831	3,579,533	(72,827)	1,695,856	5,400,000
Balance at December 31, 2023	$ 4,231,397	$ 2,057,373	$ 8,415,350	$ 125,274	$ 2,392,308	$ 17,221,702

At December 31, 2024 and 2023, the Company maintained a reserve for unfunded loan commitments totaling $508,639 and $0, respectively which is included in other liabilities on the accompanying consolidated balance sheet. The provision for credit losses on unfunded loan commitments totaled $508,639 during 2024 and $0 during 2023.

Note 4: Loans (Continued)

Risk ratings are categorized as pass, special mention, substandard, substandard-impaired, or doubtful. Management believes that the categories follow those outlined by the Bank's primary regulator. Management analyzes the resulting ratings as well as other external statistics and factors such as delinquency to track the migration performance of the portfolio balances, on a quarterly basis. Pass rated loans include all risk rated credits other than those included in special mention, substandard, and doubtful, which are defined as follows:

- Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date.

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

- Substandard-individually evaluated loans are substandard loans that may have been placed on nonaccrual, may have an associated allowance for credit losses, and may have a partial charge off for the loan.

- Doubtful loans have all the characteristics of substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The Bank considers all doubtful loans to be individually evaluated and places all such loans on nonaccrual status.

Note 4: Loans (Continued)

The following table outlines the amount of each loan classification by year of origination, based on internally assigned credit quality indicators as of December 31, 2024 and 2023:

	2024	2023	2022	2021	2020	Prior	Total
2024							
Pass							
Commercial, Financial, and Agricultural	$ 78,741,582	$ 143,944,108	$ 125,997,261	$ 45,958,714	$ 8,472,378	$ 34,703,636	$ 437,817,679
Real Estate Construction	43,893,904	86,476,313	56,759,372	15,956,225	2,350,833	2,257,172	207,693,819
Real Estate Mortgage	226,202,446	79,764,238	172,324,389	145,519,898	45,420,868	120,135,256	789,367,095
Consumer and Other	2,320,885	2,007,585	2,076,429	10,650,666	917,772	5,070,961	23,044,298
	351,158,817	312,192,244	357,157,451	218,085,503	57,161,851	162,167,025	1,457,922,891
Special Mention							
Commercial, Financial, and Agricultural	4,165,120	357,145	521,855	108,210	53,898	1,166,247	6,372,475
Real Estate Construction	-	44,711	-	-	326,524	-	371,235
Real Estate Mortgage	983,593	7,847,917	2,162,684	230,582	-	2,374,943	13,599,719
Consumer and Other	-	-	-	-	-	-	-
	5,148,713	8,249,773	2,684,539	338,792	380,422	3,541,190	20,343,429
Substandard							
Commercial, Financial, and Agricultural	-	1,053,073	804,973	611,961	1,789,283	26,295	4,285,585
Real Estate Construction	-	4,287,641	-	-	-	109,170	4,396,811
Real Estate Mortgage	-	150,000	4,036,045	864,602	-	24,100	5,074,747
Consumer and Other	-	-	-	-	-	-	-
	-	5,490,714	4,841,018	1,476,563	1,789,283	159,565	13,757,143
Doubtful							
Commercial, Financial, and Agricultural	-	-	-	-	-	-	-
Real Estate Construction	-	-	-	-	-	-	-
Real Estate Mortgage	-	-	-	-	135,531	499,864	635,395
Consumer and Other	-	-	-	-	-	-	-
	-	-	-	-	135,531	499,864	635,395
	$ 356,307,530	$ 325,932,731	$ 364,683,008	$ 219,900,858	$ 59,467,087	$ 166,367,644	$ 1,492,658,858
Current year to date period write-offs							
Commercial, Financial, and Agricultural	$ (13,992,384)	$ (14,093,762)	$ (7,414,099)	$ (2,663,020)	$ (575,289)	$ (351,447)	$ (39,090,001)
Real Estate Construction	-	(1,845,675)	(908,224)	-	-	31,944	(2,721,955)
Real Estate Mortgage	(90,000)	(1,912,000)	-	(563,935)	-	(32,294)	(2,598,229)
Consumer and Other	(42,167)	-	(11,398)	(414,900)	-	(56,970)	(525,435)
	$ (14,124,551)	$ (17,851,437)	$ (8,333,721)	$ (3,641,855)	$ (575,289)	$ (408,767)	$ (44,935,620)

Note 4: Loans (Continued)

	2023	2022	2021	2020	2019	Prior	Total
2023							
Pass							
Commercial, Financial, and Agricultural	$ 189,468,598	$ 172,025,680	$ 62,698,944	$ 19,862,263	$ 16,039,652	$ 26,592,355	$ 486,687,492
Real Estate Construction	94,483,204	71,838,335	41,168,839	1,771,425	6,264,386	1,013,269	216,539,458
Real Estate Mortgage	193,139,897	187,909,118	149,673,130	63,324,388	42,860,065	105,537,472	742,444,070
Consumer and Other	3,273,920	2,959,900	13,221,495	2,974,494	728,479	4,854,670	28,012,958
	480,365,619	434,733,033	266,762,408	87,932,570	65,892,582	137,997,766	1,473,683,978
Special Mention							
Commercial, Financial, and Agricultural	-	-	-	-	619,961	-	619,961
Real Estate Construction	-	-	-	-	8,017	-	8,017
Real Estate Mortgage	-	-	-	-	-	-	-
Consumer and Other	-	-	-	-	-	-	-
	-	-	-	-	627,978	-	627,978
Substandard							
Commercial, Financial, and Agricultural	255,788	3,413,013	33,108	1,550,529	141,254	262,670	5,656,362
Real Estate Construction	-	-	-	-	-	117,958	117,958
Real Estate Mortgage	-	552,200	-	-	149,908	-	702,108
Consumer and Other	-	-	-	-	-	-	-
	255,788	3,965,213	33,108	1,550,529	291,162	380,628	6,476,428
Doubtful							
Commercial, Financial, and Agricultural	-	-	-	-	-	-	-
Real Estate Construction	-	-	-	-	-	-	-
Real Estate Mortgage	-	-	-	146,066	-	-	146,066
Consumer and Other	-	-	-	-	-	-	-
	-	-	-	146,066	-	-	146,066
	$ 480,621,407	$ 438,698,246	$ 266,795,516	$ 89,629,165	$ 66,811,722	$ 138,378,394	$ 1,480,934,450
Current year to date period write-offs							
Commercial, Financial, and Agricultural	$ -	$ (31,769)	$ -	$ -	$ (11,458)	$ (16,934)	$ (60,161)
Real Estate Construction	-	-	-	-	-	-	-
Real Estate Mortgage	-	-	-	-	-	(100,174)	(100,174)
Consumer and Other	(71,970)	(2,533)	(17,669)	(16,768)	(16,6	(1,970)	(127,596)
	$ (71,970)	$ (34,302)	$ (17,669)	$ (16,768)	$ (28,144)	$ (119,078)	$ (287,931)

Note 4: Loans (Continued)

Past due balances and loans on nonaccrual status at December 31, 2024 and 2023, by loan classification, are as follows:

	Past Due 30-89 Days and Still Accruing	Past Due 90 days or more and Still Accruing	Total Past Due and Accruing	Loans on Nonaccrual with Allowance	Loans on Nonaccrual without Allowance	Current	Total Loans
2024							
Commercial, financial, and agricultural	$ 2,078,172	$ -	$ 2,078,172	$ -	$ 4,652,611	$ 441,744,956	$ 448,475,739
Real estate - construction	994,640	-	994,640	-	4,441,522	207,025,703	212,461,865
Real estate - mortgage	2,022,499	520,739	2,543,238	-	16,640,885	789,492,833	808,676,956
Consumer and other	112,597	-	112,597	-	-	22,931,701	23,044,298
	$ 5,207,908	$ 520,739	$ 5,728,647	$ -	$ 25,735,018	$ 1,461,195,193	$ 1,492,658,858

	Past Due 30-89 Days and Still Accruing	Past Due 90 days or more and Still Accruing	Total Past Due and Accruing	Loans on Nonaccrual with Allowance	Loans on Nonaccrual without Allowance	Current	Total Loans
2023							
Commercial, financial, and agricultural	$ 22,396,549	$ 9,017,756	$ 31,414,305	$ 3,632,510	$ 2,019,788	$ 455,897,212	$ 492,963,815
Real estate - construction	247,651	1,539,514	1,787,165	-	117,958	214,760,310	216,665,433
Real estate - mortgage	14,122,221	-	14,122,221	702,108	146,066	728,321,849	743,292,244
Consumer and other	78,793	33,153	111,946	-	-	27,901,012	28,012,958
	$ 36,845,214	$ 10,590,423	$ 47,435,637	$ 4,334,618	$ 2,283,812	$ 1,426,880,383	$ 1,480,934,450

At December 31, 2024 and 2023, loans reported as past due 90 days or more still accruing includes approximately $774,000 and $5,738,000, respectively, of loans that were past due for maturity that were in process of renewal.

Note 4: Loans (Continued)

Information regarding collateral dependent loans as of December 31, 2024 and 2023 follows:

	Real Estate	Equipment, AR and Inventory	Recorded Investment	Related Allowance
2024				
Commercial, financial, and agricultural	$ 3,837,720	$ 7,123,295	$ 10,961,015	$ 1,080,123
Real estate construction	5,457,430	-	5,457,430	-
Real estate mortgage	20,720,026	-	20,720,026	-
Total	30,015,176	7,123,295	37,138,471	1,080,123
2023				
Commercial, financial, and agricultural	-	9,571,474	-	9,571,474
Real estate construction	417,883	-	-	417,883
Real estate mortgage	926,487	-	-	926,487
Consumer and other	46,125	-	-	46,125
Total	$ 1,390,495	$ 9,571,474	$ -	$ 10,961,969

The Company did not have any loan modifications to borrowers experiencing financial difficulty during the years ended December 31, 2024 and 2023.

The Company entered into the mortgage loan resale market during 2007 and executed investor agreements for the sale of certain mortgage loans originated and any related servicing. The agreements vary by investor but may include recourse provisions based on conditions specified in the agreements, such as early payment default or early payoff. All agreements are subject to breach of contract clauses. Total mortgage loans sold to investors subject to recourse provisions were approximately $44,340,000 and $35,647,000 as of December 31, 2024 and 2023, respectively. The Company did not record an estimate of the potential recourse liability as of December 31, 2024 and 2023.

The Company has elected to hold certain mortgage loans originated by the mortgage division of the Bank, and contracts with a third-party service provider for servicing. Mortgage loans held by the Company and serviced by a third-party were approximately $106,410,000 and $87,571,000 as of December 31, 2024 and 2023, respectively, and are reported in loans in the consolidated balance sheets.

Note 5: Premises and Equipment

An analysis of premises and equipment at December 31, 2024 and 2023 is as follows:

	2024	2023
Land	$ 5,505,609	$ 5,505,609
Buildings and improvements	15,059,012	11,669,634
Equipment	4,676,142	4,309,720
Furniture and fixtures	2,055,635	1,895,758
Software	99,516	99,516
Vehicles	121,294	121,294
Subtotal	27,517,208	23,601,531
Accumulated depreciation	(6,677,545)	(5,656,787)
Subtotal	20,839,663	17,944,744
Construction in process	797,772	2,604,084
Right-of-use assets (See Note 11)	2,552,334	2,876,984
Total	$ 24,189,769	$ 23,425,812

Depreciation and amortization expense charged to operations amounted to approximately $1,021,000 and $846,000 for the years ended December 31, 2024 and 2023, respectively.

Note 6: Deposits

The Company has approximately $256,687,000 of time deposits with a minimum denomination of $250,000 at December 31, 2024 ($128,721,000 at December 31, 2023). In addition, at December 31, 2024, the Company has approximately $379,117,000 ($416,909,000 at December 31, 2023) in brokered deposits fully insured by the FDIC maturing during 2025. The maturity schedule for all outstanding time deposits as of December 31, 2024, is as follows:

	2024
2025	$ 930,130,395
2026	11,112,209
2027	1,520,834
2028	892,166
2029	535,756
Total	$ 944,191,360

Note 7: Restricted Equity Securities and Borrowings

As of December 31, 2024, the Company owned stock in the FHLB with a total cost of $1,259,700 ($1,029,700 in 2023). The Bank earns quarterly dividends on the stock. At December 31, 2024 and 2023, the Company also owned stock in First National Bankers Bank with a total cost of $249,885 and $0. The stocks are restricted investments reported at cost and included in restricted equity securities. These investments were not evaluated for impairment as the Company did not identify any events or changes in circumstances that may have a significant adverse effect on the fair value of these investments. The Company estimated that the fair value was equal to cost and not impaired.

As of December 31, 2024 and 2023 the Company had no FHLB advances.

As of December 31, 2024, the Company has a $50,000,000 FHLB letter of credit in favor of the State of Alabama to provide additional collateral for public deposits held for customers under the SAFE Program and FHLB letter of credits totaling $98,261,000 for bank customers.

Certain investment securities, on occasion, are held as collateral for FHLB credit availability. Additional qualifying collateral for the FHLB advances and letter of credit is determined using loan advance rates specified in the agreement and consisted of certain commercial and residential real estate loans with lendable collateral values totaling approximately $114,159,000 and $131,919,000 as of December 31, 2024 and 2023 , respectively. At December 31, 2024, the remaining credit availability with the FHLB was approximately $15,898,000 million based on the remaining lendable collateral value.

The Company has several unsecured correspondent bank federal funds lines of credit with total commitments of $58,500,000 as of December 31, 2024 and 2023, respectively, which are subject to renewal on various dates. As of December 31, 2024 and 2023 there are no advances outstanding.

The Company also has access to borrow funds from the Federal Reserve Bank discount window of approximately $367,054,000 as of December 31, 2024. As of December 31, 2024, the Bank had Federal Reserve Bank discount window borrowings outstanding of $0 ($125,000,000 in 2023).

Note 8: Line of Credit

During 2024, the Company executed a revolving line-of-credit agreement with First National Banker's Bank that is secured by a security interest in the common stock of the Bank. Under terms of the agreement, the Company may borrow up to $20,000,000 at the Wall Street Journal prime rate (7.5% as of December 31, 2024). The line-of-credit agreement requires quarterly interest only payments and principal is payable upon demand. There was no balance outstanding on this line-of-credit at December 31, 2024. As of December 31, 2023 there was a balance of $3,000,000 outstanding on the line-of-credit.

Note 9: Subordinated Debentures

On June 2, 2021, the Company completed the offering and sale of $30,000,000 in aggregate principal amount of fixed-to-floating rate subordinated notes. The proceeds of the offering, net of offering costs of approximately $595,000, were approximately $29,405,000. Net offering costs remaining at December 31, 2024 and 2023 were $396,043 and $451,582, respectively.

Subordinated notes consisted of the following as of December 31, 2024 and 2023:

	2024	2023
Subordinated notes, net of issuance costs issued in June 2021, due 2031, fixed rate of 3.875% during the first five years and at a floating rate of 3.19% above the then three-month Secured Overnight Financing Rate (SOFR), reset quarterly thereafter	$ 23,694,538	$ 23,646,933
Subordinated notes, net of issuance costs issued in June 2021, due 2036, fixed rate of 4.25% during the first ten years and at a floating rate of 2.91% above the then three-month SOFR, reset quarterly thereafter	5,909,419	5,901,485
	$ 29,603,957	$ 29,548,418

Note 10: Junior Subordinated Debentures

During 2022, the Company acquired, through a business combination, Junior Subordinated Debentures issued by Merchants Financial Services, Inc. ("Merchants"). On February 22, 2006, Merchants formed a wholly owned Delaware statutory trust, Merchant Financial Services Trust I (the “Trust”), which issued $5,000,000 in Junior Deferrable Interest Debentures (the “Trust Preferred Securities”). The Company owns all of the common securities of the Trust. The proceeds from the issuance of the common securities and the Trust Preferred Securities were used by the Trust to purchase $5,155,000 of junior subordinated debentures of Merchants, which carry a floating rate of interest equal to the 3 month SOFR plus 145 basis points. At December 31, 2024 and 2023, the net carrying value was $4,046,312 and $3,948,488, respectively, and the rate was 6.37%. The debentures and related accrued interest represent the sole assets of the Trust.

The Trust Preferred Securities accrue and pay distributions quarterly, at an interest rate equal to the 3 month SOFR plus 145 basis points. The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of accrued and unpaid distributions required to be paid on the Trust Preferred Securities, the redemption price with respect to any Trust Preferred Securities called for redemption by the Trust, and payments due upon a voluntary or involuntary dissolution, winding up, or liquidation of the Trust.

The Trust Preferred Securities are mandatorily redeemable upon maturity of the debentures on April 7, 2036, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by the Trust in whole or in part, on or after April 7, 2011. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the unpaid principal amount, plus any accrued unpaid interest.

Note 11: Leases

The Company leases buildings for five of its branch locations. The majority of leases entered into include one or more options to renew. The renewal terms can extend the lease term from one to twenty-five years. The exercise of lease renewal options is at the Company's sole discretion. Renewal option periods are included in the measurement of the ROU asset and lease liability when the exercise is reasonably certain to occur.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Payments due under the lease contracts include fixed payments plus variable payments. The Company pays for real estate taxes, insurance, and maintenance under this lease. These variable lease payments are not included in lease payments used to determine the lease liability and are recognized as variable costs when incurred.

The operating lease ROU asset and lease liability in amounts of $2,552,334 and $2,705,225, respectively, at December 31, 2024 and the operating lease ROU asset and lease liability in amounts of $2,876,984 and $2,934,484, respectively, at December 31, 2023 are included in the following asset and liability accounts on the balance sheet: net premises and equipment and accrued expense and other liabilities.

Components of lease expense were as follows for the years ended December 31, 2024 and 2023:

Lease cost	2024	2023
Operating lease expense	$ 373,118	$ 395,893
Total lease cost	$ 373,118	$ 395,893

Supplemental cash flow information related to leases is as follows for the years ended December 31, 2024 and 2023:

Other information	2024	2023
Operating cash flows from operating leases	$ 324,650	$ 373,731
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 152,892	$ -

	2024	2023
Weighted-average remaining life in years - Operating leases	9.56	10.87
Weighted-average discount rate - Operating leases	2.00 %	1.71 %

Note 11: Leases (Continued)

Maturities of lease liabilities are as follows as of December 31, 2024:

Years Ended December 31, 2024		**2024**
2025	$	357,210
2026		357,894
2027		324,606
2028		242,692
2029		246,433
Thereafter		1,507,234
Total lease payments		3,036,069
Less imputed interest		(330,844)
Total	$	2,705,225

Note 12: Income Taxes

Provisions for federal and state income taxes are based on amounts reported in the consolidated statements of income (after exclusion of nontaxable income items such as interest earned on tax-exempt municipal securities and bank-owned life insurance) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes.

The components of income tax expense (benefit) for the years ended December 31, 2024 and 2023, were as follows:

		2024		**2023**
Current tax expense:				
Federal	$	4,376,824	$	4,988,766
State		1,043,198		1,326,733
Total current		5,420,022		6,315,499
Deferred tax (benefit) expense:				
Federal		(7,335,655)		(1,573,764)
State		(1,791,995)		(384,448)
Total deferred		(9,127,650)		(1,958,212)
Total	$	(3,707,628)	$	4,357,287

Note 12: Income Taxes (Continued)

The components of the net deferred tax assets (liabilities) as of December 31, 2024 and 2023, are as follows:

	2024	2023
Deferred tax assets:		
Federal	$ 15,537,808	$ 7,847,206
State	3,230,809	1,473,706
Total deferred tax assets	18,768,617	9,320,912
Deferred tax liabilities:		
Federal	(2,858,860)	(2,928,530)
State	(698,378)	(715,400)
Total deferred tax liabilities	(3,557,238)	(3,643,930)
Net deferred tax assets	$ 15,211,379	$ 5,676,982
Deferred tax assets:		
Allowance for credit losses	$ 13,386,742	$ 4,263,547
Deferred loan fees	513,492	617,018
Accrued expenses and other liabilities	297,217	343,709
Deferred compensation	569,876	488,026
Loan discounts	352,479	467,425
Other real estate	56,306	56,306
Organizational costs	2,003	2,308
Investments fair value adjustments	373,336	373,336
Lease liability	687,775	766,781
Net unrealized losses on securities	2,312,271	1,905,524
Other	217,120	36,932
Total deferred tax assets	18,768,617	9,320,912

Note 12: Income Taxes (Continued)

	2024	2023
Deferred tax liabilities:		
Depreciation	(1,833,338)	(1,769,358)
Deferred loan costs	(52,787)	(74,446)
Interest rate lock commitments and forward contracts	(83,038)	(73,065)
Prepaid expenses	(135,352)	(98,213)
Right-of-use asset	(666,925)	(751,756)
Core deposit intangible	(489,467)	(559,391)
TRUPs (Trust Preferred Securities)	(289,700)	(315,262)
Other	(6,631)	(2,439)
Total deferred tax liabilities	(3,557,238)	(3,643,930)
Net deferred tax assets	$ 15,211,379	$ 5,676,982

Income taxes for financial reporting purposes differ from the amount computed by applying the statutory federal income tax rate of 21% for the years ended December 31, 2024 and 2023, for the reasons below:

	2024	2023
Tax based on statutory rate	$ (2,743,155)	$ 4,188,735
State tax, net of federal benefit	(591,566)	744,405
Increase (decrease) in taxes resulting from:		
Tax exempt interest	(45,574)	(111,241)
Earnings on bank-owned life insurance	(64,372)	(59,345)
Investment tax credit, net	(218,838)	(231,646)
Other	(44,123)	(173,621)
	$ (3,707,628)	$ 4,357,287

Pursuant to ASC 740-10-30-2, deferred tax assets and liabilities are measured using enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. Additionally, deferred tax assets and liabilities are subject to a more likely than not test. Management believes that it is more likely than not that the net deferred tax assets or liabilities will be realized based on future operations of the Company and Bank.

The Company measures and recognizes tax positions taken or expected to be taken in a tax return that directly or indirectly affects amounts reported in the Company's consolidated financial statements and reviews its income tax positions to determine if each position meets a "more likely than not" threshold of expectation of prevailing. As of December 31, 2024 and 2023, the Company has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements under the current guidance. The Company's Federal and State income tax returns for the tax years 2021 through 2024 are subjust to audit.

Note 12: Income Taxes (Continued)

The Company invests in qualified low income housing projects. At December 31, 2024 and 2023, the balance of the investment in low income housing tax credits amounted to $2,471,295 and $2,915,255, respectively.

During the years ended December 31, 2024 and 2023, the Company recognized amortization expense on its investment in low income housing tax credits of $443,962 and $444,740, respectively, and also recognized tax credits and other benefits from its investment in low housing tax credits of $532,534 and $532,534, respectively. These amounts are reported net within income tax expense in the consolidated statements of income.

Note 13: Concentrations

Most of the Company's deposit and lending activities are with customers located within Alabama. The Company grants commercial, residential, and consumer loans primarily to customers in Alabama. The concentrations of loans by type are set forth in Note 4.

Note 14: Financial Instruments with Off-balance-sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

The Company may require collateral or other security to support financial instruments with credit risk. The total collateral values, which consisted primarily of real estate, accounts receivable, inventory, and equipment and may be cross-collateralized for loans, was greater than the secured letters of credit. There was no liability recorded for these guarantees at December 31, 2024 and 2023.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Note 14: Financial Instruments with Off-balance-sheet Risk (Continued)

Performance and financial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extended loan facilities to customers. The approximate outstanding notional amount of off-balance-sheet risk at December 31 is as follows:

	2024	2023
Performance and financial letters of credit	$ 27,198,792	$ 28,205,992
Unused lines of credit	194,235,404	319,601,527
Total	$ 221,434,196	$ 347,807,519

Note 15: Benefit Plans

The Company has a deferred compensation plan described as an Employee Stock Ownership Plan with 401(k) provisions (KSOP). The Company makes a matching contribution to each eligible participant's account in an amount equal to 50% of a participant's elective contributions up to 6 percent of such participant's eligible compensation. Participants may make elective contributions up to the maximum amount permitted by law. The Company may also make an additional non-elective contribution to the plan, at its discretion. Under the KSOP, the Company may, at its discretion, make an annual contribution to the KSOP in cash or in Company stock, if available, up to the maximum amount allowed by federal law. The contributions are allocated to all participants in the ratio that each participant's compensation for the year bears to all participants' compensation for that year. The Company's matching contribution to the Plan is made by issuing common stock to the Plan by releasing treasury stock held.

Any employee of the Company or the Bank is eligible for participation as of the first day of the Plan quarter coinciding with or next following the date they satisfy the following requirements: (1) the earlier of (i) completion of a year of service, or (ii) completion of 1,000 hours of service during an eligible computation period, and (2) attainment of 21 years of age. An employee's contribution is always 100% vested in their contributions. An employee becomes vested in the employer matching and employer discretionary profit sharing contributions in 20% increments commencing after completion of two years of service until completing his or her sixth year of service, at which time he or she is deemed to be one hundred percent (100%) vested. Upon an employee's termination of employment, the employee's interest in the KSOP may be distributed to him or her in either one lump sum payment, or over a period not more than their assumed life expectancy.

The compensation cost relating to the KSOP was approximately $265,000 and $283,000 for the years ended December 31, 2024 and 2023, respectively, and is included in salaries and employee benefits expense on the consolidated statements of income.

Note 15: Benefit Plans (Continued)

During 2021, the Bank adopted an Executive Performance and Retention Plan (the "Plan"). The Plan is a nonqualified benefit plan, which provides highly compensated or management employees of the Company benefits in the future, usually at retirement, in return for continued satisfactory performance by the employee. The Plan's expenses are offset by earnings on life insurance policies. The cash surrender value and net earnings on the related policies amounted to approximately $12,967,000 and $307,000 and $12,250,000 and $283,000, respectively, as of and for the years ended December 31, 2024 and 2023. Additionally, at December 31, 2024 and 2023, the Bank has recorded a liability for the present value of the future benefits to be paid under the Plan amounting to approximately $2,181,000 and $1,868,000, respectively. Expense related to the Plan amounted to approximately $376,000 and $0 for the years ended December 31, 2024 and 2023.

Note 16: Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the FDIC. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the Company's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank must maintain certain minimum capital ratios as set forth in the table below for capital adequacy purposes. In accordance with the Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal regulatory agencies jointly adopted a final rule, effective January 1, 2020, to implement the community bank leverage ratio ("CBLR") framework, which introduced an optional simplified measure of capital adequacy for qualifying community banking organizations. To qualify for the CBLR framework, a community banking organization must satisfy certain requirements, including having less than $10 billion in total consolidated assets, a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9%, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the CBLR framework will be considered to have met the well-capitalized ratio requirements under the "prompt corrective action" regulations and will not be required to report or calculate risk-based capital ratios. The final rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than one percentage point below the applicable CBLR requirement.

Note 16: Regulatory Capital (Continued)

As of December 31, 2024, the most recent notification from the regulatory agencies categorized the Bank as well adequately under the regulatory framework for prompt corrective action. To be categorized as well adequately, the Company must maintain minimum regulatory capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

At December 31, 2024, the Bank's CBLR was below 8%, below the minimum 9.0% required. If the CBLR falls below 8% at any time, the Bank is not eligible and must calculate the risk-based capital ratios.

As of December 31, 2023, the Company qualified for and elected to use the CLBR framework. An institution opting into the CBLR framework and meeting all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital.

The Bank's actual capital amounts and ratios, and minimum amounts under current regulatory standards, as of December 31, 2024 and 2023 are presented in the following table:

	Actual		For Capital Adequacy Purposes (includes the conservation buffer for the Bank only)		To Be Well-Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2024						
Total Capital Common Equity Tier 1 capital (to risk-weighted assets)	$ 120,486,000	7.84 %	$ 69,140,000	4.50 %	$ 99,870,000	6.50 %
Total capital (to risk-weighted assets)	133,845,000	8.71 %	122,920,000	8.00 %	153,640,000	10.00 %
Tier 1 capital (to risk-weighted assets)	120,486,000	7.84 %	92,190,000	6.00 %	122,920,000	8.00 %
Tier 1 capital (to average assets)	120,486,000	6.72 %	71,753,000	4.00 %	89,692,200	5.00 %
As of December 31, 2023						
Tier 1 Capital (to average assets)	$ 131,626,000	8.37 %	$ 141,610,000	9.00 %	$ 141,610,000	9.00 %

Note 17: Stock Options and Restricted Stock

The Bank established the 2015 Stock Incentive Plan (Stock Plan), which is an incentive stock plan for key employees and directors. The Stock Plan permits the granting of three types of awards which are non-statutory stock options, incentive stock options, and restricted stock awards.

Incentive Stock Options

The Board of Directors granted stock options under the employee stock incentive plan to certain employees and directors of the Bank in previous years. The 57,001 stock options issued in 2015 are still outstanding and vested over a three- or four-year period. During 2017, stock options for 80,000 shares were issued to certain employees and directors. The 2017 stock option awards vested immediately or annually over a three-year period. There were no stock options issued in 2024 and 2023.

Restricted Stock Awards

During 2024, the Company issued 4,200 restricted stock grants to directors, that were held in escrow and vested in May 2024. During 2023, the Company issued 4,900 restricted stock grants to directors, that were held in escrow and vested in May 2023. The value of restricted stock awards expensed amounted to $123,900 in 2024 and $137,200 for 2023.

The following table summarizes the activity related to options during 2024 and 2023:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2022	137,001	$ 10.81
2023 - Activity		
Granted	-	-
Exercised	-	-
Options expired	-	-
Options outstanding, December 31, 2023	137,001	10.81
2024 - Activity		
Granted	-	-
Exercised	-	-
Cancellations and forfeitures	-	-
Options expired	-	-
Options outstanding, December 31, 2024	137,001	$ 10.81

Note 17: Stock Options and Restricted Stock (Continued)

The maximum number of shares to be issued under the 2015 Stock Plan is 315,150 shares of common stock. At December 31, 2024, 134,850 shares were available to be issued.

Years Ended December 31, 2024 and 2023	2024	2023
Options exercisable, December 31	$ 137,001	$ 137,001
Weighted average remaining contractual life (in years):		
Options granted in 2015	0.60	1.60
Options granted in 2017	2.50	3.50

Note 18: Related-Party Transactions

As of December 31, 2024, loans outstanding to executive officers, directors, principal shareholders, and their affiliates totaled $16,766,138 ($16,362,260 in 2023). The activity related to insider loans is as follows:

	2024	**2023**
Beginning balance	$ 16,362,260	$ 19,219,600
Change in directors	33,273	-
New loans during the year	3,126,801	2,177,860
Repayments during the year	(2,756,196)	(5,035,200)
Ending balance	$ 16,766,138	$ 16,362,260

The Company holds interest-bearing and noninterest-bearing deposits from executive officers, directors, principal shareholders, and their affiliates of approximately $40,709,000 and $11,680,000 as of December 31, 2024 and 2023, respectively.

Note 19: Fair Value Measurements

The Company reports fair value using the established categories within the fair value hierarchy (Note 2). The valuation methodologies used to determine the fair values of assets and liabilities reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of financial assets and financial liabilities based on quoted market prices, where available.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Securities – For securities available-for-sale, fair values are based on quoted market prices or dealer quotes. For other investments, fair value is estimated to be approximately the carrying amount.

Note 19: Fair Value Measurements (Continued)

Loans Held-for-Sale – For certain homogeneous categories of loans, such as some residential mortgage and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and maturities.

Derivatives – The Bank estimates the fair value of IRLCs based on the value of the underlying mortgage loan, quoted agency MBS prices, and the probability that the mortgage loan will fund within the terms of the IRLC. The Bank estimates the fair value of forward sales commitments based on quoted MBS prices.

Individually Evaluated Loans – Nonrecurring fair value adjustments to individually evaluated loans reflect full or partial write- downs that are based on the loan's observable market price or current appraised value of the underlying collateral.

Other Real Estate – Other real estate consists primarily of commercial or residential property or land. The fair values of other real estate are primarily based on independent appraisals of the underlying properties, net of any estimated selling costs. Nonrecurring fair value adjustments to other real estate reflect full or partial write-downs that are based on the real estate's observable market price or current appraised value of the underlying collateral.

Note 19: Fair Value Measurements (Continued)

Items Measured at Fair Value on a Recurring Basis

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurement at Report Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2024				
Assets:				
Securities available-for-sale:				
Mortgage-backed securities	$ 25,939,000	$ -	$ 25,939,000	$ -
State, county, and municipal securities	30,515,000	-	30,515,000	-
Trust preferred securities	$ 2,395,000	$ -	$ 2,395,000	$ -
Loans held-for-sale	4,601,000	-	4,601,000	-
Derivative asset	126,000	-	126,000	-
December 31, 2023				
Assets:				
Securities available-for-sale:				
Mortgage-backed securities	$ 9,070,000	$ -	$ 9,070,000	$ -
State, county, and municipal securities	23,509,000	-	23,509,000	-
Trust preferred securities	$ 2,284,000	$ -	$ 2,284,000	$ -
Loans held-for-sale	1,866,000	-	1,866,000	-
Derivative asset	168,000	-	168,000	-

Note 19: Fair Value Measurements (Continued)

Items Measured at Fair Value on a Nonrecurring Basis

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2024 and 2023:

	Fair Value Measurement at Report Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2024				
Assets:				
Individually evaluated loans	$ 36,058,000	$ -	$ -	$ 36,058,000
Other real estate	5,708,000	-	-	5,708,000
December 31, 2023				
Assets:				
Individually evaluated loans	$ 6,974,000	$ -	$ -	$ 6,974,000
Other real estate	130,000	-	-	130,000

Note 19: Fair Value Measurements (Continued)

The following presents quantitative information about nonrecurring Level 3 fair value measurements at December 31, 2024 and 2023:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range/Weighted Average
2024				
Collateral dependent loans	$ 36,058,000	Market and/or income approach	Management discount on appraised values	10%
Other real estate	$ 5,708,000	Market and/or income approach	Management discount on appraised values	10%
2023				
Collateral dependent loans	$ 6,974,000	Market and/or income approach	Management discount on appraised values	10%
Other real estate	$ 130,000	Market and/or income approach	Management discount on appraised values	10%

Note 19: Fair Value Measurements (Continued)

The carrying value and estimated fair value of financial instruments at December 31, 2024 and 2023 follows, in thousands:

			Fair Value Measurement at Report Date Using		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
December 31, 2024					
Assets:					
Cash and cash equivalents	$ 130,779	$ 130,779	$ 130,779	$ -	$ -
Securities available-for-sale	58,849	58,849	-	58,849	-
Loans held-for-sale	4,601	4,601	-	4,601	-
Loans, net	1,479,300	1,465,416	-	1,429,358	36,058
Accrued interest receivable	8,044	8,044	-	8,044	-
Derivative asset	126	126	-	126	-
Total	1,681,699	1,667,815	130,779	1,500,978	36,058
Liabilities:					
Deposits	1,624,680	1,577,729	-	1,577,729	-
Accrued interest payable	1,485	1,485	-	1,485	-
Total	1,624,680	1,577,729	-	1,577,729	$ -
December 31, 2023					
Assets:					
Cash and cash equivalents	$ 87,198	$ 87,198	$ 87,198	$ -	$ -
Securities available-for-sale	34,862	34,862	-	34,862	-
Loans held-for-sale	1,866	1,866	-	1,866	-
Loans, net	1,463,713	1,452,081	-	1,445,107	6,974
Accrued interest receivable	8,134	8,134	-	8,134	-
Derivative asset	168	168	-	168	-
Total	1,595,941	1,584,309	87,198	1,490,137	6,974
Liabilities:					
Deposits	1,378,164	1,380,280	-	1,380,280	-
Other borrowings	125,000	125,017	-	125,017	-
Line of credit	3,000	3,000	-	3,000	-
Accrued interest payable	1,133	1,133	-	1,133	-
Total	1,507,297	1,509,430	-	1,509,430	$ -

Note 20: Mortgage Banking Activity

The Company, through the Bank, enters into interest rate lock commitments (IRLCs) with customers who have applied for residential mortgage loans and meet certain credit and underwriting criteria. These commitments expose the Company to market risk if interest rates change, and the loan is not economically hedged or committed to an investor. Commitments to originate loans do not necessarily reflect future cash requirements as some commitments are expected to expire without being drawn upon. Total commitments to originate loans carried a notional amount of approximately $7,566,000 and $7,496,000 at December 31, 2024 and 2023, respectively. The related interest rate lock commitment derivative asset was approximately $126,000 and $168,000 at December 31, 2024 and 2023, respectively.

The Bank also uses forward sales of MBS TBA's to manage its interest rate risk on interest rate lock commitments. There was no derivative liability related to the outstanding TBA's at December 31, 2024 and 2023.

There was no net gain (loss) on the derivatives related to the mortgage banking activities for the years ended December 31, 2024 and 2023, respectively.

Note 21: Parent Company Only Financial Statements

Statements of Financial Condition at December 31:

	2024	2023
ASSETS		
Cash and due from banks	$ 199,120	$ 655
Investment in bank subsidiary	125,843,026	138,781,356
Goodwill	456,476	456,476
Other assets	234,872	869,224
TOTAL ASSETS	$ 126,733,494	$ 140,107,711
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debentures	$ 33,650,269	$ 33,496,906
Other borrowings	-	3,000,000
Deferred tax liability	267,769	293,025
Accrued expense and other liabilities	116,000	116,000
TOTAL LIABILITIES	34,034,038	36,905,931
TOTAL SHAREHOLDERS' EQUITY	92,699,456	103,201,780
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 126,733,494	$ 140,107,711

Note 21: Parent Company Only Financial Statements (Continued)

Statements of Operations for the Years Ended December 31:

	2024	2023
INCOME		
Dividends from Subsidiary and Trust	$ 3,747,254	$ 10,160,118
Miscellaneous Income	-	30
TOTAL INCOME	3,747,254	10,160,148
EXPENSES		
Interest on subordinated debentures	1,240,539	1,296,077
Interest on TRUPs	464,067	434,309
Interest on line-of-credit	33,335	304,931
Other expenses	126,900	137,200
TOTAL EXPENSES	1,864,841	2,172,517
Income before income taxes and equity in undistributed earnings of subsidiary	1,882,413	7,987,631
Income tax benefit	431,649	490,655
Income before equity in undistributed earnings of subsidiary	2,314,062	8,478,286
Equity in undistributed earnings (loss) of subsidiary	(11,669,079)	7,110,783
NET INCOME (LOSS)	$ (9,355,017)	$ 15,589,069

Note 21: Parent Company Only Financial Statements (Continued)

Statements of Cash Flows for the Years Ended December 31:

Years Ended December 31, 2024 and 2023	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ (9,355,017)	$ 15,589,069
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	11,669,079	(7,110,783)
Share-based compensation	123,900	137,200
Other, net	760,503	(50,178)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,198,465	8,565,308
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contribution to subsidiary	-	(13,231,577)
NET CASH USED IN INVESTING ACTIVITIES	-	(13,231,577)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal reduction on line-of-credit	(3,000,000)	-
Proceeds from line of credit	-	3,000,000
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(3,000,000)	3,000,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	198,465	(1,666,269)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	655	1,666,924
CASH AND CASH EQUIVALENTS AT END OF YEAR	199,120	655
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 1,737,941	$ 2,035,317

Supplementary Information

HUD REQUIRED FINANCIAL DATA TEMPLATE

SOUTHPOINT BANK

December 31, 2024

Balance Sheet - Assets

Line Item #	Title	Value
100	Cash and Cash Equivalents	$ 130,779,174
101	Escrow deposit Cash	$ -
102	Restricted Cash / Compensating Balances	$ -
103	Trading Account Securities	$ -
104	Net Mortgage Servicing Rights	$ -
105	Other Real Estate Owned at Net Realizable Value	$ 5,708,180
106	Loans Held for Investment	$ 1,479,299,673

Balance Sheet - Unacceptable Assets

Line Item #	Title	Value
200	Pledged Assets	$ -
201	Assets Due from an Officer, Stockholder, or Related Entity	$ 16,766,138
202	Personal Interest Investment	$ -
203	Investment in Related Entity, Greater than Equity As Adjusted	$ -
204	Intangible Assets, Net of Amortization	$ 14,512,590
205	Value of Servicing Contract not in Accordance with ASC 948 and ASC 860	$ -
206	Assets not Readily Marketable	$ -
207	Marketable Security in Excess of Cost or Market	$ 1,538
208	Amount in Excess of Foreclosure Value	$ -
209	Assets used for Personal Enjoyment	$ -
210	Other Unacceptable Assets	$ 5,904,070
211	Contributed Property in Excess of Appraised Value	$ -
212	Real Property	$ 24,189,769
213	Prepaid Expenses	$ -
214	Deferred Tax Asset	$ 15,211,379
215	Total Unacceptable Assets	$ 76,585,484

HUD REQUIRED FINANCIAL DATA TEMPLATE

SOUTHPOINT BANK

December 31, 2024

Balance Sheet - Total Assets as Reported

Line Item #	Title	Value
250	Total Assets as Reported	$ 1,761,575,832

Balance Sheet - Liability

Line Item #	Title	Value
300	Escrows Payable	$ -

Statement of Operations and Equity - Revenue

Line Item #	Title	Value
409	Correspondent and Broker Fee Income	$ -
410	Other Retail Origination Income	$ -
412	Other Income (Loss) Not Related To Mortgage Lending Activities	$ 119,012,588

Statement of Equity

Line Item #	Title	Value
500	Balance at Beginning of the Year, as Reported	$ 138,781,356
501	Prior Period Adjustments	$ -
502	Balance at Beginning of the Year, Restated	$ 138,781,356
503	Net Income	$ (7,930,078)
504	Dividend / Distribution	$ (3,739,000)
505	Contributions - from Cash Flow Statement	$ -
506	Contributions - non-cash	$ 260,890
507	Other Equity	$ (1,530,141)
508	Ending Balance	$ 125,843,027

HUD REQUIRED FINANCIAL DATA TEMPLATE

SOUTHPOINT BANK

December 31, 2024

Net Worth

Line Item #	Title	Value
600	FHA Servicing Portfolio	$ -
601	FHA Originations	$ 48,223,416
602	FHA Purchases	$ -
603	Subtotal - FHA Loan Activity	$ 48,223,416
604	FHA Origination Servicing Retained	$ -
605	FHA Purchase Servicing Retained	$ -
606	Subtotal - Servicing Retained Adjustments	$ -
607	Total Adjusted FHA Loan Activity	$ 48,223,416
608	Net Worth Required Baseline	$ 1,000,000
609	Additional Net Worth Required	$ 232,234
610	Total Minimum Net Worth Required	$ 1,234,234
611	Stockholder Equity - Ending Balance	$ 125,843,027
612	Total Unacceptable Assets	$ 76,585,484
613	Adjusted Net Worth	$ 49,257,543
614	Adjusted Net Worth Above/Below Required Minimum Amount	$ 48,025,309

Liquidity

Line Item #	Title	Value
700	Cash and Cash Equivalents	$ 130,779,174
701	Trading Account Securities	$ -
702	Total of Liquid Assets per HUD Guidelines	$ 130,779,174
703	Liquid Assets Required	$ 246,447
704	Liquid Assets Above/Below Required Amount	$ 130,532,727

SOUTHPOINT BANCSHARES, INC. AND SUBSIDIARY
SCHEDULE OF ADJUSTED NET WORTH (REQUIRED BY HUD)
DECEMBER 31, 2024

Servicing portfolio at December 31, 2024		$ -
Add		
Originated during fiscal year	$ 48,223,416	
Purchase from loan correspondents during fiscal	-	
Subtotal	48,223,416	
Less		
Service retained	-	
Loan correspondents purchased retained	-	
Subtotal	-	
Subtotal		48,223,416
Total		$ 48,223,416
Calculated net worth required		$ 1,000,000
Net worth required		$ 1,000,000
Stockholders' equity (net worth) per balance sheet	$ 125,843,027	
Less unacceptable assets	76,585,484	
Adjusted net worth for HUD requirement purposes		$ 49,257,543
Adjusted net worth above amount required		$ 48,025,309

MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Southpoint Bancshares, Inc.
Birmingham, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Southpoint Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2024, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated April 30, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Southpoint Bancshares, Inc. and Subsidiary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of audit findings, questioned costs, and recommendations as item 2024-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of audit findings, questioned costs, and recommendations as items 2024-002 and 2024-003 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southpoint Bancshares, Inc. and Subsidiary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings, questioned costs, and recommendations as item 2024-001.

Report on Compliance and Other Matters

Government Auding Standards requires the auditor to perform limited procedures on Southpoint Bancshares, Inc. and Subsidiary's response to the findings identified in our audit and described in the accompanying schedule of findings, questions costs, and recommendations. Southpoint Bancshares, Inc. and Subsidiary's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Birmingham, Alabama
April 30, 2025

MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR HUD PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS*

To the Board of Directors
Southpoint Bancshares, Inc.
Cullman, Alabama

Report on Compliance for Major HUD Program

Opinion on the Major HUD Program

We have audited Southpoint Bancshares, Inc. and Subsidiary's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) that could have a direct and material effect on each of Southpoint Bancshares, Inc. and Subsidiary's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 2024. Southpoint Bancshares, Inc. and Subsidiary's major HUD program and the related direct and material compliance requirements is as follows:

Name of Major HUD Program	Direct and Material Compliance Requirements
FHA Approved Supervised Lender Program	*Quality Control Plan, Branch Office Operations, Loan Origination, Federal Financial and Activity Reports, Lender Annual Recertification, Adjusted Net Worth, Liquidity and Licensing, Loan Settlement, Escrow Accounts, Kickbacks*

In our opinion, Southpoint Bancshares, Inc. and Subsidiary complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major HUD program for the year ended December 31, 2024.

Basis for Opinion on the Major HUD Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAS); and the audit guide. Our responsibilities under those standards and the audit guide are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of Southpoint Bancshares, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. Our audit does not provide a legal determination of the Southpoint Bancshares, Inc. and Subsidiary's compliance.

Management's Responsibility for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts, or grant agreements applicable to its HUD programs. *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Southpoint Bancshares, Inc. and Subsidiary's' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, GAS, and the audit guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Southpoint Bancshares, Inc. and Subsidiary's compliance with the requirements of each major HUD program as a whole.

In performing an audit in accordance with GAAS, GAS, and the audit guide, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Company's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Company's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the audit guide, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a HUD program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the "Auditor's Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the audit guide. Accordingly, this report is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Birmingham, Alabama
April 29, 2025

SOUTHPOINT BANCSHARES, INC.
SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2024

Our audit disclosed the following findings that are required to be reported herein under the HUD Consolidated Audit Guide.

Finding 2024-001: Failure to adequately and timely identify loan losses.

Condition: During our review of the allowance for credit losses and related loans, we identified a material weakness where the Company's controls failed to adequately and timely identify loan losses affecting financial and regulatory reporting. During our review, we were unable to locate support for collateral securing individually evaluated loans. Further research by management indicated a lack of supporting collateral and dependable collateral values for a number of loans, resulting in additional specific reserves and charge-offs totaling over $33 million.

Criteria: As part of the Company's estimate of the allowance for credit losses on loans, accounting standards require that loans be individually evaluated for credit losses when they do not share similar risk characteristics with other loans in the portfolio. Expected losses on those determined to be collateral dependent should be based on the fair value of the collateral less estimated selling costs.

Effect: Further research by management indicated a lack of supporting collateral and dependable collateral values for a number of loans, resulting in additional specific reserves and charge-offs totaling over $33 million.

Cause: The Company did not properly obtain, retain, or review appropriate supporting documents for the valuation of collateral securing individually evaluated loans.

Recommendation: We recommend all loan documents, including support for collateral values, be scanned into the loan files in a timely manner. In addition, we recommend that management enhance their oversight and monitoring of problem loans and the associated collateral securing the loans that will help management adequately monitor the loans and to enhance the controls in this area to adequately address the risk.

Management's response: Management will ensure adequate support for collateral values on individually evaluated loans will be obtained, retained in the loan files, and reviewed as part of the determination of the allowance for credit losses on loans. In addition, loans will be properly reserved for or charged-off when adequate collateral support is not available.

Finding 2024-002: Failure to adequately address external loan review findings.

Condition: During our review of external loan review reports, we noted that recommendations for loan downgrades and identification of other loan issues were not adequately addressed by management. In addition, we noted that loan requests were not provided to the loan reviewer in a timely manner, resulting in significantly delayed reports.

Criteria: As part of the Company's assessment of loan credit quality, a loan review will be performed annually. Recommendations of the loan reviewer should be fully and timely addressed by management.

Effect: Loan problems identified by the loan reviewer were not adequately addressed in a timely manner, with some of the loan review findings directly leading to the additional specific reserves and charge-offs identified above in Finding 2024-001.

Cause: The Company did not properly review and address recommendations in the external loan review report.

Recommendation: We recommend all loan review recommendations be promptly evaluated and corrected, and any disagreements with recommendations should be appropriately supported and approved by management.

Management's response: Management will ensure full and accurate information is provided in a timely manner to assist with completing the loan review. In addition, management will review and address all loan review recommendations, including obtaining supporting information and appropriate approvals for disagreements with any loan review recommendations.

Finding 2024-003: Failure to adequately address deficiencies in control testing.

Condition: During our control testing, we noted the following control deficiencies:

- We were unable to locate formal review and approval of the deferred tax calculation.
- We were unable to locate formal review of the 4Q 2024 individually evaluated loans listing and allowance calculation.
- We noted certain signoffs on reconciliations or forms were incomplete.
- We noted the Company's risk assessment was not properly presented to or approved by the Audit Committee or the Board of Directors.

Criteria: The Company has identified certain key internal controls to prevent and detect errors and misstatements. These controls are required to be tested annually for proper implementation and operating effectiveness.

Effect: Inadequate implementation and effectiveness of internal controls can lead to errors and misstatements in financial reporting.

Cause: The Company did not properly complete certain review controls as noted above.

Recommendation: We recommend a formal signoff including signature and date indicating management's review of the deferred tax calculation. We recommend a formal signoff including signature and date indicating management's review of individually evaluated loans and the allowance calculation. We recommend all signoffs indicate the preparer and reviewer signature and the dates of preparation and review to ensure reviews are completed in a timely manner. We recommend the Company's Risk Assessment be presented to and approved by the Audit Committee or the Board of Directors annually.

Management's response: Management will ensure internal control procedures are properly completed, including ensuring appropriate reviews and approvals are performed and signoffs are fully documented.

There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.

There were no letters or reports issued by HUD management during the period covered by this audit.