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

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended: March 31, 2024
or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from __________ to __________

Commission File Number: 001-40727

SOUTHERN STATES BANCSHARES, INC.

Southern States Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Alabama	**26-2518085**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
615 Quintard Ave., Anniston, AL	**36201**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (256) 241-1092

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $5.00 par value per share	**SSBK**	**The Nasdaq Stock Market, LLC**

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

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

As of May 13, 2024, the registrant had 8,908,541 shares of common stock, $5 par value per share, issued and outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q of Southern States Bancshares, Inc. ("Southern States" or the "Company") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which reflect our current expectations and beliefs with respect to, among other things, future events and our financial performance. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Although we believe that the expectations reflected in such forward-looking statements are reasonable as of the dates made, we cannot give any assurance that such expectations will prove correct and actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict.

These statements are often, but not always, made through the use of words or phrases such as "may," "can," "should," "could," "to be," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "likely," "anticipate," "seek," "estimate," "intend," "plan," "target," "project," "would" and "outlook," or the negative version of those words or other similar words or phrases of a future or forward-looking nature. Forward-looking statements appear in a number of places in this Quarterly Report on Form 10-Q and may include statements about business strategy and prospects for growth, operations, ability to pay dividends, competition, regulation and general economic conditions.

There are or may be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- our ability to execute and prudently manage our growth and execute our strategy, including expansion activities;
- our ability to adequately measure and limit our credit risk;
- business, market and economic conditions generally and in the financial services industry, nationally and within our local markets;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our markets and the financial health of our commercial borrowers;
- the failure of assumptions and estimates, as well as differences in, and changes to, economic, market, and credit conditions, including changes in borrowers' credit risks and payment behaviors;
- compliance with governmental and regulatory requirements, including the Dodd-Frank Act and others relating to banking, consumer protection, securities and tax matters, and our ability to maintain licenses required in connection with mortgage origination, sale and servicing operations;
- compliance with the Bank Secrecy Act, Office of Foreign Assets Control ("OFAC") rules and anti-money laundering laws and regulations;
- governmental monetary and fiscal policies;
- the effectiveness of our risk management framework, including internal controls;
- the composition of and future changes in our management team and our ability to attract and retain key personnel;
- geographic concentration of our business in certain Alabama and Georgia markets;
- our ability to attract and retain customers;
- the risks of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest-sensitive assets and liabilities, and the risks and uncertainty of the amounts realizable;
- changes in the availability and cost of credit and capital in the financial markets, and the types of instruments that may be included as capital for regulatory purposes;
- changes in the prices, values and sales volumes of residential and commercial real estate;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment, trust and other wealth management services and insurance services, including the disruption effects of financial technology and other competitors who are not subject to the same regulations as the Company and Southern States Bank ("the Bank");
- the failure of assumptions and estimates underlying the establishment of allowances for possible loan losses and other asset impairments, losses, valuations of assets and liabilities and other estimates;
- risk related to our recently announced merger agreement to acquire CBB Bancorp and Century Bank of Georgia;
- the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;
- changes in technology or products that may be more difficult, costly, or less effective than anticipated;

- systems failures or interruptions involving our risk management framework, our information technology and telecommunications systems or third-party servicers;
- unauthorized data access, cyber-crime and other threats to data security and customer privacy;
- our ability to maintain our historical rate of growth;
- our ability to identify potential candidates for, consummate, and achieve synergies resulting from, potential future acquisitions;
- deterioration of our asset quality or the value of collateral securing loans;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters and appropriate compliance with applicable law and regulation;
- operational risks associated with our business;
- volatility and direction of market interest rates and the shape of the yield curve;
- our ability to maintain important deposit customer relationships, maintain our reputation or otherwise avoid liquidity risks;
- the obligations associated with being a public company;
- the commencement and outcome of litigation and other legal proceedings against us or to which we may become subject;
- natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities (such as the conflict between Russia and Ukraine or Israel and Hamas) or other international or domestic calamities as well as national and international economic conditions and health issues and other matters beyond our control; and
- other factors that are discussed in the sections titled “Risk Factors” in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements and the “Risk Factors” included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share amounts)

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Assets		
Cash and due from banks	$ 20,470	$ 19,710
Interest-bearing deposits in banks	129,917	134,846
Federal funds sold	86,736	96,095
Total cash and cash equivalents	237,123	250,651
Securities available for sale, at fair value ($188,732 at amortized cost, $0 allowance for credit losses at March 31, 2024; $190,322 at amortized cost, $0 allowance for credit losses at December 31, 2023)	177,379	179,000
Securities held to maturity, at amortized cost ($16,098 at fair value, $0 allowance for credit losses at March 31, 2024; $16,233 at fair value, $0 allowance for credit losses at December 31, 2023)	19,627	19,632
Other equity securities, at fair value	3,638	3,649
Restricted equity securities, at cost	5,108	5,684
Loans held for sale	425	450
Loans, net of unearned income	1,965,149	1,884,508
Less allowance for credit losses	25,144	24,378
Loans, net	1,940,005	1,860,130
Premises and equipment, net	26,262	26,426
Accrued interest receivable	9,561	8,711
Bank owned life insurance	30,075	29,884
Annuities	15,939	15,036
Foreclosed assets	33	33
Goodwill	16,862	16,862
Core deposit intangible	817	899
Other assets	28,121	29,616
Total assets	$ 2,510,975	$ 2,446,663
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 416,704	$ 437,959
Interest-bearing	1,693,094	1,580,230
Total deposits	2,109,798	2,018,189
Other borrowings	7,997	26,994
FHLB advances	52,000	70,000
Subordinated notes	86,776	86,679
Accrued interest payable	1,805	1,519
Other liabilities	29,718	28,318
Total liabilities	2,288,094	2,231,699

Stockholders' equity:		
Preferred stock, $0.01 par value, 2,000,000 shares authorized; 0 shares issued and outstanding at March 31, 2024 and December 31, 2023	—	—
Common stock, $5 par value, 30,000,000 shares authorized; 8,894,794 and 8,841,349 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	44,746	44,479
Capital surplus	79,282	78,361
Retained earnings	109,838	102,523
Accumulated other comprehensive loss	(8,401)	(8,379)
Unvested restricted stock	(1,030)	(466)
Vested restricted stock units	(1,554)	(1,554)
Total stockholders' equity	222,881	214,964
Total liabilities and stockholders' equity	$ 2,510,975	$ 2,446,663

See Notes to Consolidated Financial Statements.

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except per share amounts)

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
Interest income:		
Loans, including fees	$ 33,628	$ 25,335
Taxable securities	1,981	1,383
Nontaxable securities	229	291
Other interest and dividends	2,898	1,690
Total interest income	38,736	28,699
Interest expense:		
Deposits	15,906	7,768
Other borrowings	1,991	1,385
Total interest expense	17,897	9,153
Net interest income	20,839	19,546
Provision for credit losses	1,236	1,181
Net interest income after provision for credit losses	19,603	18,365
Noninterest income:		
Service charges on deposit accounts	463	450
Swap fees (expense)	15	(4)
SBA/USDA fees	64	134
Mortgage origination fees	96	100
Net (loss) gain on securities	(12)	514
Other operating income	642	592
Total noninterest income	1,268	1,786
Noninterest expenses:		
Salaries and employee benefits	6,231	6,311
Equipment and occupancy expenses	689	683
Data processing fees	643	593
Regulatory assessments	360	342
Other operating expenses	2,452	2,229
Total noninterest expenses	10,375	10,158
Income before income taxes	10,496	9,993
Income tax expense	2,377	2,322
Net income	$ 8,119	$ 7,671
Basic earnings per share	$ 0.91	$ 0.87
Diluted earnings per share	$ 0.90	$ 0.85

See Notes to Consolidated Financial Statements.

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In thousands)

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
Net income	$ 8,119	$ 7,671
Other comprehensive (loss) income:		
Unrealized holding (losses) gains on securities available for sale arising during the period, net of benefit (tax) of $8 and $(419), respectively	(22)	1,193
Reclassification adjustment for losses on securities available for sale realized in net income, net of benefit of $0 and $3, respectively	—	9
Other comprehensive (loss) income	(22)	1,202
Comprehensive income	$ 8,097	$ 8,873

See Notes to Consolidated Financial Statements.

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(In thousands, except share amounts)

	Preferred Stock		Common Stock		Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Unvested Restricted Stock	Vested Restricted Stock Units	Total Stockholders' Equity
	Shares	Par Value	Shares	Par Value						
Balance, December 31, 2023	—	$ —	8,841,349	$ 44,479	$ 78,361	$ 102,523	$ (8,379)	$ (466)	$ (1,554)	$ 214,964
Net income	—	—	—	—	—	8,119	—	—	—	8,119
Issuance of common stock	—	—	1,237	6	25	—	—	—	—	31
Exercise of common stock options	—	—	25,771	129	225	—	—	—	—	354
Issuance of restricted stock	—	—	26,812	134	574	—	—	(708)	—	—
Forfeiture of restricted stock	—	—	(375)	(2)	(6)	—	—	8	—	—
Stock-based compensation	—	—	—	—	103	—	—	136	—	239
Common stock dividends	—	—	—	—	—	(804)	—	—	—	(804)
Other comprehensive loss	—	—	—	—	—	—	(22)	—	—	(22)
Balance, March 31, 2024	—	$ —	8,894,794	$ 44,746	$ 79,282	$ 109,838	$ (8,401)	$ (1,030)	$ (1,554)	$ 222,881

See Notes to Consolidated Financial Statements.

SOUTHERN STATES BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	For the Three Months Ended March 31, 2024	2023
OPERATING ACTIVITIES		
Net income	$ 8,119	$ 7,671
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and software amortization	298	294
Net loss on securities available for sale	—	12
Net loss (gain) on other equity securities	12	(526)
Net amortization of securities	141	195
Amortization of core deposit intangible	82	82
Provision for credit losses	1,236	1,181
Deferred income taxes	7	24
Stock-based compensation	239	239
Net decrease (increase) in loans held for sale	25	(1,329)
Income from bank owned life insurance	(191)	(164)
Increase in interest receivable	(850)	(114)
Increase in interest payable	286	260
Net other operating activities	1,992	1,114
Net cash provided by operating activities	11,396	8,939
INVESTING ACTIVITIES		
Purchase of securities available for sale	(6,515)	(19,234)
Proceeds from sale of securities available for sale	1,281	10,532
Proceeds from sale of other equity securities	—	703
Proceeds from maturities, calls, and paydowns of securities available for sale	6,689	2,108
Net redemption (purchase) of restricted equity securities	576	(728)
Net increase in loans	(81,111)	(59,633)
Purchase of premises, equipment and software	(134)	(47)
Net cash used in investing activities	(79,214)	(66,299)
FINANCING ACTIVITIES		
Net increase in deposits	91,609	68,748
Proceeds from issuance of common stock	385	200
Repurchase of common stock	—	(575)
Net (repayment) proceeds of FHLB advances	(18,000)	14,000
Net (repayment) proceeds of other borrowings	(18,997)	3
Net proceeds of subordinated notes	97	74
Common stock dividends paid	(804)	(793)
Net cash provided by financing activities	54,290	81,657
Net (decrease) increase in cash and cash equivalents	(13,528)	24,297
Cash and cash equivalents at beginning of year	250,651	168,499
Cash and cash equivalents at end of period	$ 237,123	$ 192,796
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	$ 17,611	$ 8,894
Income taxes	$ 11	$ —

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Southern States Bancshares, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Southern States Bank (the "Bank"). The Bank is a commercial bank headquartered in Anniston, Calhoun County, Alabama. The Bank also operates branch offices in Birmingham, Opelika, Auburn, Huntsville, Sylacauga, Wedowee, and Roanoke, Alabama as well as Columbus, Carrollton, Dallas, and Newnan, Georgia. The Bank also has two loan production offices (LPO) located in Atlanta, Georgia. The Bank provides a full range of banking services in its primary market areas and the surrounding areas.

Basis of Presentation and Accounting Estimates

The unaudited consolidated financial statements include the accounts of the Company and its subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the unaudited consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of foreclosed assets, financial instruments, deferred taxes and investment securities. In connection with the determination of the estimated losses on loans and the valuation of foreclosed assets, management obtains independent appraisals for significant collateral.

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 environment and market conditions.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies 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.

Cash, Cash Equivalents and Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, cash items in process of collection, amounts due from banks, interest-bearing deposits in banks and federal funds sold. Cash flows from loans held for sale, loans, restricted equity securities, and deposits are reported net.

The Company maintains amounts due from banks which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. On March 15, 2020, the Federal Reserve System Board announced an interim final rule amending Regulation D to lower all transaction account reserve requirement ratios to zero percent, thereby eliminating all reserve requirements as of March 31, 2024 and December 31, 2023.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities

The Company classifies its debt securities into one of two categories based upon management's intent and ability to hold the securities: (i) securities held to maturity or (ii) securities available for sale. Securities classified as held to maturity are stated at cost adjusted for amortization of premiums and accretion of discounts. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. The Company has the ability, and it is management's intention, to hold such securities to maturity. Securities classified as available for sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities available for sale are recorded on the trade date and are determined using the specific identification method.

Management uses a systematic methodology to determine its allowance for credit losses for held to maturity debt securities. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the held to maturity portfolio. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the portfolio. The Company's estimate of its allowance for credit losses involves a high degree of judgment; therefore, management's process for determining expected credit losses may result in a range of expected credit losses. Management monitors the held to maturity portfolio to determine whether a valuation account would need to be recorded. As of March 31, 2024, the Company had $19,627 of held to maturity securities and no related valuation account.

For available for sale debt securities in an unrealized loss position, the Company will first assess whether (i) it intends to sell or (ii) it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. If either case is applicable, any previously recognized allowances are charged off and the debt security's amortized cost is written down to fair value through income. If neither case is applicable, the debt security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the debt security by a rating agency and any adverse conditions specifically related to the debt security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the debt security are compared to the amortized cost basis of the debt security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount by which the fair value is less than the amortized cost basis. Any impairment that has not been recorded through allowance for credit losses is recognized in other comprehensive income (loss), net of tax. Adjustments to the allowance are reported in the income statement as a component of credit loss expense. Available for sale debt securities are charged off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by the Company or when either of the aforementioned criteria regarding intent or requirement to sell is met.

The Company excludes the accrued interest receivable balance from the amortized cost basis in measuring expected credit losses on debt securities and does not record an allowance for credit losses on accrued interest receivable. The accrued interest receivable on securities was $1,241 and $1,147 at March 31, 2024 and December 31, 2023, respectively.

Other Equity Securities

The mutual funds owned by the Company are classified as equity securities and are carried at fair value with any periodic changes in value recorded through the statement of income.

Restricted Equity Securities

Restricted equity securities are investments that are restricted in marketability. The Company, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB based upon its assets or outstanding advances. The Company has also purchased stock in First National Banker's Bankshares, Inc. (FNBB), and Pacific Coast Banker's Bank (PCBB), both correspondent banks. These securities are carried at cost and periodically evaluated for impairment based on ultimate recoverability of par value.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value (LOCOM). For loans carried at LOCOM, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party quoted prices.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less deferred fees and costs on originated loans and the allowance for credit losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield over the life of the loan, using the straight-line method without anticipating prepayments.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or charged to the allowance; unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms generally for a period of not less than six months.

Allowance for Credit Losses

As described below under Recent Accounting Pronouncements, the Company adopted Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL) effective January 1, 2023.

The allowance for credit losses is based on the Company's evaluation of the loan portfolios, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. The process is inherently subjective and subject to significant change as it requires material estimates. The allowance is increased by a provision for credit losses, which is charged to expense, and reduced by charge offs, net of recoveries. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Loans with similar risk characteristics are evaluated in pools and, depending on the nature of each identified pool, the Company utilizes a discounted cash flow, probability of default / loss given default, or remaining life method. The historical loss experience estimate by pool is then adjusted by forecast factors that are quantitatively related to the Company's historical credit loss experience, such as national unemployment rates and gross domestic product. Losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable period losses are reverted to long term historical averages. The reasonable and supportable period and reversion period are re-evaluated each quarter by the Company and are dependent on the current economic environment among other factors.

The estimated credit losses for each loan pool are then adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative adjustments either increase or decrease the quantitative model estimation. The Company considers factors that are relevant within the qualitative framework which include the following: changes in lending policies and quality of loan reviews, changes in nature and volume of loans, changes in volume and trends of problem loans, changes in concentration risk, trends in underlying collateral values, changes in competition, legal and regulatory environment and changes in economic conditions.

(in thousands, except share and per share amounts)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses (Continued)

Credit losses for loans that no longer share similar risk characteristics with the collectively evaluated pools are excluded from the collective evaluation and estimated on an individual basis. Specific allowances are estimated based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows.

The Company measures expected credit losses over the contractual term of a loan, adjusted for estimated prepayments. The contractual term excludes expected extensions, renewals and modifications unless there is a reasonable expectation that a loan modification will be executed. Credit losses are estimated on the amortized cost basis of loans. Accrued interest receivable on loans is excluded from the estimate of credit losses. The accrued interest receivable on loans was $8,134 and $7,377 at March 31, 2024 and December 31, 2023, respectively.

Off-Balance Sheet Credit Exposure

The Company also has off-balance sheet financial instruments, which include unfunded credit commitments and letters of credit. The Company minimizes these risks through underwriting guidelines and prudent risk management techniques. For off-balance sheet instruments, the allowance for credit losses is calculated in accordance with Topic 326, representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. The allowance is reported as a component of other liabilities within the consolidated balance sheets. Adjustments to the allowance for credit losses for unfunded commitments are reported in the income statement as a component of other operating expense. The allowance for credit losses on off-balance sheet financial instruments was $1,288 and $1,239 at March 31, 2024 and December 31, 2023, respectively.

Modifications to Borrowers Experiencing Financial Difficulty

The Company periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of the modification. When principal forgiveness is provided, the amount of principal forgiveness is charged off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan. A modified loan is tracked for at least 12 months following the modifications granted.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are reflected in income. The estimated useful lives are as follows:

	Years
Buildings	10-39
Furniture and equipment	3-7

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs related to holding foreclosed assets and subsequent write-downs to the value are expensed. Any gains and losses realized at the time of disposal are reflected in income.

Goodwill

Goodwill represents the excess of the amount paid over the fair value of the net assets at the date of acquisition. Goodwill is subject to an annual evaluation of impairment. If desired, the Company can assess qualitative factors to determine if comparing the carrying value of the reporting unit to its fair value is necessary. Should the fair value be less than the carrying value, an impairment write-down would be taken. Based on its assessment of qualitative factors, the Company determined that no impairment existed at March 31, 2024.

Goodwill is not amortized but is evaluated for impairment on a quarterly basis or whenever an event occurs or circumstances change to indicate that it is more likely than not that an impairment loss has been incurred (i.e., a triggering event). The Company performed a goodwill impairment test in March 2024. The qualitative factors considered in determining if fair value of the unit was less than the carrying amount were economic conditions related to the change in the interest rate environment. A quantitative assessment of goodwill impairment included determining the estimated fair value of Company using a market-based approach. It was determined there was no impairment.

Core Deposit Intangible

A core deposit intangible is initially recognized based on a valuation, of acquired deposits, performed as of the acquisition date. The core deposit intangible is amortized over the average remaining life of the acquired customer deposits, or approximately 7 years. The intangible asset is reviewed annually for events or circumstances that could negatively impact the recoverability of the intangible. These events could include loss of core deposits, increased competition, or adverse changes in the economy. To the extent this intangible asset is deemed unrecoverable, an impairment charge would be recorded. The Company maintains steady deposit growth across our markets and continues to attract new customer deposits. The intangible asset was evaluated for impairment as of March 31, 2024 and based on that evaluation there was no impairment.

Accounting Policy for Derivative Instruments and Hedging Activities

Financial Accounting Standards Board (FASB) ASC 815, *Derivatives and Hedging* (ASC 815), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policy for Derivative Instruments and Hedging Activities (Continued)

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance in ASU 2011-04, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. Management believes that the Company will generate sufficient operating earnings to realize the deferred tax benefits.

Stock Compensation Plans

Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options and warrants, restricted stock plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the estimated market price of the Company's common stock at the date of grant is used for restricted stock awards, restricted stock units and stock grants.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss).

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 12. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Revenue Recognition

On January 1, 2019, the Company adopted ASC 606 and all subsequent amendments (collectively ASC 606) which (1) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (2) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as foreclosed assets. The majority of the Company's revenues come from interest income and other sources, including loans and securities that are outside the scope of ASC 606. With the exception of gains/losses on sale of foreclosed assets, the Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligations to the customer. Services within the scope of ASC 606 reported in noninterest income include service charges on deposit accounts, bank card services and interchange fees, and ATM fees.

Recent Accounting Pronouncements

On January 1, 2023, the Company adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures", this standard eliminated the previous accounting guidance for troubled debt restructurings and added additional disclosure requirements for gross charge offs by year of origination. It also prescribes guidance for reporting modifications of loans to borrowers experiencing financial difficulty. The Company adopted these standards as required on January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures.

In June 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, off-balance sheet credit exposures, and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. For available for sale securities where fair value is less than cost, credit-related impairment, if any, is recognized through an allowance for credit losses and adjusted each period for changes in credit risk. The Company adopted ASU 2016-13 on January 1, 2023 with no material impact on the consolidated financial statements.

(in thousands, except share and per share amounts)

NOTE 2. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share reflect additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options issued and the vesting of restricted stock units, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock units.

	For the Three Months Ended March 31,	
	2024	**2023**
Basic Earnings Per Share:		
Net Income	$ 8,119	$ 7,671
Weighted average common shares outstanding	8,913,477	8,762,450
Basic earnings per share	$ 0.91	$ 0.87
Diluted Earnings Per Share:		
Net income allocated to common shareholders	$ 8,111	$ 7,664
Weighted average common shares outstanding	8,913,477	8,762,450
Net dilutive effect of:		
Assumed exercises of stock options and vesting of restricted stock units	129,645	282,040
Average shares and dilutive potential common shares	9,043,122	9,044,490
Dilutive earnings per share	$ 0.90	$ 0.85

NOTE 3. SECURITIES

The amortized cost and fair value of securities at March 31, 2024 and December 31, 2023 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2024				
Securities Available for Sale				
U.S. Treasury securities	$ 9,710	$ —	$ (1,022)	$ 8,688
U.S. Government Sponsored Enterprises (GSEs)	2,364	26	(209)	2,181
State and municipal securities	45,051	14	(4,579)	40,486
Corporate debt securities	12,515	—	(1,184)	11,331
Asset based securities	17,952	119	(456)	17,615
Mortgage-backed GSE residential/multifamily and non-GSE	101,140	163	(4,225)	97,078
Total securities available for sale	$ 188,732	$ 322	$ (11,675)	$ 177,379
Securities Held to Maturity				
State and municipal securities	19,627	—	(3,529)	16,098
Total securities held to maturity	$ 19,627	$ —	$ (3,529)	$ 16,098
Total securities	$ 208,359	$ 322	$ (15,204)	$ 193,477

(in thousands, except share and per share amounts)

NOTE 3. SECURITIES

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Securities Available for Sale				
U.S. Treasury securities	$ 9,721	$ —	$ (949)	$ 8,772
U.S. Government Sponsored Enterprises (GSEs)	2,446	37	(215)	2,268
State and municipal securities	45,220	21	(4,172)	41,069
Corporate debt securities	12,517	—	(1,258)	11,259
Asset based securities	19,112	54	(479)	18,687
Mortgage-backed GSE residential/multifamily and non-GSE	101,306	164	(4,525)	96,945
Total securities available for sale	$ 190,322	$ 276	$ (11,598)	$ 179,000
Securities Held to Maturity				
State and municipal securities	19,632	—	(3,399)	16,233
Total securities held to maturity	$ 19,632	$ —	$ (3,399)	$ 16,233
Total securities	$ 209,954	$ 276	$ (14,997)	$ 195,233

Securities with a carrying value of $28,884 and $27,477 at March 31, 2024 and December 31, 2023, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The amortized cost and fair value of securities available for sale and securities held to maturity as of March 31, 2024 and December 31, 2023 by contractual maturity are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid with or without penalty. Therefore, these securities are not included by maturity in the following summary:

	March 31, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities Available for Sale				
Due in less than one year	$ 2,478	$ 2,417	$ 482	$ 476
Due from one year to five years	10,569	9,640	11,671	10,855
Due after five to ten years	21,693	19,524	22,537	20,439
Due after ten years	52,852	48,720	54,326	50,285
Mortgage-backed securities	101,140	97,078	101,306	96,945
Total securities available for sale	$ 188,732	$ 177,379	$ 190,322	$ 179,000
Securities Held to Maturity				
Due in less than one year	$ —	$ —	$ —	$ —
Due from one year to five years	—	—	—	—
Due after five to ten years	10,279	8,500	7,743	6,483
Due after ten years	9,348	7,598	11,889	9,750
Mortgage-backed securities	—	—	—	—
Total securities held to maturity	$ 19,627	$ 16,098	$ 19,632	$ 16,233
Total securities	$ 208,359	$ 193,477	$ 209,954	$ 195,233

(in thousands, except share and per share amounts)

NOTE 3. SECURITIES

Gains and losses on sales and change in value of securities available for sale and other equity securities held at fair value for the three months ended March 31, 2024 and March 31, 2023 consist of the following:

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
Gross gains	$ —	$ 662
Gross losses	(12)	(148)
Net realized gain (loss)	$ (12)	$ 514

Restricted equity securities as of March 31, 2024 and December 31, 2023 consist of the following:

	March 31, 2024	December 31, 2023
Federal Home Loan Bank stock	$ 4,183	$ 4,759
First National Banker's Bankshares, Inc. stock	675	675
Pacific Coast Banker's Bank stock	250	250
Total restricted equity securities	$ 5,108	$ 5,684

The following table shows the gross unrealized losses and fair value of securities, aggregated by category and length of time that securities have been in a continuous unrealized loss position at March 31, 2024 and December 31, 2023.

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
March 31, 2024					
Securities Available for Sale					
U.S. Treasury securities	$ —	$ —	$ (1,022)	$ 8,688	$ (1,022)
U.S. Government Sponsored Enterprises (GSEs)	—	—	(209)	1,396	(209)
State and municipal securities	—	—	(4,579)	40,222	(4,579)
Corporate debt securities	—	—	(1,184)	11,331	(1,184)
Asset based securities	(3)	910	(453)	4,884	(456)
Mortgage-backed GSE residential/multifamily and non-GSE	(160)	21,052	(4,065)	57,766	(4,225)
Total securities available for sale	$ (163)	$ 21,962	$ (11,512)	$ 124,287	$ (11,675)
Securities Held to Maturity					
State and municipal securities	—	—	(3,529)	16,098	(3,529)
Total securities held to maturity	$ —	$ —	$ (3,529)	$ 16,098	$ (3,529)
Total securities	$ (163)	$ 21,962	$ (15,041)	$ 140,385	$ (15,204)

(in thousands, except share and per share amounts)

NOTE 3. SECURITIES

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2023					
Securities Available for Sale					
U.S. Treasury securities	$ —	$ —	$ (949)	$ 8,772	$ (949)
U.S. Government Sponsored Enterprises (GSEs)	—	—	(215)	1,451	(215)
State and municipal securities	—	—	(4,172)	40,663	(4,172)
Corporate debt securities	—	—	(1,258)	11,259	(1,258)
Asset based securities	(11)	1,102	(468)	6,904	(479)
Mortgage-backed GSE residential/multifamily and non-GSE	(268)	24,708	(4,257)	56,083	(4,525)
Total securities available for sale	$ (279)	$ 25,810	$ (11,319)	$ 125,132	$ (11,598)
Securities Held to Maturity					
State and municipal securities	—	—	(3,399)	16,233	(3,399)
Total securities held to maturity	$ —	$ —	$ (3,399)	$ 16,233	$ (3,399)
Total securities	$ (279)	$ 25,810	$ (14,718)	$ 141,365	$ (14,997)

The unrealized losses on 226 securities at March 31, 2024 were caused by interest rate changes. Because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost bases, at maturity, the Company does not consider these securities to be credit impaired at March 31, 2024.

At March 31, 2024, no allowance for credit losses has been recognized on available for sale debt securities in an unrealized loss position as the Company does not believe any of the debt securities are credit impaired. This is based on the Company's analysis of the risk characteristics, including credit ratings, and other qualitative factors related to available for sale debt securities. The issuers of these debt securities continue to make timely principal and interest payments under the contractual terms of the securities. The Company does not intend to sell these debt securities and it is more likely than not that the Company will not be required to sell the debt securities before recovery of their amortized cost, which may be at maturity. The unrealized losses are due to increases in market interest rates over the yields available at the time the debt securities were purchased. Management measures expected credit losses on held to maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. With regard to securities issued by states and political subdivisions, management considers (i) issuer bond ratings, (ii) historical loss rates for given bond ratings, (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, and (iv) internal forecasts. Historical loss rates associated with securities having similar grades as those in our portfolio have generally not been significant. Furthermore, as of March 31, 2024, there were no past due principal or interest payments associated with these securities. Based upon (i) the issuer's strong bond ratings and (ii) a zero historical loss rate, no allowance for credit losses has been recorded for held to maturity state and municipal securities as such amount is not material at March 31, 2024. All debt securities in an unrealized loss position as of March 31, 2024 continue to perform as scheduled and the Company does not believe there is a possible credit loss or that an allowance for credit loss on these debt securities is necessary.

(in thousands, except share and per share amounts)

NOTE 4. LOANS

Portfolio Segments and Classes

The composition of loans, excluding loans held for sale, is summarized as follows:

	March 31, 2024		December 31, 2023	
	Amount	% of Total	Amount	% of Total
Real estate mortgages:				
Construction and development	$ 252,934	12.8%	$ 242,960	12.9%
Residential	238,702	12.1%	224,603	11.9%
Commercial	1,182,634	60.0%	1,144,867	60.5%
Commercial and industrial	288,701	14.7%	269,961	14.3%
Consumer and other	8,425	0.4%	8,286	0.4%
Gross Loans	1,971,396	100.0%	1,890,677	100.0%
Deferred loan fees	(6,247)		(6,169)	
Allowance for credit losses	(25,144)		(24,378)	
Loans, net	$ 1,940,005		$ 1,860,130	

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are three loan portfolio segments that include real estate, commercial and industrial, and consumer and other. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Commercial and industrial is a separate commercial loan class. Classes within the real estate portfolio segment include construction and development, residential mortgages, and commercial mortgages. Consumer loans and other are a class in itself.

The following describe risk characteristics relevant to each of the portfolio segments and classes:

Real estate - As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Loans for real estate construction and development are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

- Residential mortgages include 1-4 family first mortgage loans which are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. Also included in residential mortgages are real estate loans secured by farmland, second liens, or open end real estate loans, such as home equity lines. These loans are typically repaid in the same means as 1-4 family first mortgages.

- Commercial real estate mortgage loans include both owner-occupied commercial real estate loans and other commercial real estate loans such as commercial loans secured by income producing properties. Owner-occupied commercial real estate loans made to operating businesses are long-term financing of land and buildings and are repaid by cash flows generated from business operations. Real estate loans for income-producing properties such as apartment buildings, hotels, office and industrial buildings, and retail shopping centers are repaid by cash flows from rent income derived from the properties.

Commercial and industrial - The commercial loan portfolio segment includes commercial and industrial loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, leases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers' business operations.

NOTE 4. LOANS (Continued)

Portfolio Segments and Classes (Continued)

Consumer and other - The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures which affects borrowers' incomes and cash for repayment.

Credit Risk Management

The Chief Credit Officer, Officers Loan Committee and Directors Loan Committee are each involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to manage the portfolios and reduce risk, particularly in the more problematic portfolios.

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by a comprehensive Loan Policy that provides for a consistent and prudent approach to underwriting and approvals of credits. Within the Board approved Loan Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios. To ensure problem credits are identified on a timely basis, several specific portfolio reviews occur each year to assess the larger adversely rated credits for proper risk rating and accrual status.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by the Chief Credit Officer and reported to the Board of Directors.

A description of the general characteristics of the risk categories used by the Company is as follows:

- **Pass** - A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.
- **Special Mention** - A loan that has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. These loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.
- **Substandard** - Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- **Doubtful** - Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.
- **Loss** - Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

Credit Risk Management (Continued)

The following tables summarizes the risk category of the Company's loan portfolio based upon the most recent analysis on the year of origination as of March 31, 2024:

	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
Real Estate Mortgages:								
Construction and development								
Pass	$ 13,948	$ 52,983	$ 140,428	$ 26,016	$ 1,735	$ 6,875	$ 6,530	$ 248,515
Special Mention	—	—	—	—	—	4,419	—	4,419
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	13,948	52,983	140,428	26,016	1,735	11,294	6,530	252,934
Current period gross write-off	—	—	—	—	—	—	—	—
Residential								
Pass	15,864	50,403	56,688	21,604	41,520	18,535	33,602	238,216
Special Mention	—	81	—	—	—	—	53	134
Substandard	—	—	114	—	—	184	54	352
Doubtful	—	—	—	—	—	—	—	—
Total	15,864	50,484	56,802	21,604	41,520	18,719	33,709	238,702
Current period gross write-off	—	—	—	—	—	11	—	11
Commercial								
Pass	31,761	231,255	331,937	268,060	97,495	184,663	15,218	1,160,389
Special Mention	124	—	102	1,172	2,597	1,708	330	6,033
Substandard	—	658	578	7,803	—	7,173	—	16,212
Doubtful	—	—	—	—	—	—	—	—
Total	31,885	231,913	332,617	277,035	100,092	193,544	15,548	1,182,634
Current period gross write-off	—	—	—	27	—	—	—	27
Commercial and industrial								
Pass	16,856	68,317	49,159	18,633	19,455	11,138	94,811	278,369
Special Mention	736	43	—	329	2,632	158	4,089	7,987
Substandard	9	47	768	15	—	210	1,296	2,345
Doubtful	—	—	—	—	—	—	—	—
Total	17,601	68,407	49,927	18,977	22,087	11,506	100,196	288,701
Current period gross write-off	—	—	442	—	—	—	—	442
Consumer and other								
Pass	1,445	1,809	952	173	58	1,286	2,695	8,418
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	7	—	—	—	7
Doubtful	—	—	—	—	—	—	—	—
Total	1,445	1,809	952	180	58	1,286	2,695	8,425
Current period gross write-off	—	15	—	—	—	—	—	15
Gross Loans								
Pass	79,874	404,767	579,164	334,486	160,263	222,497	152,856	1,933,907
Special Mention	860	124	102	1,501	5,229	6,285	4,472	18,573
Substandard	9	705	1,460	7,825	—	7,567	1,350	18,916
Doubtful	—	—	—	—	—	—	—	—
Total	$ 80,743	$ 405,596	$ 580,726	$ 343,812	$ 165,492	$ 236,349	$ 158,678	$ 1,971,396
Current period gross write-off	$ —	$ 15	$ 442	$ 27	$ —	$ 11	$ —	$ 495

(in thousands, except share and per share amounts)

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NOTE 4. LOANS (Continued)

Credit Risk Management (Continued)

The following tables summarizes the risk category of the Company's loan portfolio based upon the most recent analysis on the year of origination as of December 31, 2023:

	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Real Estate Mortgages:								
Construction and development								
Pass	$ 48,141	$ 139,291	$ 39,679	$ 1,721	$ 1,969	$ 5,214	$ 2,516	$ 238,531
Special Mention	—	—	—	—	—	4,429	—	4,429
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	48,141	139,291	39,679	1,721	1,969	9,643	2,516	242,960
Current period gross write-off	—	—	—	—	—	—	3	3
Residential								
Pass	51,135	54,610	23,808	42,071	6,496	12,883	33,132	224,135
Special Mention	81	—	—	—	—	—	—	81
Substandard	—	118	—	—	153	62	54	387
Doubtful	—	—	—	—	—	—	—	—
Total	51,216	54,728	23,808	42,071	6,649	12,945	33,186	224,603
Current period gross write-off	—	—	—	—	—	—	—	—
Commercial								
Pass	232,834	328,006	256,007	99,067	63,906	125,007	14,685	1,119,512
Special Mention	—	350	2,840	2,623	414	4,490	—	10,717
Substandard	660	432	7,811	—	—	5,735	—	14,638
Doubtful	—	—	—	—	—	—	—	—
Total	233,494	328,788	266,658	101,690	64,320	135,232	14,685	1,144,867
Current period gross write-off	—	—	—	—	—	—	—	—
Commercial and industrial								
Pass	68,482	51,368	20,626	21,390	4,758	7,257	88,074	261,955
Special Mention	126	—	—	2,711	172	—	1,873	4,882
Substandard	—	1,210	20	—	219	—	1,675	3,124
Doubtful	—	—	—	—	—	—	—	—
Total	68,608	52,578	20,646	24,101	5,149	7,257	91,622	269,961
Current period gross write-off	424	51	167	44	—	—	—	686
Consumer and other								
Pass	2,291	1,111	292	149	316	1,275	2,852	8,286
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	2,291	1,111	292	149	316	1,275	2,852	8,286
Current period gross write-off	—	6	2	—	—	—	—	8
Gross Loans								
Pass	402,883	574,386	340,412	164,398	77,445	151,636	141,259	1,852,419
Special Mention	207	350	2,840	5,334	586	8,919	1,873	20,109
Substandard	660	1,760	7,831	—	372	5,797	1,729	18,149
Doubtful	—	—	—	—	—	—	—	—
Total	$ 403,750	$ 576,496	$ 351,083	$ 169,732	$ 78,403	$ 166,352	$ 144,861	$ 1,890,677
Current period gross write-off	$ 424	$ 57	$ 169	$ 44	$ —	$ —	$ 3	$ 697

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

Credit Risk Management (Continued)

Collateral Dependent Loans

The Company classifies a loan as collateral dependent when the borrower is experiencing financial difficulty, and expected repayment is to be provided substantially through the operation or sale of collateral. The following tables summarize collateral dependent loans, which are individually evaluated to determine expected credit losses, as of March 31, 2024 and December 31, 2023:

	Real Estate	Other	Total	ACL
As of March 31, 2024				
Real estate mortgages:				
Construction and development	$ 205	$ —	$ 205	$ 29
Residential	967	—	967	67
Commercial	17,093	—	17,093	769
Commercial and industrial	—	2,352	2,352	404
Consumer and other	—	17	17	—
Total	$ 18,265	$ 2,369	$ 20,634	$ 1,269

	Real Estate	Other	Total	ACL
As of December 31, 2023				
Real estate mortgages:				
Construction and development	$ 210	$ —	$ 210	$ 31
Residential	980	—	980	72
Commercial	15,514	—	15,514	162
Commercial and industrial	—	3,131	3,131	1,100
Consumer and other	—	11	11	1
Total	$ 16,704	$ 3,142	$ 19,846	$ 1,366

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally,
management places a loan on nonaccrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans and leases as of March 31, 2024 and December 31, 2023:

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

	Current	Past Due Status (Accruing Loans) 30-59 Days	60-89 Days	90+ Days	Total Past Due	Nonaccrual with ACL	Nonaccrual without ACL	Total
As of March 31, 2024								
Real estate mortgages:								
Construction and development	$ 252,934	$ —	$ —	$ —	$ —	$ —	$ —	$ 252,934
Residential	237,530	773	153	—	926	23	223	238,702
Commercial	1,179,342	827	43	—	870	2,024	398	1,182,634
Commercial and industrial	287,690	191	42	—	233	778	—	288,701
Consumer and other	8,425	—	—	—	—	—	—	8,425
Total	$ 1,965,921	$ 1,791	$ 238	$ —	$ 2,029	$ 2,825	$ 621	$ 1,971,396
As of December 31, 2023								
Real estate mortgages:								
Construction and development	$ 242,315	$ 591	$ 54	$ —	$ 645	$ —	$ —	$ 242,960
Residential	223,195	1,106	—	51	1,157	23	228	224,603
Commercial	1,140,587	3,245	160	109	3,514	324	442	1,144,867
Commercial and industrial	269,598	265	98	—	363	—	—	269,961
Consumer and other	8,259	17	10	—	27	—	—	8,286
Total	$ 1,883,954	$ 5,224	$ 322	$ 160	$ 5,706	$ 347	$ 670	$ 1,890,677

The Company recognized $49 and $11 of interest income on nonaccrual loans during the three months ended March 31, 2024, and March 31, 2023, respectively.

Allowance for Credit Losses

The following tables detail activity in the allowance for credit losses by portfolio segment as of March 31, 2024 and March 31, 2023. As described in Note 1, the Company adopted ASU 2016-13 on January 1, 2023, which replaced the existing incurred loss methodology with an expected credit loss methodology (referred to as CECL). Under the incurred loss methodology, reserves for credit losses were recognized only when the losses were probable or had been incurred; under CECL, the Company is required to recognize the full amount of expected credit losses for the lifetime of the loan, based on historical experience, current conditions and reasonable and supportable forecasts. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

We maintain an allowance for credit losses on unfunded loan commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance for credit losses is computed using a methodology similar to that used to determine the allowance for credit losses for loans, modified to take into account the probability of a drawdown on the commitment. The allowance for credit losses on unfunded loan commitments is classified as a liability account on the consolidated balance sheet within other liabilities, while corresponding provision for these credit losses is recorded as a component of other operating expense. The allowance for credit losses on unfunded commitments as the result of the adoption of ASC 326 was $1,285. At March 31, 2024, $1,288 in allowance for credit losses on unfunded commitments was included in other liabilities on the consolidated balance sheets.

	Real Estate	Commercial	Consumer	Total
Allowance for credit losses:				
Balance at December 31, 2023	$ 19,826	$ 4,466	$ 86	$ 24,378
Provision (credit) for credit losses	1,173	48	15	1,236
Loans charged off	(38)	(442)	(15)	(495)
Recoveries of loans previously charged off	8	16	1	25
Ending balance at March 31, 2024	$ 20,969	$ 4,088	$ 87	$ 25,144

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

	Real Estate	Commercial	Consumer	Total
Allowance for credit losses:				
Balance at December 31, 2022	$ 14,443	$ 5,642	$ 71	$ 20,156
Impact of adoption of ASC 326	(1,164)	(120)	(1)	(1,285)
Provision (credit) for credit losses	2,348	(1,208)	41	1,181
Loans charged off	—	(218)	(6)	(224)
Recoveries of loans previously charged off	11	14	2	27
Ending balance at March 31, 2023	$ 15,638	$ 4,110	$ 107	$ 19,855

Modifications to Borrowers Experiencing Financial Difficulty

On January 1, 2023, the Company adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." This standard eliminated the previous accounting guidance for troubled debt restructurings and added additional disclosure requirements for gross charge offs by year of origination. It also prescribes guidance for reporting modifications of loans to borrowers experiencing financial difficulty.

From time to time, we may modify certain loans to borrowers who are experiencing financial difficulty. In some cases, these modifications may result in new loans. Loan modifications to borrowers experiencing financial difficulty may be in the form of a principal forgiveness, an interest rate reduction, a payment delay, a term extension, or a combination thereof, among other things.

The table below details the amortized cost basis at the end of the reporting period for loans made to borrowers experiencing financial difficulty that were modified during the three months ended March 31, 2024.

Three Months Ended March 31, 2024	Term Extension	Term Extension and Rate Adjustment	Total	Percentage of Total Loans
Real estate mortgages:				
Construction and development	$ —	$ —	$ —	— %
Residential	—	—	—	— %
Commercial	—	—	—	— %
Commercial and industrial	—	—	—	— %
Consumer and other	—	—	—	— %
Total	$ —	$ —	$ —	— %

The Company had no modified loans during the three months ended March 31, 2024 that subsequently defaulted. For purposes of this disclosure, the term default is defined as the earlier of being placed on nonaccrual status or reaching 90 days past due and still accruing with respect to principle and/or interest payments. The Company has no unfunded commitments to borrowers experiencing financial difficulty for which the Company has modified their loans as of March 31, 2024.

The table below details the amortized cost basis at the end of the reporting period for loans made to borrowers experiencing financial difficulty that were modified during the year ended December 31, 2023.

(in thousands, except share and per share amounts)

NOTE 4. LOANS (Continued)

Modifications to Borrowers Experiencing Financial Difficulty (Continued)

Year Ended December 31, 2023	Term Extension	Term Extension and Rate Adjustment	Total	Percentage of Total Loans
Real estate mortgages:				
Construction and development	$ 89	$ 117	$ 206	— %
Residential	—	—	—	— %
Commercial	—	—	—	— %
Commercial and industrial	—	—	—	— %
Consumer and other	—	—	—	— %
Total	$ 89	$ 117	$ 206	— %

The Company had no modified loans during the year ended December 31, 2023 that subsequently defaulted. For purposes of this disclosure, the term default is defined as the earlier of being placed on nonaccrual status or reaching 90 days past due and still accruing with respect to principle and/or interest payments. The Company has no unfunded commitments to borrowers experiencing financial difficulty for which the Company has modified their loans as of December 31, 2023.

NOTE 5. DEPOSITS

Major classifications of deposits are as follows:

	March 31, 2024	December 31, 2023
Noninterest-bearing transaction	$ 416,704	$ 437,959
Interest-bearing transaction	974,079	946,347
Savings	33,909	35,412
Time deposits, $250,000 and under	584,658	500,406
Time deposits, over $250,000	100,448	98,065
	$ 2,109,798	$ 2,018,189

Brokered deposits totaled $291,017 at March 31, 2024 and $230,858 at December 31, 2023. The scheduled maturities of time deposits at March 31, 2024 are as follows:

April 1, 2024 to March 31, 2025	$ 551,759
April 1, 2025 to March 31, 2026	85,262
April 1, 2026 to March 31, 2027	28,330
April 1, 2027 to March 31, 2028	16,368
April 1, 2028 to March 31, 2029	3,360
Thereafter	27
	$ 685,106

At March 31, 2024 and December 31, 2023, overdrawn transaction accounts reclassified to loans totaled $254 and $174, respectively.

NOTE 6. SUBORDINATED NOTES

On February 7, 2022, the Company issued $48,000 of Fixed-to-Floating Rate Subordinated Notes due February 2032 (the “Notes”). The Notes bear interest at 3.5% per annum, payable quarterly in arrears. From and including February 7, 2027, to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to a Three-Month Term Secured Overnight Financing Rate plus 205 basis points, payable quarterly in arrears. The Company will be entitled to redeem the Notes, in whole or in part, on any interest payment on or after February 7, 2027, and to redeem the Notes in whole upon certain other events. Issuance costs related to the Notes totaled $1,093 and have been netted against the subordinated notes liability on the balance sheet. At March 31, 2024, the remaining balance of the debt issuance cost was $627. The debt issuance costs are being amortized using the straight line method over sixty months and are recorded as a component of interest expense.

On October 26, 2022, the Company issued $40,000 of Fixed-to-Floating Rate Subordinated Notes due October 2032 (the “2032 Notes”). The 2032 Notes bear interest at 7.0% per annum, payable quarterly in arrears. From and including October 26, 2027, to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to a Three-Month Term Secured Overnight Financing Rate plus 306 basis points, payable quarterly in arrears. The Company will be entitled to redeem the 2032 Notes, in whole or in part, on any interest payment on or after October 26, 2027, and to redeem the 2032 Notes in whole upon certain other events. Issuance costs related to the 2032 Notes totaled $832 and have been netted against the subordinated notes liability on the balance sheet. At March 31, 2024, the remaining balance of the debt issuance cost was $597. The debt issuance costs are being amortized using the straight line method over sixty months and are recorded as a component of interest expense.

(in thousands, except share and per share amounts)

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates.

Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings.

Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments including the effects of offsetting as well as their classification on the consolidated balance sheets as of March 31, 2024 and December 31, 2023. As of March 31, 2024, the Company has posted cash collateral of $7,360. The amount of gain recognized in income on derivatives as a fair value adjustment and fee income, for the three months ended March 31, 2024, were $15 and $0, respectively.

March 31, 2024				December 31, 2023			
Derivatives not Designated as Hedging Instruments	Notional Amount	Balance Sheet Location	Fair Value	Derivatives not Designated as Hedging Instruments	Notional Amount	Balance Sheet Location	Fair Value
Interest Rate Products	$ 105,636	Other Assets	$ 7,810	Interest Rate Products	$ 104,180	Other Assets	$ 7,691
Interest Rate Products	105,636	Other Liabilities	(7,830)	Interest Rate Products	104,180	Other Liabilities	(7,726)

Credit-risk-related Contingent Features

Applicable for OTC derivatives with dealers

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the company fails to maintain its status as a well / adequate capitalized institution, then the Company could be required to post additional collateral.

As of March 31, 2024, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $7,984. If the Company had breached any of these provisions at March 31, 2024, it could have been required to settle its obligations under the agreements at their termination value of $7,984, less the required collateral of $7,360.

(in thousands, except share and per share amounts)

NOTE 8. COMMITMENTS AND CONTINGENCIES

Loan Commitments

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. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. A summary of the Company's commitments is as follows:

	March 31, 2024	December 31, 2023
Commitments to extend credit	$ 422,436	$ 501,935
Standby letters of credit	4,728	2,846
Total	$ 427,164	$ 504,781

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

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

The Company has not been required to perform on any standby letters of credit, and the Company has not incurred any losses on financial standby letters of credit for the three months ended March 31, 2024 and March 31, 2023.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

NOTE 9. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, commercial real estate, residential real estate, and consumer loans to customers in Alabama and Georgia. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas.

Eighty-five percent of the Company's loan portfolio is concentrated in real estate. A substantial portion of these loans are secured by real estate in the Company's primary market area. In addition, a substantial portion of the other real estate owned is located in those same markets. Accordingly, the ultimate collectibility of the loan portfolio and the recovery of the carrying amount of the other real estate owned are susceptible to changes in market conditions in the Company's primary market area. The other concentrations of credit by type of loan are set forth in Note 4.

NOTE 9. CONCENTRATIONS OF CREDIT (Continued)

The Company, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined, or approximately $61,575 or on an unsecured basis in excess of 10% of capital, as defined, or approximately $30,788.

NOTE 10. STOCKHOLDERS' EQUITY

As of March 31, 2024, the Company had 8,894,794 shares of common stock issued and outstanding and does not have any non-voting shares issued and outstanding.

As of December 31, 2023, the Company had 8,841,349 shares of common stock issued and outstanding and does not have any non-voting shares issued and outstanding.

NOTE 11. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At March 31, 2024, approximately $80,604 of retained earnings was available for dividend declaration without regulatory approval.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, the Bank is subject to a capital conservation buffer, which requires it to maintain common equity Tier 1 capital of 2.50% above minimum requirements for the common equity Tier 1 ratio, Tier 1 risk-based ratio and total risk-based ratio to avoid limitations on distributions and discretionary bonus payments. The capital conservation buffer is included in the minimum capital requirements in the following tables. Management believes, as of March 31, 2024 and December 31, 2023, that the Bank met all capital adequacy requirements to which it is subject.

As of March 31, 2024, the Company and the Bank believe they are each well capitalized on a consolidated basis for bank regulatory purposes as their respective capital ratios exceed minimum total, Tier 1 and CET1 risk-based capital ratios and Tier 1 leverage capital ratios as set forth in the following table. As a bank holding company with less than $3,000,000 in total consolidated assets, the Company is eligible to be treated as a "small bank holding company" under the Federal Reserve's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement. As a result, the Company's capital adequacy is evaluated at the bank level and on a parent-only basis, and it is not subject to consolidated capital standards for regulatory purposes. The ratios set forth below as to the Company are for illustrative purposes in the event it were to become subject to consolidated capital standards for regulatory purposes. The column styled "Required for Capital Adequacy Purposes" includes the 2.50% capital conservation buffer.

The Bank is also subject to capital requirements under the FDIC's prompt corrective action regime. As of March 31, 2024, the Bank was well capitalized under the regulatory framework for prompt corrective action.

(in thousands, except share and per share amounts)

NOTE 11. REGULATORY MATTERS (Continued)

As part of the directive under the Economic Growth Act, in September 2019, the FDIC and other federal bank regulatory agencies approved the Community Bank Leverage Ratio ("CBLR") framework. This optional framework became effective January 1, 2020, and is available to the Company and the Bank as an alternative to the Basel III risk-based capital framework. The CBLR framework provides for a simple measure of capital adequacy for certain community banking organizations. Specifically, depository institutions and depository institution holding companies that have less than $10,000,000 in total consolidated assets and meet other qualifying criteria, including a Tier 1 leverage ratio of greater than 9.00%, are considered qualifying community banking organizations and are eligible to opt into the CBLR framework, and replace the applicable Basel III risk-based capital requirements. As of March 31, 2024, the Company and the Bank qualify for the CBLR framework. Management does not intend to utilize the CBLR framework.

	Actual		Required for Capital Adequacy Purposes		Minimums To Be "Well Capitalized" Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2024						
Tier 1 capital (to average assets)						
Company	$ 213,603	8.79 %	$ 97,230	4.00 %	$ —	—
Bank	$ 283,596	11.67 %	$ 97,230	4.00 %	$ 121,537	5.00 %
CET 1 capital (to risk-weighted assets)						
Company	$ 213,603	9.39 %	$ 159,208	7.00 %	$ —	—
Bank	$ 283,596	12.47 %	$ 159,208	7.00 %	$ 147,836	6.50 %
Tier 1 capital (to risk-weighted assets)						
Company	$ 213,603	9.39 %	$ 193,324	8.50 %	$ —	—
Bank	$ 283,596	12.47 %	$ 193,324	8.50 %	$ 181,952	8.00 %
Total capital (to risk-weighted assets)						
Company	$ 328,035	14.42 %	$ 238,811	10.50 %	$ —	—
Bank	$ 310,028	13.63 %	$ 238,811	10.50 %	$ 227,440	10.00 %

(in thousands, except share and per share amounts)

NOTE 11. REGULATORY MATTERS (Continued)

	Actual		Required for Capital Adequacy Purposes		Minimums To Be "Well Capitalized" Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023						
Tier 1 capital (to average assets)						
Company	$ 205,582	8.99 %	$ 91,503	4.00 %	$ —	—
Bank	$ 274,850	12.01 %	$ 91,503	4.00 %	$ 114,379	5.00 %
CET 1 capital (to risk-weighted assets)						
Company	$ 205,582	9.20 %	$ 156,378	7.00 %	$ —	—
Bank	$ 274,850	12.30 %	$ 156,378	7.00 %	$ 145,209	6.50 %
Tier 1 capital (to risk-weighted assets)						
Company	$ 205,582	9.20 %	$ 189,888	8.50 %	$ —	—
Bank	$ 274,850	12.30 %	$ 189,888	8.50 %	$ 178,718	8.00 %
Total capital (to risk-weighted assets)						
Company	$ 319,199	14.29 %	$ 234,568	10.50 %	$ —	—
Bank	$ 300,467	13.45 %	$ 234,568	10.50 %	$ 223,398	10.00 %

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic (FASB ASC 820), 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 based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents: The carrying amounts of cash and due from banks, interest-bearing deposits in banks, and federal funds sold make up cash and cash equivalents. The carrying amount of these short-term instruments approximate fair value.

Securities and Other Equity Securities: Where quoted prices are available in an active market, management classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange-traded equities.

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value Hierarchy (Continued)

If quoted market prices are not available, management estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations, and state and municipal securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, those securities would be classified in Level 3.

Restricted Equity Securities: The carrying amount of restricted equity securities with no readily determinable fair value approximates fair value based on the redemption provisions of the issuers which is cost.

Loans Held for Sale: The carrying amounts of loans held for sale approximates fair value.

Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair values of fixed rate loans is estimated based on discounted contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Bank Owned Life Insurance: The carrying amount of bank owned life insurance approximates fair value.

Annuities: The carrying amounts of annuities approximate their fair values.

Deposits: The fair values disclosed for transaction deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Other Borrowings: The fair value of fixed rate other borrowings is based on discounted contractual cash flows using interest rates currently being offered for borrowings of similar maturities. The fair values of the Company's variable rate other borrowings approximate their carrying values.

FHLB Advances: The fair value of FHLB advances is based on discounted contractual cash flows using interest rates currently being offered for borrowings of similar maturities.

Subordinated Notes: The carrying amounts of the subordinated notes approximate fair value.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Trading Assets and Liabilities: The Company has derivative instruments in the form of interest rate swap agreements accounted for as trading assets and liabilities and carried at fair value. The fair value of these instruments is based on information obtained from a third party financial institution. The Company reflects these instruments within Level 2 of the valuation hierarchy.

Off-Balance Sheet Credit-Related Instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

(in thousands, except share and per share amounts)

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets Measured at Fair Value on a Recurring Basis

The only assets and liabilities measured at fair value on a recurring basis are our securities available for sale and swaps. There were no transfers between levels during the period. Information related to the Company's assets and liabilities measured at fair value on a recurring basis at March 31, 2024 and December 31, 2023 is as follows:

		Fair Value Measurements At Reporting Date Using:		
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2024				
U.S. Treasury securities	$ 8,688	$ —	$ 8,688	$ —
U.S. Government Sponsored Enterprises (GSEs)	2,181	—	2,181	—
State and municipal securities	40,486	—	40,486	—
Corporate debt securities	11,331	—	11,331	—
Asset based securities	17,615	—	17,615	—
Mortgage-backed GSE residential/multifamily and non-GSE	97,078	—	97,078	—
Other equity securities	3,638	3,638	—	—
Interest Rate Products - asset	7,810	—	7,810	—
Interest Rate Products - liabilities	(7,830)	—	(7,830)	—
December 31, 2023				
U.S. Treasury securities	$ 8,772	$ —	$ 8,772	$ —
U.S. Government Sponsored Enterprises (GSEs)	2,268	—	2,268	—
State and municipal securities	41,069	—	41,069	—
Corporate debt securities	11,259	—	11,259	—
Asset based securities	18,687	—	18,687	—
Mortgage-backed GSE residential/multifamily and non-GSE	96,945	—	96,945	—
Other equity securities	3,649	3,649	—	—
Interest Rate Products - asset	7,691	—	7,691	—
Interest Rate Products - liabilities	(7,726)	—	(7,726)	—

Assets Measured at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measure at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of March 31, 2024 and December 31, 2023:

		Fair Value Measurements At Reporting Date Using:		
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2024:				
Individually analyzed loans	$ 4,162	$ —	$ —	$ 4,162
Foreclosed assets	33	—	—	33
Totals	$ 4,195	$ —	$ —	$ 4,195

(in thousands, except share and per share amounts)

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023:				
Individually analyzed loans	$ 3,095	$ —	$ —	$ 3,095
Foreclosed assets	33	—	—	33
Totals	$ 3,128	$ —	$ —	$ 3,128

Individually Analyzed Loans

Loans considered individually analyzed under ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Individually analyzed loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less estimated selling costs if the loan is collateral dependent.

The fair value of individually analyzed loans are primarily measured based on the value of the collateral securing these loans. Impaired loans are typically classified within level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Foreclosed Assets

Foreclosed assets, consisting of properties/assets obtained through foreclosure or in satisfaction of loans, are initially recorded at fair value less estimated costs to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less estimated costs to sell. Fair values are generally based on third party appraisals of the property/assets and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

(in thousands, except share and per share amounts)

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Quantitative Disclosures for Level 3 Fair Value Measurements

The Company had no Level 3 assets measured at fair value on a recurring basis as of March 31, 2024 and December 31, 2023.

For Level 3 assets measured at fair value on a nonrecurring basis as of March 31, 2024, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Individually analyzed loans	$ 4,162	Appraisal	Appraisal discounts (%)	15-20%
Foreclosed assets	$ 33	Appraisal	Appraisal discounts (%)	10-15%

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2023, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Individually analyzed loans	$ 3,095	Appraisal	Appraisal discounts (%)	15-20%
Foreclosed assets	$ 33	Appraisal	Appraisal discounts (%)	10-15%

Fair Value of Financial Instruments

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

	March 31, 2024			
		Estimated Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 237,123	$ 237,123	$ —	$ —
Securities available for sale	177,379	—	177,379	—
Other equity securities	3,638	3,638	—	—
Loans held for sale	425	—	425	—
Trading assets	7,810	—	7,810	—
Loans, net	1,940,005	—	1,898,426	4,162
Bank owned life insurance	30,075	—	30,075	—
Annuities	15,939	—	15,939	—
Accrued interest receivable	9,561	—	9,561	—
Restricted equity securities	5,108	—	—	5,108
Financial liabilities:				
Deposits	$ 2,109,798	$ —	$ 2,107,741	$ —
Trading liabilities	7,830	—	7,830	—
FHLB advances	52,000	—	51,969	—
Other borrowings	7,997	—	7,997	—
Subordinated notes	86,776	—	86,776	—
Accrued interest payable	1,805	—	1,805	—

(in thousands, except share and per share amounts)

NOTE 12. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value of Financial Instruments (Continued)

	December 31, 2023			
		Estimated Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 250,651	$ 250,651	$ —	$ —
Securities available for sale	179,000	—	179,000	—
Other equity securities	3,649	3,649	—	—
Loans held for sale	450	—	450	—
Trading assets	7,691	—	7,691	—
Loans, net	1,860,130	—	1,824,800	3,095
Bank owned life insurance	29,884	—	29,884	—
Annuities	15,036	—	15,036	—
Accrued interest receivable	8,711	—	8,711	—
Restricted equity securities	5,684	—	—	5,684
Financial liabilities:				
Deposits	$ 2,018,189	$ —	$ 2,016,506	$ —
Trading liabilities	7,726	—	7,726	—
FHLB advances	70,000	—	70,029	—
Other borrowings	26,994	—	26,994	—
Subordinated notes	86,679	—	86,679	—
Accrued interest payable	1,519	—	1,519	—

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the years ended December 31, 2023 and December 31, 2022, included in our Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may not be realized. Certain risks, uncertainties and other factors, including those set forth under "Risk Factors," "Cautionary Note Regarding Forward-Looking Statements" and elsewhere in this Quarterly Report on Form 10-Q, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. We assume no obligation to update any of these forward-looking statements.

Overview

Southern States Bancshares, Inc. (including its subsidiaries, the "Company," "our" or "we") is a bank holding company headquartered in Anniston, Alabama. We operate primarily through our wholly-owned subsidiary, Southern States Bank (the "Bank"), an Alabama banking corporation. We provide banking services from thirteen offices in Alabama and Georgia and two LPOs in Georgia. The Bank is a full service community banking institution, which offers an array of deposit, loan and other banking-related products and services to businesses and individuals in our communities. Our principal business activities include commercial and retail banking.

Our management's discussion and analysis of financial condition and results of operations is intended to provide the reader with information that will assist in the understanding of our business, results of operations, financial condition and financial statements; changes in certain key items in our financial statements from period to period; and the primary factors that we use to evaluate our business.

Overview of First Quarter 2024 Results

Net income was $8.1 million for the quarter ended March 31, 2024, compared to $8.9 million for the quarter ended December 31, 2023 and $7.7 million for the quarter ended March 31, 2023. Significant measures in the first quarter included:

- Annualized return on average assets ("ROAA") was 1.33% for the three months ended March 31, 2024, compared to 1.53% for the three months ended December 31, 2023 and 1.51% for the three months ended March 31, 2023.
- Annualized return on average equity ("ROAE") was 14.87% for the three months ended March 31, 2024, compared to 17.02% for the three months ended December 31, 2023 and 16.67% for the three months ended March 31, 2023.
- Basic earnings per common share was $0.91 for the three months ended March 31, 2024, compared to $1.00 for the three months ended December 31, 2023 and $0.87 for the three months ended March 31, 2023.
- Net interest margin of 3.59% for the first quarter of 2024, compared to 3.69% for the fourth quarter of 2023 and 4.07% for the first quarter of 2023.
- Net interest income was $20.8 million for the three months ended March 31, 2024, an increase of $435,000, or 2.1%, from $20.4 million for the three months ended December 31, 2023 and an increase of $1.3 million, or 6.6%, from $19.5 million for the three months ended March 31, 2023.
- Loans, net of unearned income, were $2.0 billion as of March 31, 2024, a $80.6 million, or 4.3%, increase compared to December 31, 2023, or a linked-quarter annualized growth rate of 17.2%.
- Deposits were $2.1 billion as of March 31, 2024, a $91.6 million, or 4.5%, increase compared to December 31, 2023, or a linked-quarter annualized growth rate of 18.3%.
- Deposits, excluding brokered deposits, were $1.8 billion as of March 31, 2024, a $31.5 million, or 1.8%, increase compared to December 31, 2023, or a linked-quarter annualized growth rate of 7.1%.

Acquisition of Century Bank of Georgia

On February 27, 2024, we entered into an Agreement and Plan of Merger (the "Agreement") to acquire Century Bank of Georgia ("Century Bank"). Under the terms of the Agreement, CBB Bancorp, the parent company of Century Bank ("CBB Bancorp") will merge with and into us, with us surviving, and Century Bank will merge with and into the Bank, with the Bank surviving (the "Merger").

Under the terms and subject to the conditions of the Agreement, the holders of CBB Bancorp will have the right to elect to receive either 1.550 shares of our common stock or $45.63 in cash. Shareholder elections for cash are subject to proration such that no more than 10% of the shares outstanding of CBB Bancorp (including those dissenting) will receive the cash consideration.

The Merger is subject to customary closing conditions, including regulatory approval and approval by the CBB Bancorp shareholders, and is expected to close in the third or fourth quarter of 2024. Century Bank operates two branches in the Northwest Georgia markets of Cartersville and Rockmart. For additional information about the Merger, please see the Current Report on Form 8-K filed by Southern States Bancshares, Inc. on February 28, 2024.

Primary Factors Used to Evaluate Our Business

The most significant factors we use to evaluate our business and results of operation are net income, return on average assets and return on average equity. We also use net interest income, noninterest income and noninterest expense.

Net Interest Income

Net interest income is our principal source of net income and represents the difference between interest income and interest expense. We generate interest income from interest-earning assets that we own, including loans and investment securities. We incur interest expense from interest-bearing liabilities, including interest-bearing deposits and other borrowings, notably FHLB advances, our subordinated notes (the "Notes") and our Line of Credit.

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities, are usually the largest drivers of periodic changes.

Noninterest Income

Noninterest income primarily consists of: (i) service charges on deposit accounts; (ii) swap fees; (iii) SBA/USDA fees; (iv) bank card services and interchange fees; (v) mortgage banking activities; (vi) benefits from changes in cash surrender value of bank owned life insurance ("BOLI") and (vii) other miscellaneous fees and income.

Our income from service charges on deposit accounts, which includes nonsufficient funds fees, is impacted by several factors, including number of accounts, products utilized and account holder cash management behaviors. These are further impacted by deposit products utilized by customers, marketing of new products and other factors. The income recognized on SBA and USDA loans, mortgage banking and interest rate swaps are impacted by prevailing market conditions and volumes of loans originated.

Noninterest Expense

Noninterest expense primarily consists of: (i) salaries and employee benefits; (ii) equipment and occupancy expenses; (iii) professional and other service fees; (iv) data processing and telecommunication expenses; (v) FDIC deposit insurance and regulatory assessments; and (vi) other operating expenses.

Primary Factors Used to Evaluate Our Financial Condition

The most significant factors we use to evaluate and manage our financial condition include asset quality, capital and liquidity.

Asset Quality

We monitor the quality of our assets based upon factors including level and severity of deterioration in borrower cash flows and asset quality. Problem assets are assessed and reported as delinquent, classified, nonperforming or nonaccrual. We also monitor credit concentrations. We manage the allowance for credit losses to reflect loan volumes, identified credit and collateral conditions, economic conditions and other qualitative factors.

Capital

We monitor capital using regulatory capital ratios. Factors used other than regulatory rules include overall financial condition, including the trend and volume of problem assets, reserves, risks, level and quality of earnings, and anticipated growth, including acquisitions.

Liquidity

Deposits primarily consist of commercial and personal accounts maintained by businesses and individuals in our primary market areas. We also utilize brokered deposits, Qwickrate certificates of deposits and reciprocal deposits through a third-party network that effectively allows depositors to receive insurance on amounts greater than the FDIC insurance limit, which is currently $250,000. We manage liquidity based on factors that include the amount of core deposits to total deposits, level of non-customer deposits, short-term funding needs and sources, and the availability of unused funding sources.

Results of Operations for the Three Months Ended March 31, 2024 and 2023

We had net income of $8.1 million for the three months ended March 31, 2024, compared to net income of $7.7 million for the three months ended March 31, 2023, an increase of $448,000 or 5.8%. The increased net income was substantially the result of an increase in net interest income, which was considerably offset by a decrease in noninterest income and an increase in noninterest expense.

The following table shows the average outstanding balance of each principal category of our assets, liabilities and stockholders' equity, together with the average yields on our assets and average costs of our liabilities for the periods indicated. Yields and costs are calculated by dividing the annualized income or expense by the average daily balances of the corresponding assets or liabilities for the same period.

	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
	(dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans, net of unearned income[(1)]	$ 1,916,288	$ 33,628	7.06 %	$ 1,609,564	$ 25,335	6.38 %
Taxable securities	163,586	1,981	4.87 %	139,516	1,383	4.02 %
Nontaxable securities	45,368	229	2.03 %	52,832	291	2.24 %
Other interest-earnings assets	211,127	2,898	5.52 %	146,045	1,690	4.69 %
Total interest-earning assets	$ 2,336,369	$ 38,736	6.67 %	$ 1,947,957	$ 28,699	5.97 %
Allowance for credit losses	(24,313)			(20,493)		
Noninterest-earning assets	135,222			129,541		
Total Assets	$ 2,447,278			$ 2,057,005		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	85,858	26	0.12 %	93,951	20	0.08 %
Savings and money market accounts	902,361	8,804	3.92 %	806,001	5,040	2.54 %
Time deposits	645,088	7,076	4.41 %	400,680	2,708	2.74 %
FHLB advances	53,121	655	4.96 %	18,578	159	3.47 %
Other borrowings	95,650	1,336	5.62 %	86,323	1,226	5.76 %
Total interest-bearing liabilities	$ 1,782,078	$ 17,897	4.04 %	$ 1,405,533	$ 9,153	2.64 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	$ 416,141			$ 438,735		
Other liabilities	29,437			26,098		
Total noninterest-bearing liabilities	$ 445,578			$ 464,833		
Stockholders' Equity	219,622			186,639		
Total Liabilities and Stockholders' Equity	$ 2,447,278			$ 2,057,005		
Net interest income		$ 20,839			$ 19,546	
Net interest spread[(2)]			2.63 %			3.33 %
Net interest margin[(3)]			3.59 %			4.07 %

(1) Includes nonaccrual loans.
(2) Net interest spread is the difference between interest rates earned on interest-earning assets and interest rates paid on interest-bearing liabilities.
(3) Net interest margin is a ratio of net interest income to average interest-earning assets for the same period.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates.

The following tables set forth the effects of changing rates and volumes on our net interest income during the periods shown. Information is provided with respect to: (i) effects on interest income attributable to changes in volume (change in volume multiplied by prior rate); and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been proportionately allocated to both volume and rate.

	Three Months Ended March 31, 2024 vs. Three Months Ended March 31, 2023		
	Changes due to:		
	Volume	Rate	Total Variance
	(dollars in thousands)		
Interest-earning assets:			
Loans, net of unearned income	$ 5,447	$ 2,846	$ 8,293
Taxable securities	297	301	598
Nontaxable securities	(36)	(26)	(62)
Other interest-earning assets	904	304	1,208
Total increase in interest income	$ 6,612	$ 3,425	$ 10,037
Interest-bearing liabilities:			
Interest-bearing transaction accounts	(3)	9	6
Savings and money market accounts	951	2,813	3,764
Time deposits	2,695	1,673	4,368
FHLB advances	427	69	496
Other borrowings	144	(34)	110
Total increase in interest expense	$ 4,214	$ 4,530	$ 8,744
Increase in net interest income	$ 2,398	$ (1,105)	$ 1,293

Net interest income for the three months ended March 31, 2024 was $20.8 million compared to $19.5 million for the three months ended March 31, 2023, an increase of $1.3 million, or 6.6%. The increase in net interest income was comprised of a $10.0 million, or 35.0%, increase in interest income, partially offset by a $8.7 million, or 95.5%, increase in interest expense. The increase in interest income was substantially a result of a $306.7 million, or 19.1%, increase in average loans from March 31, 2023 to March 31, 2024, coupled with an increase in average yield as higher rate loans were recorded from March 31, 2023 to March 31, 2024. The increase in average gross loans outstanding was substantially due to organic growth. The $8.7 million increase in interest expense for the quarter ended March 31, 2024 was related to a 1.40% increase in the cost paid on interest-bearing liabilities coupled with an increase of $376.5 million, or 26.8%, in average interest-bearing liabilities from March 31, 2023 to March 31, 2024. Competitive rate pressures continue to negatively impact the cost of interest-bearing deposits. For the three months ended March 31, 2024, net interest margin and net interest spread were 3.59% and 2.63%, respectively, compared to 4.07% and 3.33%, respectively, for the same period in 2023.

Provision for Credit Losses

The provision for credit losses for the three months ended March 31, 2024 and 2023 was $1.2 million. The provision was recorded primarily based on growth as well as increases for individually analyzed loans. In the three months ended March 31, 2024, there were net charge offs of $470,000. In the three months ended March 31, 2023, there were net charge offs of $197,000.

The allowance for credit losses as a percentage of gross loans was 1.28% and 1.20% at March 31, 2024 and 2023, respectively.

Noninterest Income

Noninterest income for the three months ended March 31, 2024 was $1.3 million compared to $1.8 million for the three months ended March 31, 2023, a decrease of $518,000, or 29.0%, which primarily resulted from a net loss on securities for the three months ended March 31, 2024, compared to a net gain on securities for three months ended March 31, 2023.

The following table sets forth the major components of our noninterest income for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,		
	2024	2023	Increase (Decrease)
	(dollars in thousands)		
Service charges on deposit accounts	$ 463	$ 450	$ 13
Swap fees (expense)	15	(4)	19
SBA/USDA fees	64	134	(70)
Bank card services and interchange fees	397	375	22
Mortgage banking activities	96	100	(4)
Net (loss) gain on securities	(12)	514	(526)
Other operating income[(1)]	245	217	28
Total noninterest income	$ 1,268	$ 1,786	$ (518)

(1) Other income and fees include income and fees associated with miscellaneous services and the increase in the cash surrender value of BOLI.

Income from service charges on deposit accounts includes fees for overdraft charges, insufficient funds charges, account analysis service fees on commercial accounts, and monthly account service fees. These fees increased $13,000, or 2.9%, to $463,000 for the three months ended March 31, 2024 from $450,000 for the three months ended March 31, 2023. The increase was primarily attributed to an overall increase in service charges on deposit accounts as a result of deposit growth.

Interest rate swap fees represent fees received when the Bank’s customer enters into a back-to-back swap agreement and fair value adjustments. These fees increased $19,000, or 475.0%, to $15,000 for the three months ended March 31, 2024 from a net expense of $4,000 for the three months ended March 31, 2023. The Bank did not participate in interest rate swaps during the three months ended March 31, 2024 and 2023, but did realize a net fair value adjustment as a gain during the three months ended March 31, 2024, compared to a net fair value adjustment as a loss during the three months ended March 31, 2023.

SBA/USDA fees primarily include gains on the sale of loans and servicing of the loans. These fees decreased $70,000, or 52.2%, to $64,000 for the three months ended March 31, 2024, from $134,000 for the three months ended March 31, 2023. The decrease was primarily due to additional gains on the sales of loans during the three months ended March 31, 2023, compared to the three months ended March 31, 2024, along with a reduction in servicing income during the three months ended March 31, 2024.

Bank card services and interchange fees are derived from debit cards and foreign ATM transactions. These fees increased $22,000, or 5.9%, to $397,000 for the three months ended March 31, 2024, from $375,000 for the three months ended March 31, 2023. The increase was primarily the result of more transactional volume that generated an increase in interchange fees during the three months ended March 31, 2024.

Income from mortgage banking activities primarily includes origination fees and gains on the sale of mortgage loans originated for sale in the secondary market. Income from mortgage banking activities decreased $4,000, or 4.0%, to $96,000 for the three months ended March 31, 2024 from $100,000 for the three months ended March 31, 2023. The decrease was the result of decreased volumes in the secondary market primarily based on reduced mortgage demand from increased interest rates.

Net loss on securities was $12,000 for the three months ended March 31, 2024 as a result of market adjustments on equity securities. Net gain on securities was $514,000 for the three months ended March 31, 2023 substantially as a result of market adjustments on equity securities.

Other operating income increased $28,000, or 12.9%, to $245,000 for the three months ended March 31, 2024 from $217,000 for the three months ended March 31, 2023. The increase was primarily the result of increased cash surrender value on BOLI during the three months ended March 31, 2024.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2024 was $10.4 million compared to $10.2 million for the three months ended March 31, 2023, an increase of $217,000, or 2.1%, which primarily resulted from an increase in other operating expenses, and, to a lesser extent, increases in other real estate expense and data processing fees. These increases were partially offset by a reduction in salaries and employee benefits.

The following table sets forth the major components of our noninterest expense for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,		
	2024	2023	Increase (Decrease)
		(dollars in thousands)	
Salaries and employee benefits	$ 6,231	$ 6,311	$ (80)
Equipment and occupancy expenses	689	683	6
Professional services	530	499	31
Data processing fees	643	593	50
Other real estate expense (income)	9	(49)	58
Other operating expenses[1]	2,273	2,121	152
Total noninterest expense	$ 10,375	$ 10,158	$ 217

(1) Other operating expenses include items such as FDIC insurance, telephone expenses, marketing and advertising expense, debit card expenses, courier fees, directors' fees, travel and entertainment expenses, insurance, fraud and forgery losses, uninsured deposit program expenses, tax credit investment expenses and provision for credit losses on unfunded commitments.

Salaries and employee benefits primarily include: (i) amounts paid to employees for base pay, incentive compensation, and bonuses; (ii) health and other related insurance paid by the Bank on behalf of our employees; and (iii) retirement plans provided for employees, including the 401(k) and non-qualified plans maintained for certain key employees. Salaries and employee benefits decreased $80,000, or 1.3%, from $6.3 million for the quarter ended March 31, 2023 to $6.2 million for the quarter ended March 31, 2024. The decrease was primarily attributable to a decrease in incentive expense as a result of a reduction in employees and open positions, coupled with a decrease in expenses associated with restricted stock units.

Equipment and occupancy expenses consist of depreciation on property, premises, equipment and software, rent expense for leased facilities, maintenance agreements on equipment, property taxes, and other expenses related to maintaining owned or leased assets. Equipment and occupancy expense for the three months ended March 31, 2024 was $689,000 compared to $683,000 for the three months ended March 31, 2023, an increase of $6,000, or 0.9%. The increase was primarily attributable to additional leasing expense, which was partially offset by a reduction in property taxes and other miscellaneous occupancy expenses.

Professional services expenses, which include legal fees, audit and accounting fees, and consulting fees, increased $31,000, or 6.2%, to $530,000 for the three months ended March 31, 2024 compared to $499,000 for the three months ended March 31, 2023. The increase was primarily the result of an increase in placement fees associated with utilizing additional brokered deposits during 2024, as well as an increase in servicing expense on SBA/USDA loan sales. These increases were partially offset by a decrease in legal expenses.

Data processing fees, which primarily consists of data processing services for core processing from a third-party vendor, increased $50,000, or 8.4%, to $643,000 for the three months ended March 31, 2024 compared to $593,000 for the three months ended March 31, 2023. The increase was primarily the result of additional software and general increases.

Other real estate expense (income) increased $58,000, or 118.4%, to a net expense of $9,000 for the three months ended March 31, 2024, from a net income of $49,000 for the three months ended March 31, 2023. The three months ended March 31, 2023 included rental income related to a property sold in December 2023.

Other operating expenses increased $152,000, or 7.2%, to $2.3 million for the three months ended March 31, 2024, compared to $2.1 million for the three months ended March 31, 2023. The increase was substantially due to increases in expenses associated with a purchased market tax credit and the uninsured deposit program, coupled with the recognition of provision for credit losses on unfunded loan commitments during the three months ended March 31, 2024, which was not recognized during the three months ended March 31, 2023. The increase was partially offset by a net recovery of fraud and forgery losses during the three months ended March 31, 2024, compared to a net loss during the three months ended March 31, 2023.

Financial Condition

Total assets grew $64.3 million, or 2.6%, to $2.5 billion at March 31, 2024 from $2.4 billion at December 31, 2023.

Loans, net of unearned income, increased $80.6 million, or 4.3%, to $2.0 billion at March 31, 2024 from $1.9 billion at December 31, 2023. Loans, net of unearned income, grew at a linked-quarter annualized rate of 17.2% for the three months ended March 31, 2024.

Securities portfolio decreased $1.6 million, or 0.8%, to $197.0 million at March 31, 2024, compared to $198.6 million at December 31, 2023.

Cash and cash equivalents fell $13.5 million, or 5.4%, to $237.1 million at March 31, 2024, from $250.7 million at December 31, 2023.

Deposits grew $91.6 million, or 4.5%, to $2.1 billion at March 31, 2024 compared to $2.0 billion at December 31, 2023. The majority of the growth was due to an increase of $112.9 million in interest-bearing account balances, partially offset by a $21.3 million decrease in noninterest-bearing deposits. Included in the increase was $60.2 million in brokered deposits. Total deposits, excluding brokered deposits, grew 1.8% for the three months ended March 31, 2024.

Total stockholders' equity increased $7.9 million, or 3.7%, to $222.9 million at March 31, 2024, compared to $215.0 million at December 31, 2023. The increase was substantially due to earnings growth.

Loan Portfolio

Loans represent the largest portion of earning assets, greater than the securities portfolio or any other asset category, and the quality and diversification of the loan portfolio is an important consideration when reviewing the Company's financial condition.

The Company originates residential real estate loans for the secondary market. The Company sells the residential real estate loans exclusively to two private investors who solely and independently make the credit decisions and set the closing conditions. The loans are closed in the Company's name but are immediately assigned to the designated investor. These loans have an average turn time to purchase of 30 days or less. These mortgage loans are designated on the Company's balance sheet as held for sale. This segment represents less than 0.024% of total loans based on the latest thirteen-month average.

We have three loan portfolio segments: real estate ("RE") which is divided into three classes, commercial and industrial ("C&I"), and consumer and other. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and method for monitoring and assessing credit risk. Classes within the RE portfolio segment include construction and development or ("C&D"), residential mortgages, and commercial mortgages.

Our loan clients primarily consist of small to medium sized business, the owners and operators of these businesses, as well as other professionals, entrepreneurs and high net worth individuals. We believe owner-occupied and investment commercial real estate loans, residential construction loans and commercial business loans provide us with higher risk-adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations, and are complemented by our relatively lower risk residential real estate loans to individuals.

The following describes risk characteristics relevant to each of the loan portfolio segments:

Real estate—The Company offers various types of real estate loan products, which are divided into the classes described below. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Construction and development, or C&D, loans include extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.
- Residential mortgages include 1-4 family first mortgage loans, which are repaid by various means such as a borrower’s income, sale of the property, or rental income derived from the property. These include second liens or open-end residential real estate loans, such as home equity lines. These loans are typically repaid by the same means as 1-4 family first mortgages.
- Commercial mortgages include both owner-occupied commercial real estate loans and other commercial real estate loans, such as commercial loans secured by income producing properties. Owner-occupied commercial real estate loans made to operating businesses are long-term financing of land and buildings and are repaid by cash flows generated from business operations. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

Commercial and industrial—This loan portfolio segment includes loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, leases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers’ business operations.

Consumer and other—This loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

The following table presents the balance and associated percentage of the composition of loans, excluding loans held for sale on the dates indicated:

	March 31, 2024		December 31, 2023	
	Amount	% of Total	Amount	% of Total
	(dollars in thousands)			
Real estate mortgages:				
Construction and development	$ 252,934	12.8 %	$ 242,960	12.9 %
Residential	238,702	12.1 %	224,603	11.9 %
Commercial	1,182,634	60.0 %	1,144,867	60.5 %
Commercial and industrial	288,701	14.7 %	269,961	14.3 %
Consumer and other	8,425	0.4 %	8,286	0.4 %
Gross Loans	1,971,396	100.0 %	1,890,677	100.0 %
Deferred loan fees	(6,247)		(6,169)	
Allowance for credit losses	(25,144)		(24,378)	
Loans, net	$ 1,940,005		$ 1,860,130	

Gross loans increased $80.7 million, or 4.3%, to $2.0 billion as of March 31, 2024 as compared to $1.9 billion as of December 31, 2023. Portfolio segments and classes remained relatively consistent since December 31, 2023.

The majority of our fixed rate loans have a one to five-year maturity. This type of loan has historically been about 50% of total loans over the past three years because the majority of our commercial loans are priced with five-year balloons.

We are primarily involved in real estate and commercial lending activities with customers throughout our markets in Alabama and Georgia. About 84.9% of our gross loans were secured by real property as of March 31, 2024, compared to 85.3% as of December 31, 2023. We believe that these loans are not concentrated in any one single property type and that they are geographically dispersed throughout our markets. Our debtors' ability to repay their loans is substantially dependent upon the economic conditions of the markets in which we operate, which consist primarily of wholesale/retail and related businesses.

Commercial real estate loans were 60.0% of total gross loans as of March 31, 2024 and represented 60.5% of total gross loans as of December 31, 2023. C&D loans were 12.8% of total gross loans as of March 31, 2024, and represented 12.9% of total gross loans as of December 31, 2023. The regulatory concentration ratio of the Company's commercial real estate loans to total risk-based Bank capital is 298.9% as of March 31, 2024 and 296.8% as of December 31, 2023. C&D loans represented 81.6% of total risk-based Bank capital as of March 31, 2024 as compared to 80.9% as of December 31, 2023. The regulatory concentration ratios of commercial real estate loans and construction and development loans to total risk-based capital as of March 31, 2024 and December 31, 2023 were each below the 300%/100% concentration guidelines provided by regulators. Further, these loans are geographically diversified, primarily throughout our markets in Alabama and Georgia.

The Company has established concentration limits in its loan portfolio for commercial real estate loans by loan types, including collateral and industry, among others. The sector concentration is actively managed by the Senior Management team, including the Chief Executive Officer and President, Chief Risk/Credit Officer, Chief Operating Officer and Chief Financial Officer.

The Company requires all business purpose loans to be underwritten by a centralized underwriting department located in Birmingham, Alabama. Industry-tested underwriting guidelines are used to assess a borrower's historical cash flow to determine debt service, and the Company further stress tests the debt service under higher interest rate scenarios. Financial and performance covenants are used in commercial lending to allow us to react to a borrower's deteriorating financial condition, should that occur.

Construction and Development. Loans for residential construction are for single-family properties to developers or investors. These loans are underwritten based on estimates of costs and the completed value of the project. Funds are advanced based on estimated percentage of completion for the project. Performance of these loans is affected by economic conditions as well as the ability to control the costs of the projects. This category also includes commercial construction projects.

Construction and development loans increased $10.0 million, or 4.1%, to $252.9 million as of March 31, 2024 from $243.0 million as of December 31, 2023. The majority of this increase was due to loan growth primarily in the Company's Opelika and Huntsville, Alabama and Columbus, Georgia markets.

Residential. We offer one-to-four family mortgage loans on both owner-occupied primary residences and investor-owned residences, which make up 49.9% of our residential loan portfolio. Our residential loans also include home equity lines of credit, which total $22.4 million, or 9.4% of our residential portfolio as of March 31, 2024. By offering a full line of residential loan products, the owners of the small to medium sized businesses that we lend to use us, instead of a competitor, for financing a personal residence. We also offer multi-family loans, which comprise 40.0% of the portfolio. Other residential loans make up the remaining 0.7% of the portfolio.

Residential multi-family loans increased $14.1 million, or 6.3%, to $238.7 million as of March 31, 2024 from $224.6 million as of December 31, 2023. The majority of this increase was due to loan growth in the Company's Atlanta, Georgia market.

Commercial Real Estate. The Company's commercial real estate loan portfolio includes loans for commercial property that is owned by real estate investors, construction loans to build owner-occupied properties, and loans to developers of commercial real estate investment properties and residential developments. Commercial real estate loans are subject to underwriting standards and processes similar to the Company's commercial loans. These loans are underwritten primarily based on projected cash flows for income-producing properties and collateral values for non-income-producing properties. The repayment of these loans is generally dependent on the successful operation of the property securing the loans or the sale or refinancing of the property. Real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are diversified by type and geographic location. The Company believes the diversity helps reduce the exposure to adverse economic events that may affect any single market or industry.

Commercial real estate loans increased $37.8 million, or 3.3%, to $1.2 billion as of March 31, 2024 from $1.1 billion as of December 31, 2023. The increase in commercial real estate loans during this period was mostly driven by general increases in lending activity, primarily in the Company's Atlanta, Georgia market. As of March 31, 2024, the Company's commercial real estate portfolio was comprised of $577.5 million in non-owner occupied commercial real estate loans and $131.7 million in commercial construction loans.

Commercial and Industrial. Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Underwriting standards have been designed to determine whether the borrower possesses sound business ethics and practices, to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations, and to ensure appropriate collateral is obtained to secure the loan. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as real estate, accounts receivable, or inventory, and typically include personal guarantees. Owner-occupied real estate is included in commercial and industrial loans, as the repayment of these loans is generally dependent on the operations of the commercial borrower's business rather than on income-producing properties or the sale of the properties.

Commercial and industrial loans increased $18.7 million, or 6.9% to $288.7 million as of March 31, 2024 from $270.0 million as of December 31, 2023. The majority of this increase was due to loan growth primarily in the Company's Atlanta, Georgia and Opelika, Alabama markets.

Consumer and Other. The Company utilizes the central underwriting department for all consumer loans over $200,000 in total credit exposure regardless of collateral type. Loans below this threshold are underwritten by the responsible loan officer in accordance with the Company's consumer loan policy. The loan policy addresses types of consumer loans that may be originated and the requisite collateral, if any, which must be perfected. We believe the relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers minimize risk.

Consumer and other loans (non-real estate loans) increased $139,000, or 1.7%, to $8.4 million as of March 31, 2024 from $8.3 million as of December 31, 2023.

Loan Participations

In the normal course of business, the Company periodically sells participating interests in loans to other banks and investors. All participations are sold on a proportionate (pro-rata) basis with all cash flows divided proportionately among the participants and no party has the right to pledge or exchange the entire financial asset without the consent of all the participants. Other than standard 90-day prepayment provisions and standard representations and warranties, participating interests are sold without recourse. We also purchase loan participations from time to time.

At March 31, 2024 and December 31, 2023 loan participations sold to third-parties (which are not included in the accompanying consolidated balance sheets) totaled $140.6 million and $127.8 million, respectively. We sell participations to manage our credit exposures to borrowers and concentration guidelines. At March 31, 2024 and December 31, 2023, we purchased loan participations totaling $123.5 million and $121.8 million, respectively. The variances come from purchases and sales of participations in the ordinary course of business.

Allowance for Credit Losses

As described previously under Recent Accounting Pronouncements, the Company adopted Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL") effective January 1, 2023.

For loans the allowance for credit losses is based on the Company's evaluation of the loan portfolio, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. The process is inherently subjective and subject to significant change as it requires material estimates. The allowance is increased by a provision for credit losses, which is charged to expense, and reduced by charge offs, net of recoveries. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Loans with similar risk characteristics are evaluated in pools and, depending on the nature of each identified pool, the Company utilizes a discounted cash flow, probability of default / loss given default, or remaining life method. The historical loss experience estimate by pool is then adjusted by forecast factors that are quantitatively related to the Company's historical credit loss experience, such as national unemployment rates and gross domestic product. Losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable period losses are reverted to long term historical averages. The reasonable and supportable period and reversion period are re-evaluated each quarter by the Company and are dependent on the current economic environment among other factors.

The estimated credit losses for each loan pool are then adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative adjustments either increase or decrease the quantitative model estimation. The Company considers factors that are relevant within the qualitative framework which include the following: changes in lending policies and quality of loan reviews, changes in nature and volume of loans, changes in volume and trends of problem loans, changes in concentration risk, trends in underlying collateral values, changes in competition, legal and regulatory environment and changes in economic conditions.

Credit losses for loans that no longer share similar risk characteristics with the collectively evaluated pools are excluded from the collective evaluation and estimated on an individual basis. Specific allowances are estimated based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows.

The Company measures expected credit losses over the contractual term of a loan, adjusted for estimated prepayments. The contractual term excludes expected extensions, renewals and modifications unless there is a reasonable expectation that a loan modification will be executed. Credit losses are estimated on the amortized cost basis of loans. Accrued interest receivable on loans is excluded from the estimate of credit losses.

Credit Exposure

The Company also has off-balance sheet financial instruments, which include unfunded credit commitments and letters of credit. The Company minimizes these risks through underwriting guidelines and prudent risk management techniques. For off-balance sheet instruments, the allowance for credit losses is calculated in accordance with Topic 326, representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit and considers the probability of a drawdown on the commitment and other factors. The allowance is reported as a component of other liabilities within the consolidated balance sheets. Adjustments to the allowance for credit losses for unfunded commitments are reported in the income statement as a component of other operating expense. The allowance for credit losses on off-balance sheet financial instruments was $1.3 million and $1.2 million at March 31, 2024 and December 31, 2023, respectively.

The allowance for credit losses was $25.1 million at March 31, 2024 compared to $24.4 million at December 31, 2023, an increase of $766,000, or 3.1%. Additional provisions were recorded based on overall growth in loans and increases for individually analyzed loans.

The following table provides an analysis of the allowance for credit losses as of the dates indicated.

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(dollars in thousands)	
Average loans, net of unearned income	$ 1,916,288	$ 1,609,564
Loans, net of unearned income	1,965,149	1,645,315
Allowance for credit losses at beginning of the period	24,378	20,156
Impact of adoption of ASC 326	—	(1,285)
Charge offs:		
Construction and development	—	—
Residential	11	—
Commercial	27	—
Commercial and industrial	442	218
Consumer and other	15	6
Total charge offs	495	224
Recoveries:		
Construction and development	—	—
Residential	8	11
Commercial	—	—
Commercial and industrial	16	14
Consumer and other	1	2
Total recoveries	25	27
Net charge offs	$ 470	$ 197
Provision for credit losses	$ 1,236	$ 1,181
Balance at end of period	$ 25,144	$ 19,855
Allowance for credit losses on unfunded commitments at beginning of the period	$ 1,239	$ —
Impact of adoption of ASC 326	—	1,285
Provision for credit losses on unfunded commitments	49	—
Balance at the end of the period	$ 1,288	$ 1,285
Ratio of allowance to end of period loans	1.28 %	1.21 %
Ratio of net charge offs to average loans	0.10 %	0.05 %

Net charge offs for the three months ended March 31, 2024 totaled $470,000, an increase of $273,000 compared to net charge offs of $197,000 for the three months ended March 31, 2023.

The following table presents the allocation of the allowance for credit losses for each respective loan category with the corresponding percentage of loans in each category to total loans:

	March 31, 2024		March 31, 2023	
	Amount	Percentage of loans in each category to gross loans	Amount	Percentage of loans in each category to gross loans
	(dollars in thousands)			
Real estate mortgages:				
Construction and development	$ 5,681	12.8 %	$ 5,440	13.8 %
Residential	3,241	12.1 %	2,097	11.9 %
Commercial	12,047	60.0 %	8,101	57.5 %
Commercial and industrial	4,088	14.7 %	4,110	16.4 %
Consumer and other	87	0.4 %	107	0.4 %
Total	$ 25,144	100.0 %	$ 19,855	100.0 %

Nonperforming Loans

Loans are considered delinquent when principal or interest payments are past due 30 days or more. Delinquent loans may remain on accrual status between 30 days and 90 days past due. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Typically, the accrual of interest on loans is discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are restored to accrual status when loans become well-secured and management believes full collectability of principal and interest is probable.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. Depending on a particular loan's circumstances, the Company measures impairment of a loan based upon the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. A loan is considered collateral dependent when repayment of the loan is based solely on the liquidation of the collateral. Fair value, where possible, is determined by independent appraisals, typically on an annual basis. Between appraisal periods, the fair value may be adjusted based on specific events, such as if deterioration of quality of the collateral comes to the Company's attention as part of its problem loan monitoring process, or if discussions with the borrower lead us to believe the last appraised value no longer reflects the actual market for the collateral. The impairment amount on a collateral-dependent loan is charged off to the allowance if deemed not collectible and the impairment amount on a loan that is not collateral-dependent is set up as a specific reserve.

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs related to holding other real estate owned and subsequent write-downs to the value are expensed. Any gains and losses realized at the time of disposal are reflected in income.

Real estate, which the Company acquires as a result of foreclosure or by deed-in-lieu of foreclosure, is classified as foreclosed assets until sold and is initially recorded at fair value less costs to sell when acquired, establishing a new carrying value. Foreclosed assets totaled $33,000 at March 31, 2024, consisting of one property, located in Wedowee, Alabama.

Nonperforming loans include nonaccrual loans and loans past due 90 days or more. Nonperforming assets consist of nonperforming loans plus OREO and collateral taken in foreclosure or similar proceedings.

Total nonperforming loans increased $2.3 million from December 31, 2023 to March 31, 2024. The net increase was primarily attributable to one significant commercial real estate loan and one significant commercial and industrial loan each being placed on nonaccrual status.

Nonperforming Assets

The following table sets forth the allocation of the Company's nonperforming assets among different asset categories as of the dates indicated. Nonperforming assets consist of nonperforming loans plus OREO and repossessed property. Nonperforming loans include nonaccrual loans and loans past due 90 days or more.

	March 31,		December 31,
	2024	2023	2023
		(dollars in thousands)	
Nonaccrual loans	$ 3,446	$ 1,646	$ 1,017
Past due loans 90 days or more and still accruing interest	—	—	160
Total nonperforming loans	3,446	1,646	1,177
OREO	33	2,930	33
Total nonperforming assets	$ 3,479	$ 4,576	$ 1,210
Allowance for credit losses	$ 25,144	$ 19,855	$ 24,378
Gross loans outstanding at the end of period	$ 1,971,396	$ 1,650,929	$ 1,890,677
Allowance for credit losses to gross loans	1.28 %	1.20 %	1.29 %
Allowance for credit losses to nonperforming loans	729.66 %	1206.26 %	2071.20 %
Nonperforming loans to gross loans	0.17 %	0.10 %	0.06 %
Nonperforming assets to gross loans and OREO	0.18 %	0.28 %	0.06 %
Nonaccrual loans by category:			
Real estate mortgages:			
Construction and development	$ —	$ 64	$ —
Residential	246	267	252
Commercial	2,422	1,263	765
Commercial and industrial	778	51	—
Consumer and other	—	1	—
Total	$ 3,446	$ 1,646	$ 1,017

Securities Portfolio

The securities portfolio serves the following purposes: (i) it provides liquidity to supplement cash flows from the loan and deposit activities of customers; (ii) it can be used as an interest rate risk management tool since it provides a large base of assets and the Company can change the maturity and interest rate characteristics more readily than the loan portfolio to better match changes in the deposit base and other Company funding sources; (iii) it is an alternative interest-earning asset when loan demand is weak or when deposits grow more rapidly than loans; and (iv) it provides a source of pledged assets for securing certain deposits and borrowed funds, as may be required by law or by specific agreement with a depositor or lender.

The securities portfolio consists of securities classified as available for sale and held to maturity. All available for sale securities are reported at fair value. Securities available for sale consist primarily of state and municipal securities and mortgage-backed securities. All held to maturity securities are recorded at amortized cost. Securities held to maturity consist of state and municipal securities. We determine the appropriate classification at the time of purchase.

The following table summarizes the fair value of the securities portfolio as of March 31, 2024 and December 31, 2023:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
March 31, 2024				
Securities Available for Sale				
U.S. Treasury securities	$ 9,710	$ —	$ (1,022)	$ 8,688
U.S. Government Sponsored Enterprises (GSEs)	2,364	26	(209)	2,181
State and municipal securities	45,051	14	(4,579)	40,486
Corporate debt securities	12,515	—	(1,184)	11,331
Asset based securities	17,952	119	(456)	17,615
Mortgage-backed GSE residential/multifamily and non-GSE	101,140	163	(4,225)	97,078
Total securities available for sale	$ 188,732	$ 322	$ (11,675)	$ 177,379
Securities Held to Maturity				
State and municipal securities	19,627	—	(3,529)	16,098
Total securities held to maturity	$ 19,627	$ —	$ (3,529)	$ 16,098
Total securities	$ 208,359	$ 322	$ (15,204)	$ 193,477
December 31, 2023				
Securities Available for Sale				
U.S. Treasury securities	$ 9,721	$ —	$ (949)	$ 8,772
U.S. Government Sponsored Enterprises (GSEs)	2,446	37	(215)	2,268
State and municipal securities	45,220	21	(4,172)	41,069
Corporate debt securities	12,517	—	(1,258)	11,259
Asset based securities	19,112	54	(479)	18,687
Mortgage-backed GSE residential/multifamily and non-GSE	101,306	164	(4,525)	96,945
Total securities available for sale	$ 190,322	$ 276	$ (11,598)	$ 179,000
Securities Held to Maturity				
State and municipal securities	19,632	—	(3,399)	16,233
Total securities held to maturity	$ 19,632	$ —	$ (3,399)	$ 16,233
Total securities	$ 209,954	$ 276	$ (14,997)	$ 195,233

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. At March 31, 2024, we evaluated the securities that had an unrealized loss for credit impairment and determined all declines in value to be temporary. We anticipate full recovery of amortized cost with respect to these securities by maturity, or sooner in the event of a more favorable market interest rate environment. We do not intend to sell these securities and it is not probable that we will be required to sell them before recovery of the amortized cost basis, which may be at maturity.

The following tables set forth certain information regarding contractual maturities and the weighted average yields of our investment securities as of March 31, 2024 and December 31, 2023. Weighted average yield is calculated by taking the sum of each category of securities multiplied by the respective yield for a given maturity, and dividing by the sum of the securities for the same maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Due in One Year or Less		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(dollars in thousands)									
March 31, 2024										
Securities Available for Sale										
U.S. Treasury securities	$ 1,997	1.33 %	$ 5,250	1.32 %	$ 2,463	1.53 %	$ —	— %	$ 9,710	1.38 %
U.S. Government Sponsored Enterprises (GSEs)	—	—	—	—	2,364	4.91	—	—	2,364	4.91
State and municipal securities	481	1.90	1,592	1.85	3,826	2.12	39,152	1.99	45,051	2.00
Corporate debt securities	—	—	3,013	4.85	9,502	4.94	—	—	12,515	4.92
Asset based securities	—	—	714	2.23	3,538	3.10	13,700	6.66	17,952	5.78
Mortgage-backed GSE residential/multifamily and non-GSE	13,257	7.88	22,415	5.69	7,625	4.89	57,843	4.84	101,140	5.43
Total securities available for sale	$ 15,735	6.87 %	$ 32,984	4.66 %	$ 29,318	4.05 %	$ 110,695	4.06 %	$ 188,732	4.39 %
Securities Held to Maturity										
State and municipal securities	—	—	—	—	10,279	2.38	9,348	2.37	19,627	2.37
Total securities held to maturity	$ —	— %	$ —	— %	$ 10,279	2.38 %	$ 9,348	2.37 %	$ 19,627	2.37 %
Total securities	$ 15,735	6.87 %	$ 32,984	4.66 %	$ 39,597	3.62 %	$ 120,043	3.92 %	$ 208,359	4.20 %

	Due in One Year or Less		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(dollars in thousands)									
December 31, 2023										
Securities Available for Sale										
U.S. Treasury securities	$ —	— %	$ 6,197	1.31 %	$ 3,524	1.48 %	$ —	— %	$ 9,721	1.38 %
U.S. Government Sponsored Enterprises (GSEs)	—	—	—	—	1,699	6.34	747	1.54	2,446	4.88
State and municipal securities	482	1.90	1,595	1.85	3,833	2.12	39,310	1.99	45,220	2.00
Corporate debt securities	—	—	3,015	4.85	9,502	4.94	—	—	12,517	4.92
Asset based securities	—	—	864	2.20	3,979	3.41	14,269	6.64	19,112	5.76
Mortgage-backed GSE residential/multifamily and non-GSE	9,847	7.63	29,493	6.29	6,943	4.34	55,023	4.83	101,306	5.50
Total securities available for sale	$ 10,329	7.36 %	$ 41,164	5.17 %	$ 29,480	3.89 %	$ 109,349	4.03 %	$ 190,322	4.43 %
Securities Held to Maturity										
State and municipal securities	—	—	—	—	7,743	2.39	11,889	2.37	19,632	2.37
Total securities held to maturity	$ —	— %	$ —	— %	$ 7,743	2.39 %	$ 11,889	2.37 %	$ 19,632	2.37 %
Total securities	$ 10,329	7.36 %	$ 41,164	5.17 %	$ 37,223	3.58 %	$ 121,238	3.86 %	$ 209,954	4.24 %

Bank Owned Life Insurance

We maintain investments in BOLI policies to help control employee benefit costs, as a protection against loss of certain key employees and as a tax planning strategy. We are the sole owner and beneficiary of the BOLI policies. At March 31, 2024, BOLI totaled $30.1 million compared to $29.9 million at December 31, 2023. The increase represents an increase in the cash surrender value.

Deposits

Deposits represent the Company’s primary and most vital source of funds. We offer a variety of deposit products including demand deposits accounts, interest-bearing products, savings accounts and certificate of deposits. The Bank also acquires brokered deposits, QwickRate internet certificates of deposit, and reciprocal deposits through the IntraFi network. The reciprocal deposits include both the Certificate of Deposit Account Registry Service (“CDARS”) and Insured Cash Sweep program. The Company is a member of the IntraFi network, which effectively allows depositors to receive FDIC insurance on amounts greater than the FDIC insurance limit, which is currently $250,000. IntraFi allows institutions to break large deposits into smaller amounts and place them in a network of other IntraFi institutions to ensure full FDIC insurance is gained on the entire deposit. Generally, internet and reciprocal deposits are not brokered deposits for regulatory purposes.

Our strong asset growth requires us to place a greater emphasis on both interest and noninterest-bearing deposits. Deposit accounts are added by loan production cross-selling, customer referrals, marketing advertisements, mobile and online banking and our involvement within our communities.

Total deposits at March 31, 2024 were $2.1 billion, representing an increase of $91.6 million, or 4.5%, compared to $2.0 billion at December 31, 2023. As of March 31, 2024, 19.7% of total deposits were comprised of noninterest-bearing demand accounts, 47.8% of interest-bearing non-maturity accounts and 32.5% of time deposits. Brokered deposits represent 13.8% of total deposits.

The following table summarizes our deposit balances as of March 31, 2024 and December 31, 2023:

	March 31, 2024		December 31, 2023	
	Amount	Percent of Total	Amount	Percent of Total
	(dollars in thousands)			
Noninterest-bearing transaction	$ 416,704	19.7%	$ 437,959	21.7%
Interest-bearing transaction	974,079	46.2%	946,347	46.9%
Savings	33,909	1.6%	35,412	1.7%
Time deposits, $250,000 and under	584,658	27.7%	500,406	24.8%
Time deposits, over $250,000	100,448	4.8%	98,065	4.9%
Total deposits	$ 2,109,798	100.0%	$ 2,018,189	100.0%

The following tables set forth the maturity of time deposits as of March 31, 2024 and December 31, 2023:

	March 31, 2024				
	Maturity Within:				
	Three Months	Three Months Through 12 Months	Over 12 Months Through 3 Years	Over 3 Years	Total
	(dollars in thousands)				
Time deposits, less than $100,000	$ 70,422	$ 182,776	$ 98,822	$ 18,800	$ 370,820
Time deposits, $100,000 through $250,000	43,604	155,913	13,668	653	213,838
Time deposits, over $250,000	25,470	73,574	1,102	302	100,448
Total time deposits	$ 139,496	$ 412,263	$ 113,592	$ 19,755	$ 685,106

	December 31, 2023				
	Maturity Within:				
	Three Months	Three Months Through 12 Months	Over 12 Months Through 3 Years	Over 3 Years	Total
	(dollars in thousands)				
Time deposits, less than $100,000	$ 47,117	$ 155,751	$ 76,776	$ 18,751	$ 298,395
Time deposits, $100,000 through $250,000	76,980	112,809	11,560	662	202,011
Time deposits, over $250,000	42,646	53,105	2,013	301	98,065
Total time deposits	$ 166,743	$ 321,665	$ 90,349	$ 19,714	$ 598,471

Time deposits issued in amounts of more than $250,000 represent the type of deposit most likely to affect the Company's future earnings because of interest rate sensitivity. The effective cost of these funds is generally higher than other time deposits because the funds are usually obtained at premium rates of interest.

The following table presents the average balance and average rate paid on each of the following deposit categories as of March 31, 2024 and 2023:

	March 31,			
	2024		2023	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(dollars in thousands)			
Noninterest-bearing transaction	$ 416,141	—%	$ 438,735	—%
Interest-bearing transaction	85,858	0.12%	93,951	0.08%
Money markets	867,964	4.07%	757,822	2.68%
Savings	34,397	0.20%	48,179	0.20%
Time deposits	645,088	4.41%	400,680	2.74%
Total deposits	$ 2,049,448	3.12%	$ 1,739,367	1.81%

Our uninsured deposits, which are the portion of deposit accounts that exceed the FDIC insurance limit of $250,000, were $610.1 million and $615.7 million as of March 31, 2024 and December 31, 2023, respectively.

Borrowed Funds

In addition to deposits, we utilize advances from the FHLB and other borrowings as a supplementary funding source to finance our operations.

FHLB Advances. The FHLB allows us to borrow, on both short and long-term, collateralized by a blanket floating lien on first mortgage loans and commercial real estate loans as well as FHLB stock. At March 31, 2024 and December 31, 2023, we had borrowing capacity from the FHLB of $168.3 million and $162.7 million, respectively. We had $52.0 million in FHLB borrowings as of March 31, 2024 and $70.0 million as of December 31, 2023. All our outstanding FHLB advances have fixed rates of interest.

The following table sets forth our FHLB borrowings as of March 31, 2024 and December 31, 2023:

	March 31, 2024	December 31, 2023
	(dollars in thousands)	
Amount outstanding at end of period	$ 52,000	$ 70,000
Weighted average interest rate at end of period	4.94 %	5.02 %
Maximum month-end balance	$ 55,000	$ 70,000
Average balance outstanding during the period	$ 53,121	$ 39,830
Weighted average interest rate during the period	4.96 %	4.64 %

Lines of Credit. The Bank has uncollateralized, uncommitted federal funds lines of credit with multiple banks as a source of funding for liquidity management. The total amount of the lines of credit was $99.2 million as of March 31, 2024 and December 31, 2023, respectively, of which $0 and $10.0 million was outstanding as of March 31, 2024 and December 31, 2023, respectively. There was $99.2 million and $89.2 million available as of March 31, 2024 and December 31, 2023, respectively.

Federal Reserve Bank Discount Window. The Bank has the ability to borrow funds from the Federal Reserve Bank utilizing the discount window, as an instrument that allows us to borrow on a short-term basis to meet temporary liquidity needs. The Bank had borrowing capacity of $334.3 million and $295.7 million as a source of funding as of March 31, 2024 and December 31, 2023, respectively, of which $0 and $10.0 million was outstanding as of March 31, 2024 and December 31, 2023, respectively. There was $334.3 million and $285.7 million available as of March 31, 2024 and December 31, 2023, respectively.

Federal Reserve Bank Bank Term Funding Program (“BTFP”). On March 12, 2023, the Federal Reserve Bank, Department of Treasury and the FDIC issued a joint statement outlining actions taken to protect the U.S. economy by strengthening public confidence in the banking system as a result of and in response to recently announced bank closures. Among other actions, the Federal Reserve Board announced that it would make available additional funding to eligible depository institutions through the creation of a new BTFP. The BTFP provides eligible depository institutions an additional source of liquidity. On March 11, 2024, BTFP ended and ceased providing new loans, and, as a result, the Bank has no more borrowing capacity or availability to borrow, but had $8.0 million outstanding as of March 31, 2024. The Bank had borrowing capacity of $11.3 million as a source of funding as of December 31, 2023, of which $7.0 million was outstanding as of December 31, 2023. There was $4.3 million available as of December 31, 2023.

First Horizon Line of Credit. During 2019, the Company obtained the $25.0 million Line of Credit with First Horizon, which was extended in July 2022 and matures in August 2024. The Line of Credit is collateralized by 100% of the capital stock of the Bank. The Line of Credit includes various financial and nonfinancial covenants. The Line of Credit has a variable interest rate linked to the WSJ Prime Rate with an initial interest rate of 4.75% per annum (but in no event less than 3.00% per annum), and requires quarterly interest payments. The balance outstanding under the Line of Credit as of March 31, 2024 and December 31, 2023 was $0.

Subordinated Debt Securities

On February 7, 2022, the Company issued $48.0 million of Fixed-to-Floating Rate Subordinated Notes due February 2032 (the “Notes”). The Notes bear interest at 3.5% per annum, payable quarterly in arrears. From and including February 7, 2027, to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to a Three-Month Term Secured Overnight Financing Rate plus 205 basis points, payable quarterly in arrears. The Company will be entitled to redeem the Notes, in whole or in part, on any interest payment on or after February 7, 2027, and to redeem the Notes in whole upon certain other events.

On October 26, 2022, the Company issued $40.0 million of Fixed-to-Floating Rate Subordinated Notes due October 2032 (the “2032 Notes”). The 2032 Notes bear interest at 7.0% per annum, payable quarterly in arrears. From and including October 26, 2027, to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to a Three-Month Term Secured Overnight Financing Rate plus 306 basis points, payable quarterly in arrears. The Company will be entitled to redeem the 2032 Notes, in whole or in part, on any interest payment on or after October 26, 2027, and to redeem the 2032 Notes in whole upon certain other events.

Liquidity and Capital Resources

Liquidity

Liquidity refers to the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

Interest rate sensitivity involves the relationships between rate-sensitive assets and liabilities and is an indication of the probable effects of interest rate fluctuations on the Company's net interest income. Interest rate sensitive assets and liabilities are those with yields or rates that are subject to change within a future time period due to maturity or changes in market rates. A model is used to project future net interest income under a set of possible interest rate movements. The Company's Asset Liability Committee, or ALCO, reviews this information to determine if the projected future net interest income levels would be acceptable. The Company attempts to stay within acceptable net interest income levels.

Our liquidity position is supported by management of liquid assets and access to alternative sources of funds. Our liquid assets include cash, interest-bearing deposits in correspondent banks, federal funds sold, and the fair value of unpledged investment securities. Other available sources of liquidity include wholesale deposits, and additional borrowings from correspondent banks, FHLB advances, federal reserve bank borrowings and the Line of Credit.

Our short-term and long-term liquidity requirements are primarily met through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, and increases in customer deposits. Other alternative sources of funds will supplement these primary sources to the extent necessary to meet additional liquidity requirements on either a short-term or long-term basis.

The Company and the Bank are separate corporate entities. The Company's liquidity depends primarily upon dividends received from the Bank and capital and debt issued by the Company. The Company relies on its liquidity to pay interest and principal on Company indebtedness, company operating expenses, and dividends to Company shareholders.

During the first quarter of 2023, numerous regional banks encountered liquidity stresses and the failure of a few high-profile financial institutions created stress in the banking sector. These institutions appeared to face stress particularly surrounding uninsured deposits. Our percentage of deposits that were uninsured as of March 31, 2024, was 28.9%. We believe this percentage would place the Company's level of uninsured deposits below peer average and peer median. We attribute this lower level of uninsured deposits to having a deposit base with less concentrated deposits than those of the institutions that failed, especially when considering our commercial banking focus. This is due primarily to our focus on banking small businesses, which allows us to accumulate larger quantities of insured commercial accounts than a bank that is focused on larger clients. In addition, the Company also utilizes an uninsured deposit program.

Capital Requirements

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for "prompt corrective action" (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies. The capital amounts and classifications are subject to qualitative judgments by the federal banking regulators about components, risk weightings and other factors.

As of March 31, 2024, both the Company and the Bank exceeded all the minimum bank regulatory capital requirements to which the Company and the Bank were subject.

The table below summarizes the minimum capital requirements applicable to the Company and the Bank from a regulatory perspective, as well as the Company's and the Bank's capital ratios as of March 31, 2024 and December 31, 2023.

Basel III capital guidelines require the Bank to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, under Basel III, the Bank is subject to a capital conservation buffer, which requires it to maintain common equity Tier 1 capital of 2.50% above minimum capital requirements for the common equity Tier 1 ratio, Tier 1 risk-based ratio and total risk-based ratio to avoid limitations on distributions and discretionary bonus payments.

In addition, the Federal Deposit Insurance Act requires, among other things, that the federal banking regulators take prompt corrective action with respect to FDIC-insured depository institutions that do not meet certain minimum capital requirements. Under the Federal Deposit Insurance Act's prompt corrective action regime, insured depository institutions are divided into five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. A depository institution is defined to be well capitalized if it has a common equity tier 1 capital ratio ("CET1 capital") of at least 6.5%, a leverage ratio of at least 5%, a tier 1 risk-based capital ratio of at least 8%, and a total risk-based capital ratio of at least 10%, and it is not subject to a directive, order or written agreement to meet and maintain specific capital levels. Bank holding companies are not suspect to prompt corrective action.

The Company and the Bank exceeded all regulatory capital requirements under Basel III and the Bank met all the minimum capital adequacy requirements to be considered "well capitalized" for prompt corrective action purposes as of the dates reflected in the table below. As a bank holding company with less than $3.0 billion in total consolidated assets, the Company is eligible to be treated as a "small bank holding company" under the Federal Reserve's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement. As a result, the Company's capital adequacy is evaluated at the bank level and on a parent-only basis, and it is not subject to consolidated capital standards for regulatory purposes. The ratios set forth below as to the Company are for illustrative purposes in the event the Company were to become subject to consolidated capital standards for regulatory purposes. The column styled "Required for Capital Adequacy Purposes" includes the 2.50% capital conservation buffer.

	Actual		Required for Capital Adequacy Purposes		Minimums To Be "Well Capitalized" Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of March 31, 2024						
Tier 1 capital (to average assets)						
Company	$ 213,603	8.79%	$ 97,230	4.00%	$ —	—
Bank	$ 283,596	11.67%	$ 97,230	4.00%	$ 121,537	5.00%
CET 1 capital (to risk-weighted assets)						
Company	$ 213,603	9.39%	$ 159,208	7.00%	$ —	—
Bank	$ 283,596	12.47%	$ 159,208	7.00%	$ 147,836	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$ 213,603	9.39%	$ 193,324	8.50%	$ —	—
Bank	$ 283,596	12.47%	$ 193,324	8.50%	$ 181,952	8.00%
Total capital (to risk-weighted assets)						
Company	$ 328,035	14.42%	$ 238,811	10.50%	$ —	—
Bank	$ 310,028	13.63%	$ 238,811	10.50%	$ 227,440	10.00%

	Actual		Required for Capital Adequacy Purposes		Minimums To Be "Well Capitalized" Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
As of December 31, 2023						
Tier 1 capital (to average assets)						
Company	$ 205,582	8.99%	$ 91,503	4.00%	$ —	—
Bank	$ 274,850	12.01%	$ 91,503	4.00%	$ 114,379	5.00%
CET 1 capital (to risk-weighted assets)						
Company	$ 205,582	9.20%	$ 156,378	7.00%	$ —	—
Bank	$ 274,850	12.30%	$ 156,378	7.00%	$ 145,209	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$ 205,582	9.20%	$ 189,888	8.50%	$ —	—
Bank	$ 274,850	12.30%	$ 189,888	8.50%	$ 178,718	8.00%
Total capital (to risk-weighted assets)						
Company	$ 319,199	14.29%	$ 234,568	10.50%	$ —	—
Bank	$ 300,467	13.45%	$ 234,568	10.50%	$ 223,398	10.00%

Contractual Obligations

The following tables contain supplemental information regarding our total contractual obligations at March 31, 2024.

	Payments Due as of March 31, 2024			
	Within One Year	One to Five Years	After Five Years	Total
	(dollars in thousands)			
Time deposits	$ 551,759	$ 133,320	$ 27	$ 685,106
FHLB advances	52,000	—	—	52,000
Subordinated notes	—	—	86,776	86,776
Other borrowings	7,997	—	—	7,997
Total contractual obligations	$ 611,756	$ 133,320	$ 86,803	$ 831,879

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. 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 Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit to our customers is represented by the contractual or notional amount of those instruments. Commitments to extend credit and standby letters of credit are not recorded as an asset or liability by the Company until the instrument is exercised. The contractual or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments. The amount and nature of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the potential borrower.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private short-term borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments for which collateral is deemed necessary.

The following table summarizes commitments we have made as of the dates presented.

	March 31, 2024	December 31, 2023
	(dollars in thousands)	
Commitments to extend credit	$ 422,436	$ 501,935
Standby letters of credit	4,728	2,846
Total	$ 427,164	$ 504,781

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our interest rate risk policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by adjusting our balance sheet assets and liabilities in the ordinary course of business. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk.

Our exposure to interest rate risk is managed by ALCO in accordance with policies approved by the Bank's board of directors. ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, ALCO considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. ALCO meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, commitments to originate loans and the maturities of investments and borrowings. Additionally, ALCO reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management also employs methodologies to manage interest rate risk, which include an analysis of the relationships between interest-earning assets and interest-bearing liabilities and an interest rate risk simulation model and shock analyses.

We use interest rate risk simulation models and shock analyses to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics.

Contractual maturities and re-pricing opportunities of loans are incorporated in the models. The average lives of non-maturity deposit accounts are based on decay assumptions and are incorporated into the models. All of the assumptions used in our analyses are inherently uncertain and, as a result, the models cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the models' simulated results due to the timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On a quarterly basis, we run a simulation model for a static balance sheet and other scenarios. These models test the impact on net interest income from changes in market interest rates under various scenarios. Under the static model, rates are shocked instantaneously and ramped rates change over a 12-month and 24-month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Our internal policy regarding internal rate risk simulations currently specifies that for parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than 10% for a 100 basis point shift, 15% for a 200 basis point shift, 20% for a 300 basis point shift, and 25% for a 400 basis point shift.

The following tables summarize the simulated change in net interest income over a 12-month horizon as of the dates indicated:

	Percent Change in Net Interest Income	
	As of March 31, 2024	As of March 31, 2023
Change in Interest Rates (Basis Points)		
+400	9.10	22.21
+300	7.30	16.86
+200	5.20	11.29
+100	2.80	5.82
-100	(4.70)	(6.73)
-200	(8.40)	(13.78)
-300	(12.20)	(22.07)
-400	(17.20)	(29.10)

Inflation and increases in interest rates may result from fiscal stimulus and monetary stimulus, and the Federal Reserve has indicated it is willing to permit inflation to run moderately above its 2% target for some time. Increases in interest rates have caused consumers to shift their funds to more interest-bearing instruments and to increase the competition for and costs of deposits. Customers movement of bank deposits into other investment assets or from transaction deposits to higher interest-bearing time deposits have caused our funding costs to increase. Additionally, any such loss of funds could result in lower loan originations and growth, which could materially and adversely affect our results of operations and financial condition. Increases in market interest rates may reduce demand for loans, including residential mortgage loan originations. At the same time, increases in rates will increase the rates we charge on variable rate loans and may increase our net interest margin. Higher interest rates would decrease the values of our existing fixed rate securities investments and could potentially adversely affect the values and liquidity of collateral securing our loans. The effects of increased rates will depend on the rates of changes in our costs of funds and interest earned on our loans and investments and the shape of the yield curve.

Impact of Inflation

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with GAAP and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution’s performance than the effects of general levels of inflation.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform to GAAP and conform to general practices within our industry. To prepare financial statements in conformity with GAAP, management makes estimates, assumptions and judgments based on available information. These estimates, assumptions and judgments affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements and, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the financial statements. In particular, management has identified several accounting policies that, due to the estimates, assumptions and judgments inherent in those policies, are critical to understanding our financial statements.

The following is a discussion of the critical accounting policies and significant estimates that we believe require us to make the most complex or subjective decisions or assessments. Additional information about these policies can be found in Note 1 of the Company’s consolidated financial statements as of December 31, 2023, included in our Annual Report on Form 10-K.

Allowance for Credit Losses on Loans. The allowance for credit losses is based on the Company’s evaluation of the loan portfolios, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. The process is inherently subjective and subject to significant change as it requires material estimates. The allowance is increased by a provision for credit losses, which is charged to expense, and reduced by charge offs, net of recoveries. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Loans with similar risk characteristics are evaluated in pools and, depending on the nature of each identified pool, the Company utilizes a discounted cash flow, probability of default / loss given default, or remaining life method. The historical loss experience estimate by pool is then adjusted by forecast factors that are quantitatively related to the Company’s historical credit loss experience, such as national unemployment rates and gross domestic product. Losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable period losses are reverted to long term historical averages. The reasonable and supportable period and reversion period are re-evaluated each quarter by the Company and are dependent on the current economic environment among other factors.

The estimated credit losses for each loan pool are then adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative adjustments either increase or decrease the quantitative model estimation. The Company considers factors that are relevant within the qualitative framework which include the following: changes in lending policies and quality of loan reviews, changes in nature and volume of loans, changes in volume and trends of problem loans, changes in concentration risk, trends in underlying collateral values, changes in competition, legal and regulatory environment and changes in economic conditions.

Credit losses for loans that no longer share similar risk characteristics with the collectively evaluated pools are excluded from the collective evaluation and estimated on an individual basis. Specific allowances are estimated based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows.

The Company measures expected credit losses over the contractual term of a loan, adjusted for estimated prepayments. The contractual term excludes expected extensions, renewals and modifications unless there is a reasonable expectation that a troubled debt restructuring will be executed. Credit losses are estimated on the amortized cost basis of loans. Accrued interest receivable on loans is excluded from the estimate of credit losses.

Allowance for Credit Losses on Securities. Effective January 1, 2023, the Company estimates and recognizes an allowance for credit losses for held to maturity debt securities pursuant to ASU No. 2016-13. The Company has a zero-loss expectation for its held to maturity securities portfolio, except for U.S. State and Municipal securities, and therefore it is not required to estimate an allowance for credit losses related to these securities. For held to maturity securities that do not have a zero-loss expectation, the allowance for credit losses is based on the security's amortized cost, excluding interest receivable, and represents the portion of the amortized cost that the Company does not expect to collect over the life of the security. The allowance for credit losses is determined using average industry credit ratings and historical loss experience, and is initially recognized upon acquisition of the securities, and subsequently remeasured on a recurring basis. The Company evaluates available for sale debt securities that experienced a decline in fair value below amortized cost for credit impairment. In performing an assessment of whether any decline in fair value is due to a credit loss, the Company considers the extent to which the fair value is less than the amortized cost, changes in credit ratings, any adverse economic conditions, as well as all relevant information at the individual security level, such as credit deterioration of the issuer, explicit or implicit guarantees by the federal government or collateral underlying the security. If it is determined that the decline in fair value was due to credit losses, an allowance for credit losses is recorded, limited to the amount the fair value is less than the amortized cost basis. The non-credit related decrease in the fair value, such as a decline due to changes in market interest rates, is recorded in other comprehensive income, net of tax. The Company recognizes a credit impairment if the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost.

Valuation of Foreclosed Assets. Foreclosed assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less selling costs. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed assets and subsequent write-downs to the value are expensed. The valuation of foreclosed assets is a significant estimate and is regularly evaluated by management for accuracy by taking into consideration periodic independent appraisals adjusted for estimated costs to sell. Because current economic conditions can change and future events are inherently difficult to predict, the valuation of the Company's foreclosed assets could significantly and quickly change, particularly when updated appraisal valuations are obtained on individual properties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are presented in our Annual Report on Form 10-K for the year ended December 31, 2023, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate Sensitivity and Market Risk". Additional information as of March 31, 2024, is included herein under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Interest Rate Sensitivity and Market Risk".

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, an evaluation was performed by the Company, under the supervision and with the participation of its management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer), of the effectiveness of the design and operation of its disclosure controls and procedures. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the first quarter of 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Southern States and Southern States Bank are parties to various legal proceedings in the ordinary course of their respective businesses, including proceedings to collect loans or enforce security interests. In the opinion of management, none of these legal proceedings currently pending will, when resolved, have a material adverse effect on the financial condition or the results of operations of Southern States or Southern States Bank. However, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business, including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security and anti-money laundering and anti-terrorism laws, we, like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risks.

Item 1A. Risk Factors

For information regarding risk factors that could affect our business, financial condition, and results of operations, see the information in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds

Our purchase of shares of common stock made during the quarter consisted of stock repurchases made under our publicly announced share repurchase program authorizing us to repurchase up to $10.0 million of our common stock (the "Program"), and are summarized in the table below.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Dollar Value of Shares that May Yet Be Purchased Under the Program(1)
				(dollars in thousands)
January 1 - January 31, 2024	—	$ —	—	$ 10,000
February 1 - February 29, 2024	—	—	—	10,000
March 1 - March 31, 2024	—	—	—	10,000
Total	—	$ —	—	$ 10,000

(1) On February 15, 2023, we announced that our board of directors approved an extended Program that authorized us to repurchase up to $10.0 million of our common stock through December 31, 2023. On December 20, 2023, the board of directors announced that it had extended the Program for another $10.0 million to be in effect until December 31, 2024, with the timing of purchases and number of shares repurchased under the Program dependent upon a variety of factors including price, trading volume, corporate and regulatory requirements, and market conditions. We are not obligated to purchase any shares under the Program and the Program may be suspended or discontinued at any time without notice.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Item 6. Exhibits

NUMBER	DESCRIPTION
2.1#	Agreement and Plan of Merger by and between Southern States Bancshares, Inc. and East Alabama Financial Group, Inc., dated as of May 7, 2019 (incorporated by reference to Exhibit 2.1 to Southern States Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on July 15, 2021, file number 333-257915).
2.2#	Agreement and Plan of Merger by and between Southern States Bancshares, Inc. and CBB Bancorp, dated as of February 27, 2024 (incorporated by reference to Exhibit 2.1 to the Southern States Bancshares Inc.'s Current Report on Form 8-K filed with the SEC on February 28, 2024, file number 001-40727).
3.1	Certificate of Incorporation of Southern States Bancshares, Inc., as amended (incorporated by reference to Exhibit 3.1 to Southern States Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on July 15, 2021, file number 333-257915).
3.2	Amended and Restated Bylaws of Southern States Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to Southern States Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on July 15, 2021, file number 333-257915).
4.1	Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to Southern States Bancshares, Inc.'s Registration Statement on Form S-1 filed with the SEC on July 15, 2021, file number 333-257915).
4.2	Indenture, dated February 7, 2022, by and between Southern States Bancshares, Inc. and UMB Bank, N.A., as trustee. (incorporated by reference to Exhibit 4.1 to Southern States Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on February 8, 2022, file number 001-40727).
4.3	Form of 3.50% Fixed-to-Floating Rate Subordinated Note due February 7, 2032 (included as Exhibit A-1 and Exhibit A-2 to the Indenture filed as Exhibit 4.2 hereto) (incorporated by reference to Exhibit 4.2 to Southern States Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on February 8, 2022, file number 001-40727).
4.4	Form of Indenture for Senior Indebtedness (incorporated by reference to Exhibit 4.7 to Southern States Bancshares, Inc.'s Registration Statement on Form S-3 filed with the SEC on October 7, 2022, file number 333-267772).
4.5	Form of Indenture for Subordinated Indebtedness (incorporated by reference to Exhibit 4.8 to Southern States Bancshares, Inc.'s Registration Statement on Form S-3 filed with the SEC on October 7, 2022, file number 333-267772).
4.6	Indenture, dated October 26, 2022, by and between Southern States Bancshares, Inc. and UMB Bank, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Southern States Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on October 27, 2022, file number 001-40727).
4.7	Form of 7.00% Fixed-to-Floating Rate Subordinated Note due October 26, 2032 (included as Exhibit A-1 and Exhibit A-2 to the Indenture filed as Exhibit 4.7 hereto) (incorporated by reference to Exhibit 4.2 to the Southern States Bancshares, Inc.'s Current Report on Form 8-K filed with the SEC on October 27, 2022, file number 001-40727).
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File - Formatted as Inline XBRL and contained within the Inline XBRL Instance Document in Exhibit 101.

*	Filed herewith
**	These exhibits are furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.
†	Indicates a management contract or compensatory plan.
#	Certain schedules, exhibits and appendices have been omitted pursuant to Item 601(b)(5). We will furnish the omitted schedules exhibits and appendices to the Securities and Exchange Commission upon request by the Commission.

SIGNATURES

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

SOUTHERN STATES BANCSHARES, INC.

Date: May 14, 2024	By:	/s/ Mark A. Chambers
		Mark A. Chambers Chief Executive Officer, President and Director (Principal Executive Officer)
Date: May 14, 2024	By:	/s/ Lynn J. Joyce
		Lynn J. Joyce Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Mark A. Chambers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southern States Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 14, 2024

By: /s/ Mark A. Chambers
Mark A. Chambers
Chief Executive Officer, President and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Lynn Joyce, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Southern States Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2024	By:	/s/ Lynn Joyce
		Lynn Joyce
		Senior Executive Vice President and Chief Financial Officer
		(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Southern States Bancshares, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark A. Chambers, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2024	By:	/s/ Mark A. Chambers
		Mark A. Chambers
		Chief Executive Officer, President and Director
		(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Southern States Bancshares, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lynn Joyce, Senior Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2024

By: /s/ Lynn Joyce
Lynn Joyce
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)