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: September 30, 2023
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.

(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 x No o

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 x No o

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	o	Accelerated filer	o
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 x

As of November 9, 2023, the registrant had 8,836,365 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;
- 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, such as COVID-19, 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)

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Assets		
Cash and due from banks	$ 31,047	$ 15,260
Interest-bearing deposits in banks	103,646	90,198
Federal funds sold	81,487	63,041
Total cash and cash equivalents	216,180	168,499
Securities available for sale, at fair value ($187,597 amortized cost, $0 allowance for credit losses at September 30, 2023; $170,474 amortized cost, $0 allowance for credit losses at December 31, 2022)	169,859	155,544
Securities held to maturity, at amortized cost	19,637	19,652
Other equity securities, at fair value	3,654	4,444
Restricted equity securities, at cost	4,971	3,134
Loans held for sale	1,799	1,047
Loans, net of unearned income	1,774,148	1,587,164
Less allowance for credit losses	22,181	20,156
Loans, net	1,751,967	1,567,008
Premises and equipment, net	26,694	27,345
Accrued interest receivable	8,321	6,963
Bank owned life insurance	29,697	29,186
Annuities	15,266	15,478
Foreclosed assets	2,903	2,930
Goodwill	16,862	16,862
Core deposit intangible	981	1,226
Other assets	27,736	25,886
Total assets	$ 2,296,527	$ 2,045,204
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 418,125	$ 460,977
Interest-bearing	1,498,276	1,259,766
Total deposits	1,916,401	1,720,743
Other borrowings	4,991	(19)
FHLB advances	55,000	31,000
Subordinated notes	86,582	86,314
Accrued interest payable	1,280	584
Other liabilities	30,349	24,863
Total liabilities	2,094,603	1,863,485

Stockholders' equity:		
Preferred stock, $0.01 par value, 2,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2023 and December 31, 2022	—	—
Common stock, $5 par value, 30,000,000 shares authorized; 8,834,168 and 8,706,920 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	44,307	43,714
Capital surplus	77,671	76,785
Retained earnings	94,429	73,764
Accumulated other comprehensive loss	(13,126)	(11,048)
Unvested restricted stock	(580)	(477)
Vested restricted stock units	(777)	(1,019)
Total stockholders' equity	201,924	181,719
Total liabilities and stockholders' equity	$ 2,296,527	$ 2,045,204

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		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest income:				
Loans, including fees	$ 30,084	$ 20,052	$ 83,049	$ 51,083
Taxable securities	1,796	1,010	4,819	2,417
Nontaxable securities	227	323	747	931
Other interest and dividends	3,097	1,135	7,473	1,713
Total interest income	35,204	22,520	96,088	56,144
Interest expense:				
Deposits	12,732	2,489	31,498	4,251
Other borrowings	1,741	596	4,881	1,439
Total interest expense	14,473	3,085	36,379	5,690
Net interest income	20,731	19,435	59,709	50,454
Provision for credit losses	773	1,663	3,511	3,667
Net interest income after provision for credit losses	19,958	17,772	56,198	46,787
Noninterest income:				
Service charges on deposit accounts	442	508	1,348	1,433
Swap fees	453	11	622	48
SBA/USDA fees	74	95	274	575
Mortgage origination fees	158	218	446	717
Net (loss) gain on securities	(12)	(143)	457	(546)
Employee retention credit	(5,100)	—	—	—
Other operating income	1,091	650	2,608	1,847
Total noninterest income	(2,894)	1,339	5,755	4,074
Noninterest expenses:				
Salaries and employee benefits	5,752	6,152	19,926	17,859
Equipment and occupancy expenses	718	764	2,095	2,188
Data processing fees	650	599	1,889	1,733
Regulatory assessments	322	235	844	760
Professional fees related to ERC	(1,243)	—	—	—
Other operating expenses	2,370	2,487	7,405	6,638
Total noninterest expenses	8,569	10,237	32,159	29,178
Income before income taxes	8,495	8,874	29,794	21,683
Income tax expense	1,866	2,174	6,738	5,204
Net income	$ 6,629	$ 6,700	$ 23,056	$ 16,479
Basic earnings per share	$ 0.75	$ 0.77	$ 2.62	$ 1.87
Diluted earnings per share	$ 0.73	$ 0.75	$ 2.56	$ 1.84

See Notes to Consolidated Financial Statements.

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

	For the Three Months Ended	
	September 30, 2023	September 30, 2022
Net income	$ 6,629	$ 6,700
Other comprehensive loss:		
Unrealized holding losses on securities available for sale arising during the period, net of benefit of $818 and $1,393, respectively	(2,327)	(3,964)
Reclassification adjustment for gains on securities available for sale realized in net income, net of tax of $0	—	—
Other comprehensive loss	(2,327)	(3,964)
Comprehensive income	$ 4,302	$ 2,736

	For the Nine Months Ended	
	September 30, 2023	September 30, 2022
Net income	$ 23,056	$ 16,479
Other comprehensive loss:		
Unrealized holding losses on securities available for sale arising during the period, net of benefit $733 and $5,100, respectively	(2,087)	(14,516)
Reclassification adjustment for losses on securities available for sale realized in net income, net of benefit of $3 and $0, respectively	9	—
Other comprehensive loss	(2,078)	(14,516)
Comprehensive income	$ 20,978	$ 1,963

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 Income (Loss)	Unvested Restricted Stock	Vested Restricted Stock Units	Total Stockholders' Equity
	Shares	Par Value	Shares	Par Value						
Balance, December 31, 2022	—	$ —	8,706,920	$ 43,714	$ 76,785	$ 73,764	$ (11,048)	$ (477)	$ (1,019)	$ 181,719
Net income	—	—	—	—	—	23,056	—	—	—	23,056
Issuance of common stock	—	—	3,813	19	64	—	—	—	—	83
Exercise of common stock options	—	—	137,525	687	796	—	—	—	—	1,483
Issuance of restricted stock	—	—	23,534	118	565	—	—	(683)	—	—
Forfeiture of restricted stock	—	—	(7,135)	(36)	(141)	—	—	177	—	—
Vested restricted stock units	—	—	—	21	100	—	—	—	(121)	—
Issuance of restricted stock units	—	—	12,713	—	—	—	—	—	363	363
Repurchase of common stock under the stock repurchase program	—	—	(43,202)	(216)	(763)	—	—	—	—	(979)
Stock-based compensation	—	—	—	—	265	—	—	403	—	668
Common stock dividends	—	—	—	—	—	(2,391)	—	—	—	(2,391)
Other comprehensive loss	—	—	—	—	—	—	(2,078)	—	—	(2,078)
Balance, September 30, 2023	—	$ —	8,834,168	$ 44,307	$ 77,671	$ 94,429	$ (13,126)	$ (580)	$ (777)	$ 201,924

See Notes to Consolidated Financial Statements.

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

	For the Nine Months Ended September 30,	
	2023	2022
OPERATING ACTIVITIES		
Net income	$ 23,056	$ 16,479
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and software amortization	877	953
Net (gain) loss on securities	(457)	546
Net amortization of securities	456	699
Amortization of core deposit intangible	245	198
Provision for credit losses	3,511	3,667
Deferred income taxes	71	—
Loss on sale of foreclosed assets	7	—
Stock-based compensation	668	695
Net (increase) decrease in loans held for sale	(752)	757
Income from bank owned life insurance	(511)	(455)
Increase in interest receivable	(1,358)	(1,529)
Increase in interest payable	696	227
Net other operating activities	4,977	7,147
Net cash provided by operating activities	31,486	29,384
INVESTING ACTIVITIES		
Purchase of securities available for sale	(41,639)	(46,508)
Proceeds from sale of securities available for sale	10,532	—
Proceeds from sale of other equity securities	800	3,129
Proceeds from maturities, calls, and paydowns of securities available for sale	13,520	7,524
Net purchase of restricted equity securities	(1,837)	(191)
Purchase of annuities	—	(2,622)
Purchase of bank owned life insurance	—	(7,021)
Net increase in loans	(188,460)	(274,778)
Proceeds from sale of foreclosed assets	10	—
Purchase of premises, equipment and software	(226)	(2,494)
Net cash used in investing activities	(207,300)	(322,961)
FINANCING ACTIVITIES		
Net increase in deposits	195,658	210,641
Proceeds from issuance of common stock	1,566	206
Proceeds from restricted stock units	363	—
Repurchase of common stock	(979)	(7,356)
Net proceeds of FHLB advances	24,000	50
Net proceeds of other borrowings	5,010	7,481
Net proceeds of subordinated notes	268	47,042
Common stock dividends paid	(2,391)	(2,381)
Net cash provided by financing activities	223,495	255,683
Net increase (decrease) in cash and cash equivalents	47,681	(37,894)
Cash and cash equivalents at beginning of year	168,499	283,956

Cash and cash equivalents at end of year	$	216,180	$	246,062
SUPPLEMENTAL DISCLOSURE				
Cash paid during the year for:				
Interest	$	35,683	$	5,463
Income taxes	$	9,029	$	5,901
NONCASH TRANSACTIONS				
Transfers of loans to foreclosed assets	$	43	$	—
Internally financed sale of foreclosed assets	$	53	$	—

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 may be required to maintain reserve balances in cash or on deposit with a correspondent bank for the Federal Reserve Bank, based on a percentage of deposits. The total of those reserve balances was $0 at September 30, 2023 and December 31, 2022.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities

The Company classifies its 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 September 30, 2023, the Company had $19,637 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.

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.

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 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.

Off-Balance Sheet Credit Exposure

The Company also has off-balance sheet financial instruments, which include unfunded loan 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. At September 30, 2023, $1.5 million in allowance for credit losses has been recognized on off-balance sheet financial instruments.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 September 30, 2023.

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 September 2023. 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 September 30, 2023 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Company has not restated comparative information for 2022 and, therefore, the comparative information for 2022 is reported under the old methodology and is not comparable to the information presented for 2023.

(in thousands, except per share amounts)

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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 September 30,		For the Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Basic Earnings Per Share:				
Net Income	$ 6,629	$ 6,700	$ 23,056	$ 16,479
Weighted average common shares outstanding	8,846,018	8,693,745	8,791,007	8,797,720
Basic earnings per share	$ 0.75	$ 0.77	$ 2.62	$ 1.87
Diluted Earnings Per Share:				
Net income allocated to common shareholders	$ 6,624	$ 6,693	$ 23,045	$ 16,465
Weighted average common shares outstanding	8,846,018	8,693,745	8,791,007	8,797,720
Net dilutive effect of:				
Assumed exercises of stock options and vesting of restricted stock units	194,669	177,371	225,596	154,880
Average shares and dilutive potential common shares	9,040,687	8,871,116	9,016,603	8,952,600
Dilutive earnings per share	$ 0.73	$ 0.75	$ 2.56	$ 1.84

(in thousands, except per share amounts)

NOTE 3. SECURITIES

The amortized cost and fair value of securities at September 30, 2023 and December 31, 2022 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2023				
Securities Available for Sale				
U.S. Treasury securities	$ 9,732	$ —	$ (1,281)	$ 8,451
U.S. Government Sponsored Enterprises (GSEs)	2,581	43	(246)	2,378
State and municipal securities	45,389	—	(8,141)	37,248
Corporate debt securities	12,520	—	(1,446)	11,074
Asset based securities	19,925	45	(676)	19,294
Mortgage-backed GSE residential/multifamily and non-GSE	97,450	40	(6,076)	91,414
Total securities available for sale	$ 187,597	$ 128	$ (17,866)	$ 169,859
Securities Held to Maturity				
State and municipal securities	19,637	—	(4,693)	14,944
Total securities held to maturity	$ 19,637	$ —	$ (4,693)	$ 14,944
Total securities	$ 207,234	$ 128	$ (22,559)	$ 184,803

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
Securities Available for Sale				
U.S. Treasury securities	$ 9,764	$ —	$ (1,180)	$ 8,584
U.S. Government Sponsored Enterprises (GSEs)	2,009	—	(221)	1,788
State and municipal securities	56,204	100	(6,379)	49,925
Corporate debt securities	12,526	—	(899)	11,627
Asset based securities	14,079	—	(742)	13,337
Mortgage-backed GSE residential/multifamily and non-GSE	75,892	3	(5,612)	70,283
Total securities available for sale	$ 170,474	$ 103	$ (15,033)	$ 155,544
Securities Held to Maturity				
State and municipal securities	19,652	—	(4,287)	15,365
Total securities held to maturity	$ 19,652	$ —	$ (4,287)	$ 15,365
Total securities	$ 190,126	$ 103	$ (19,320)	$ 170,909

Securities with a carrying value of $26,655 and $32,222 at September 30, 2023 and December 31, 2022, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

(in thousands, except per share amounts)

NOTE 3. SECURITIES (Continued)

The amortized cost and fair value of securities available for sale and securities held to maturity as of September 30, 2023 and December 31, 2022 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:

	September 30, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities Available for Sale				
Due in less than one year	$ 483	$ 472	$ —	$ —
Due from one year to five years	9,508	8,638	8,338	7,818
Due after five to ten years	25,185	22,188	24,468	22,047
Due after ten years	54,971	47,147	61,776	55,396
Mortgage-backed securities	97,450	91,414	75,892	70,283
Total securities available for sale	$ 187,597	$ 169,859	$ 170,474	$ 155,544
Securities Held to Maturity				
Due in less than one year	$ —	$ —	$ —	$ —
Due from one year to five years	—	—	—	—
Due after five to ten years	6,228	4,880	5,310	4,255
Due after ten years	13,409	10,064	14,342	11,110
Mortgage-backed securities	—	—	—	—
Total securities held to maturity	$ 19,637	$ 14,944	$ 19,652	$ 15,365
Total securities	$ 207,234	$ 184,803	$ 190,126	$ 170,909

Restricted equity securities as of September 30, 2023 and December 31, 2022 consist of the following:

	September 30, 2023	December 31, 2022
Federal Home Loan Bank stock	$ 4,046	$ 2,209
First National Banker’s Bankshares, Inc. stock	675	675
Pacific Coast Banker’s Bank stock	250	250
Total restricted equity securities	$ 4,971	$ 3,134

(in thousands, except per share amounts)

NOTE 3. SECURITIES (Continued)

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 September 30, 2023 and December 31, 2022.

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
September 30, 2023					
Securities Available for Sale					
U.S. Treasury securities	$ —	$ —	$ (1,281)	$ 8,451	$ (1,281)
U.S. Government Sponsored Enterprises (GSEs)	—	—	(246)	1,489	(246)
State and municipal securities	(4)	383	(8,137)	36,865	(8,141)
Corporate debt securities	(39)	212	(1,407)	10,862	(1,446)
Asset based securities	(19)	4,693	(657)	8,443	(676)
Mortgage-backed GSE residential/multifamily and non-GSE	(529)	26,864	(5,547)	56,453	(6,076)
Total securities available for sale	$ (591)	$ 32,152	$ (17,275)	$ 122,563	$ (17,866)
Securities Held to Maturity					
State and municipal securities	—	—	(4,693)	14,944	(4,693)
Total securities held to maturity	$ —	$ —	$ (4,693)	$ 14,944	$ (4,693)
Total securities	$ (591)	$ 32,152	$ (21,968)	$ 137,507	$ (22,559)

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2022					
Securities Available for Sale					
U.S. Treasury securities	$ (119)	$ 1,873	$ (1,061)	$ 6,711	$ (1,180)
U.S. Government Sponsored Enterprises (GSEs)	—	—	(221)	1,788	(221)
State and municipal securities	(2,561)	26,504	(3,818)	19,012	(6,379)
Corporate debt securities	(507)	8,497	(392)	3,130	(899)
Asset based securities	(178)	6,497	(564)	6,840	(742)
Mortgage-backed GSE residential/multifamily and non-GSE	(3,598)	52,260	(2,014)	16,107	(5,612)
Total securities available for sale	$ (6,963)	$ 95,631	$ (8,070)	$ 53,588	$ (15,033)
Securities Held to Maturity					
State and municipal securities	(2,072)	8,153	(2,215)	7,211	(4,287)
Total securities held to maturity	$ (2,072)	$ 8,153	$ (2,215)	$ 7,211	$ (4,287)
Total securities	$ (9,035)	$ 103,784	$ (10,285)	$ 60,799	$ (19,320)

The unrealized losses on 236 securities at September 30, 2023 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 September 30, 2023.

NOTE 3. SECURITIES (Continued)

At September 30, 2023, 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 September 30, 2023, 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 September 30, 2023. All debt securities in an unrealized loss position as of September 30, 2023 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 per share amounts)

NOTE 4. LOANS

Portfolio Segments and Classes

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

	September 30, 2023		December 31, 2022	
	Amount	% of Total	Amount	% of Total
Real estate mortgages:				
Construction and development	$ 229,188	12.9%	$ 255,736	16.1%
Residential	224,499	12.6%	167,891	10.5%
Commercial	1,049,545	59.0%	904,872	56.8%
Commercial and industrial	268,283	15.0%	256,553	16.1%
Consumer and other	8,331	0.5%	7,655	0.5%
Gross Loans	1,779,846	100.0%	1,592,707	100.0%
Deferred loan fees	(5,698)		(5,543)	
Allowance for credit losses	(22,181)		(20,156)	
Loans, net	$ 1,751,967		$ 1,567,008	

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 per share amounts)

NOTE 4. LOANS (Continued)

Credit Risk Management (Continued)

The following table summarizes the risk category of the Company's loan portfolio based upon the most recent analysis on the year of origination as of September 30, 2023:

	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
As of September 30, 2023								
Real Estate Mortgages:								
Construction and development								
Pass	$ 35,794	$ 135,466	$ 42,453	$ 3,019	$ 2,338	$ 5,453	$ —	$ 224,523
Special Mention	—	—	—	—	—	4,447	—	4,447
Substandard	—	—	218	—	—	—	—	218
Doubtful	—	—	—	—	—	—	—	—
Total	35,794	135,466	42,671	3,019	2,338	9,900	—	229,188
Residential								
Pass	33,236	67,787	25,419	43,033	7,099	13,932	32,298	222,804
Special Mention	33	694	—	—	41	37	87	892
Substandard	514	153	—	—	58	24	54	803
Doubtful	—	—	—	—	—	—	—	—
Total	33,783	68,634	25,419	43,033	7,198	13,993	32,439	224,499
Commercial								
Pass	150,918	307,077	271,371	102,538	67,805	131,394	—	1,031,103
Special Mention	19	451	3,046	2,721	429	4,766	—	11,432
Substandard	—	329	465	—	—	6,216	—	7,010
Doubtful	—	—	—	—	—	—	—	—
Total	150,937	307,857	274,882	105,259	68,234	142,376	—	1,049,545
Commercial and industrial								
Pass	45,767	64,030	25,601	15,460	5,613	11,127	78,030	245,628
Special Mention	199	3,451	1,553	11,721	420	25	3,542	20,911
Substandard	25	1,420	299	—	—	—	—	1,744
Doubtful	—	—	—	—	—	—	—	—
Total	45,991	68,901	27,453	27,181	6,033	11,152	81,572	268,283
Consumer and other								
Pass	1,941	1,373	364	186	342	1,392	2,710	8,308
Special Mention	—	—	10	13	—	—	—	23
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	1,941	1,373	374	199	342	1,392	2,710	8,331
Gross Loans								
Pass	267,656	575,733	365,208	164,236	83,197	163,298	113,038	1,732,366
Special Mention	251	4,596	4,609	14,455	890	9,275	3,629	37,705
Substandard	539	1,902	982	—	58	6,240	54	9,775
Doubtful	—	—	—	—	—	—	—	—
Total	$ 268,446	$ 582,231	$ 370,799	$ 178,691	$ 84,145	$ 178,813	$ 116,721	$ 1,779,846

(in thousands, except per share amounts)

NOTE 4. LOANS (Continued)

Credit Risk Management (Continued)

The following table summarizes the risk category of the Company's loan portfolio based upon the most recent analysis performed as of December 31, 2022, prior to the adoption of ASU 2016-13:

	Pass	Special Mention	Substandard	Doubtful	Total
As of December 31, 2022					
Real estate mortgages:					
Construction and development	$ 251,130	$ 4,539	$ 67	$ —	$ 255,736
Residential	165,388	1,787	716	—	167,891
Commercial	883,082	18,532	3,258	—	904,872
Commercial and industrial	247,948	8,322	283	—	256,553
Consumer and other	7,604	28	23	—	7,655
Total	$ 1,555,152	$ 33,208	$ 4,347	$ —	$ 1,592,707

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 table summarizes collateral dependent loans, which are individually evaluated to determine expected credit losses.

	Real Estate	Other	Total	ACL
As of September 30, 2023				
Real estate mortgages:				
Construction and development	$ 433	$ —	$ 433	$ 33
Residential	1,145	—	1,145	76
Commercial	7,640	—	7,640	140
Commercial and industrial	—	1,744	1,744	508
Consumer and other	—	2	2	—
Total	$ 9,218	$ 1,746	$ 10,964	$ 757

(in thousands, except per share amounts)

NOTE 4. LOANS (Continued)

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 September 30, 2023 and December 31, 2022:

		Past Due Status (Accruing Loans)						
	Current	30-59 Days	60-89 Days	90+ Days	Total Past Due	Nonaccrual with ACL	Nonaccrual without ACL	Total
As of September 30, 2023								
Real estate mortgages:								
Construction and development	$ 228,970	$ 218	$ —	$ —	$ 218	$ —	$ —	$ 229,188
Residential	223,270	799	141	—	940	24	265	224,499
Commercial	1,048,016	744	—	—	744	328	457	1,049,545
Commercial and industrial	267,815	399	61	—	460	—	8	268,283
Consumer and other	8,331	—	—	—	—	—	—	8,331
Total	$ 1,776,402	$ 2,160	$ 202	$ —	$ 2,362	$ 352	$ 730	$ 1,779,846
As of December 31, 2022								
Real estate mortgages:								
Construction and development	$ 255,575	$ —	$ 94	$ —	$ 94	$ —	$ 67	$ 255,736
Residential	167,108	147	72	—	219	30	534	167,891
Commercial	900,895	2,634	65	—	2,699	351	927	904,872
Commercial and industrial	254,824	1,379	38	—	1,417	277	35	256,553
Consumer and other	7,570	62	—	—	62	16	7	7,655
Total	$ 1,585,972	$ 4,222	$ 269	$ —	$ 4,491	$ 674	$ 1,570	$ 1,592,707

The Company recognized $44 and $167 of interest income on nonaccrual loans during the nine months ended September 30, 2023, and September 30, 2022, respectively.

Allowance for Credit Losses

The following tables detail activity in the allowance for credit losses by portfolio segment as of September 30, 2023 and September 30, 2022. 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 $1.3 million. At September 30, 2023, $1.5 million in allowance for credit losses on unfunded commitments was included in other liabilities on the consolidated balance sheets.

(in thousands, except per share amounts)

NOTE 4. LOANS (Continued)

Allowance for Credit Losses (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	4,173	(665)	3	3,511
Loans charged off	(3)	(262)	(6)	(271)
Recoveries of loans previously charged off	38	14	18	70
Ending balance at September 30, 2023	$ 17,487	$ 4,609	$ 85	$ 22,181

Allowance for Loans Losses - Incurred Loss Methodology

	Real Estate	Commercial	Consumer	Total
Allowance for loan losses:				
Balance at December 31, 2021	$ 11,554	$ 3,166	$ 124	$ 14,844
Provision (credit) for loan losses	1,337	2,371	(41)	3,667
Loans charged off	(73)	(269)	(8)	(350)
Recoveries of loans previously charged off	46	204	12	262
Ending balance at September 30, 2022	$ 12,864	$ 5,472	$ 87	$ 18,423
Ending balance - individually evaluated for impairment	$ 489	$ 331	$ —	$ 820
Ending balance - collectively evaluated for impairment	12,335	5,141	87	17,563
Ending balance - loans acquired with deteriorated credit quality	40	—	—	40
Total ending balance at September 30, 2022	$ 12,864	$ 5,472	$ 87	$ 18,423
Loans:				
Ending balance - individually evaluated for impairment	$ 5,963	$ 888	$ 22	$ 6,873
Ending balance - collectively evaluated for impairment	1,269,261	242,689	10,133	1,522,083
Ending balance - loans acquired with deteriorated credit quality	1,173	—	—	1,173
Total ending balance at September 30, 2022	$ 1,276,397	$ 243,577	$ 10,155	$ 1,530,129

(in thousands, except per share amounts)

NOTE 4. LOANS (Continued)

Impaired Loans - Incurred Loss Methodology

A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail our impaired loans, by portfolio class as of December 31, 2022.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
December 31, 2022				
With no related allowance recorded:				
Real estate mortgages:				
Construction and development	$ 372	$ 372	$ —	$ 397
Residential	1,129	1,129	—	1,169
Commercial	7,323	7,323	—	7,282
Commercial and industrial	36	36	—	42
Consumer and other	18	18	—	24
Total with no related allowance recorded	8,878	8,878	—	8,914
With an allowance recorded:				
Real estate mortgages:				
Construction and development	92	92	39	95
Residential	255	326	90	265
Commercial	623	623	166	630
Commercial and industrial	277	277	248	298
Consumer and other	16	16	8	16
Total with an allowance recorded	1,263	1,334	551	1,304
Total impaired loans	$ 10,141	$ 10,212	$ 551	$ 10,218

(in thousands, except per share amounts)

NOTE 4. LOANS (Continued)

Impaired Loans - Incurred Loss Methodology (Continued)

A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail our interest income recognized on impaired loans, by portfolio class in the nine months ended September 30, 2022.

	Recorded Investment	Average Recorded Investment	Interest Income Recognized
Nine Months Ended September 30, 2022			
With no related allowance recorded:			
Real estate mortgages:			
Construction and development	$ 387	$ 403	$ 14
Residential	1,149	1,178	45
Commercial	4,129	4,180	208
Commercial and industrial	527	517	22
Consumer and other	22	18	1
Total with no related allowance recorded	6,214	6,296	290
With an allowance recorded:			
Real estate mortgages:			
Construction and development	94	96	4
Residential	235	240	8
Commercial	1,142	515	24
Commercial and industrial	361	271	17
Consumer and other	—	—	—
Total with an allowance recorded	1,832	1,122	53
Total impaired loans	$ 8,046	$ 7,418	$ 343

NOTE 5. DEPOSITS

Major classifications of deposits are as follows:

	September 30, 2023	**December 31, 2022**
Noninterest-bearing transaction	$ 418,125	$ 460,977
Interest-bearing transaction	934,383	837,127
Savings	38,518	49,235
Time deposits, $250,000 and under	436,613	307,145
Time deposits, over $250,000	88,762	66,259
Total	$ 1,916,401	$ 1,720,743

(in thousands, except per share amounts)

NOTE 5. DEPOSITS (Continued)

Brokered deposits totaled $168,348 at September 30, 2023 and $110,503 at December 31, 2022. The scheduled maturities of time deposits at September 30, 2023 are as follows:

October 1, 2023 – September 30, 2024	$	413,265
October 1, 2024 – September 30, 2025		66,084
October 1, 2025 – September 30, 2026		28,578
October 1, 2026 – September 30, 2027		11,195
October 1, 2027 – September 30, 2028		6,226
Thereafter		27
Total	$	525,375

At September 30, 2023 and December 31, 2022, overdrawn transaction accounts reclassified to loans totaled $197 and $137, 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 September 30, 2023, the remaining balance of the debt issuance cost was $737. 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 7.00% 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 September 30, 2023, the remaining balance of the debt issuance cost was $680. 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 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 September 30, 2023 and December 31, 2022. As of September 30, 2023, the Company has posted cash collateral of $9,720. The amount of loss recognized in income on derivatives as a fair value adjustment and fee income, for the nine months ended September 30, 2023, were $7 and $628, respectively.

September 30, 2023				**December 31, 2022**			
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	$ 93,354	Other Assets	$ 9,596	Interest Rate Products	$ 73,631	Other Assets	$ 8,870
Interest Rate Products	93,354	Other Liabilities	(9,614)	Interest Rate Products	73,631	Other Liabilities	(8,882)

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 September 30, 2023, 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 $9,784. If the Company had breached any of these provisions at September 30, 2023, it could have been required to settle its obligations under the agreements at their termination value of $9,784, less the required collateral of $9,720.

(in thousands, except 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:

	September 30, 2023	December 31, 2022
Commitments to extend credit	$ 525,402	$ 550,315
Standby letters of credit	3,582	5,632
Total	$ 528,984	$ 555,947

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 nine months ended September 30, 2023 and September 30, 2022.

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 $57,433 or on an unsecured basis in excess of 10% of capital, as defined, or approximately $28,717.

NOTE 10. STOCKHOLDERS' EQUITY

As of September 30, 2023, the Company had 8,834,168 shares of common stock issued and outstanding and does not have any non-voting shares issued and outstanding.

As of December 31, 2022, the Company had 8,706,920 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 September 30, 2023, approximately $79,355 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 September 30, 2023 and December 31, 2022, that the Bank met all capital adequacy requirements to which it is subject.

As of September 30, 2023, 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 $3.0 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 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 September 30, 2023, the Bank was well capitalized under the regulatory framework for prompt corrective action.

(in thousands, except per share amounts)

NOTE 11. REGULATORY MATTERS (Continued)

Community Bank Leverage Ratio Framework

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 $10.0 billion 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 September 30, 2023, 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 September 30, 2023						
Tier 1 capital (to average assets)						
Company	$ 197,207	8.70 %	$ 90,659	4.00 %	$ —	—
Bank	$ 265,421	11.71 %	$ 90,659	4.00 %	$ 113,324	5.00 %
CET 1 capital (to risk-weighted assets)						
Company	$ 197,207	9.32 %	$ 148,087	7.00 %	$ —	—
Bank	$ 265,421	12.55 %	$ 148,087	7.00 %	$ 137,509	6.50 %
Tier 1 capital (to risk-weighted assets)						
Company	$ 197,207	9.32 %	$ 179,819	8.50 %	$ —	—
Bank	$ 265,421	12.55 %	$ 179,819	8.50 %	$ 169,242	8.00 %
Total capital (to risk-weighted assets)						
Company	$ 308,912	14.60 %	$ 222,130	10.50 %	$ —	—
Bank	$ 289,126	13.67 %	$ 222,130	10.50 %	$ 211,552	10.00 %

(in thousands, except 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, 2022						
Tier 1 capital (to average assets)						
Company	$ 174,679	8.82 %	$ 79,182	4.00 %	$ —	—
Bank	$ 240,815	12.17 %	$ 79,182	4.00 %	$ 98,977	5.00 %
CET 1 capital (to risk-weighted assets)						
Company	$ 174,679	8.86 %	$ 138,018	7.00 %	$ —	—
Bank	$ 240,815	12.21 %	$ 138,018	7.00 %	$ 128,160	6.50 %
Tier 1 capital (to risk-weighted assets)						
Company	$ 174,679	8.86 %	$ 167,593	8.50 %	$ —	—
Bank	$ 240,815	12.21 %	$ 167,593	8.50 %	$ 157,735	8.00 %
Total capital (to risk-weighted assets)						
Company	$ 282,835	14.34 %	$ 207,027	10.50 %	$ —	—
Bank	$ 260,971	13.24 %	$ 207,027	10.50 %	$ 197,169	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.

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 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 September 30, 2023 and December 31, 2022 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)
September 30, 2023				
U.S. Treasury securities	$ 8,451	$ —	$ 8,451	$ —
U.S. Government Sponsored Enterprises (GSEs)	2,378	—	2,378	—
State and municipal securities	37,248	—	37,248	—
Corporate debt securities	11,074	—	11,074	—
Asset based securities	19,294	—	19,294	—
Mortgage-backed GSE residential/multifamily and non-GSE	91,414	—	91,414	—
Other equity securities	3,654	3,654	—	—
Interest Rate Products - asset	9,596	—	9,596	—
Interest Rate Products - liabilities	(9,614)	—	(9,614)	—
December 31, 2022				
U.S. Treasury securities	$ 8,584	$ —	$ 8,584	$ —
U.S. Government Sponsored Enterprises (GSEs)	1,788	—	1,788	—
State and municipal securities	49,925	—	49,925	—
Corporate debt securities	11,627	—	11,627	—
Asset based securities	13,337	—	13,337	—
Mortgage-backed GSE residential/multifamily and non-GSE	70,283	—	70,283	—
Other equity securities	4,444	3,674	—	770
Interest Rate Products - asset	8,870	—	8,870	—
Interest Rate Products - liabilities	(8,882)	—	(8,882)	—

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 September 30, 2023 and December 31, 2022:

	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)
September 30, 2023:				
Impaired loans	$ 2,596	$ —	$ —	$ 2,596
Foreclosed assets	2,903	—	—	2,903
Totals	$ 5,499	$ —	$ —	$ 5,499

(in thousands, except per share amounts)

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

Assets Measured at Fair Value on a Nonrecurring Basis (Continued)

	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)
December 31, 2022:				
Impaired loans	$ 1,020	$ —	$ —	$ 1,020
Foreclosed assets	2,930	—	—	2,930
Totals	$ 3,950	$ —	$ —	$ 3,950

Impaired Loans

Loans considered impaired under ASC 310-10-35, *Receivables*, 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. Impaired 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 impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are 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 generally determines the value of real estate 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 estimated 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.

Impaired loans, which are usually measured for impairment using the fair value of collateral, had a carrying amount of $10,964 and $10,141 with a specific valuation allowance of $757 and $551 at September 30, 2023 and December 31, 2022, respectively. Of the $10,964 and $10,141 impaired loan portfolio, $3,353 and $1,571 were carried at fair value as a result of charge offs, specific valuation allowances, and the fair market adjustments at September 30, 2023 and December 31, 2022, respectively. The remaining $7,611 and $8,570 was carried at cost, as the fair value of the collateral on these loans exceeded the book value for each individual credit at September 30, 2023 and December 31, 2022, respectively. Charge offs and changes in specific valuation allowances at September 30, 2023 and December 31, 2022 on impaired loans carried at fair value resulted in additional provision for credit losses of $524 and $215, respectively.

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 per share amounts)

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

Quantitative Disclosures for Level 3 Fair Value Measurements

For Level 3 assets measured at fair value on a recurring basis as of September 30, 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
Recurring:					
Other equity securities	$	—	Discounted cash flow	Discount rate (%)	N/A

For Level 3 assets measured at fair value on a recurring basis as of December 31, 2022, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount		Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Recurring:					
Other equity securities	$	770	Discounted cash flow	Discount rate (%)	N/A

For Level 3 assets measured at fair value on a nonrecurring basis as of September 30, 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:					
Impaired loans	$	2,596	Appraisal	Appraisal discounts (%)	15-20%
Foreclosed assets	$	2,903	Appraisal	Appraisal discounts (%)	10-15%

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2022, 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:					
Impaired loans	$	1,020	Appraisal	Appraisal discounts (%)	15-20%
Foreclosed assets	$	2,930	Appraisal	Appraisal discounts (%)	10-15%

(in thousands, except per share amounts)

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

Fair Value of Financial Instruments

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

	September 30, 2023			
		Estimated Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 216,180	$ 216,180	$ —	$ —
Securities available for sale	169,859	—	169,859	—
Other equity securities	3,654	3,654	—	—
Loans held for sale	1,799	—	1,799	—
Trading assets	9,596	—	9,596	—
Loans, net	1,751,967	—	1,716,735	2,596
Bank owned life insurance	29,697	—	29,697	—
Annuities	15,266	—	15,266	—
Accrued interest receivable	8,321	—	8,321	—
Restricted equity securities	4,971	—	—	4,971
Financial liabilities:				
Deposits	$ 1,916,401	$ —	$ 1,912,102	$ —
Trading liabilities	9,614	—	9,614	—
FHLB advances	55,000	—	54,883	—
Other borrowings	4,991	—	4,991	—
Subordinated notes	86,582	—	86,582	—
Accrued interest payable	1,280	—	1,280	—

(in thousands, except per share amounts)

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

Fair Value of Financial Instruments (Continued)

	December 31, 2022			
		Estimated Fair Value		
	Carrying Amount	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 168,499	$ 168,499	$ —	$ —
Securities available for sale	155,544	—	155,544	—
Other equity securities	4,444	3,674	—	770
Loans held for sale	1,047	—	1,047	—
Trading assets	8,870	—	8,870	—
Loans, net	1,567,008	—	1,529,646	1,020
Bank owned life insurance	29,186	—	29,186	—
Annuities	15,478	—	15,478	—
Accrued interest receivable	6,963	—	6,963	—
Restricted equity securities	3,134	—	—	3,134
Financial liabilities:				
Deposits	$ 1,720,743	$ —	$ 1,714,249	$ —
Trading liabilities	8,882	—	8,882	—
FHLB advances	31,000	—	30,788	—
Other borrowings	(19)	—	(19)	—
Subordinated notes	86,314	—	86,314	—
Accrued interest payable	584	—	584	—

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, 2022 and December 31, 2021, 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 Third Quarter 2023 Results

Net income was $6.6 million for the quarter ended September 30, 2023, compared to $8.8 million for the quarter ended June 30, 2023 and $6.7 million for the quarter ended September 30, 2022.

During the second quarter of 2023, the Company received a $5.1 million Employee Retention Credit ("ERC"). The second quarter of 2023 included the $5.1 million ERC in noninterest income, and also included $1.2 million in noninterest expense for professional fees paid by the Company in obtaining the ERC. After reviewing the revised IRS guidelines pertaining to ERC issued during the third quarter of 2023, the Company decided to return the full $5.1 million ERC to the IRS and recorded a payable. The Company will also receive a refund of all professional fees totaling $1.2 million related to ERC. Accordingly, the third quarter of 2023 reflected a $5.1 million reduction in noninterest income and a $1.2 million reduction in noninterest expense related to the return of the ERC. This was deemed a change in circumstance between the second and third quarters of 2023. There was no impact on the nine months ended September 30, 2023.

Significant measures in the third quarter of 2023 included:

- Annualized return on average assets ("ROAA") was 1.15% for the three months ended September 30, 2023, compared to 1.60% for the three months ended June 30, 2023 and 1.35% for the three months ended September 30, 2022.

- Annualized return on average equity ("ROAE") was 12.96% for the three months ended September 30, 2023, compared to 18.15% for the three months ended June 30, 2023 and 15.42% for the three months ended September 30, 2022.

- Basic earnings per common share was $0.75 for the three months ended September 30, 2023, compared to $1.00 for the three months ended June 30, 2023 and $0.77 for the three months ended September 30, 2022.

- Net interest margin of 3.78% for the third quarter of 2023, compared to 3.73% for the second quarter of 2023 and 4.15% for the third quarter of 2022.

- Net interest income was $20.7 million for the three months ended September 30, 2023, an increase of $1.3 million, or 6.7%, from $19.4 million for the three months ended June 30, 2023 and an increase of $1.3 million, or 6.7%, from $19.4 million for the three months ended September 30, 2022.

- Loans, net of unearned income, were $1.8 billion as of September 30, 2023, a $57.6 million, or 3.4%, increase compared to June 30, 2023, or a linked-quarter annualized growth rate of 13.3%.

- Deposits were $1.9 billion as of September 30, 2023, a $7.5 million, or 0.4% decrease compared to June 30, 2023, or a linked-quarter annualized reduction rate of (1.5)%.

- Deposits, excluding brokered deposits, were $1.7 billion as of September 30, 2023, an $18.3 million, or 1.1% increase compared to June 30, 2023, or linked-quarter annualized growth rate of 4.2%.

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 September 30, 2023 and 2022

We had net income of $6.6 million for the three months ended September 30, 2023, compared to net income of $6.7 million for the three months ended September 30, 2022, a decrease of $71,000, or 1.1%. The decreased net income was primarily the result of a decrease in noninterest income, which was substantially offset by decreases in noninterest expense and credit loss provision and an increase in net interest income.

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 September 30, 2023			Three Months Ended September 30, 2022		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
	(dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans, net of unearned income[(1)]	$ 1,740,582	$ 30,084	6.86 %	$ 1,480,735	$ 20,052	5.37 %
Taxable securities	156,364	1,796	4.56 %	128,932	1,010	3.11 %
Nontaxable securities	45,466	227	1.98 %	56,738	323	2.26 %
Other interest-earnings assets	232,691	3,097	5.28 %	192,699	1,135	2.34 %
Total interest-earning assets	$ 2,175,103	$ 35,204	6.42 %	$ 1,859,104	$ 22,520	4.81 %
Allowance for credit losses	(21,606)			(17,250)		
Noninterest-earning assets	128,720			124,702		
Total Assets	$ 2,282,217			$ 1,966,556		
Liabilities and Stockholders’ Equity:						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	$ 88,668	$ 20	0.09 %	$ 114,517	$ 26	0.09 %
Savings and money market accounts	867,066	7,767	3.55 %	811,349	1,644	0.80 %
Time deposits	516,290	4,945	3.80 %	281,931	819	1.15 %
FHLB advances	43,261	514	4.72 %	27,380	102	1.47 %
Other borrowings	86,621	1,227	5.62 %	47,659	494	4.12 %
Total interest-bearing liabilities	$ 1,601,906	$ 14,473	3.58 %	$ 1,282,836	$ 3,085	0.95 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	$ 448,616			$ 491,917		
Other liabilities	28,740			19,401		
Total noninterest-bearing liabilities	$ 477,356			$ 511,318		
Stockholders’ Equity	202,955			172,402		
Total Liabilities and Stockholders’ Equity	$ 2,282,217			$ 1,966,556		
Net interest income		$ 20,731			$ 19,435	
Net interest spread[(2)]			2.84 %			3.86 %
Net interest margin[(3)]			3.78 %			4.15 %

(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 September 30, 2023 vs. Three Months Ended September 30, 2022		
	Changes due to:		
	Volume	Rate	Total Variance
	(dollars in thousands)		
Interest-earning assets:			
Loans, net of unearned income	$ 4,434	$ 5,598	$ 10,032
Taxable securities	315	471	786
Nontaxable securities	(56)	(40)	(96)
Other interest-earning assets	532	1,430	1,962
Total increase in interest income	$ 5,225	$ 7,459	$ 12,684
Interest-bearing liabilities:			
Interest-bearing transaction accounts	(6)	—	(6)
Savings and money market accounts	499	5,624	6,123
Time deposits	2,244	1,882	4,126
FHLB advances	188	224	412
Other borrowings	552	181	733
Total increase in interest expense	$ 3,477	$ 7,911	$ 11,388
Increase in net interest income	$ 1,748	$ (452)	$ 1,296

Net interest income for the three months ended September 30, 2023 was $20.7 million compared to $19.4 million for the three months ended September 30, 2022, an increase of $1.3 million, or 6.7%. The increase in net interest income was comprised of a $12.7 million, or 56.3%, increase in interest income, partially offset by an $11.4 million, or 369.1%, increase in interest expense. The growth in interest income was primarily attributable to a 1.49% increase in the yield earned on average loans outstanding coupled with a $259.8 million, or 17.5%, increase in average loans outstanding as of September 30, 2023, compared to September 30, 2022. The increase in average loans outstanding was primarily due to organic growth. The $11.4 million increase in interest expense for the quarter ended September 30, 2023 was substantially related to a 2.63% increase in the rate paid on interest-bearing liabilities coupled with an increase of $319.1 million, or 24.9%, in average interest-bearing liabilities as of September 30, 2023 compared to September 30, 2022. The increase in average interest-bearing liabilities from September 30, 2022 to September 30, 2023 was primarily due to organic growth. For the three months ended September 30, 2023, net interest margin and net interest spread were 3.78% and 2.84%, respectively, compared to 4.15% and 3.86%, respectively, for the same period in 2022.

Provision for Credit Losses

The provision for credit losses for the three months ended September 30, 2023 was $773,000 compared to $1.7 million for the three months ended September 30, 2022. The provision for the three months ended September 30, 2023 was recorded based on loan growth, whereas provision for the three months ended September 30, 2022 was recorded based on loan growth as well as current economic factors. In the three months ended September 30, 2023, there were net recoveries of $23,000. In the three months ended September 30, 2022, there were net charge offs of $47,000.

The allowance for credit losses as a percentage of gross loans was 1.25% and 1.20% at September 30, 2023 and 2022, respectively.

Noninterest Income

Noninterest income for the three months ended September 30, 2023 was $(2.9) million compared to $1.3 million for the three months ended September 30, 2022, a decrease of $4.2 million, or 316.1%, which substantially resulted from the aforementioned return of ERC, partially offset by an increase in swap fees and other operating income during the three months ended September 30, 2023.

The following table sets forth the major components of our noninterest income for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		
	2023	2022	Increase (Decrease)
		(dollars in thousands)	
Service charges on deposit accounts	$ 442	$ 508	$ (66)
Swap fees	453	11	442
SBA/USDA fees	74	95	(21)
Bank card services and interchange fees	389	443	(54)
Mortgage banking activities	158	218	(60)
Net loss on securities	(12)	(143)	131
ERC	(5,100)	—	(5,100)
Other operating income(1)	702	207	495
Total noninterest income	$ (2,894)	$ 1,339	$ (4,233)

(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 decreased $66,000, or 13.0%, to $442,000 for the three months ended September 30, 2023 from $508,000 for the three months ended September 30, 2022. This decrease was primarily due a decrease in insufficient funds fees based on volume. The sale of branches during October 2022 resulted in a slight reduction in service charges on deposit accounts.

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 $442,000, or 4018.2%, to $453,000 for the three months ended September 30, 2023 from $11,000 for the three months ended September 30, 2022. The Bank participated in five interest rate swaps during the three months ended September 30, 2023 and realized a small net fair value adjustment as expense during the period.

SBA/USDA fees primarily include gains on the sale of loans and servicing of the loans. These fees decreased $21,000, or 22.1%, to $74,000 for the three months ended September 30, 2023, from $95,000 for the three months ended September 30, 2022. The decrease was primarily due to a reduction in servicing income during the third quarter of 2023.

Bank card services and interchange fees are derived from debit cards and foreign ATM transactions. These fees decreased $54,000, or 12.2%, to $389,000 for the three months ended September 30, 2023, from $443,000 for the three months ended September 30, 2022. The decrease was primarily the result of less transactional volume that generated a reduction in interchange fees during the three months ended September 30, 2023. The sale of branches during October 2022 resulted in a slight reduction in bank card service fees.

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 $60,000, or 27.5%, to $158,000 for the three months ended September 30, 2023 from $218,000 for the three months ended September 30, 2022. This decrease was the result of decreased volumes in the secondary market primarily based on a change in rate environment.

Net loss on securities was $12,000 for the three months ended September 30, 2023 as a result of market adjustments on equity securities during the quarter. Net loss on securities was $143,000 for the three months ended September 30, 2022 as result of market adjustments on equity securities.

During the second quarter of 2023, the Company received a $5.1 million ERC. After reviewing the revised IRS guidelines pertaining to ERC issued during the third quarter of 2023, the Company decided to return the full $5.1 million ERC to the IRS. This was deemed a change in circumstance between the second and third quarters of 2023.

Other income and fees increased $495,000, or 239.1%, to $702,000 for the three months ended September 30, 2023 from $207,000 for the three months ended September 30, 2022. The increase was related to various miscellaneous nonrecurring fees and income.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2023 was $8.6 million compared to $10.2 million for the three months ended September 30, 2022, a decrease of $1.7 million, or 16.3%, which primarily resulted from the aforementioned refund of professional fees related to the ERC, along with a decrease in salaries and employee benefits.

The following table sets forth the major components of our noninterest expense for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		
	2023	2022	Increase (Decrease)
	(dollars in thousands)		
Salaries and employee benefits	$ 5,752	$ 6,152	$ (400)
Equipment and occupancy expenses	718	764	(46)
Professional services	581	421	160
Professional fees related to ERC	(1,243)	—	(1,243)
Data processing fees	650	599	51
Other real estate income	(23)	(51)	28
Other operating expenses[(1)]	2,134	2,352	(218)
Total noninterest expense	$ 8,569	$ 10,237	$ (1,668)

(1) Other 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 unfunded loan 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 $400,000, or 6.5%, from $6.2 million for the quarter ended September 30, 2022 to $5.8 million for the quarter ended September 30, 2023. The decrease was primarily due to a reduction in employees, which resulted from the elimination of several positions and open positions to be filled.

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 September 30, 2023 was $718,000 compared to $764,000 for the three months ended September 30, 2022, a decrease of $46,000, or 6.0%. The decrease was primarily attributable to a reduction in depreciation and maintenance contract expenses, partially as a result of the sale of branches during October 2022.

Professional services expenses, which include legal fees, audit and accounting fees, and consulting fees, increased $160,000, or 38.0%, to $581,000 for the three months ended September 30, 2023 compared to $421,000 for the three months ended September 30, 2022. This increase was the result of general increases, primarily from third-party expenses incurred on interest rate swaps during the three months ended September 30, 2023.

The second quarter of 2023 included $1.2 million in professional fees paid by the Company in obtaining the aforementioned $5.1 million in ERC. After reviewing the revised IRS guidelines pertaining to ERC issued during the third quarter of 2023, the Company decided to return the ERC to the IRS and will also receive a refund of all professional fees totaling $1.2 million related to ERC. This was deemed a change in circumstance between the second and third quarters of 2023.

Data processing fees, which primarily consists of data processing services for core processing from a third-party vendor, increased $51,000, or 8.5%, to $650,000 for the three months ended September 30, 2023 compared to $599,000 for the three months ended September 30, 2022. The increase was primarily the result of additional software and general increases.

Other real estate income decreased $28,000, or 54.9%, to a net income of $23,000 for the three months ended September 30, 2023, from a net income of $51,000 for the three months ended September 30, 2022. This decrease was substantially the result of less OREO rental income and an increase in OREO expense on a property.

Other expenses decreased $218,000, or 9.3%, to $2.1 million for the three months ended September 30, 2023, compared to $2.4 million for the three months ended September 30, 2022. The decrease was primarily due to a net recovery of fraud and forgery losses during the third quarter of 2023 compared to a net loss during the the third quarter of 2022. This decrease was partially offset by an increase in operating expenses related to a tax credit investment. There were also smaller variations both positive and negative due to timing.

Results of Operations for the Nine months ended September 30, 2023 and 2022

We had net income of $23.1 million for the nine months ended September 30, 2023, compared to net income of $16.5 million for the nine months ended September 30, 2022, an increase of $6.6 million, or 39.9%. The increased net income was substantially the result of increases in net interest income and noninterest income, partially offset by increases in noninterest expense and income taxes.

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.

	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
	(dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans, net of unearned income[(1)]	$ 1,676,134	$ 83,049	6.62 %	$ 1,373,564	$ 51,083	4.97 %
Taxable securities	149,058	4,819	4.32 %	119,224	2,417	2.71 %
Nontaxable securities	47,947	747	2.08 %	56,157	931	2.22 %
Other interest-earnings assets	199,379	7,473	5.01 %	202,837	1,713	1.13 %
Total interest-earning assets	$ 2,072,518	$ 96,088	6.20 %	$ 1,751,782	$ 56,144	4.29 %
Allowance for credit losses	(20,750)			(16,044)		
Noninterest-earning assets	129,083			123,255		
Total Assets	$ 2,180,851			$ 1,858,993		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	$ 91,602	$ 59	0.09 %	$ 113,427	$ 78	0.09 %
Savings and money market accounts	839,827	19,679	3.13 %	741,397	2,862	0.52 %
Time deposits	464,100	11,760	3.39 %	242,869	1,311	0.72 %
FHLB advances	35,703	1,202	4.50 %	26,115	144	0.74 %
Other borrowings	86,453	3,679	5.69 %	42,604	1,295	4.06 %
Total interest-bearing liabilities	$ 1,517,685	$ 36,379	3.20 %	$ 1,166,412	$ 5,690	0.65 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	$ 442,149			$ 502,951		
Other liabilities	26,587			16,420		
Total noninterest-bearing liabilities	$ 468,736			$ 519,371		
Stockholders' Equity	194,430			173,210		
Total Liabilities and Stockholders' Equity	$ 2,180,851			$ 1,858,993		
Net interest income		$ 59,709			$ 50,454	
Net interest spread[(2)]			3.00 %			3.64 %
Net interest margin[(3)]			3.85 %			3.85 %

(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.

	Nine Months Ended September 30, 2023 vs. Nine Months Ended September 30, 2022		
	Changes due to:		
	Volume	Rate	Total Variance
	(dollars in thousands)		
Interest-earning assets:			
Loans, net of unearned income	$ 14,868	$ 17,098	$ 31,966
Taxable securities	964	1,438	2,402
Nontaxable securities	(128)	(56)	(184)
Other interest-earning assets	(129)	5,889	5,760
Total increase in interest income	$ 15,575	$ 24,369	$ 39,944
Interest-bearing liabilities:			
Interest-bearing transaction accounts	(14)	(5)	(19)
Savings and money market accounts	2,306	14,511	16,817
Time deposits	5,606	4,843	10,449
FHLB advances	323	735	1,058
Other borrowings	1,866	518	2,384
Total increase in interest expense	$ 10,087	$ 20,602	$ 30,689
Increase in net interest income	$ 5,488	$ 3,767	$ 9,255

Net interest income for the nine months ended September 30, 2023 was $59.7 million compared to $50.5 million for the nine months ended September 30, 2022, an increase of $9.3 million, or 18.3%. The increase in net interest income was comprised of a $39.9 million, or 71.1%, increase in interest income, partially offset by a $30.7 million or 539.3%, increase in interest expense. The growth in interest income was primarily attributable to a 1.65% increase in the yield earned on average loans outstanding coupled with a $302.6 million, or 22.0%, increase in average loans outstanding as of September 30, 2023, compared to September 30, 2022. The increase in average loans outstanding was due to organic growth. The $30.7 million increase in interest expense for the nine months ended September 30, 2023 was primarily related to a 2.55% increase in the rate paid on interest-bearing liabilities coupled with an increase of $351.3 million, or 30.1%, in average interest-bearing liabilities as of September 30, 2023 compared to September 30, 2022. The increase in average interest bearing liabilities from September 30, 2022 to September 30, 2023 was primarily due to organic growth. For the nine months ended September 30, 2023, net interest margin and net interest spread were 3.85% and 3.00%, respectively, compared to 3.85% and 3.64%, respectively, for the same period in 2022.

Provision for Credit Losses

The provision for credit losses for the nine months ended September 30, 2023 was $3.5 million compared to $3.7 million for the nine months ended September 30, 2022. The provision was recorded primarily based on growth as well as current economic factors. In the nine months ended September 30, 2023, there were net charge offs of $201,000. In the nine months ended September 30, 2022, there were net charge offs of $88,000.

The allowance for credit losses as a percentage of gross loans was 1.25% and 1.20% at September 30, 2023 and 2022, respectively.

Noninterest Income

Noninterest income for the nine months ended September 30, 2023 was $5.8 million compared to $4.1 million for the nine months ended September 30, 2022, an increase of $1.7 million, or 41.3%, which primarily resulted from a net gain on securities for the nine months ended September 30, 2023, compared to a net loss on securities for the nine months ended September 30, 2022, in addition to an increases in swap fees and other operating income during the third quarter of 2023. These increases were partially offset by decreases in fee income related to SBA/USDA loans and mortgage banking activities.

The following table sets forth the major components of our noninterest income for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,		
	2023	2022	Increase (Decrease)
		(dollars in thousands)	
Service charges on deposit accounts	$ 1,348	$ 1,433	$ (85)
Swap fees	622	48	574
SBA/USDA fees	274	575	(301)
Bank card services and interchange fees	1,160	1,302	(142)
Mortgage banking activities	446	717	(271)
Net gain (loss) on securities	457	(546)	1,003
Other operating income[1]	1,448	545	903
Total noninterest income	$ 5,755	$ 4,074	$ 1,681

(1) Other income and fees include 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 decreased $85,000, or 5.9%, to $1.3 million for the nine months ended September 30, 2023 from $1.4 million for the nine months ended September 30, 2022. The nine months ended September 30, 2023 did not include fees from cash intensive businesses, which were collected during the nine months ended September 30, 2022. This revenue stream ended during 2022 and is not expected to continue going forward. The sale of branches during October 2022 resulted in a slight reduction in service charges on deposit accounts.

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 $574,000, or 1195.8%, to $622,000 for the nine months ended September 30, 2023 from $48,000 for the nine months ended September 30, 2022. The Bank participated in several interest rate swaps during the nine months ended September 30, 2023 and realized a small net fair value adjustment as a loss during the period.

SBA/USDA fees primarily include gains on the sale of loans and servicing of the loans. These fees decreased $301,000, or 52.3%, to $274,000 for the nine months ended September 30, 2023, from $575,000 for the nine months ended September 30, 2022. The decrease was primarily due to additional gains on the sales of loans during the nine months ended September 30, 2022 compared to the nine months ended September 30, 2023, along with a reduction in servicing income during the nine months ended September 30, 2023.

Bank card services and interchange fees are derived from debit cards and foreign ATM transactions. These fees decreased $142,000, or 10.9%, to $1.2 million for the nine months ended September 30, 2023, from $1.3 million for the nine months ended September 30, 2022. The decrease was primarily the result of less transactional volume that generated a reduction in interchange fees during the nine months ended September 30, 2023. The sale of branches during October 2022 resulted in a slight reduction in bank card service fees.

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 $271,000, or 37.8%, to $446,000 for the nine months ended September 30, 2023 from $717,000 for the nine months ended September 30, 2022. This decrease was the result of decreased volumes in the secondary market primarily based on a change in rate environment.

Net gain on securities was $457,000 for the nine months ended September 30, 2023, substantially as a result of market adjustments on equity securities. Net loss on securities was $546,000 for the nine months ended September 30, 2022 as result of market adjustments on equity securities.

Other income and fees increased $903,000, or 165.7%, to $1.4 million for the nine months ended September 30, 2023 from $545,000 for the nine months ended September 30, 2022. The increase was related to various miscellaneous nonrecurring fees and income.

Noninterest Expense

Noninterest expense for the nine months ended September 30, 2023 was $32.2 million compared to $29.2 million for the nine months ended September 30, 2022, an increase of $3.0 million, or 10.2%, which primarily resulted from increases in salaries and employee benefits, other operating expenses and professional services.

The following table sets forth the major components of our noninterest expense for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,		
	2023	2022	Increase (Decrease)
	(dollars in thousands)		
Salaries and employee benefits	$ 19,926	$ 17,859	$ 2,067
Equipment and occupancy expenses	2,095	2,188	(93)
Professional services	1,606	1,298	308
Data processing fees	1,889	1,733	156
Other real estate income	(107)	(91)	(16)
Other operating expenses[(1)]	6,750	6,191	559
Total noninterest expense	$ 32,159	$ 29,178	$ 2,981

(1) Other 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 unfunded loan 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 increased $2.1 million, or 11.6%, from $17.9 million for the nine months ended September 30, 2022 to $19.9 million for the nine months ended September 30, 2023. The increase was substantially due to $1.6 million in one-time retirement related expenses paid to our former CEO in May 2023, coupled with increases in equity related expenses.

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 nine months ended September 30, 2023 was $2.1 million compared to $2.2 million for the nine months ended September 30, 2022, a decrease of $93,000, or 4.3%. The decrease was primarily attributable to a reduction in depreciation expense and maintenance contracts, partially as a result of the sale of branches during October 2022, and somewhat offset by an increase in property taxes on the office locations.

Professional services expenses, which include legal fees, audit and accounting fees, and consulting fees, increased $308,000, or 23.7%, to $1.6 million for the nine months ended September 30, 2023 compared to $1.3 million for the nine months ended September 30, 2022. This increase was substantially the result of general increases, which was partially offset by a decrease in servicing expense on SBA/USDA loan sales.

Data processing fees, which primarily consists of data processing services for core processing from a third-party vendor, increased $156,000, or 9.0%, to $1.9 million for the nine months ended September 30, 2023 compared $1.7 million for the nine months ended September 30, 2022. The increase was primarily the result of additional software and general increases.

Other real estate income increased $16,000, or 17.6%, to a net income of $107,000 for the nine months ended September 30, 2023, from a net income of $91,000 for the nine months ended September 30, 2022. This increase was substantially the result of less OREO expenses on a property.

Other expenses increased $559,000, or 9.0%, to $6.8 million for the nine months ended September 30, 2023, compared to $6.2 million for the nine months ended September 30, 2022. The increase was primarily due to the Bank provisioning for credit losses on unfunded commitments, as a result of the adoption of ASC 326 on January 1, 2023. In addition, the Bank incurred operating expenses related to a tax credit investment and a fintech fund investment during the nine months ended

September 30, 2023, both of which were not incurred during the nine months ended September 30, 2022. There were also smaller variations both positive and negative due to timing.

Financial Condition

Total assets grew $251.3 million, or 12.3%, to $2.3 billion at September 30, 2023 from $2.0 billion at December 31, 2022.

Loans, net of unearned income, increased $187.0 million, or 11.8%, to $1.8 billion at September 30, 2023 from $1.6 billion at December 31, 2022. Our loans, net of unearned income, grew at an annualized rate of 15.8% for the nine months ended September 30, 2023.

Securities portfolio increased $14.3 million, or 8.2%, to $189.5 million at September 30, 2023, compared to $175.2 million at December 31, 2022.

Cash and cash equivalents grew $47.7 million, or 28.3%, to $216.2 million at September 30, 2023, from $168.5 million at December 31, 2022.

Deposits grew $195.7 million, or 11.4%, to $1.9 billion at September 30, 2023 compared to $1.7 billion at December 31, 2022. The majority of the growth was due to an increase of $238.5 million in interest-bearing deposits, partially offset by an $42.9 million decrease in noninterest-bearing deposits. Included in the increase was $57.8 million in brokered deposits. Our total deposits, excluding brokered deposits, grew at an annualized rate of 11.4% for the nine months ended September 30, 2023.

Total stockholders’ equity increased $20.2 million, or 11.1%, to $201.9 million at September 30, 2023, compared to $181.7 million at December 31, 2022. 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 0.109% 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:

	September 30, 2023		December 31, 2022	
	Amount	% of Total	Amount	% of Total
	(dollars in thousands)			
Real estate mortgages:				
Construction and development	$ 229,188	12.9 %	$ 255,736	16.1 %
Residential	224,499	12.6 %	167,891	10.5 %
Commercial	1,049,545	59.0 %	904,872	56.8 %
Commercial and industrial	268,283	15.0 %	256,553	16.1 %
Consumer and other	8,331	0.5 %	7,655	0.5 %
Gross Loans	1,779,846	100.0 %	1,592,707	100.0 %
Deferred loan fees	(5,698)		(5,543)	
Allowance for credit losses	(22,181)		(20,156)	
Loans, net	$ 1,751,967		$ 1,567,008	

Gross loans increased $187.1 million, or 11.7%, to $1.8 billion as of September 30, 2023 as compared to $1.6 billion as of December 31, 2022. Portfolio segments and classes remained relatively consistent since December 31, 2022.

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, commercial, agricultural and consumer lending activities with customers throughout our markets in Alabama and Georgia. About 84.5% of our gross loans were secured by real property as of September 30, 2023, compared to 83.4% as of December 31, 2022. 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 59.0% of total gross loans as of September 30, 2023 and represented 56.8% of total gross loans as of December 31, 2022. C&D loans were 12.9% of total gross loans as of September 30, 2023, and represented 16.1% of total gross loans as of December 31, 2022. The regulatory concentration ratio of the Company's commercial real estate loans to total risk-based Bank capital is 288.2% as of September 30, 2023 and 283.2% as of December 31, 2022. C&D loans represented 79.3% of total risk-based Bank capital as of September 30, 2023 as compared to 98.0% as of December 31, 2022. The regulatory concentration ratios of commercial real estate loans and construction and development loans to total risk-based capital as of September 30, 2023 and December 31, 2022 were each below the 300%/100% concentration limits provided in regulatory guidance. 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 decreased $26.5 million, or 10.4%, to $229.2 million as of September 30, 2023 from $255.7 million as of December 31, 2022. The majority of this decrease was due to a loan reclassification to residential in the Company's Huntsville, Alabama market.

Residential. We offer one-to-four family mortgage loans on both owner-occupied primary residences and investor-owned residences, which make up 52.1% of our residential loan portfolio. Our residential loans also include home equity lines of credit, which total $22.0 million, or 9.8% of our residential portfolio as of September 30, 2023. 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 33.2% of the portfolio. Other residential loans make up the remaining 4.9% of the portfolio.

Residential multi-family loans increased $56.6 million, or 33.7%, to $224.5 million as of September 30, 2023 from $167.9 million as of December 31, 2022. The majority of this increase was due to a loan reclassification to multi-family residential in the Company's Huntsville market, along with 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 $144.7 million, or 16.0%, to $1.0 billion as of September 30, 2023 from $904.9 million as of December 31, 2022. The increase in commercial real estate loans during this period was mostly driven by general increases in lending activity, primarily in the Company's Auburn, Alabama and Atlanta, Georgia markets. As of September 30, 2023, the Company's commercial real estate portfolio was comprised of $519.6 million in non-owner occupied commercial real estate loans and $112.0 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 $11.7 million, or 4.6% to $268.3 million as of September 30, 2023 from $256.6 million as of December 31, 2022. The majority of this increase was due to loan growth primarily in the Company’s Atlanta and Columbus, Georgia 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 $676,000 or 8.8%, to $8.3 million as of September 30, 2023 from $7.7 million as of December 31, 2022.

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 September 30, 2023 and December 31, 2022, loan participations sold to third-parties (which are not included in the accompanying consolidated balance sheets) totaled $118.7 million and $107.9 million, respectively. We sell participations to manage our credit exposures to borrowers. At September 30, 2023 and December 31, 2022, we purchased loan participations totaling $123.9 million and $114.6 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 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.

Credit Exposure

The Company also has off-balance sheet financial instruments, which include unfunded loan 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. At September 30, 2023, $1.5 million in allowance for credit losses was recognized on off-balance sheet financial instruments.

The allowance for credit losses was $22.2 million at September 30, 2023 compared to $20.2 million at December 31, 2022, an increase of $2.0 million, or 10.0%. Additional provisions were recorded based on overall growth in loans and current economic factors.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(dollars in thousands)			
Average loans, net of unearned income	$ 1,740,582	$ 1,480,735	$ 1,676,134	$ 1,373,564
Loans, net of unearned income	1,774,148	1,524,990	1,774,148	1,524,990
Allowance for credit losses at beginning of the period	21,385	16,807	20,156	14,844
Impact of adoption of ASC 326	—	—	(1,285)	—
Charge offs:				
Construction and development	3	—	3	66
Residential	—	—	—	7
Commercial	—	—	—	—
Commercial and industrial	—	269	262	269
Consumer and other	—	1	6	8
Total charge offs	3	270	271	350
Recoveries:				
Construction and development	—	—	—	—
Residential	10	11	38	46
Commercial	—	—	—	—
Commercial and industrial	—	204	14	204
Consumer and other	16	8	18	12
Total recoveries	26	223	70	262
Net charge offs (recoveries)	$ (23)	$ 47	$ 201	$ 88
Provision for credit losses	$ 773	$ 1,663	$ 3,511	$ 3,667
Balance at end of period	$ 22,181	$ 18,423	$ 22,181	$ 18,423
Allowance for credit losses on unfunded commitments at beginning of the period	$ 1,495	$ —	$ —	$ —
Impact of adoption of ASC 326	—	—	1,285	—
Provision for credit losses on unfunded commitments	29	—	239	—
Balance at the end of the period	$ 1,524	$ —	$ 1,524	$ —
Ratio of allowance to end of period loans	1.25 %	1.21 %	1.25 %	1.21 %
Ratio of net charge offs to average loans	(0.01)%	0.01 %	0.02 %	0.01 %

Net recoveries for the three months ended September 30, 2023 totaled $23,000, a decrease of $70,000 compared to net charge offs of $47,000 for the three months ended September 30, 2022. Net charge offs for the nine months ended September 30, 2023 totaled $201,000, an increase of $113,000 compared to net charge offs of $88,000 for the nine months ended September 30, 2022.

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:

	September 30, 2023		September 30, 2022	
	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	$ 5,601	12.9 %	$ 3,286	14.5 %
Residential	3,030	12.6 %	1,174	10.7 %
Commercial	8,856	59.0 %	8,404	58.2 %
Commercial and industrial	4,609	15.0 %	5,472	15.9 %
Consumer and other	85	0.5 %	87	0.7 %
Total	$ 22,181	100.0 %	$ 18,423	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.

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans include loans on nonaccrual status and performing restructured loans. Income from loans on nonaccrual status is recognized to the extent cash is received and when the loan's principal balance is deemed collectible. 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 $2.9 million at September 30, 2023 consisting primarily of one property, located in Birmingham, Alabama. No loss is anticipated.

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 decreased $1.2 million from December 31, 2022 to September 30, 2023. The net decrease was primarily attributable to three loans that were returned to accruing status or paid off.

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.

	September 30, 2023	September 30, 2022	December 31, 2022
	(dollars in thousands)		
Nonaccrual loans	$ 1,082	$ 3,950	$ 2,245
Past due loans 90 days or more and still accruing interest	—	—	—
Total nonperforming loans	1,082	3,950	2,245
OREO	2,903	2,930	2,930
Total nonperforming assets	$ 3,985	$ 6,880	$ 5,175
Allowance for credit losses	$ 22,181	$ 18,423	$ 20,156
Gross loans outstanding at the end of period	$ 1,779,846	$ 1,530,129	$ 1,592,707
Allowance for credit losses to gross loans	1.25 %	1.20 %	1.27 %
Allowance for credit losses to nonperforming loans	2050.00 %	466.41 %	897.82 %
Nonperforming loans to gross loans	0.06 %	0.26 %	0.14 %
Nonperforming assets to gross loans and OREO	0.22 %	0.45 %	0.32 %
Nonaccrual loans by category:			
Real Estate:			
Construction and development	$ —	$ 70	$ 67
Residential	289	550	565
Commercial	785	2,888	1,278
Commercial and industrial	8	434	312
Consumer and other	—	8	23
Total	$ 1,082	$ 3,950	$ 2,245

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 September 30, 2023 and December 31, 2022:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)			
September 30, 2023				
Securities Available for Sale				
U.S. Treasury securities	$ 9,732	$ —	$ (1,281)	$ 8,451
U.S. Government Sponsored Enterprises (GSEs)	2,581	43	(246)	2,378
State and municipal securities	45,389	—	(8,141)	37,248
Corporate debt securities	12,520	—	(1,446)	11,074
Asset based securities	19,925	45	(676)	19,294
Mortgage-backed GSE residential/multifamily and non-GSE	97,450	40	(6,076)	91,414
Total securities available for sale	$ 187,597	$ 128	$ (17,866)	$ 169,859
Securities Held to Maturity				
State and municipal securities	19,637	—	(4,693)	14,944
Total securities held to maturity	$ 19,637	$ —	$ (4,693)	$ 14,944
Total securities	$ 207,234	$ 128	$ (22,559)	$ 184,803
December 31, 2022				
Securities Available for Sale				
U.S. Treasury securities	$ 9,764	$ —	$ (1,180)	$ 8,584
U.S. Government Sponsored Enterprises (GSEs)	2,009	—	(221)	1,788
State and municipal securities	56,204	100	(6,379)	49,925
Corporate debt securities	12,526	—	(899)	11,627
Asset based securities	14,079	—	(742)	13,337
Mortgage-backed GSE residential/multifamily and non-GSE	75,892	3	(5,612)	70,283
Total securities available for sale	$ 170,474	$ 103	$ (15,033)	$ 155,544
Securities Held to Maturity				
State and municipal securities	19,652	—	(4,287)	15,365
Total securities held to maturity	$ 19,652	$ —	$ (4,287)	$ 15,365
Total securities	$ 190,126	$ 103	$ (19,320)	$ 170,909

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. At September 30, 2023, 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 September 30, 2023 and December 31, 2022. 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)									
September 30, 2023										
Securities Available for Sale										
U.S. Treasury securities	$ —	— %	$ 4,028	1.31 %	$ 5,704	1.42 %	$ —	— %	$ 9,732	1.38 %
U.S. Government Sponsored Enterprises (GSEs)	—	—	—	—	1,834	6.29	747	1.54	2,581	4.91
State and municipal securities	483	1.90	1,599	1.85	3,839	2.12	39,468	1.99	45,389	2.00
Corporate debt securities	—	—	3,017	4.84	9,503	4.94	—	—	12,520	4.92
Asset based securities	—	—	864	2.20	4,305	3.63	14,756	6.50	19,925	5.70
Mortgage-backed GSE residential/multifamily and non-GSE	7,204	7.88	32,876	6.24	5,905	3.92	51,465	4.49	97,450	5.29
Total securities available for sale	$ 7,687	7.51 %	$ 42,384	5.42 %	$ 31,090	3.65 %	$ 106,436	3.82 %	$ 187,597	4.30 %
Securities Held to Maturity										
State and municipal securities	—	—	—	—	6,228	2.35	13,409	2.39	19,637	2.37
Total securities held to maturity	$ —	— %	$ —	— %	$ 6,228	2.35 %	$ 13,409	2.39 %	$ 19,637	2.37 %
Total securities	$ 7,687	7.51 %	$ 42,384	5.42 %	$ 37,318	3.44 %	$ 119,845	3.66 %	$ 207,234	4.12 %

	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, 2022										
Securities Available for Sale										
U.S. Treasury securities	$ —	— %	$ 1,992	1.33 %	$ 7,772	1.39 %	$ —	— %	$ 9,764	1.38 %
U.S. Government Sponsored Enterprises (GSEs)	—	—	—	—	1,262	4.63	747	1.54	2,009	3.48
State and municipal securities	—	—	2,093	1.86	3,276	2.10	50,835	2.29	56,204	2.26
Corporate debt securities	—	—	3,022	4.84	9,504	4.94	—	—	12,526	4.92
Asset based securities	—	—	1,231	2.16	2,654	1.65	10,194	4.77	14,079	3.96
Mortgage-backed GSE residential/multifamily and non-GSE	5,768	6.53	27,472	4.83	7,455	4.58	35,197	3.37	75,892	4.26
Total securities available for sale	$ 5,768	6.53 %	$ 35,810	4.37 %	$ 31,923	3.41 %	$ 96,973	2.94 %	$ 170,474	3.45 %
Securities Held to Maturity										
State and municipal securities	—	—	—	—	5,310	2.38	14,342	2.37	19,652	2.37
Total securities held to maturity	$ —	— %	$ —	— %	$ 5,310	2.38 %	$ 14,342	2.37 %	$ 19,652	2.37 %
Total securities	$ 5,768	6.53 %	$ 35,810	4.37 %	$ 37,233	3.27 %	$ 111,315	2.87 %	$ 190,126	3.34 %

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 September 30, 2023, BOLI totaled $29.7 million compared to $29.2 million at December 31, 2022. 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 September 30, 2023 were $1.9 billion, representing an increase of $195.7 million, or 11.4%, compared to $1.7 billion at December 31, 2022. As of September 30, 2023, 21.8% of total deposits were comprised of noninterest-bearing demand accounts, 50.8% of interest-bearing non-maturity accounts and 27.4% of time deposits. Brokered deposits represented 8.8% of total deposits.

The following table summarizes our deposit balances as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
	Amount	Percent of Total	Amount	Percent of Total
	(dollars in thousands)			
Noninterest-bearing transaction	$ 418,125	21.8%	$ 460,977	26.8%
Interest-bearing transaction	934,383	48.8%	837,127	48.6%
Savings	38,518	2.0%	49,235	2.9%
Time deposits, $250,000 and under	436,613	22.8%	307,145	17.8%
Time deposits, over $250,000	88,762	4.6%	66,259	3.9%
Total deposits	$ 1,916,401	100.0%	$ 1,720,743	100.0%

The following tables set forth the maturity of time deposits as of September 30, 2023 and December 31, 2022:

	September 30, 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	$ 34,590	$ 112,043	$ 72,161	$ 16,238	$ 235,032
Time deposits, $100,000 through $250,000	47,778	135,765	17,129	909	201,581
Time deposits, over $250,000	8,206	74,883	5,372	301	88,762
Total time deposits	$ 90,574	$ 322,691	$ 94,662	$ 17,448	$ 525,375

	December 31, 2022				
	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	$ 35,256	$ 78,290	$ 59,178	$ 1,705	$ 174,429
Time deposits, $100,000 through $250,000	15,096	48,578	67,921	1,121	132,716
Time deposits, over $250,000	9,237	28,898	27,823	301	66,259
Total time deposits	$ 59,589	$ 155,766	$ 154,922	$ 3,127	$ 373,404

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 September 30, 2023 and 2022:

	September 30,			
	2023		2022	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(dollars in thousands)			
Noninterest-bearing transaction	$ 442,149	—%	$ 502,951	—%
Interest-bearing transaction	91,602	0.09%	113,427	0.09%
Money markets	795,662	3.30%	674,547	0.55%
Savings	44,165	0.20%	66,850	0.20%
Time deposits	464,100	3.39%	242,869	0.72%
Total deposits	$ 1,837,678	2.29%	$ 1,600,644	0.36%

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 September 30, 2023 and December 31, 2022, we had borrowing capacity from the FHLB of $203.9 million and $99.5 million, respectively. We had $55.0 million in FHLB borrowings as of September 30, 2023 and $31.0 million as of December 31, 2022. All our outstanding FHLB advances have fixed rates of interest.

The following table sets forth our FHLB borrowings as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
	(dollars in thousands)			
Amount outstanding at end of period	$	55,000	$	31,000
Weighted average interest rate at end of period		4.88 %		3.43 %
Maximum month-end balance	$	55,000	$	35,000
Average balance outstanding during the period	$	35,703	$	25,264
Weighted average interest rate during the period		4.50 %		1.15 %

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 and $87.2 million as of September 30, 2023 and December 31, 2022, respectively. The Bank had $5.0 million outstanding as of September 30, 2023, which was subsequently repaid on October 1, 2023. There was $94.2 million and $87.2 million available as of September 30, 2023 and December 31, 2022, respectively.

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 September 30, 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 3.50% 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 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 September 30, 2023, was approximately 29.7%. Based on a peer analysis, utilizing public data as of March 31, 2023, 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 September 30, 2023, 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 September 30, 2023 and December 31, 2022.

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 September 30, 2023						
Tier 1 capital (to average assets)						
Company	$ 197,207	8.70%	$ 90,659	4.00%	$ —	—
Bank	$ 265,421	11.71%	$ 90,659	4.00%	$ 113,324	5.00%
CET 1 capital (to risk-weighted assets)						
Company	$ 197,207	9.32%	$ 148,087	7.00%	$ —	—
Bank	$ 265,421	12.55%	$ 148,087	7.00%	$ 137,509	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$ 197,207	9.32%	$ 179,819	8.50%	$ —	—
Bank	$ 265,421	12.55%	$ 179,819	8.50%	$ 169,242	8.00%
Total capital (to risk-weighted assets)						
Company	$ 308,912	14.60%	$ 222,130	10.50%	$ —	—
Bank	$ 289,126	13.67%	$ 222,130	10.50%	$ 211,552	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, 2022						
Tier 1 capital (to average assets)						
Company	$ 174,679	8.82%	$ 79,182	4.00%	$ —	—
Bank	$ 240,815	12.17%	$ 79,182	4.00%	$ 98,977	5.00%
CET 1 capital (to risk-weighted assets)						
Company	$ 174,679	8.86%	$ 138,018	7.00%	$ —	—
Bank	$ 240,815	12.21%	$ 138,018	7.00%	$ 128,160	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$ 174,679	8.86%	$ 167,593	8.50%	$ —	—
Bank	$ 240,815	12.21%	$ 167,593	8.50%	$ 157,735	8.00%
Total capital (to risk-weighted assets)						
Company	$ 282,835	14.34%	$ 207,027	10.50%	$ —	—
Bank	$ 260,971	13.24%	$ 207,027	10.50%	$ 197,169	10.00%

Contractual Obligations

The following tables contain supplemental information regarding our total contractual obligations at September 30, 2023.

	Payments Due as of September 30, 2023			
	Within One Year	One to Five Years	After Five Years	Total
	(dollars in thousands)			
Time deposits	$ 413,265	$ 112,083	$ 27	$ 525,375
FHLB advances	43,000	12,000	—	55,000
Subordinated debt borrowings	—	—	86,582	86,582
Other borrowings	4,991	—	—	4,991
Total contractual obligations	$ 461,256	$ 124,083	$ 86,609	$ 671,948

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.

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
Commitments to extend credit	$ 525,402	$ 550,315
Standby letters of credit	3,582	5,632
Total	$ 528,984	$ 555,947

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 September 30, 2023	As of September 30, 2022
Change in Interest Rates (Basis Points)		
+400	4.30	23.59
+300	3.70	17.63
+200	2.70	11.71
+100	1.50	5.88
-100	(4.40)	(6.68)
-200	(7.50)	(14.17)
-300	(10.80)	(22.85)
-400	(14.40)	(34.47)

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, 2022, included in our Annual Report on Form 10-K.

Basis of Presentation and Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned consolidated subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. The Company includes all cash on hand, balances due from other banks, and federal funds sold, all of which have original maturities within three months, as cash and cash equivalents.

Securities. Investment securities may be classified into trading, held to maturity, or available for sale portfolios. Securities that are held principally for resale in the near term are classified as trading. Securities that management has the ability and intent to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as trading or held to maturity are available for sale and are reported at fair value with unrealized gains and losses excluded from earnings but included in the determination of other comprehensive income (loss). Management uses these assets as part of its asset/liability management strategy. These securities may be sold in response to changes in liquidity needs, interest rates, resultant prepayment risk changes, and other factors. Management determines the appropriate classification of securities at the time of purchase. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses as well as any deemed impairment on available-for-sale securities are included in gain or loss on sale of securities. The cost of securities sold is based on the specific identification method.

Loans Held for Sale. Loans held for sale are comprised of residential mortgage loans. Loans that are originated for best efforts delivery are carried at the lower of aggregate cost or fair value as determined by aggregate outstanding commitments from investors or current investor yield requirements. All other loans held for sale are carried at fair value. Loans sold are typically subject to certain indemnification provisions with the purchaser. Management does not believe these provisions will have any significant consequences.

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances net of any unearned income, charge offs, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the straight-line method, which is not materially different from the effective interest method required by GAAP.

Loans are placed on nonaccrual status when, in management's opinion, collection of interest is unlikely, which typically occurs when principal or interest payments are more than 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses. 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.

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, 2022, 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 September 30, 2023, 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 third quarter of 2023 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, 2022. Except as described below, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K.

A lack of liquidity could impair our ability to fund operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. As can be seen from recent events regarding the operations and failures of other banks in the U.S., an inability to mitigate deposit withdrawals and to raise funds through new deposits, borrowings, the sale of investment securities at or above the value of such securities on our books, and other sources could have a material adverse effect on liquidity. Our most important source of funds is deposits. Historically, our deposits have provided a stable source of funds. However, deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff or when customers have negative views related to disruption in the financial markets or the prospects for the financial services industry as a whole. If our customers move money out of bank deposits, our liquidity position could be impacted, and we would lose a relatively low-cost source of funds, increasing our funding costs, and reducing our net interest income and net income. Even though a majority of our certificates of deposit renew upon maturity with what we believe are competitive rates, some of our more rate-sensitive customers may move those and other deposit funds to higher-yielding alternatives.

Our other primary sources of liquidity consist of cash flows from operations, maturities and sales of investment securities, and proceeds from the issuance and sale of our equity and subordinated notes to investors. As a secondary source of liquidity, we have the ability to borrow funds from other financial institutions with whom we have a relationship. We also have the ability to borrow from the FHLB.

Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us, could be impaired by factors that affect us, the financial services industry, or the economy in general. These factors may include disruptions in the financial markets or negative expectations about the industry’s prospects. Our access to funding sources could also be affected by regulatory actions against us or by a decrease in the level of our business activity due to a downturn in the Alabama or Georgia economy or in economic conditions generally. A decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as meeting deposit withdrawal demands or repaying our borrowings.

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

Our ability to engage in routine funding transactions could be adversely affected by the actions and soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties and exposure through transactions with counterparties in the financial services industry, including broker-dealers, commercial banks, investment banks, and other financial intermediaries. Recent high-profile bank failures have resulted in some degree of public awareness and caused widespread questions about potential concerns in the financial institutions industry. Defaults by, declines in the financial condition of, or even rumors or questions about one or more financial institutions, financial service companies, or the financial services industry generally, may lead to a decline in market-wide liquidity, asset quality problems, or other problems and could lead to losses or defaults by us or by other institutions.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance.

Deposits are insured by the FDIC up to legal limits and subject to the payment of FDIC deposit insurance assessments. The Bank's regular assessments are determined by the level of its assessment base and its risk classification under an FDIC risk-based assessment system. The FDIC has the power to change deposit insurance assessment rates, the manner deposit insurance is calculated, and also to charge special assessments to FDIC-insured institutions. Following the recent bank failures, banking regulators announced that the FDIC will ensure that all depositors in the failed banks will receive full coverage of all of their deposits, at no cost to taxpayers. The FDIC has issued a proposed rule, which would impose special assessments on certain banks. As currently written, we would not be impacted by this special assessment, however this rule is not final. Any future additional assessments, increases, or required prepayments in FDIC insurance premiums could adversely impact our earnings.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

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)
July 1 - July 31, 2023	—	$ —	—	$ 9,021
August 1 - August 31, 2023	—	—	—	9,021
September 1 - September 30, 2023	—	—	—	9,021
Total	—	$ —	—	$ 9,021

(1) On February 16, 2022, we announced that our board of directors approved a Program that authorized us to repurchase up to $10.0 million of our common stock. The Program was in effect until December 31, 2022. On February 15, 2023, the board of directors announced that it had extended the Program for another $10.0 million to be in effect until December 31, 2023, 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

None.

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).
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: November 14, 2023	By:	/s/ Mark A. Chambers Mark A. Chambers Chief Executive Officer and Director (Principal Executive Officer)
Date: November 14, 2023	By:	/s/ Lynn Joyce Lynn 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: November 14, 2023

By: /s/ Mark A. Chambers
Mark A. Chambers
Chief Executive Officer
(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: November 14, 2023

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 September 30, 2023, 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: November 14, 2023	By:	/s/ Mark A. Chambers
		Mark A. Chambers
		Chief Executive Officer
		(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 September 30, 2023, 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: November 14, 2023	By:	/s/ Lynn Joyce
		Lynn Joyce
		Senior Executive Vice President and Chief Financial Officer
		(Principal Financial Officer and Principal Accounting Officer)